Mass production low quality markets economics essay

Economics

Introduction (STELLA)The clothing industry that was heavily regulated by the Multi-fibre Agreements (MFA) came in to full existence in 2005 after the when the MFA was no longer in existence. the abolition of MFA caused a lot of fear among countries not only in the developed countries but also in the developing countries as many firms from the developing countries were also benefiting from it due to the quota system otherwise they would have been out of business due to the Chinese large manufacturers. The clothing industry has continued to be an important employment industry in many economies employing a large number of people both in the firms and those unregistered providing input from their home, employing a very important segment of the population both male and female with the females being the majority. The industry is main activity is the production and sale of clothing and clothing accessories. The output of the industry forms part of those with high demand; this creates an environment of stiff competition and requires innovation to be able to stand the pressure in the market. Basic characteristics of the industry (share in value added and employment, structure and characteristics of the production process) (SOLOMON)The main characteristics of the clothing industry are as stated below

Structure

According Nordas, (2004) the structure of the clothing industry can be classified into two segments namely: High quality fashion marketMass production low-quality markets. The high quality fashion market is based on modern technology which has a relatively well paid labour force and designers with various degrees of flexibility. Many firms within this industry try to capture the market through various designs which is targeted at meeting the taste and preference of consumers. Most of the firms under the high quality fashion markets are in the developed and industrialized countries. The mass production low-quality/standard products markets are found in the developing countries. These categories are basically involved in the production of uniforms, under wears, t-shirts and many more. They are found in exporting zones working with major importers of the industrialized countries. Outsourcing in this market is basically to household productions, (Nordas, 2004).

Employment

The industry employs millions of people worldwide including other individuals who are not registered but work in their homes and factories. The industry was the first to trade on a global dimension, simply because of the low barriers in entering the production of clothing. The industry is governed by the international labour laws, employing the most sensitive part of the labour force with females and ethnic minority as the leading employees. Most of the employees are immigrants. The European community, USA and UK also have blacks as the major employees of the industry. Most of the producing countries in the developing world have females as the majority of employees in the industry. As indicated above, the total labour force of the clothing industry is made up of 80% women. A greater number of the female workforce is also unskilled or semi-skilled. In the developing countries, many of the workers spend up to 12-14 hours per day and are paid very low wages.

The Production Circuit

The clothing industry is part of a large circuit which involves the production of textiles. The industry is more fragmented organisationally and less technological in nature, the industry is also highly diverse in nature and very heterogeneous, which transforms various activities from fibres to yarns and fabrics and outsources most of it components and products. The garment industry therefore produces to unpredicted consumer markets, and serves as a distribution point for all garments. Through retailer efforts, the organisation's geography has been shaped accordingly. The industry is also known as a buyer driven industry, in the sense that they purchase most of the raw materials from producing countries worldwide.

The Supply Chain in the Clothing Sector

The clothing industry can be related to a supply chain function as a characteristic, where activities flow from raw materials to textile designs, apparel plants through distribution centres and other retail stores to consumers. The chain is seen as an integrated network of marketing from production stage to the finish product to consumers. The various activities are located where each can be able to make a contribution to the value of the finished product. The various variables considered in the industry include quality, cost, reliability, access to quality inputs and transportation cost. From the figure 1 below, the black lines represents the flow of goods whereas the broken lines represent the flow of information. The arrows indicate Demand-Pull System, where the design of a product is made from customer orders. The supply chain indicates the interplay of several companies, where logistics and other services are coordinated. Raw

MaterialsApparel PlantTextile PlantSpinningWeavingDyingPrintingDistribution CentresConsumersRetail Stores

Fig. 1 The supply chain function

Source: (Adopted from Nordas, 2004)

Production Cost and Technology

The clothing industry is characterized by low and high intensity of capital and labour respectively, with small plant size simple technology as illustrated in Table 1 below. Production CharacteristicsFibre SyntheticTextiles GarmentsCapital IntensityHighLowLabour IntensityLowHighMaterial CostsHighMediumAverage Size of Production UnitLargeSmallTechnologySophisticatedSimple

Source: (Peter Dicken: 2009, pg. 308)

Variations in Production Characteristics between major components of textiles-clothing production circuit.

