

THE EVOLUTION OF SOURCING PRACTICES AT SELECTED
MANITOBA APPAREL COMPANIES

By

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A Thesis
Submitted to the Faculty of Graduate Studies
In Partial Fulfillment of the Requirements
For the Degree of

MASTER OF SCIENCE

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**A Thesis/Practicum submitted to the Faculty of Graduate Studies of The University
of Manitoba in partial fulfillment of the requirements of the degree**

of

MASTER OF SCIENCE

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ABSTRACT

This research used the case study research method to apply the taxonomy of global sourcing development by Monczka and Trent (1991) to the evolution of sourcing practices for production and/or finished garments at two apparel companies, both located in Winnipeg, Manitoba. Case studies describing the evolution of sourcing practices for finished garments and/or production at each company were written. Pattern-matching logic analytic strategy was then used to compare the evolution of sourcing practices at each case with Monczka and Trent's taxonomy. The result of pattern matching was that for each case, the evolution of the sourcing practices appeared to follow the developmental process in Monczka and Trent and that the specific characteristics and strategies within each phase outlined by Monczka and Trent could be matched with the sourcing practices described in both case studies. Cross-case comparative analysis as a form of replication logic was also undertaken revealing that even though there were many dimensions in which the two companies were different, there was remarkable consistency when the results of pattern matching were compared. The results of pattern matching and cross-case comparison indicate that Monczka and Trent's (1991) taxonomy is a practical framework to apply to the sourcing practices of apparel companies. Recommendations from both a practical and theoretical perspective were made.

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CHAPTER ONE

INTRODUCTION

Since the beginning of 1990, significant changes have occurred in the competitive environment facing the apparel industry in Canada. Concurrent and continuing changes in consumer demand, the retail environment, and the regulatory environment have driven major readjustments in structure and focus of the Canadian apparel industry.

A major outcome of these changes is the increased competition for apparel manufacturers in both national and international marketplaces. Declining domestic consumer demand for apparel combined with shifting consumer priorities, preferences, and interests (Statistics Canada, 1996) has created additional competition for consumers' apparel dollars and precipitated structural change in the apparel retail market in Canada. The apparel retail market has become more concentrated ("Canadian Market Watch", 1998), American retailers are increasing their presence in Canada ("Veni, vidi, vici; U.S. style", 1996), and retailers in general are looking to private label programs to decrease costs and increase exclusivity (Glock & Kunz, 1995).

Competition is also an outcome of a shift from protectionism to trade liberalization in the regulatory environment in which Canadian apparel companies must operate. Beginning with the Free Trade Agreement (FTA) between Canada and the United States in 1989, followed by the North American Free Trade Agreement (NAFTA) in 1994, and the 1995 Uruguay Round

of the General Agreement on Trade and Tariffs (GATT), protective barriers in the form of tariffs and quotas have been or continue to be removed. Consequently, Canadian companies found themselves operating in an open trade environment characterized by increased competition from imports in the domestic market as well as increased opportunity to export to international markets.

The initial response to elements in the macro and micro environments was a contraction of the apparel industry. Between the late 1980's and early 1990's the apparel industry lost 700 companies and 30,000 employees (Industry Canada, 1997). The remaining companies responded and continue to respond to environmental forces by increasing export activity, becoming importers themselves, becoming market driven, shifting product focus, and implementing new technologies. The sourcing of finished apparel product is one strategic thrust adopted by apparel companies.

Purpose

The purpose of this research is to apply the taxonomy of global sourcing development by Monczka and Trent (1991) to examine the evolution of sourcing practices for production and/or finished garments by selected apparel companies in Manitoba.

Objectives

The objectives of the research are:

1. To describe the evolution of sourcing practices for production and/or finished garments of selected Manitoba apparel companies;
2. To determine if the evolution of sourcing practices of selected Manitoba companies follow the taxonomy of global sourcing development by Monczka and Trent (1991); and
3. Dependant on a positive outcome for objective two, to determine the companies' position within the taxonomy of global sourcing development by Monczka and Trent (1991).

Justification

Sourcing decisions help to determine an apparel company's competitive edge and is one of the most important activities undertaken by an apparel company (Anderson, Warfield, Barry, & Emery, 1997; Burns & Bryant, 1997). Currently, little scholarly research exists on apparel companies regarding this strategic activity and none has been found from a Canadian perspective. Yet, in trade literature, sourcing strategy has been portrayed as a critical element contributing to the survival and success of apparel companies.

Researchers who have examined sourcing of finished apparel production advise against seeking generalizations and recommend research at the

company level, examining sourcing strategies employed by specific companies (Appelbaum & Christerson, 1997). An exploratory investigation of a small number of Manitoba apparel companies pertaining to sourcing practices could reveal important information for both industry and scholars by providing context, insight, and further research questions.

