

# Current Situation of the LA Apparel Industry: A Survey of Executives

On behalf of the

Los Angeles Department of Water and Power

by the

**Fashion Business Inc.**

In collaboration with **Cal Poly Pomona**

Presented by Peter Kilduff

Department of Apparel Merchandising & Management

Cal Poly Pomona

# Introduction

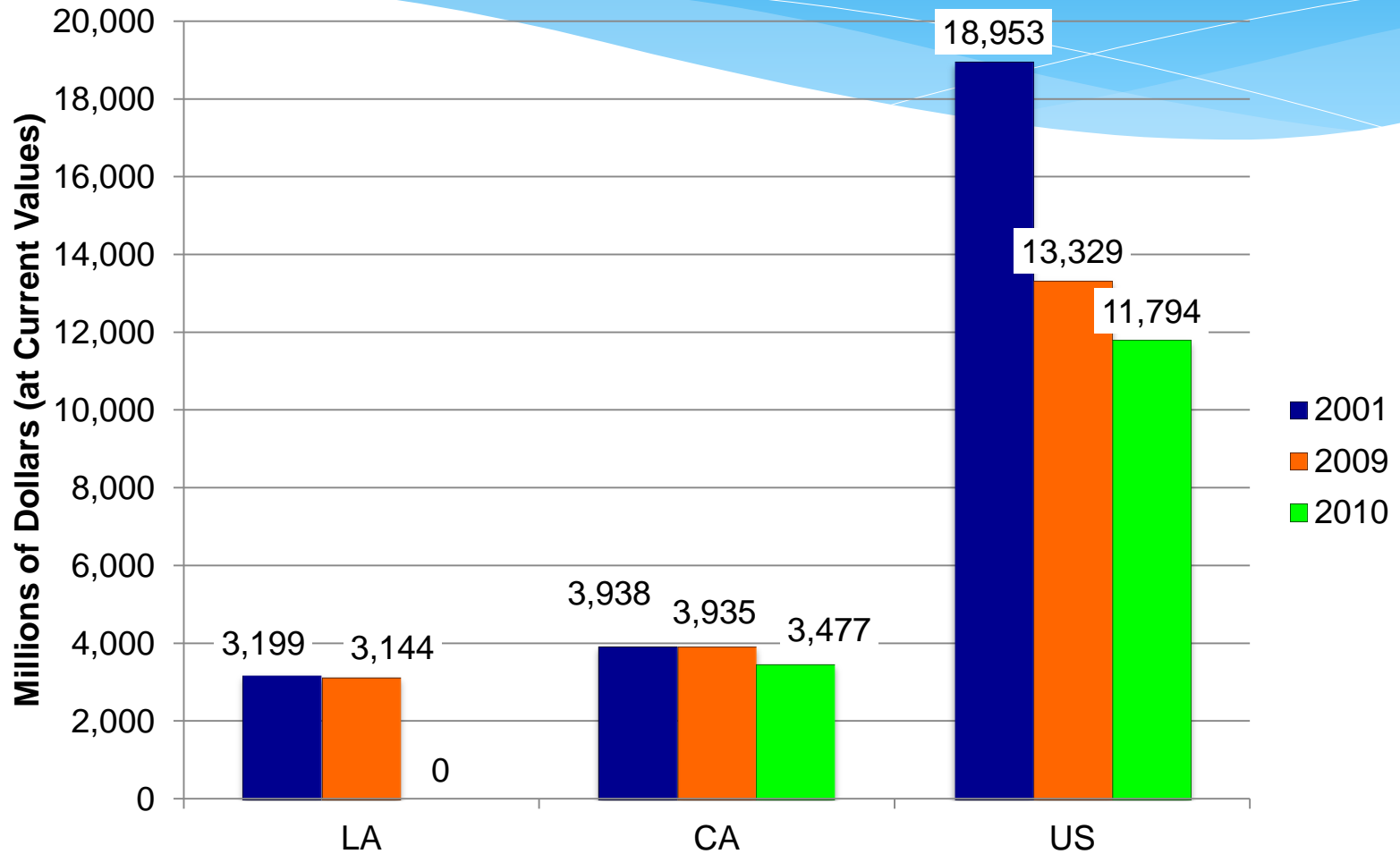
- \* Los Angeles is a major global hub for fashion.
- \* But faces many challenges to adapt to shifting demand patterns, intensifying competitive pressures, new technologies; and ever tightening legislative controls.
- \* FBI in association with Cal Poly Pomona implemented a study to consider the need for a strategic development framework.
- \* We evaluated the problems facing the industry and provided recommendations on how the City might assist the sector become more internationally competitive and environmentally sustainable.
- \* We conducted a survey of companies supplemented by interviews with senior executives in the industry and related sectors.

# Size of the LA Apparel Manufacturing Sector

- \* Apparel and leather goods manufacturing GDP in the LA-Long Beach-Santa Ana MSA was \$3.14 billion in 2009.
  - \* accounting for around 88% of all such activity in California.
- \* In 2009 some 3,129 companies in LA County
  - \* Comprising 1,166 employers operating 2,671 establishments
  - \* and 1,963 non employers
- \* Employment in the sector stood at 44,800 in July 2012 (excluding non employers)
  - \* down marginally on the same period in 2011.

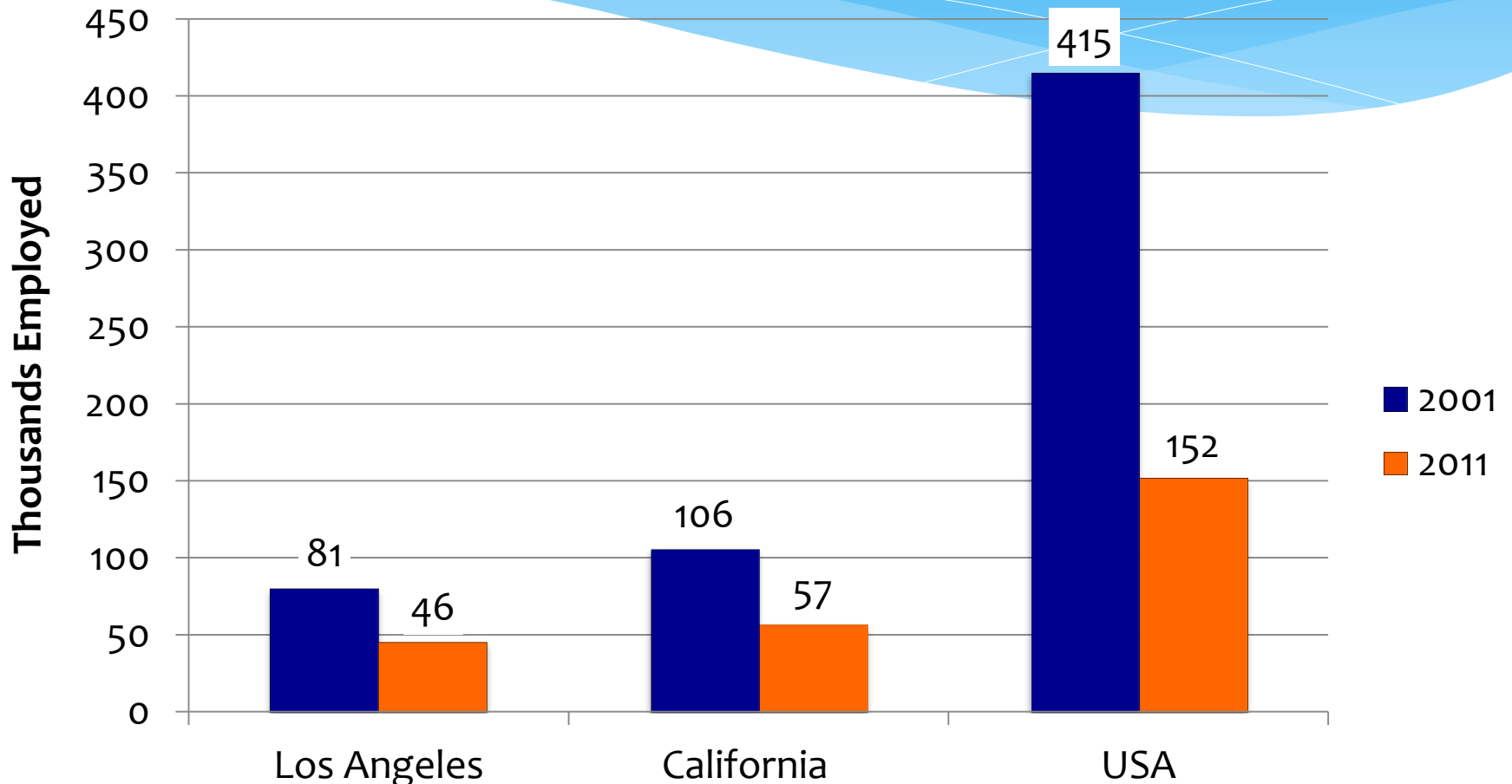
# GDP of the Apparel & Leathergoods Sector for LA, CA and US in 2001-2010.