Share In Value

The share in value considers the contribution of the clothing industry to the world merchandise export and imports either by country, regional or global. The industry reveals China as a leading exporter of clothing whereas European Union and the United States are the leading importers of clothing, thus making the two countries leading markets of clothing worldwide. The European Union and United States imports approximately 45% and 21% of clothing worldwide, respectively. China still leads the industry in-terms of world export of clothing, primarily due to the easy access to raw materials and labour.

Top Ten Suppliers

From figure 6 below, the clothing industry has about ten major suppliers. China plays a leading role with about 29. 45million Euros in 2011 as compared to 2007 where it made a supply of approximately 21. 9million Euros. Bangladesh also improved in their supply in 2011 with 7. 5million Euros as compared to 2007 with a supply of 4. 4million Euros. India also had a slight increase in supply for 2011 with approximately 4. 5million Euros as compared to 2007 where the supply was approx. 3. 8million Euros. However, Turkey had a decline in supply in 2011 with an amount of 8. 2million Euros as compared to 2007 with approx. 8. 9million Euros. Other countries like Indonesia, Sri Lanka, Pakistan and Vietnam had their supply below 2million Euros as evidenced on figure 6. See Appendix 3

Top 10 suppliers in clothing (million Euros)

Figure 6 Source: ec. europa. eu

Market Segmentation

The market for the clothing industry can be segmented into two namely: Segmentation by User CategorySegmentation by Use CategoryThis is diagrammatically presented below: Segmentation by User CategoryMen’s WearKids WearUnisexWomen’s WearThe men’s wear ranges from trousers, suits, t-shirts, innerwear, jackets. Whereas the women’s wear comprise skirt, blouse, innerwear, cloth, scarf, sleet, braziers, night wear/pyjamas, etc. the unisex comprise cloths that is worn by both men and women. It ranges from t-shirts, trousers, jeans, pullovers, leather jackets, ties/scarves etc. finally, the kids wear also ranges from t-shirts, trousers, under wears, suits, etc.

Segmentation by Use CategoryFormalwearActive Sports wearTraditional wearCasual wearUniformsThe formal wears are those that are worn for official purposes ranging from skirt and top, suits, etc. casual wears are mostly worn at homes, entertainments and also used for other programs. Traditional wears are mostly worn for traditional occasions, durbars and other social events. In Ghana, for example, traditional wears are classified as Friday wears for office. Active sportswear covers cloths that are used for sporting activities ranging from sports shirts, trousers and many more. Finally, Uniforms are also a part of use category which are normally used by some institutions like schools, military and police services, apprenticeship trainings and many more. Global production structure and dynamic (country or regional share in world production and its change, etc.) (JOHN)

Production structure

For a number of years, the clothing industry has been experiencing radical changes. From 1962 to 2005, the Long-term Arrangement was broadened into Multi-Fibre Arrangement (MFA). MFA advocated for the use of quotas as a way of controlling production and supply. After 2005, there was no longer any quotas attached to trade and this created massive competition among the clothing industries. Additionally, the low barriers to entry into the clothing industry made the activities associated with clothing accessible to any country. The key structural change in the clothing industry resulted from the production circuit, in which clothing industry forms part. The clothing industry uses less sophisticated technology and is more fragmented organizationally. The activities in the clothing industry are handled quite separately: The sewing process is independent of the design and the cutting processes. There are six stages that individual producing countries have passed through, that is from the embryonic stage to the maturity and decline stage of the development process of the clothing industry. This can be seen in (Figure 1 below). The stages indicate how raw materials flow within the industry, from the fabric production stage, design, preparation, production, distribution and consumption stage. In the reverse state is the information flow from customer orders down to the fabric production stage. There is no much technological change since inception of the clothing industry. The majority still uses the manual operations due to the complex nature of the production process.