Definitions

The following are definitions for the concepts used in this study.

1. Sourcing: is a decision making process whereby "... the most cost efficient vendor of materials and/or production at a specified quality and service level..." (Glock & Kunz, 1995, p.251) is determined. For the purposes of this study, sourcing will be used to refer only to the sourcing of production and/or the sourcing of finished garments.
2. Apparel company: is a business that "...merchandises product lines, determines the sources of materials and production and/or finished garments, and markets finished goods to retailers and/or ultimate consumers..." (Kunz, 1995, p.252).
3. Finished garment/finished apparel: the apparel that will be available for sale to retailers and /or consumers.

CHAPTER TWO

LITERATURE REVIEW

This chapter describes the structure of the apparel industry in Canada, changes in competitive conditions including consumer demand, retail and regulatory environment, and the industry's response to these changing conditions. Secondly, the importance of product development and sourcing as activities undertaken by apparel companies will be discussed. The scope of sourcing will be limited to research on the location of apparel production. Then, the taxonomy of global sourcing by Monczka and Trent (1991) will be introduced as the conceptual framework within which to structure the investigation of global sourcing practices of selected apparel companies in Manitoba. Finally, research that has applied the taxonomy of global sourcing by Monczka and Trent will be discussed.

Structure of the Apparel Industry in Canada

The apparel industry contributes significantly to the Canadian economy and is one of the few manufacturing industries with companies in every province. In 1995, close to 2000 companies employed approximately 84,000 people accounting for 1.6 percent of Canada's total manufacturing sector shipments and 5.7 percent of total manufacturing sector employment (Industry Canada, 1997).

The apparel industry is characterized by small and medium-sized enterprises (SMEs) with 80% employing fewer than 50 people and 90% employing fewer than 100 people (National Sector Team- Consumer Products, 1998). Most companies are privately held and Canadian owned; only 2 percent of companies are foreign owned (Industry Canada, 1997). There are four major apparel manufacturing centres in Canada. In order of size, based on the number of companies, they are Montreal, Toronto, Winnipeg and Vancouver (Industry Canada, 1997). A diverse range of apparel products, classified under the Standard Industrial Classification (SIC) code 2400, is produced by companies in the Canadian apparel industry (Consumer Products Industries Branch, 1997, December 9).

A compilation of a trade association membership list (Manitoba Fashion Institute, 2000) and a list from the Manitoba provincial government (Kelly Crawford-Roy, personal communication, November, 1999) has resulted in the identification of 165 Manitoba apparel companies. The characteristics and ownership of Manitoba apparel companies reflect the characteristics of Canadian apparel companies. Similar to companies found in the rest of Canada, Manitoba companies are primarily privately held and Canadian owned. They manufacture a diverse range of products found under the SIC code 2400. In Manitoba, the size of companies varies from small to large, but as in the rest of Canada, most are small and medium sized operations.

The Changing Environment

The evolution of the apparel industry is fueled by changes in consumer demand, the retail environment and the regulatory environment. During the five years from 1988 to 1993 the industry lost approximately 700 companies and 30,000 employees (Industry Canada, 1997). The number of companies has remained fairly constant since 1993 and employment increased in both 1994 and 1995 by 1% (Industry Canada, 1997). Value of shipments by apparel companies is once again climbing after reaching a low of \$5.8 billion in 1992, and in 1996 had risen to \$6.1 billion, a growth rate of 5% (Consumer Products Industries Branch, 1997, December 9).

Consumer Demand

Consumer demand for apparel is influenced by a multitude of interrelated factors such as the economy, styles, consumer interests, and demographic and lifestyle changes (Dickerson, 1995). Changes in the amount of money allocated to an expenditure category reflect changing consumer priorities, preferences, and interests.

In Canada, consumer demand for apparel has declined in recent years. The proportion of total household expenditure allocated to apparel has dropped from 8.8% in 1969 to 4.3% in 1996 (Statistics Canada, 1996). The decline in spending on apparel is also not specific to any one-income group.

Canadian consumers are spending proportionately less on clothing across all income groups as reported by Statistics Canada. Statistics Canada attributes the decline in clothing expenditure to smaller household size and that the rate of inflation of clothing prices is less than that of other commodities.

Furthermore, the decline of real personal disposable income and the increase in consumer expenditures in other categories also influenced household expenditure on clothing. While real personal disposable income per capita of Canadians has declined each year between 1989 and 1995 (Industry Canada, 1997), consumers were also reallocating resources to non-clothing categories of expenditures such as recreation equipment, home entertainment, and recreation services (Statistics Canada, 1996).