US\$m at Current Prices



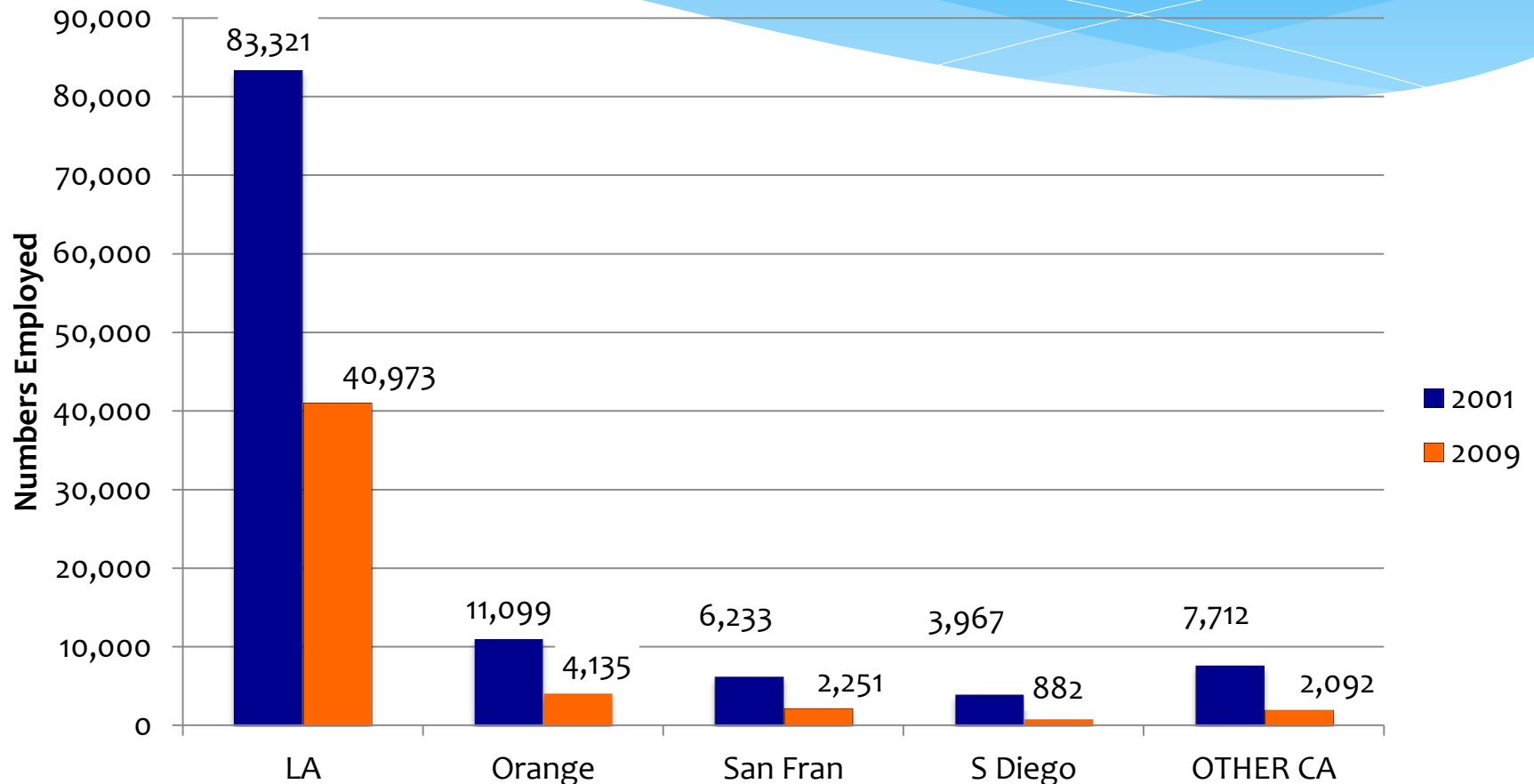
Source: BEA

# Employment in the Apparel Sector for LA, CA and US in 2001 & 2011.



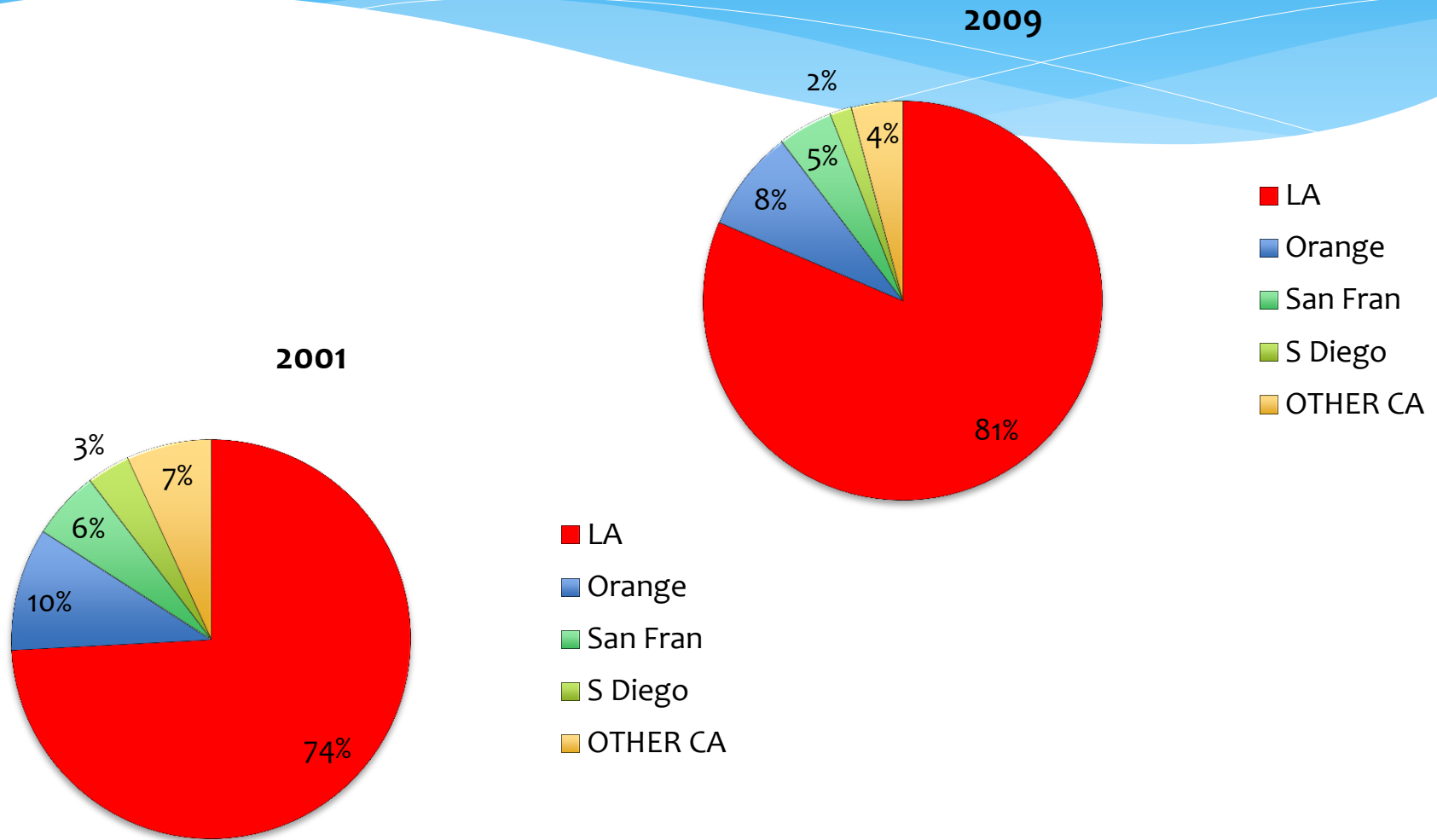
Source: BLS and CA EDD

# Apparel Employment in California by County 2001 and 2009

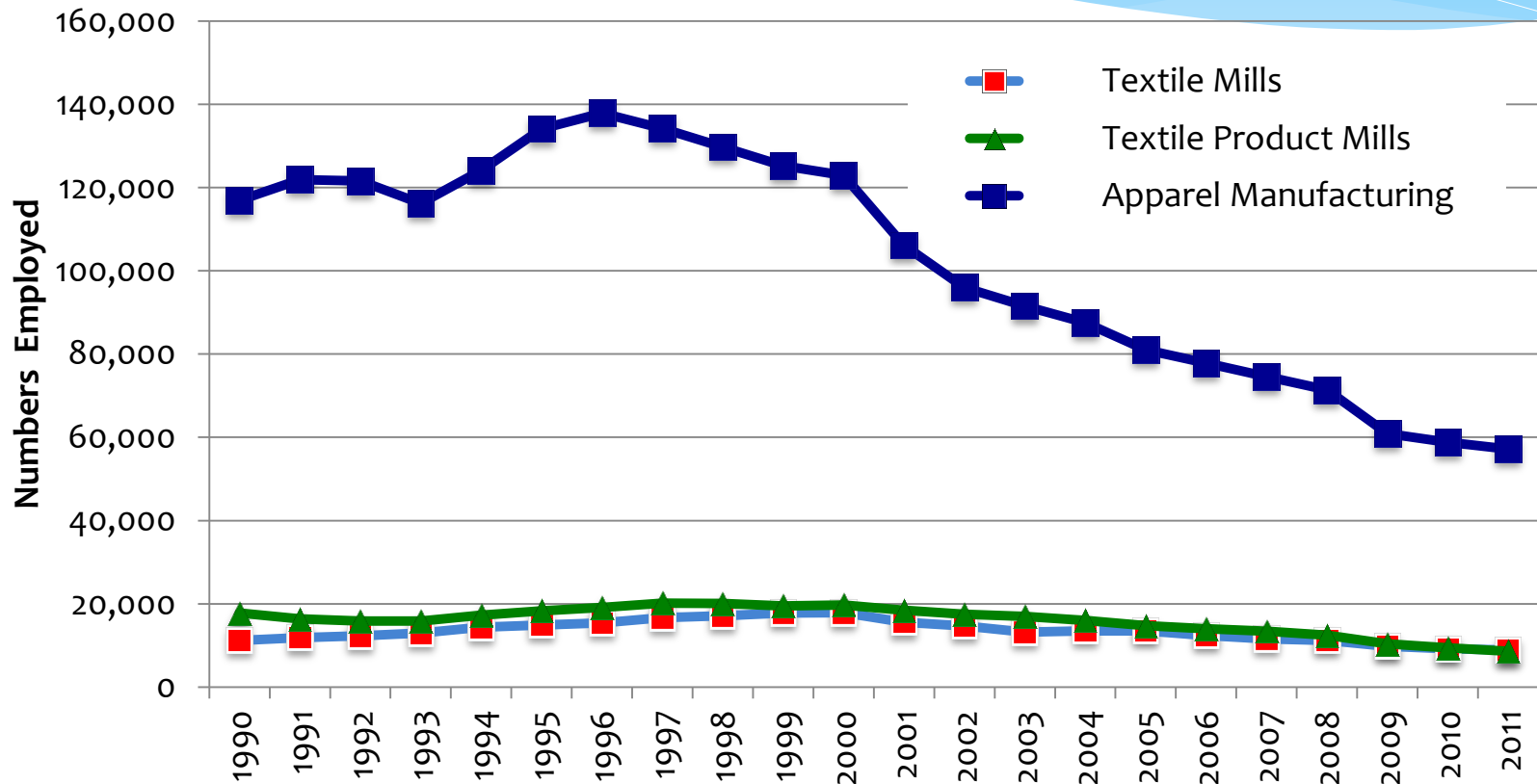


Source: Census Bureau

# Relative Shift in California Apparel Industry Employment 2001-2009



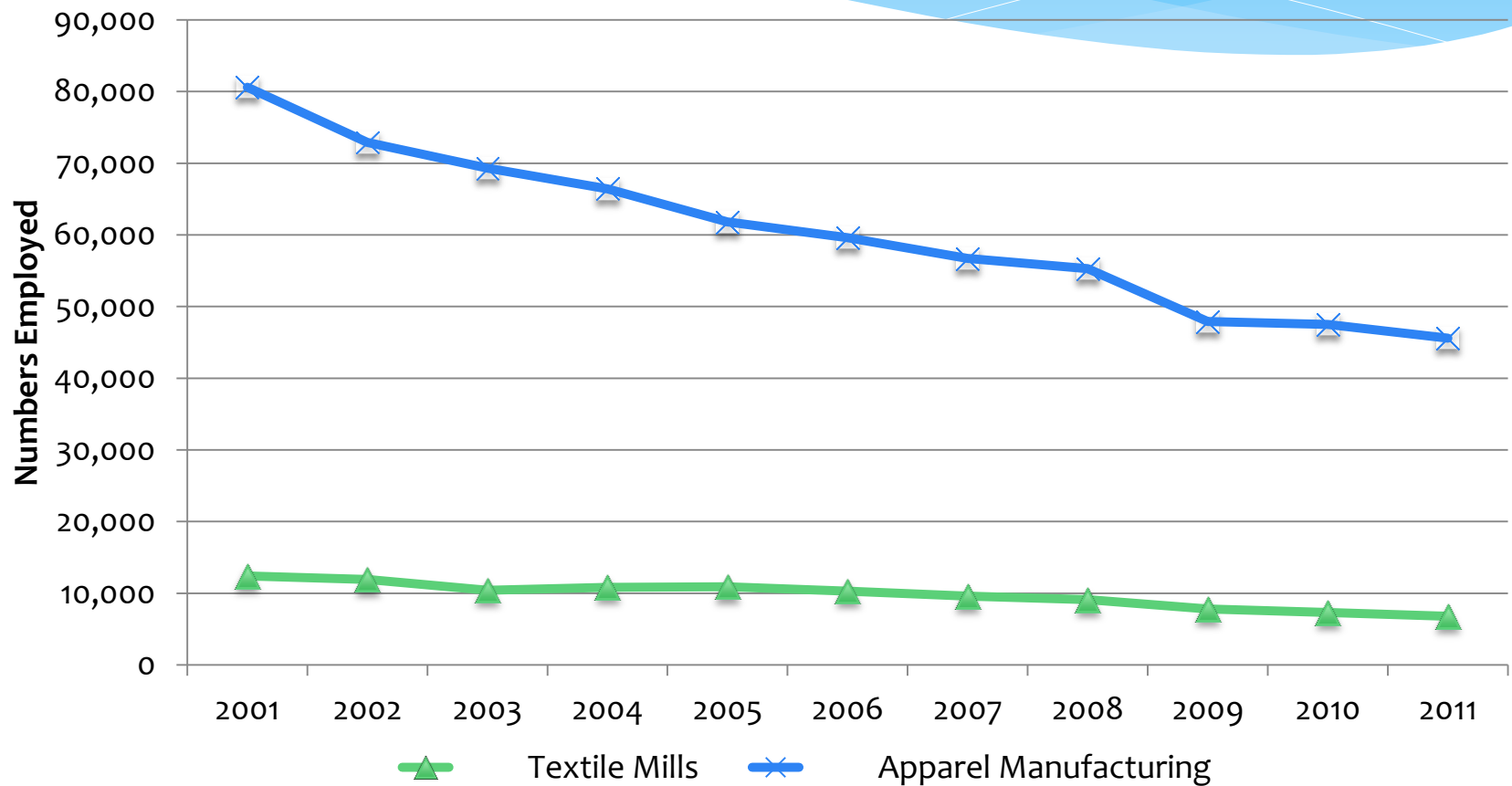
# Employment in CA Textile and Apparel Sectors 1990-2011