Fabric Production

YarnPreparationSpinningFabricManufactureWeaving/knitting, Dyeing, Finishing

Design

Complexity varies by type of consumerMarket

Consumption

Variationby income, age, andFashionOrientation

Distribution

BuyersRetailers

Production

Sewing of: Basic garments, Fashion basic garmentsFashion, garmentsInspecting, pressingpacking

Preparation

PatternMakingGradingNestingandMarkingCuttingAncillary SuppliersEg. Zips, Buttons and TrimmingsNatural FibresSynthetic Fibres

Figure 1: The Clothing production Circuit Source: (Peter Dicken: 2009, pg. 303)

Flows of materials and ProductsFlows of information (including customer orders)Figure 3 represent percentage of leading exporters of Clothing worldwide. The figure compares percentage of 2000 and 2011. Asia dominates the clothing industry in-terms of exports with over 50% of world market. China has doubled their share within 11years of operation, with approx. 37% of the total exports worldwide. Closely followed is the European Union and Euro extra with a combined total of 35% of world export share, which is a combination of intra regional exports. China’s dominance could be attributed partly to the removal of quotas after the (MFA) was removed in 2005. In the views of Brambilla, et al., (2010) the removal of quotas increased China’s textile and clothing exports to United States by 39% in the year 2005.

Leading clothing exporters (share in value)

Figure 3 source: based on WTO 2011 chart ii. 69

From figure 6 above, the EU is the leading importer of clothing worldwide, with combined percentage of 67. 2% of total imports. The EU imports much of its clothing from China. Available records indicates that EU imports about 39% if Clothing from China, 14% from Turkey, 7. 7% from India, 6. 3% from Bangladesh and 3. 6% from Tunisia, (EUROPA). It is also evidenced that

China exports clothing more than imports. Whereas China leads in exporting clothing, in-terms of imports, they only imports about 0. 90% of world clothing. The US is the second largest importer of clothing as evidenced on figure 4 above. The US imports about 20. 5% of clothing in the country, followed by Japan with 7. 6%. The remaining countries imports less than 3% worldwide respectively, (WTO 2011 chart II. 69).

Leading Importers (Share in Value)

Figure 6: Source: Based on WTO 2011 Chart II. 69

Clothing production is associated with low and high capital and labor intensity respectively; this implies that the clothing industry is highly labour intensive. There are great labour costs variations in the clothing industry that are generally associated with low labour costs resulting from the production of basic items which are sold on the basis of price and not fashion, hence relatively cheaper. Additionally, the low production cost is also attributed to proximity to the markets. A case in point is the US' consumer markets, such as the Caribbean and Mexico, for Japan (the Asian countries), and for Europe; such as the Mediterranean rim, Central and Eastern Europe. Proximity to the market results into low transportation costs, hence an economic advantage to the clothing industries.

Production dynamics

Technological innovations

Due to stiff competition in the clothing industries, firms especially in the developed countries have intensified on technological innovations that fuel time reduction in the manufacturing process and increase output production with the same labour force, or even lesser labour force. Improved technology enables clothing industries to respond to customer demands with great speed, hence leading to customer satisfaction. Two types of technologies are beneficial under the competitive environment: Technologies that replace labour-intensive technologies with mechanized and automated operations, and technologies that aim at increasing production speed of a particular process. All the two technologies aim at time saving and increased output and responding to customer demands in the most effective and efficient way. However, it is still a challenge to the clothing industries to think about doing away with manual operations, especially when it comes to production activities that run for a short time. An example is where two dimensional materials-which are soft and limp in nature require a chain of many labour – intensive handling stages before a final product is produced.