Throughout the 1990's, in addition to consumers' reallocation of resources from apparel to other consumer products, they also placed importance on the price/value equation (Consumer Products Industries Branch, 1997, December 8; Dickerson, 1995; Human Resources Development Canada, 1997; Kottler, Armstrong, Cunningham, Warren, 1996) and were devoting less time to apparel purchasing (Kurt Salmon Associates, 1998; Human Resources Development Canada; Richardson, 1996). These changes in consumer behavior have affected apparel companies. Because of these changes, it is critical for an apparel company to provide consumers with the product they are looking for, at the time they are looking for it, at the quality level they expect, and at the price they are willing to pay.

Retail Environment

In the 1990's, as consumer demand for apparel declined, apparel retail sales declined accordingly. In 1990, the Canadian apparel retail market value was \$16.3 billion. By 1995 it was valued at \$15.2 billion (Consumer Products Industries Branch, 1997, December 8). Overall, the value of the Canadian apparel retail market decreased by 9% from 1990 values.

In response to the changes in the macro environment, the organization of the apparel retail industry underwent changes. Apparel retailing became more concentrated. In 1997, twelve retailing organizations accounted for 49.4% of all apparel sales in Canada ("Canadian Market Watch", 1998). As a result of the concentration in the retailing sector, apparel manufacturers had access to fewer potential customers who had increased leverage (Wall, Wilcock, & Sommers, 1992; "Retail concentration increases with HBC's acquisition of K-Mart Canada", 1998). At the same time, as retailers sought to streamline their supply base, competition among apparel manufacturers became increasingly intense.

Another change in Canadian retailing was the influx of American retailers such as Wal-Mart, The Gap, Eddie Bauer and Talbot's into Canada since the early 1990's. These retailers gained market share from Canadian retailers in an already stagnant apparel market ("Veni, vidi, vici; U.S. style", 1996). These retailers had established suppliers and presented both opportunity and threat to Canadian apparel manufacturers. Canadian apparel companies could

become suppliers to the American retailers. On the other hand, if a Canadian apparel company could not establish themselves as a supplier to these new entrants, it could lose domestic market share. The new retailers also were introducing its suppliers to the Canadian market, perhaps for the first time. These suppliers could see opportunities for growth in Canada and competition could be increased.

Private label (a brand owned by a retailer) programs were beginning to be of great importance to retail organizations. As a response to the decline in consumer demand and the importance consumers were placing on the price/value equation, retailers began to develop private label apparel product to decrease costs and increase exclusivity (Glock & Kunz, 1995). To facilitate private label, retailers have had to set up product development divisions within the company to manage the merchandising functions that have traditionally been performed by apparel manufacturers. Increasingly retailers in general are taking on the functions of product development and sourcing production (Glock & Kunz, 1995).

Regulatory Environment

The third force at work is the regulatory environment under which Canadian apparel companies must operate. In a global economy, apparel production is an important industry for both developing and developed countries (Christerson, 1994; Dickerson, 1985, 1988, 1995). The number of

apparel producing countries in the world has grown as developing countries look to apparel production as a means of economic development (Dickerson). While developed countries have, in the past, dominated textile and apparel trade, their share is declining while that of developing countries is increasing (Dickerson; Hamilton & Dickerson, 1990).

Historically, apparel industries in developed countries were protected from expanding apparel industries in developing countries through a system of tariff and non-tariff barriers (Dickerson, 1985, 1988, 1995). A tariff is a tax or duty imposed on imported goods. Quotas are a non-tariff trade barrier and are a restriction on quantities traded. However, the onset of trade liberalization in the late 1980's set in motion a gradual elimination of protective barriers. The FTA in 1989 between Canada and the United States resulted in the elimination of tariffs by December 31, 1999 on apparel products produced in and traded between the two countries. The NAFTA was struck in 1994 between Canada, the United States and Mexico. By December 31, 2004, all tariffs on apparel products produced in and traded between the United States, Canada and Mexico will have been removed. The Uruguay Round under the GATT in 1994 - a World Trade Organization (WTO) initiative - resulted in the ten-year phase out of the Multi Fibre Arrangement (MFA). The GATT is a treaty among 92 governments accounting for four-fifths of world trade. The Uruguay Round under GATT will result in the elimination of quotas for apparel products by December 31, 2004.

As a result of trade liberalization, countries such as Canada who used to produce only for national consumption now find themselves producing for

international consumption and also competing for their own national marketshare. Simultaneously, apparel imports into Canada have increased from 30.1% in 1991 to 45.9% in 1998 and are predicted to further increase as tariffs and quotas are dismantled by December 31, 2004 according to the Uruguay Round under GATT (Consumer Products Industries Branch, 1997). The reduction of trade restrictions will intensify the competition Canadian apparel companies will face domestically and in export markets (Human Resources Development Canada, 1997).