Source: California EDD

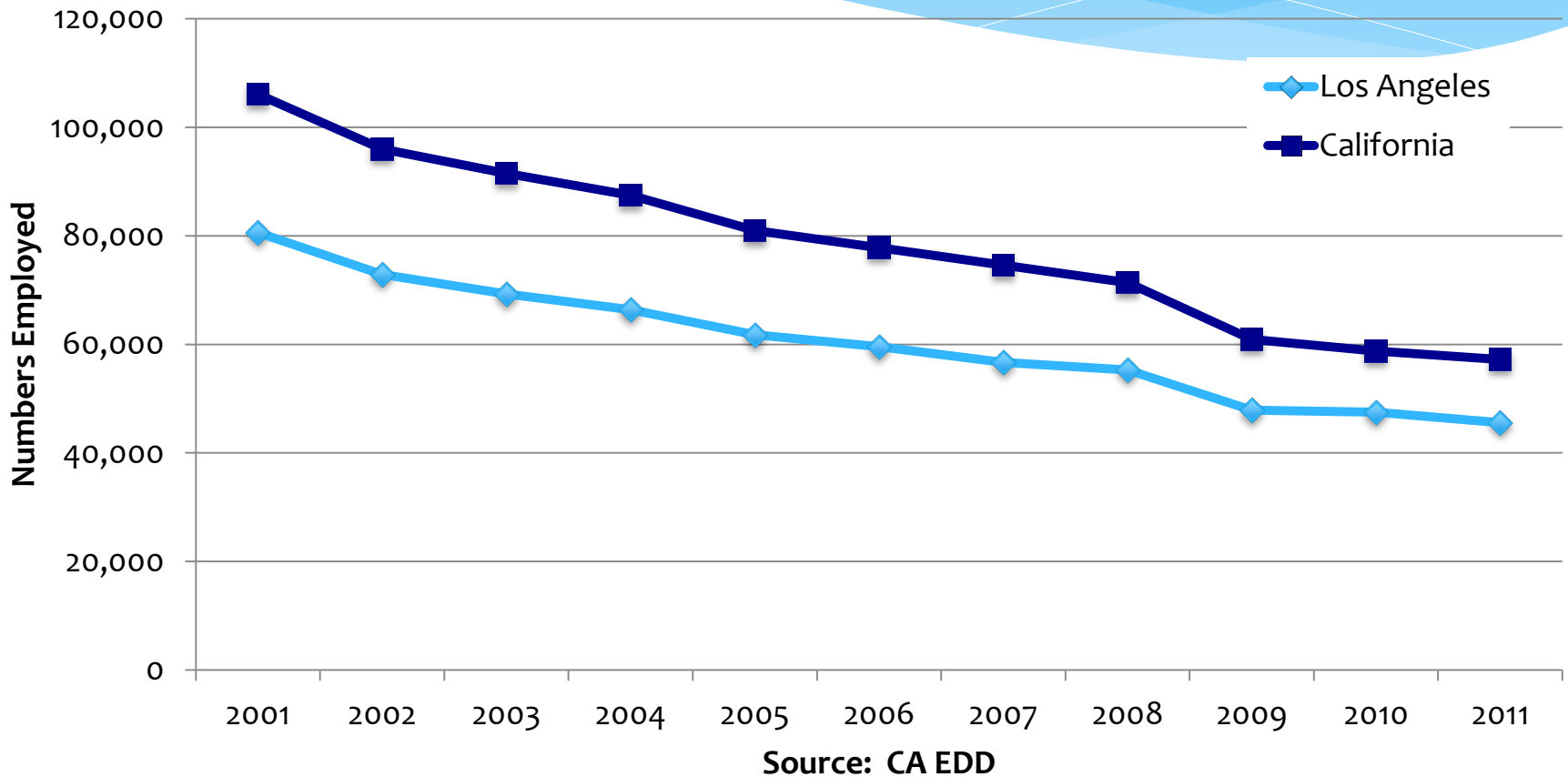


# Employment in LA County Textile and Apparel Sectors 2001-2011



Source: CA EDD

# CA vs LA Apparel Industry Employment 2001-2011



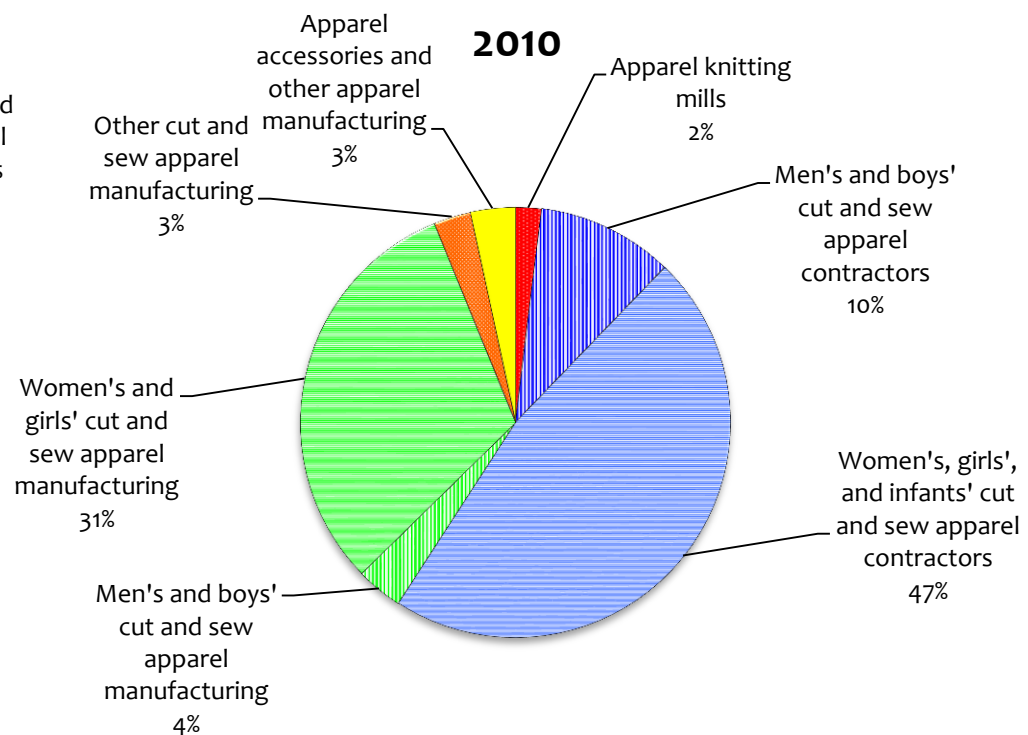
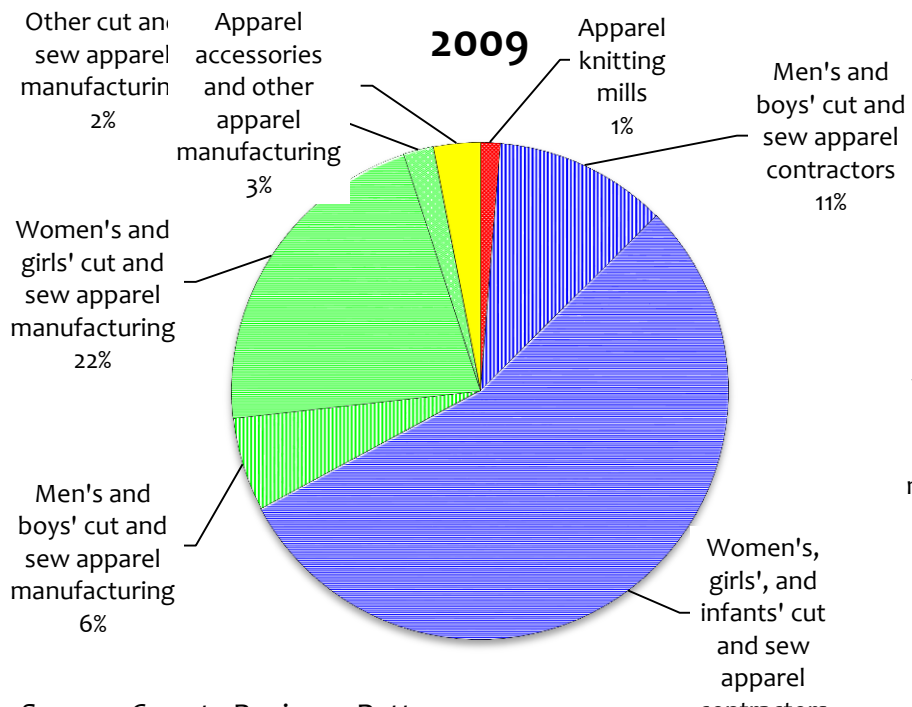
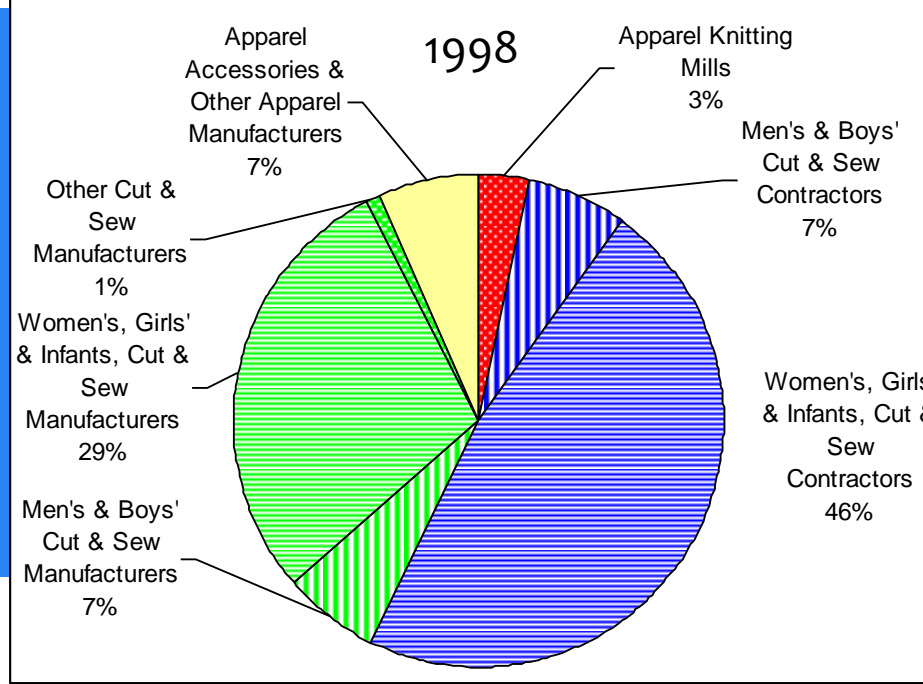
# Trade of the Apparel Sector

- \* Trade
- \* Apparel market penetration by imports is greater than 90% for almost all apparel products.
- \* As imports have grown, import prices have steadily fallen.
- \* China is the dominant supplier, at 38% of US imports by value.
  - \* Recent trends indicate China slowing in favor of other Asian (Vietnam, Indonesia, Bangladesh) and proximity suppliers Mexico, CAFTA/CBI)
- \* Real exports of apparel from California have grown strongly since 2004, increasing by more than 40%.
- \* The primary export markets for US apparel are Canada, Mexico, the EU and Japan.
- \* Overall, however, the US is a small scale exporter when compared to the EU.

# Structure of the LA Apparel Manufacturing Sector

- \* The Los Angeles apparel manufacturing industry is highly fragmented
  - \* comprising circa 5,000 establishments
- \* >80% of employment is in establishments with less than 20 employees –a testament to the workshop nature of the industry.
- \* Larger establishments do exist especially in men's and boys' trouser, slack and jean manufacturing.
- \* The industry is also ethnically diverse.
  - \* and is somewhat commercially segmented along ethnic lines

# Changes in Apparel Manufacturing Employment Share Between Industry Sub-segments 1998-2010. Percentages



Source: County Business Patterns

# The Global Perspective 1

- \* Textile and clothing manufacture has mostly migrated out of industrialized nations.
- \* US apparel companies (including retailers) have become focused on:
  - \* product design,
  - \* the marketing of brands to target consumer groups, and
  - \* the management of supply chains to service them.
- \* Companies in developing nations have become increasingly sophisticated in manufacturing skills, supply chain management, and creative design
  - \* Many are developing their own brands for local/ regional markets.

# The Global Perspective 2

- \* Many developing nations are becoming consumption oriented as middle classes emerge.
  - \* Their consumers value brands/ lifestyles made popular in the US.
- \* New technologies are reshaping the industry globally:
  - \* innovative products e.g. nano fibers, IT enabled textiles /garments, genetically modified fibers, environmentally responsible processes.
  - \* new channels to market based on the Internet,
  - \* IT enabled mass customization and demand activated manufacturing.
- \* Many of these will also be eco friendly technologies.
- \* The recession has spurred innovation as retailers faced unwanted inventory and uncertainty about future demand.
  - \* Retailers seeking more product innovation and agile suppliers.