Technological Developments

Of recent, there have been technological developments in the clothing industry, resulting from the low-cost competition from the developing countries. These technological developments comprise of Microelectronic technology, which is used in the non-sewing operations, such as grading, material laying out and cutting in the pre-assembly stage. On a positive note, the use of computer-controlled technology increases the production speed and also helps in the avoidance of material waste, hence a saving to the clothing industry. For example, the use of computer-controlled technology reduced the grading process from four days to one hour. Due to the fact that there is no success in having the sewing process automated, a lot is still being spent on labour. It is mentioned that sewing and assembly of garments account for 80% of the cost in respect of labour in the entire manufacturing process. Furthermore, the introduction of the Electronic-point-of-sale (EPOS) technologies has facilitated a direct link between production, sales and reordering. This helps in reducing lead time and increasing customer satisfaction. Technological developments in the clothing manufacturing industry focus on the following three key areas, namely; Addressing the sequential operations problem, hence making it possible to transfer semi-finished garments from one station to another, while not changing the shape of the Limp material. Secondly, the new technology is to improve greatly the flexibility of the cloth manufacturing machines in an effort to know oddly shaped pieces of materials pick and align correctly the pieces on the machines, while aiming at making adjustments during the sewing process. Finally, to develop the unit production system that will facilitate the application of the conveyor belt system, to reduce time wastage during rebundling and unbundling of work pieces. The clothing company constitutes of four major categories, namely; producers of basic goods for the large markets. Such producers take advantage of the economies of scale, hence being competitive due to the fact that their costs will be low as compared to their competitors. Secondly, operators of meager workshops, which may be in the form of Sweater shops, which use employ immigrants and sometimes un registered labour. Such firms are characterized by low-quality garments. Thirdly, large-scale integrated firms that produce for a several leading retailers in the fashion market. These firms are majorly in Asia. Lastly, Factory less' firms that put the entire systems of the garments production in an orderly manner. Such firms exert significant purchasing power and leverage over the clothing manufacturers.

Cost reduction and increase in production strategy.

As a way of fighting competition in the clothing industries, many firms put up strategies that are aimed at reducing production costs and increasing productivity. For example US' garment production firms engaged in increased level of off shoring processing, where suppliers from developing countries were used. This led to reduced costs of production, hence making US ' garment products being competitive. A living example is Levi Strauss company, manufacturers of Jeans changed its manufacturing strategy in an effort to reduce production costs, hence became an entire off shore producer. Levi Strauss entered into contract network with LI and Fung-a Chinese company, to sell its products directly to US retailers on its behalf. Li and Fung Company controls and carries out coordination of all stages involved in the production, quality control, testing and distribution on behalf of Levis Strauss.

Off shoring

Off shoring became significant in Europe, where German and British companies were engaged in some sort of off shore production. For example, Hugo Boss, a German fashion company engaged off shore subcontractors in order to reduce its domestic production costs, which had exorbitantly increased. The leading British garment industries have developed a great focus on subcontracting and off shore production. In spite of the global production competition, Italian firms have of recent continued to perform well, hence a key exception to the huge shift of the production to low-cost foreign locations by garment producers in Europe. To avoid low-cost competition, Italian garment producers have embarked on product specialization and fashion orientation. A case in point is an Italian company, Benetton, which stood in the crowd as the only clothing firm to have its operations in a high-cost European location, without thinking about relocating to a low-cost area in Asia. Benetton concentrated on relatively limited garments and carrying out of differentiation of these products on the basis of colour. Zara clothing company came up with a combined strategy, where it carried out both highly efficient production and distribution logistics together with a continuous monitoring of the fashion, hence making it more competitive.

Triangle manufacturing Strategy.

Manufacturing industries in Asia have embarked on another strategy of Triangle manufacturing. Under this system, US and other overseas buyers make orders to NIE manufacturers who later in turn transfer part or all of the ordered production to their affiliated off shore low-wage countries, such as in China and Indonesia. International trade: structure and dynamics (export and import shares, " revealed comparative advantages" and their changes, etc.) (STELLA)International business refers to the business transactions across national borders. The main aim is to satisfy the needs of individuals, organizations and governments respectively. Import and export in international trade go hand in hand. Over two years ago, the global quota system that managed and presided over the textile and clothing industry phased out. The post-quota system resulted into a lot of anxiety since many countries affected saw a decline in their exports. However, a significant growth in the export earnings was realised by these countries because of the re-imposition of quotas on Textile and Clothing exports from China. This achievement was not only limited to the developed countries but also developing countries particularly those that used the temporary safeguard measures as agreed to by China during the transition process of accession to World Trade Organisation.