The decline in consumer demand for apparel has resulted in a lack of growth in the Canadian apparel retail market and a reorganization of the apparel retail industry. These changes in the retail scene encouraged competition and impeded growth for Canadian apparel manufacturers. Concurrently, Canadian apparel companies have had to contend with the results of trade liberalization – both decreased protection in the domestic marketplace and increased access to the international marketplace. Decreased protection has resulted in the increase of imported apparel into Canada and further loss of domestic market share by Canadian apparel companies. Trade liberalization has also opened the door to the international marketplace for Canadian companies. Next, the response of Canadian apparel companies to the changing competitive environment will be examined.

Apparel Manufacturing Sector Response

The Canadian apparel industry has responded to the challenges of a constantly changing and increasingly competitive environment by increasing export activity and becoming importers themselves, becoming market driven and shifting product focus, and implementing new technologies.

Export Activity

The response to a decline in domestic market share as a result of the FTA, the NAFTA, and the GATT, and a decline in consumer spending on apparel was a reorientation in market focus by engaging in export, particularly to the United States. The United States is the destination of 91% of exported Canadian apparel product (Industry Canada, 1997). The FTA and the NAFTA gradually phased out the tariff on Canadian apparel imported into the United States, lowering the cost of Canadian apparel and thereby increasing its competitiveness in the U. S. marketplace.

From 1991 to 1998, while domestic market share dropped from 69.9% to 54.1% and imports rose from 30.1% to 45.9%, exports of apparel increased from 6.7% to 30.1% of shipments. In dollar value this increase represented an increase from \$0.4 billion in 1991 to \$2 billion in 1998. Along with an increase in exports, the total value of shipments in the same time period increased from \$6.1 billion to \$6.8 billion, even though the number of companies remained

constant. The companies that survived the industry contraction of the late 1980's and early 1990's are thriving, even though they have lost domestic market share, as a result of market reorientation to the United States. The increase in export activity has also been bolstered by a weak Canadian currency relative to the U.S. dollar ("The apparel export picture: To what do we owe our success in the U.S.?", 1999). Because of the difference in exchange rate, Canadian apparel has been competitively priced.

Import Activity

Along with increasing export activity, apparel companies are also becoming importers themselves. In 1993 apparel manufacturers were responsible for over 26% of the value and 31% of the volume of imported apparel product. This is an increase from 1988 levels of 23% for both volume and value (Consumer Products Industries Branch, 1997, December 8). As domestic shipments decrease and imports increase (as a percentage of the Apparent Canadian Market, (ACM)), apparel companies began to utilize global sourcing as a means of capturing a larger percentage of the ACM by importing product themselves ("Ottawa brief: Manufacturers or merchandisers?", 1996).

An apparel company can benefit by taking on the role of a supplier of imported product to the retailer. Profit is maintained in value added activities such as product development. The company also maintains its position in the supply chain as a supplier of product to the retail market, whether produced

domestically or not. This strategy allows apparel companies to maintain or increase domestic market share. The use of this strategy by apparel manufacturers is expected to accelerate ("Ottawa brief: Manufacturers or merchandisers?", 1996).

Market and Product Focus

As a response to changes in consumer demand and increased competition from imports, apparel companies have shifted orientation from production driven to market driven and changed product focus. In a production driven company, markets are thought of in terms of the production capabilities of the company. In contrast, a market driven company is guided in decision-making by the actual wants and needs of the consumer (Day, 1990). The changes in consumer demand for apparel products and consumer behavior are the forces behind the change to a market driven orientation. As an apparel company's success or failure depends on its ability to meet the demands of its target market (Glock & Kunz, 1995; Kunz, 1995), to be successful, a company must make decisions based on the wants and needs of consumers.

The market driven orientation is reflected in the apparel industry's overall movement toward developing apparel products for target markets (Consumer Products Industries Branch, 1997, December 8) rather than commodity products. This shift from undifferentiated commodity apparel to high quality, value-added products is supported by the rising measure of value-added per

employee (Industry Canada, 1997). A focus on product development has been identified as a prerequisite for the success of Canadian apparel companies in an increasingly competitive and rapidly changing competitive environment (Consumer Products Industries Branch; Human Resources Development Canada, 1997).

Technology

In tandem with increasing both export and import activities, and changing market orientation and product focus, apparel companies are implementing technology and processes that reduce the time it takes to develop and deliver products, and enhance their ability to communicate both upstream and downstream (Day, 1990). Because apparel products have relatively short life cycles, technology and processes that reduce the product development and delivery time decrease the risks inherent in high inventory levels and increase a company's ability to respond. Technologies such as EDI (Electronic Data Interchange), CAD (Computer Aided Design) and processes such as JIT (Just-In-Time) and QR (Quick Response) are being implemented to increase responsiveness. However, Canadian apparel companies are lagging behind in their implementation of these technologies and processes (Consumer Products Industries Branch, 1997, December 8).

The advantages that accrue to businesses from the implementation of processes and technology are increasingly important and are generally