# Survey of Industry Executives

Company Demographics

Challenges Faced

Strengths and weaknesses of LA/ SoCal

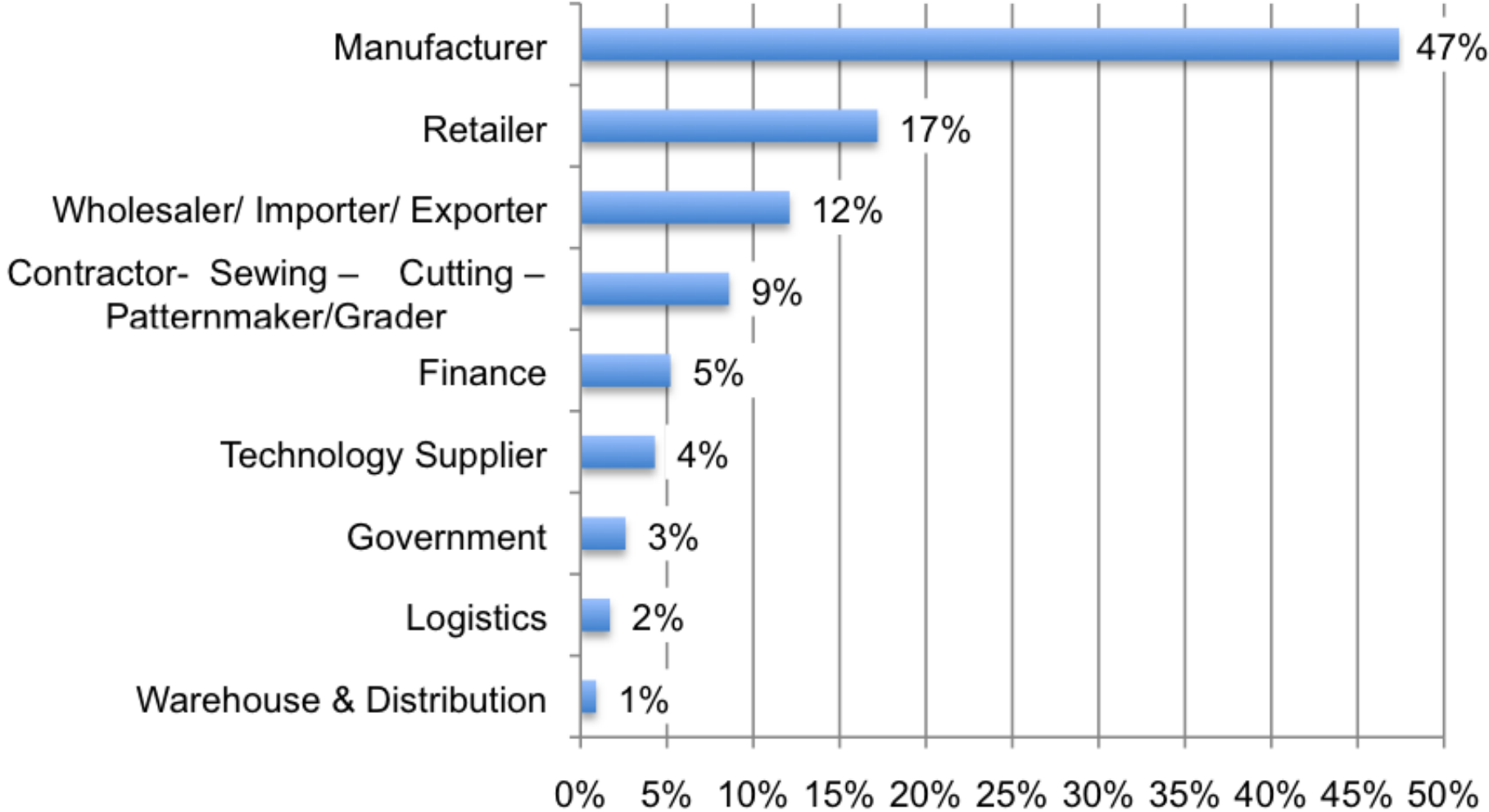
Future opportunities and Threats

Environmental Sustainability

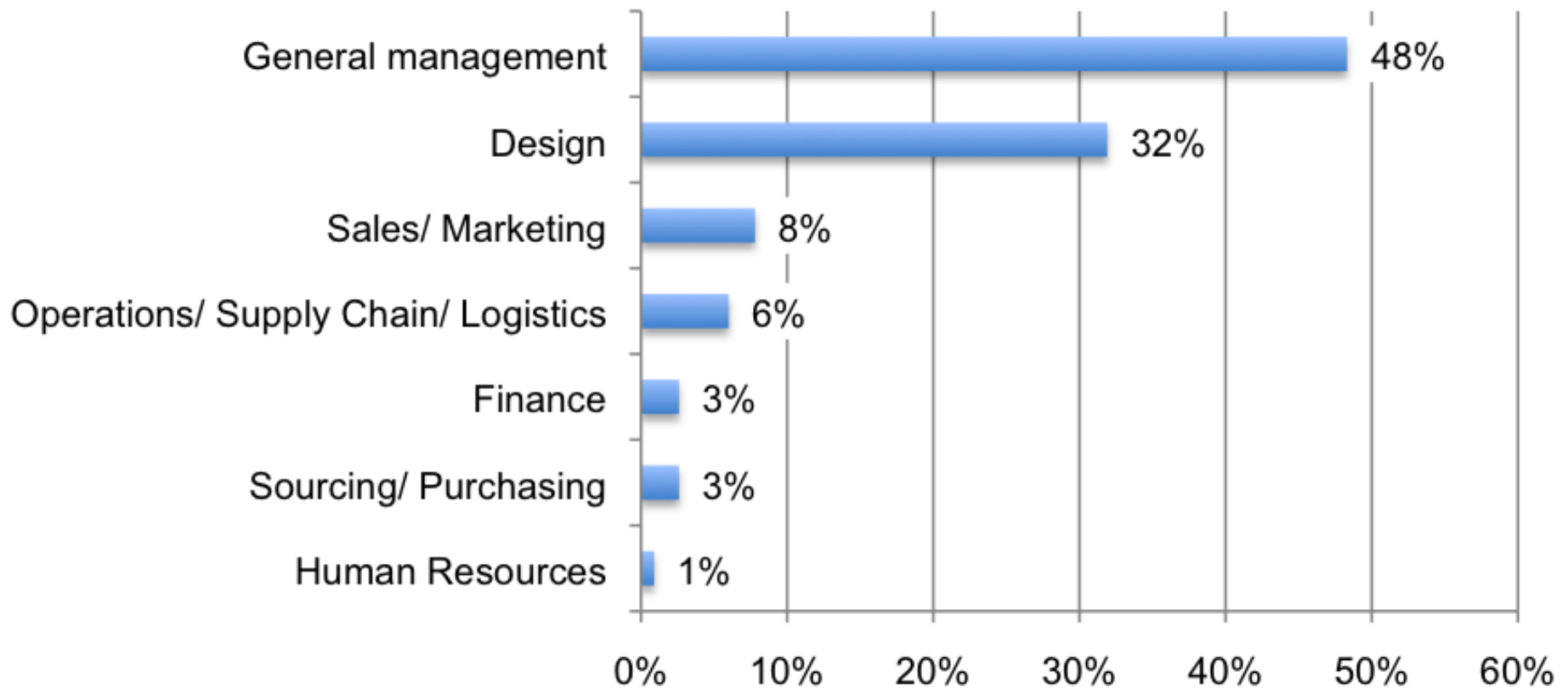
Industry Support Needs



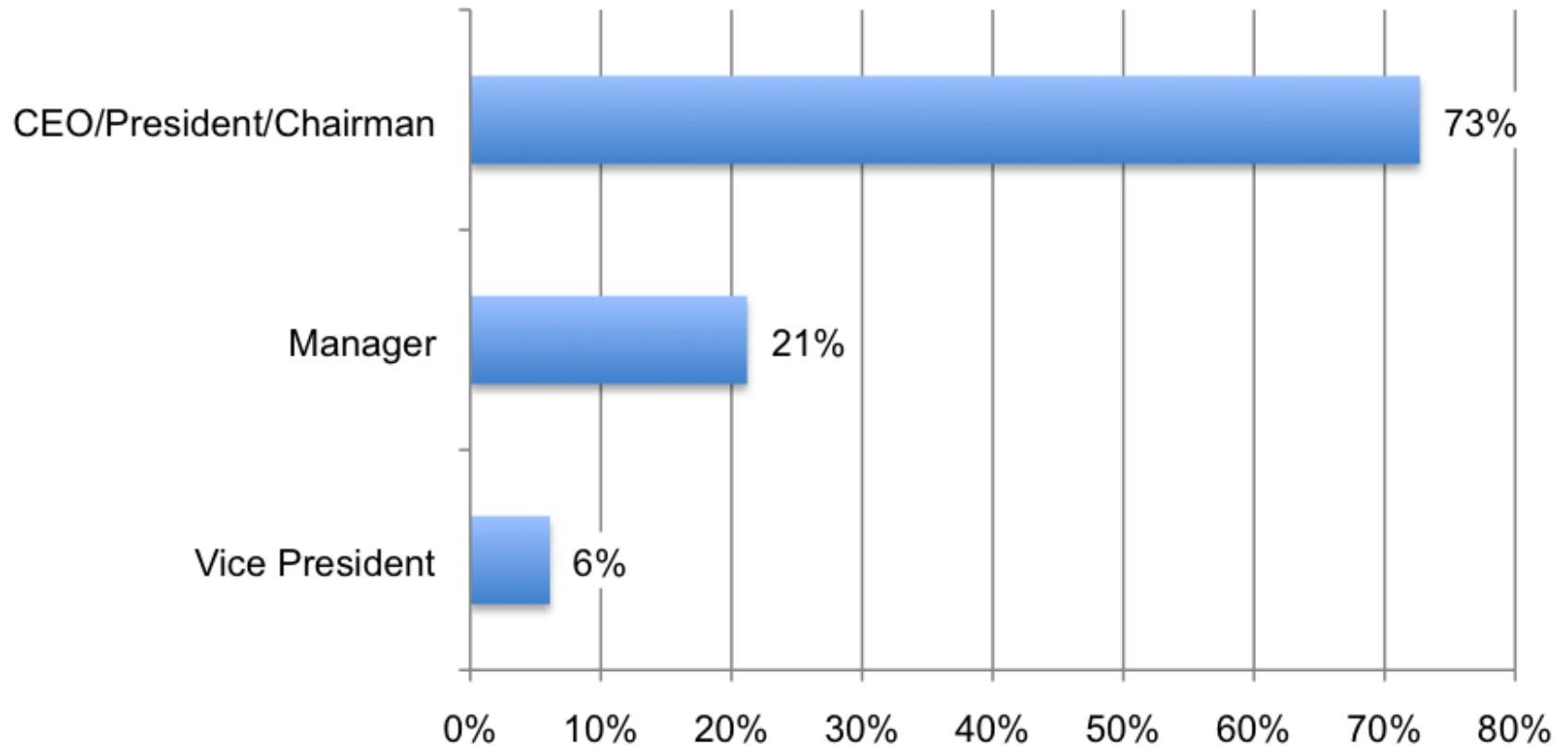
# Survey Respondents: Primary Business in the Apparel Industry



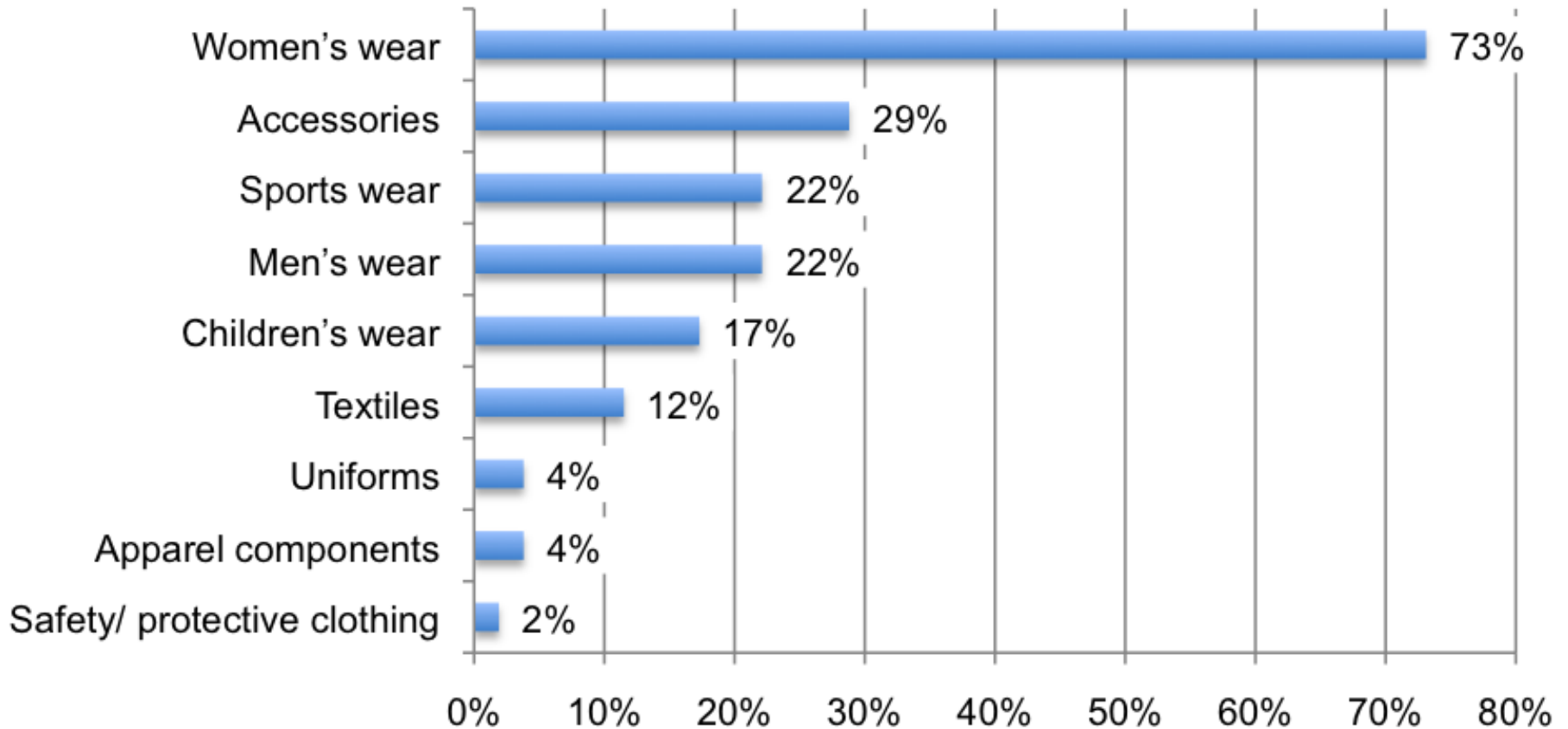
# Respondent's Primary Area of Responsibility in their Company