Share Value for leading Exporters.

Figure 4 represents share in value for exporters for 2011. China leads with 38% representing 154 billion Dollars in 2011, (WTO, 2011) and still expected to lead the market in the near future due to the cheap labour in the Chinese market. European Union closely follows with 36% of Share in value representing 144billion US Dollars including intra regional trade. Bangladesh also did better in 2011 with a share in value of 5%, representing an amount of 20billion US Dollars, (WTO, 2011). Those who also need room for improvement had less than 2% of export share in value. This means that China and the Europe Union have comparative advantage over other countries as far as clothing industry is concerned. From figure 5 above, the share in value for the leading importer of clothing (EU) is 60%, representing an amount of 290 Billion Dollars. The EU is therefore the largest importer of clothing worldwide. The US is the second largest importer of clothing with about 18% share in value, representing 89 Billion US Dollars. See Apendix 2

Leading Importers

Figure 4 Source: based on WTO 2011 Chart ii. 69

According to the Clothing exports register, the clothing industry has registered strongest growth since 2000 (WTO Statistics, 2012). A total of US$ 706 bn world exports of textiles and clothing in 2011 is reported from the WTO Statistics, an increase of 20% was realised in China's exports of textiles and clothing in 2011. The following facts were reported from the register. Remarkably, the world exports of textiles and clothing grew by 17 per cent in 2011. The top ten exporters each registered 13 per cent growth or more. Bangladesh recorded the highest increase (27 per cent) while the lowest among the top ten was recorded by the United States with 13 per cent. The order for the top ten exporters remains the same as in 2010. China was the leading exporter of textiles and clothing in 2011 with a 32 per cent share in world exports of textiles and 37 per cent in clothing. The European Union and the United States are the major markets for clothing, accounting for 45 per cent and 21 per cent respectively of world imports.

Revealed comparative advantages" and their changes, etc.

Over the years' international trade has played a tremendous role in boosting and transitioning economies through exports hence fostering competitiveness in developing and industrialised economies. For instance, developing economies have received support of trade development services to the private sector, institutions and policymakers have also received support. However, from the International Trade Statistics, 2012 report, textiles and clothing are among the major product group of world merchandise exports. A total value of US $ 706 bn was realised from Textile and Clothing industry in 2011 which a share value 3. 9 in the world merchandise trade with a contribution of 17% of the annual percentage change. The textile exports of selected regions and economies in 2011 contributed a total value of 294 bn from imports value in 2011 amounted to USD 25, 360 bn. European Union (27) contributed to a total of USD 54, 567 bn in 2011 with a share of 65. 0. China had a total value of $ 16, 246. Dynamics of supply (technology) and demand (JAMES)The clothing industry is mainly characterized by slow growth, overcapacity and low-priced imports, and competes primarily on cost of production. It is a labor intensive, low technology industry in which not many capital investments in technology or process innovation taken place. The clothing industry plays an important role in the GDP for many developing countries, it also acts as a facilitator of the economies which are heavily reliant on taxes form imports and exports. The supply and demand dynamics of the clothing industry is mainly influenced by the level of technological development in the economy and demographic generational changesThe changing dynamics and trend of globalization and the change of power from manufacturer to retailer have caused suppliers to think twice of how they should work together with other companies in the supply and customer value chain (Kuglin, 1998). For the demand forecasting and planning end, businesses in this industry is mainly governed by different strategies. This is because the driving forces for demand for the both channels are not the same.