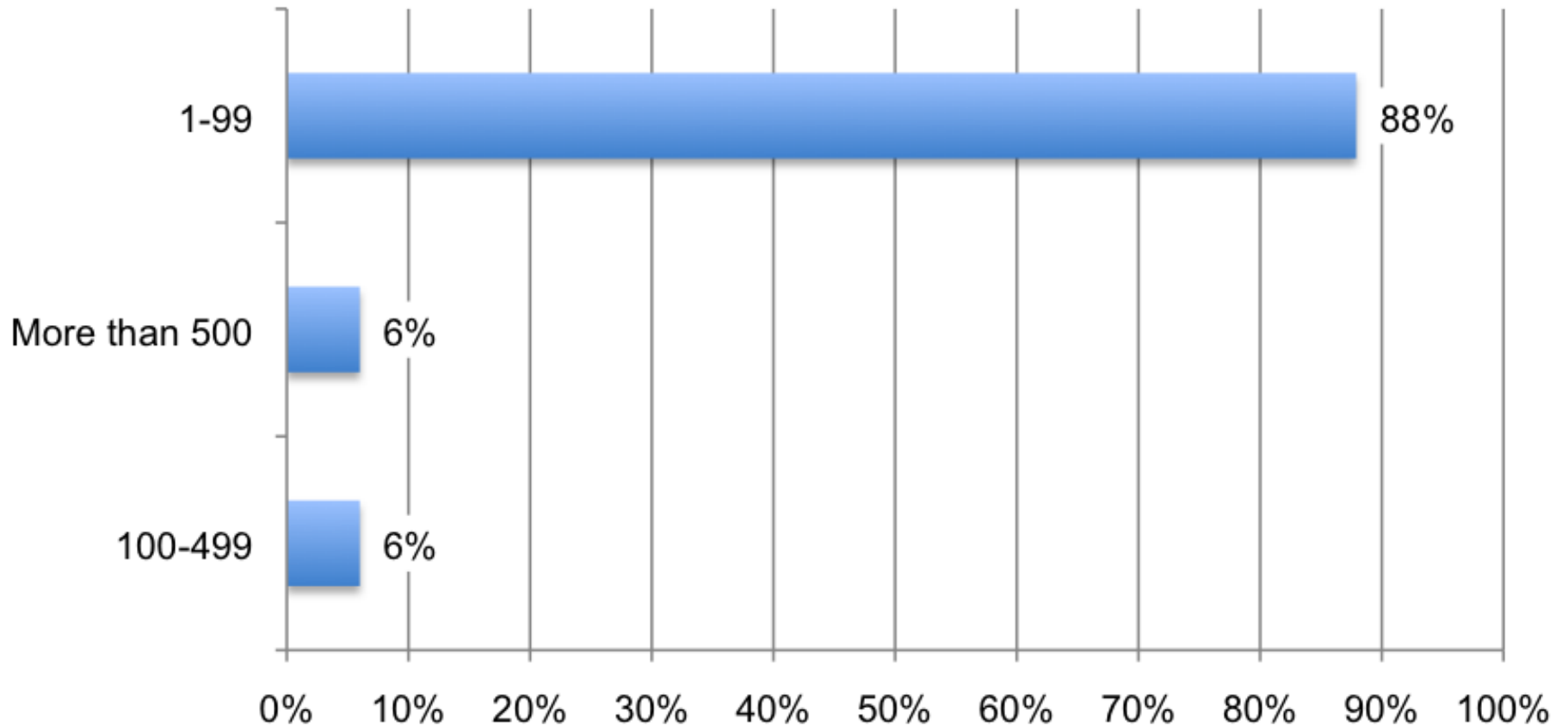
# Respondent's Position in Company



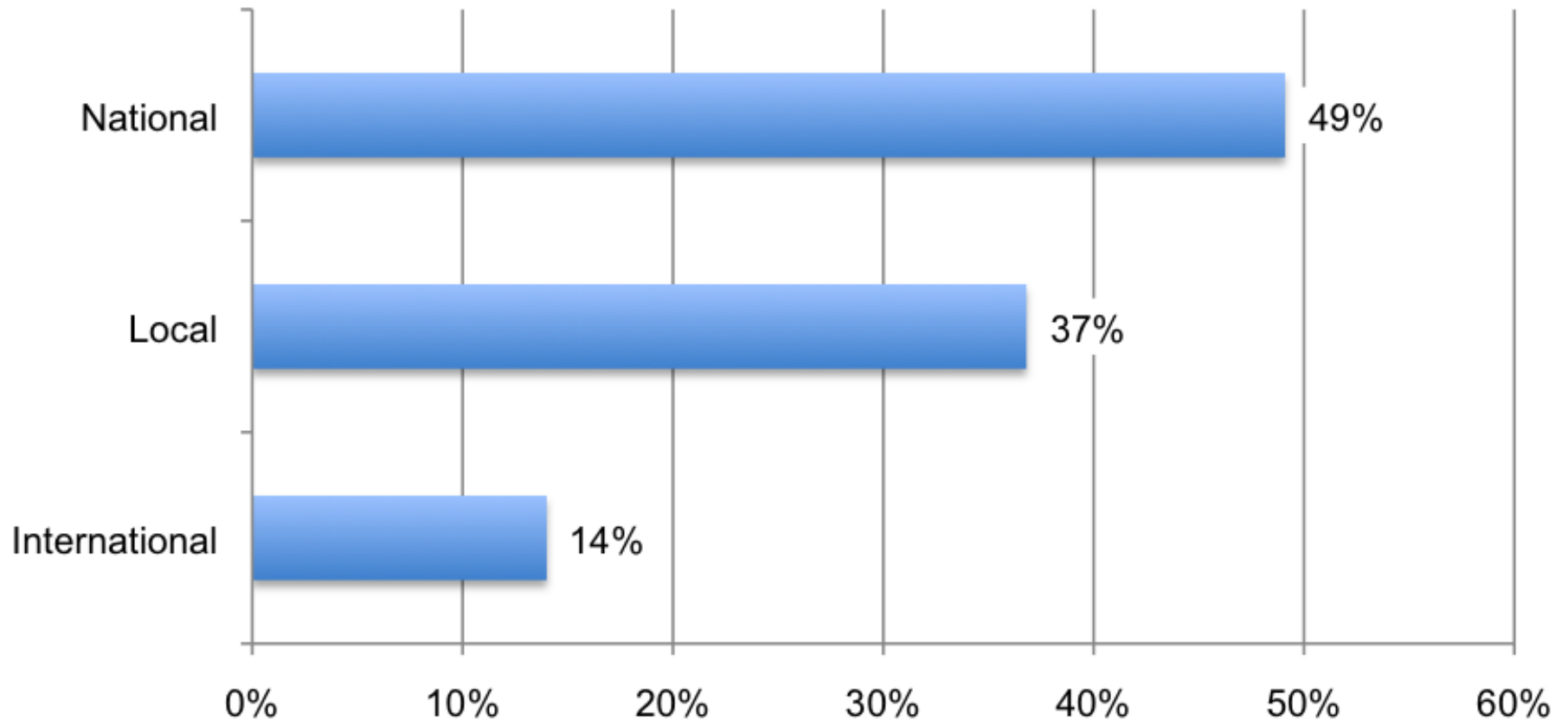
# Company's Major Business Sectors



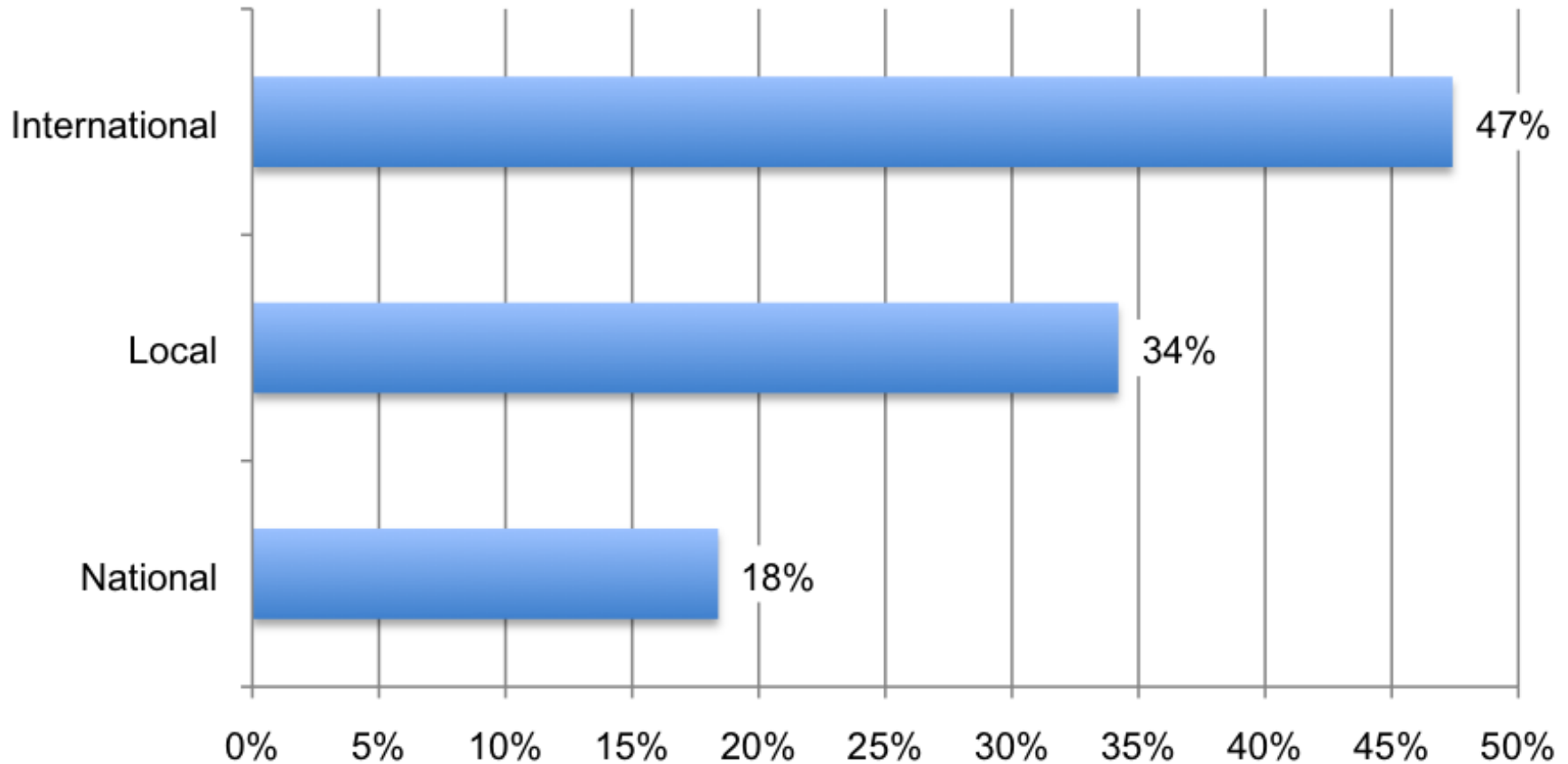
# Number of Employees



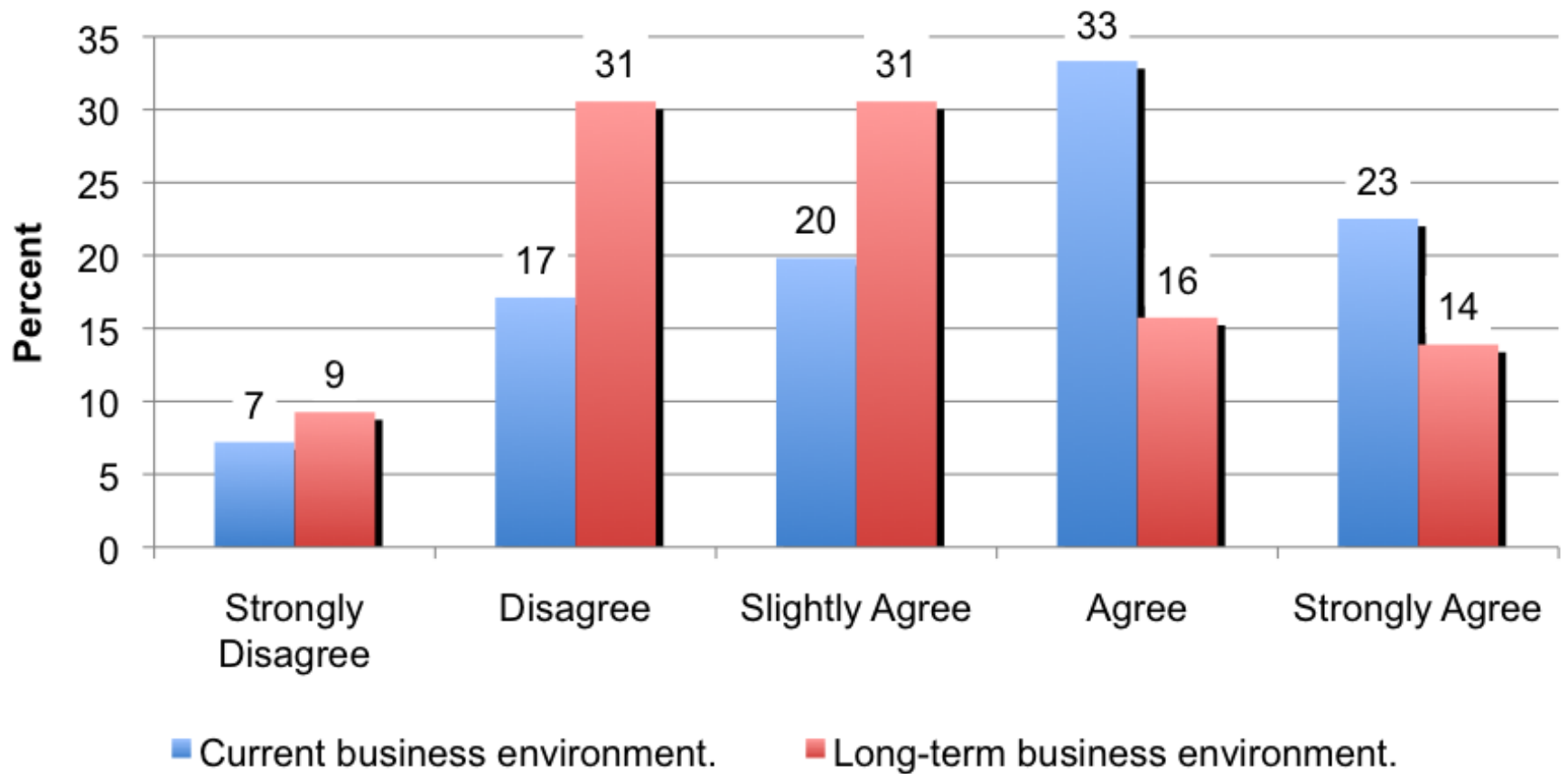
# Predominant Sales Market



# Predominant Sourcing Market

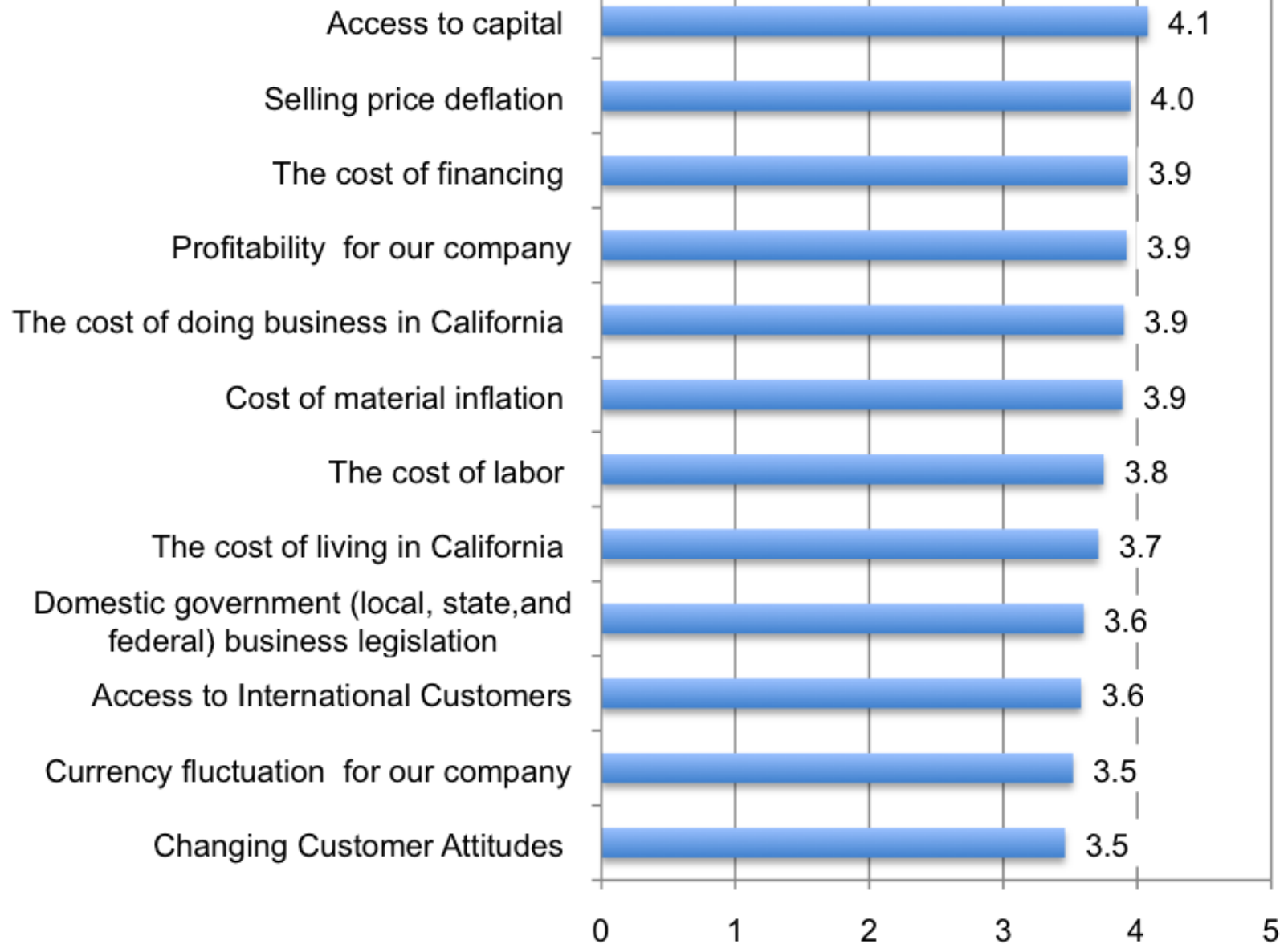


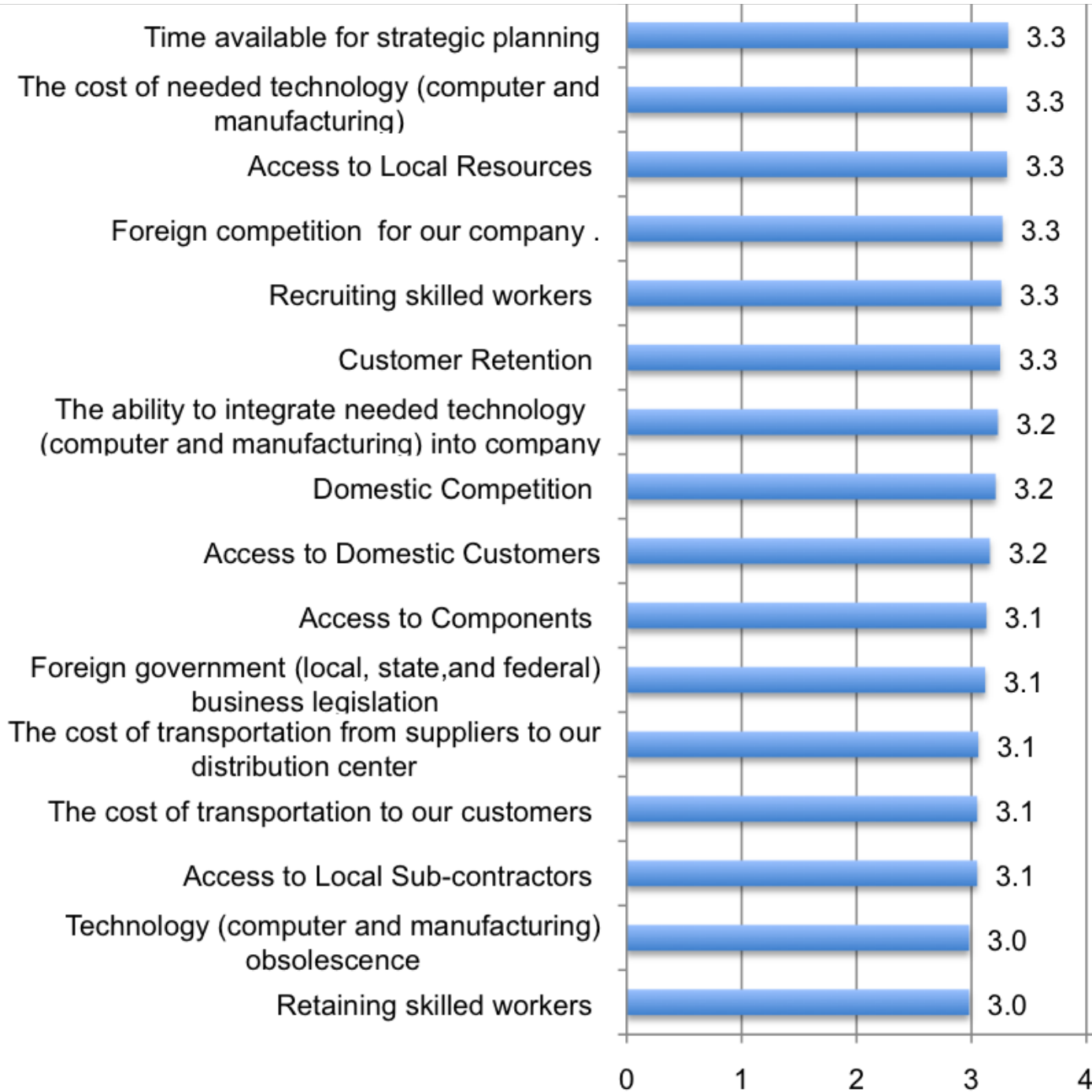
# Knowledge of the California Apparel Industry's Current and Long-term Business Environments.





# Challenges Faced in the Current Business Environment -1



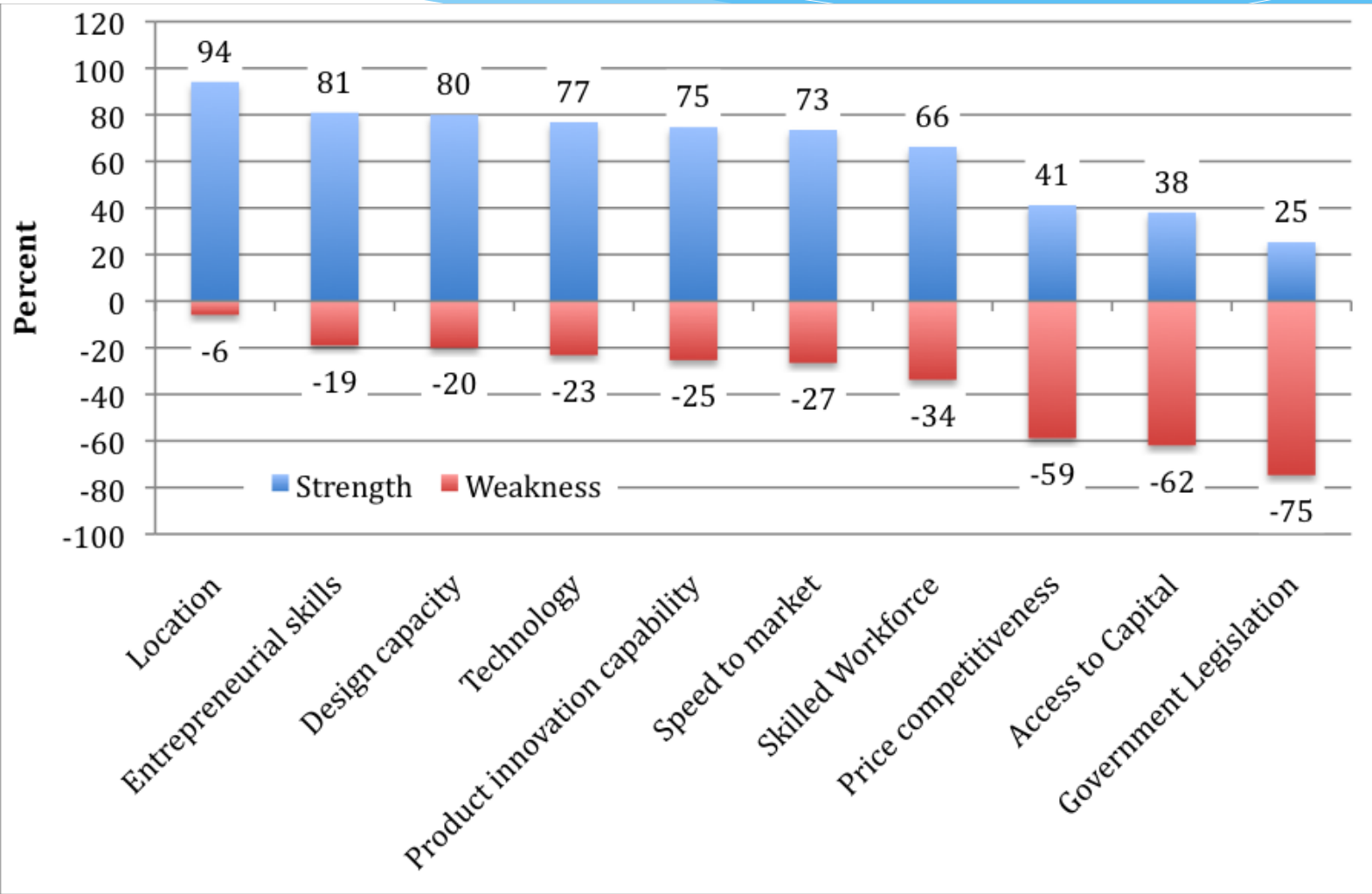


## Challenges Faced in the Current Business Environment - 2

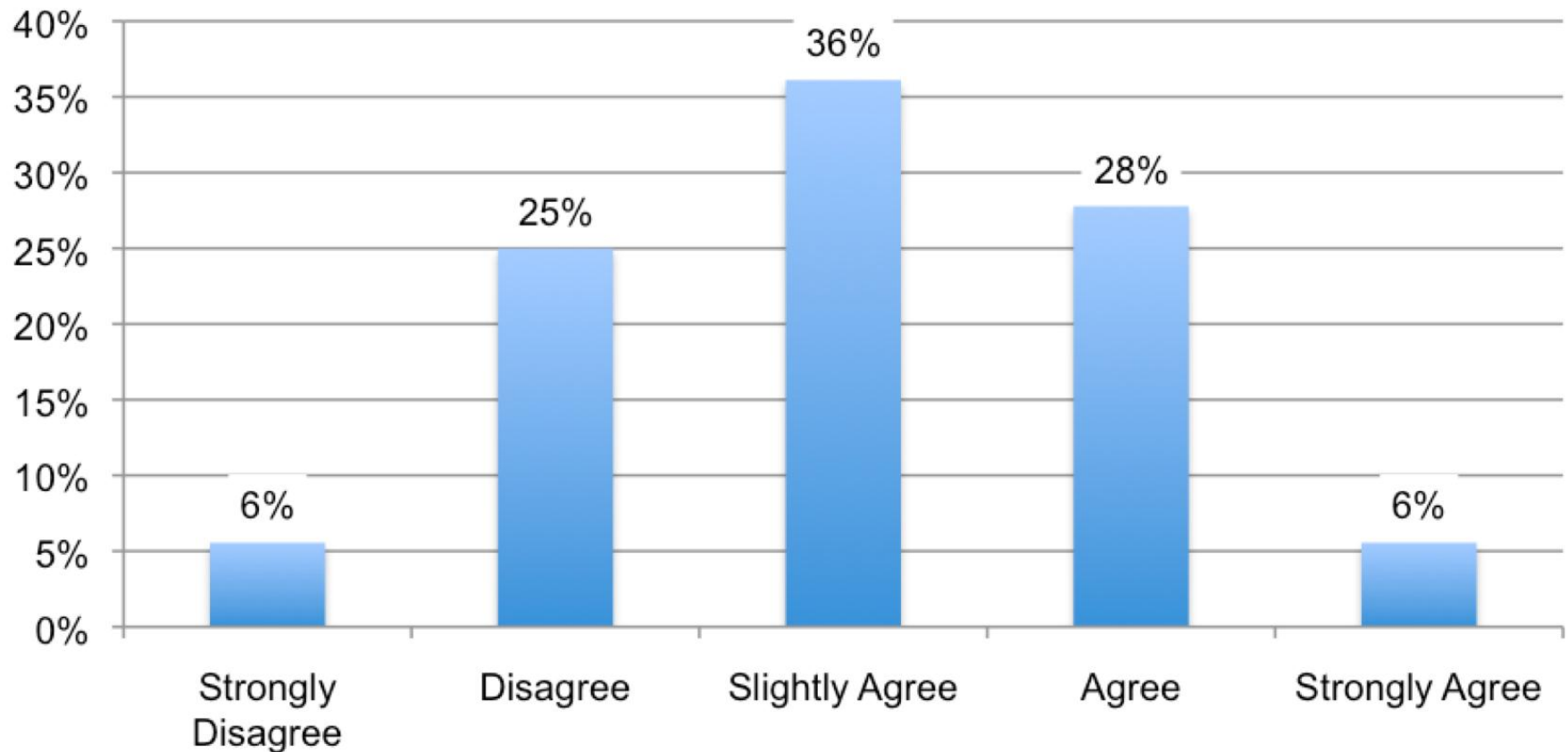


**Challenges  
Faced in the  
Current  
Business  
Environment  
-3**

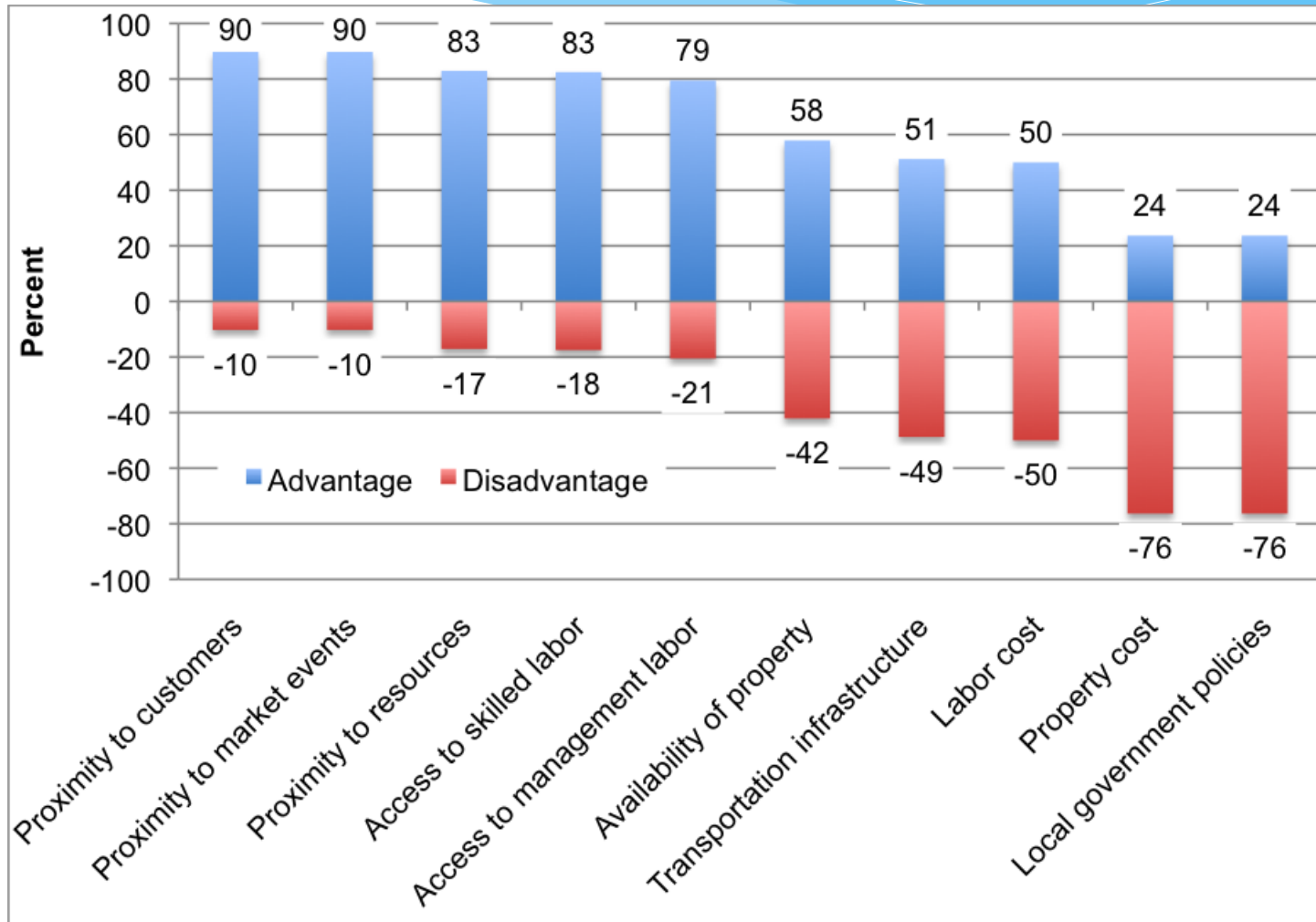
# Strengths and Weaknesses of the California Apparel Industry



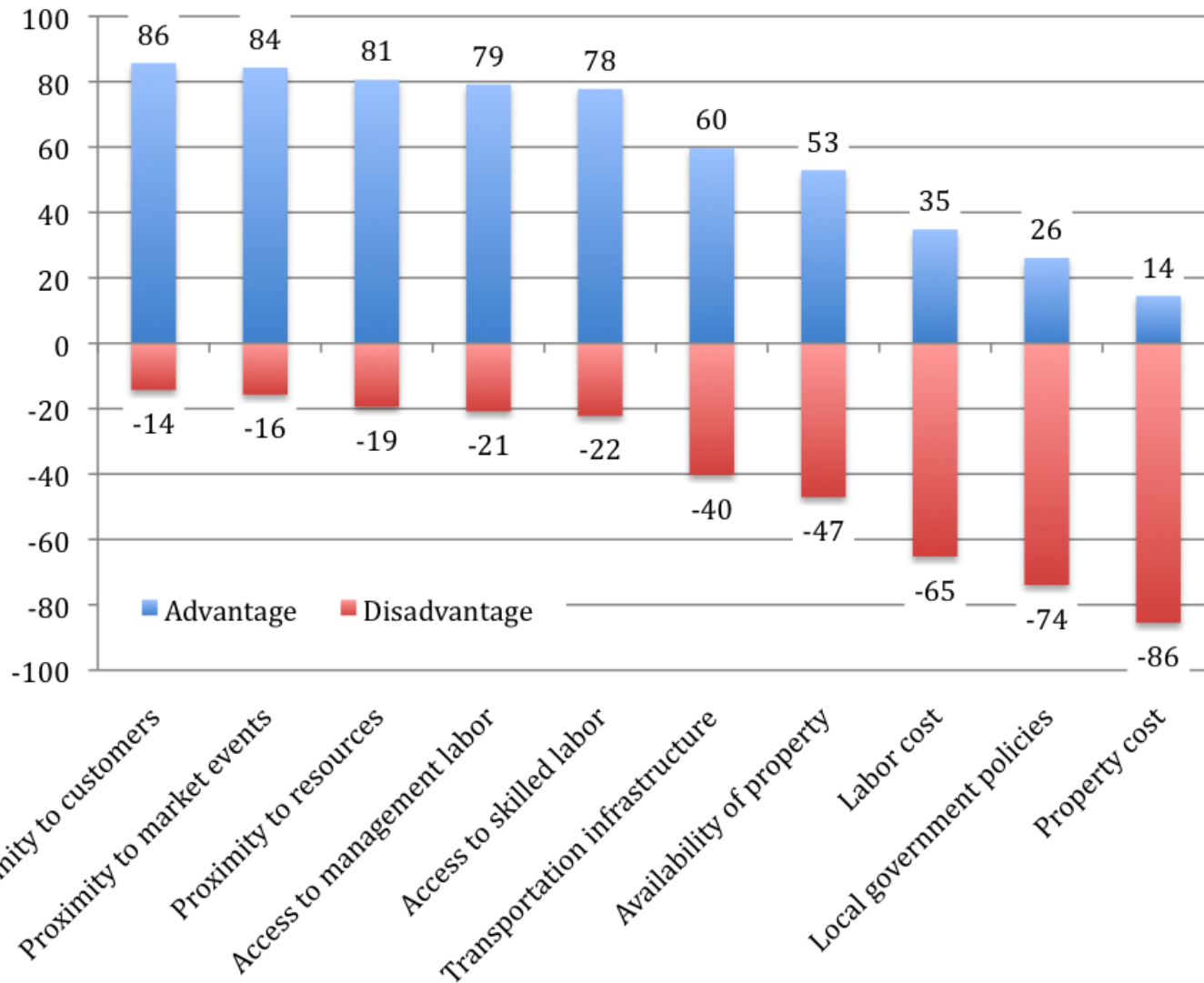
# City of LA Government is Supportive of the Apparel Industry

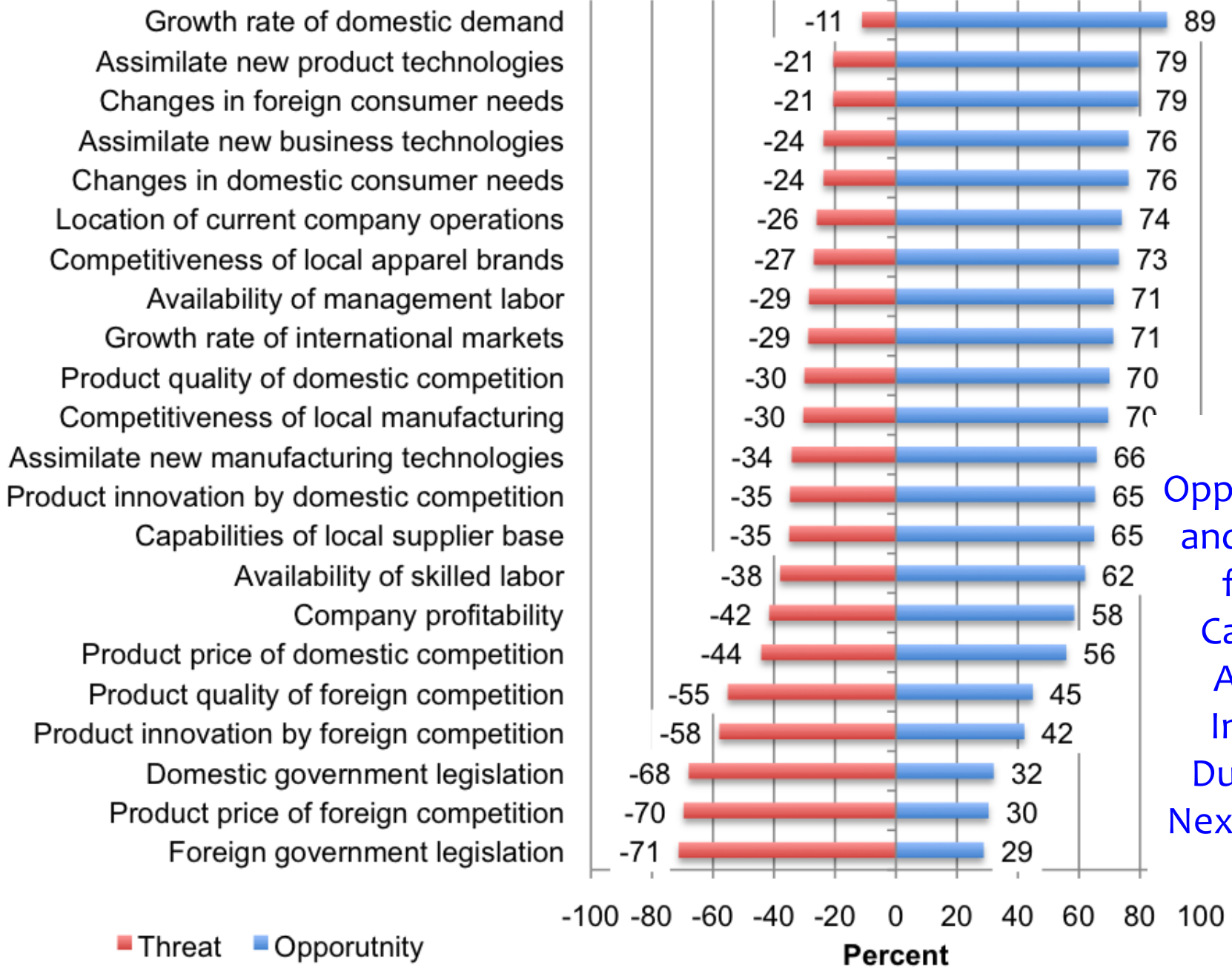


# Advantages and Disadvantages of Being Located in the City of Los Angeles



# Advantages and Disadvantages of Being Located in Other So California Location

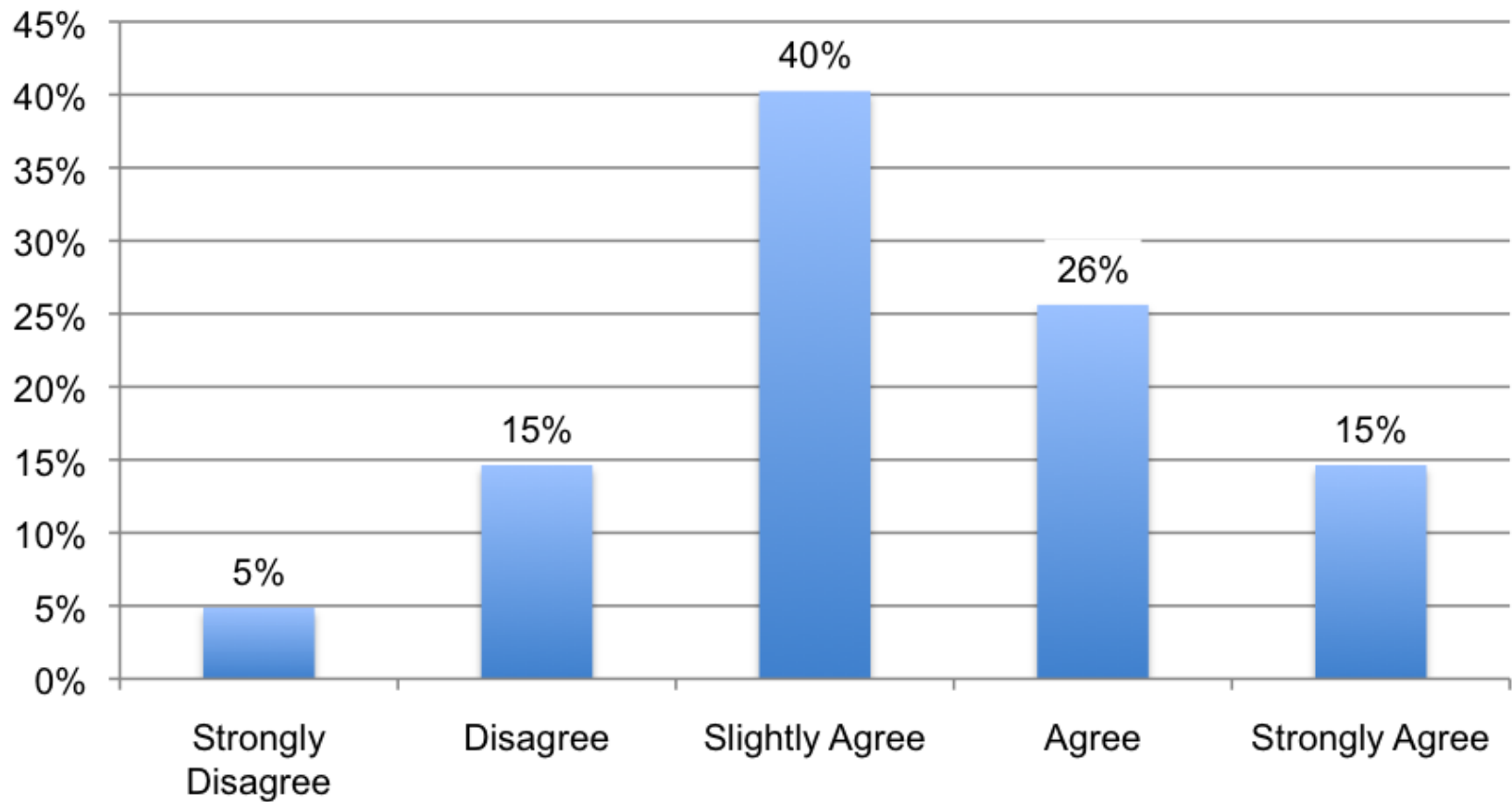




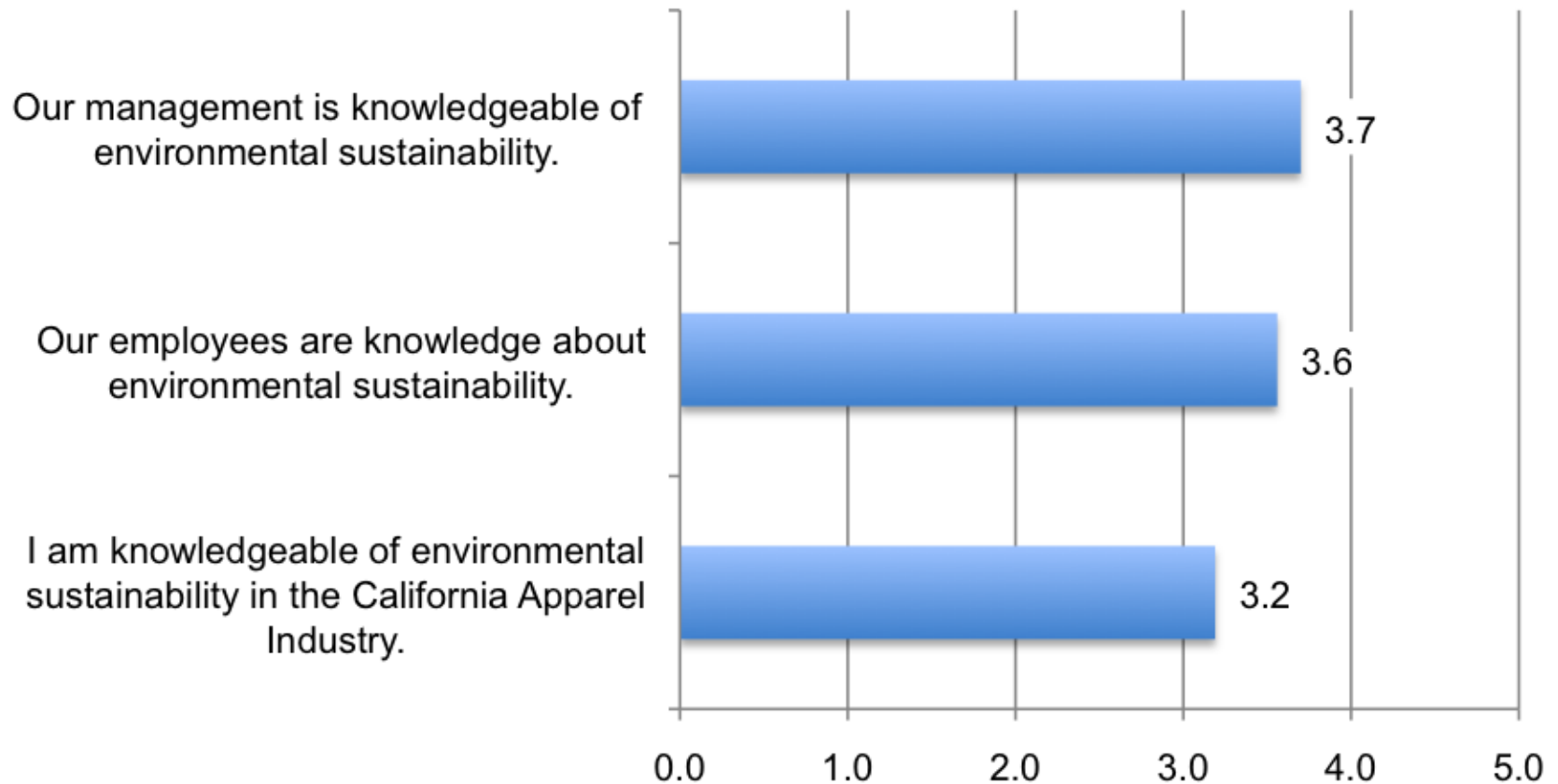
Opportunities  
and Threats  
for the  
California  
Apparel  
Industry  
During the  
Next 10 Years



# Optimistic for the Next Decade



# Knowledge of Environmental Sustainability



# Importance of Environmental Sustainability



# Survey Summary 1

- \* Apparel industry executives were not confident about the long-term business prospects for their industry.
- \* They were concerned about being squeezed between rising costs, currency fluctuations and pressure on selling prices.
- \* Access to needed resources, including labor was identified as an important challenge.
- \* They have little time for strategic thinking and planning.

# Survey Summary 2

- \* Executives considered their companies were knowledgeable about sustainability issues and practices.
- \* Most perceived environmental sustainability to be a challenge to rather than an opportunity for the industry.
  - \* It will adversely change the economics of production, distribution and consumption over the next decade.
  - \* Consumers were seen as casually interested and unwilling to pay more.
- \* However, companies that follow 'sustainable' practices felt that it improves profitability and was important to their customers and suppliers.
- \* A role for government was seen in providing financial incentives/ information/ education/ and training.

# SWOT Analysis Based on Survey

Strengths	Weaknesses
Location	Cost of doing business
Quality workforce	Government policies toward business
Flow of dynamic new entrants	Access to financing/ capital
Agility	Low networking
	Change resisting management culture
	A relatively low intensity of networking.
Opportunities	Threats
Growth rate of demand	Government Legislation
Changes in customer needs	Foreign Competition
Domestic competition	Cost of financing/ capital
Location of company operations	Cost inflation/ selling price deflation
Demand activated manufacturing	Ability to Assimilate Technology
Ecommerce and mcommerce	Loss of skills
	Poor profitability/ access to finance

# Opportunities for the LA Apparel Sector

- \* Key opportunities for the LA apparel sector lay in upscale and luxury products in:
  - \* high income markets
  - \* emerging economies such as China, India etc.
- \* The importance of the 'made in' label for foreign consumers
  - \* an important opportunity to design and manufacture in LA.
- \* New product and process innovations including environmental sustainability
  - \* some being pioneered in the in the Los Angeles area

# Adaptation strategies

Key to successful adaptation will be:

- \* Increased innovation with new product and process technologies,
- \* Re-engineering of operations to provide the highest levels of agility (speed, variety, volume flexibility)
  - \* a need for alliances and partnerships;
- \* Attainment of name recognition based on branding or company reputation;
- \* Upgrading of workforce and management skills;



# Supporting Needs for the Industry

- \* Improved market and business intelligence to decision-makers;
- \* Export marketing skills.
- \* Best practice in apparel product development, manufacturing, marketing, and business management.
- \* Business start-up assistance/ streamlined bureaucracy.
- \* Marketing of Los Angeles as an international fashion capital.
- \* Worker access – public transport and private access.

# Problems in achieving successful adaptation

- \* Many companies lack the resources to adapt.
- \* There is a need to accelerate diffusion of new ideas and technologies.
- \* Without such an acceleration, more local manufacturing capacity will likely be lost
  - \* with knock-on effects on the industry's support infrastructure.
- \* Is there a role for local government to play?

# Apparel Industry Support Schemes 1

Many foreign nations develop special support programs for their apparel industries

Such support, includes:

- \* Finance for technological upgrading
- \* Business start-ups
- \* Training schemes or subsidies
- \* Market development assistance
- \* Product development assistance
- \* Support services (testing, quality control, international credit)
- \* Industry networking/ supply chain development schemes

# Apparel Industry Support Schemes 2

- \* The US is unique in having had no industry specific policies for apparel (beyond TC2 and the National Textile Center)
- \* There have been many local initiatives around the US
  - \* However, their funding is finite and often they fold when funding dries-up.
  - \* Though there are examples of successful initiatives - e.g. the Hosiery Technology Center in North Carolina.
- \* Many of the apparel industry's problems are chronic
- \* They cannot be fixed by short term projects.
- \* The challenge is to create an effective and enduring support framework that does not lose energy or focus.

# The industry support need and ways forward

- \* City of LA as a facilitator of change.
- \* A collaborative business development partnership of support institutions, apparel companies, suppliers and government agencies.
- \* To increase the quality, volume, velocity and reach of business information within the Los Angeles apparel sector.
- \* To intensify networking to disseminate ideas and information across the sector.
- \* To implement parallel in-company innovation projects
  - \* piloted in specific industry segments and learning outcomes shared.

# Objectives of a Support Agenda

- \* Enhanced international competitiveness through increased:
  - \* Investment in /effective deployment of new technologies
  - \* diffusion of best practices/compliance across the industry
  - \* rate of new product innovation
  - \* direct exporting activity and entry into new markets.
  - \* number of new start-ups and reducing their mortality rate
- \* Develop a momentum for cultural change towards intensified networking, collaboration and innovation beyond product styling.
- \* Reinforcing Los Angeles as the premier fashion center in the US

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# What do You Think?

Thank You