The role of trade policy (multilateral tariffs and quotas, " grey area protectionism", trade conflicts, preferential trade, etc.) (SOLOMON)Trade policies are rules and regulations governing the operations of international trade among countries worldwide. Trade policies play a major role in the industrialization of the clothing and textiles market. For a country to experience growth globally, it is important for it to trade among other nations, because trade serves as an engine of growth. Trade also contributes to the economy through the provision of long-term jobs and sustainability of the economy. Trade policies therefore play an important role in providing the industry with a framework to enable the industry prosper in the world market. Most trade policies cover the following areas; Trade in goods and servicesForeign direct investmentsServices andCommercial aspects of intellectual property rights. To analyse the role of trade policies, the following area shall be explored; Multilateral Tariffs and QuotasGrey Area protectionismPreferential Trade AgreementsTrade ConflictsFree Trade Agreements

Multilateral tariffs and Import Quotas

The textiles and clothing industry has long history in-terms of agreement for protection in trade across the US and Europe. Voluntary export restraints (VER) were agreed upon by China, Japan, Hong Kong, and India to enable them export cotton products to the US in the 1950s. The General Agreement on Trade and Tariffs (GATT) were incorporated in the agreement with the Long Term Agreement (LTA) on Cotton. This agreement was later replaced by the Multi-Fibre Agreement (MFA) in 1974, (Nordas, 2004). The main purpose of the MFA was to open up the restricted markets to limit the disruptions of markets. The most favoured principle was not adhered toInstead applying tariffs, it rather applied quantitative restrictionsDeveloping countries were discriminated againstIt was not also very transparent for easy understandingBy 1st January, 2005, the Textiles and Clothing were fully integrated in GATT which also gave way for quotas to be fully integrated making it easy for member countries to trade without trade barriers. In the views of Nordas, the eliminating quotas led to welfare economic gains of about 42% of the Uruguay round liberation, and about 65% for dynamic modelsThe Agreement on Textiles and Clothing (ATC) ended in 2004, which led to an increase in competition in the clothing market. Some countries were affected as a result of the new entrants of the Asian countries like Vietnam and Cambodia, and other competitors like India and Bangladesh which are traditional exporters. This led to a decline in the importation of clothing from the affected countries by the US at an annual rate of 13. 4%.

Grey Area Protectionism

Grey area protectionism is a non tariff barrier which is implemented by trading partners of international trade. An example of grey area protectionism is Voluntary export restraint, a system of non-tariff barrier which is applied between trading partners where an agreement is reached between the importing and exporting country after being issued quota license to limit the inflow of goods in the importing country. Protectionism is very necessary because it help address short comings relating to the market. Most countries implement this aspect of non-tariff barrier because of the following reasons: To protect infant industriesPromote domestic production and employmentProtect dying industries

Intellectual property rights

One of the most serious issues facing the clothing industry is product piracy, which is creeping into the global market. Available records from the OECD indicate that about 8% of the products in the global market are ‘’fake’’. There are several issues of counterfeit products, copyrights, trademarks and patents which are facing the clothing industry. One way to prevent this is by ensuring that tariff regulations are strictly enforced, using computerised transit measures and also issue green paper on counterfeiting. Secondly, the industry could also use the reactive measures through stricter checks by fraud in and investigative departments of trading partners and also ensure that there is cooperation between customs and judicial services

Preferential Trade Agreements

With the implementation of Preferential Trade Agreements (PTAs) which were imposed by the US and EU on the importation of textiles and clothing from China, inroads were created for some developing countries to experience marginal growth in their exports. The PTAs also made it possible for smaller countries like Madagascar and Haiti to increase their exports by 26% and 15% respectively, (ITO website). The signing of preferential trade agreements made it possible for the European Unions to integrate as a region in the trading of clothing and textiles, which also enabled them to sign agreements with other non-EU countries for easy access to the EU markets.

The Free Trade Agreement (FTA)

The US Free Trade Agreements has given the textiles and apparel industry the opportunity to enter in the world market and compete freely. The agreement enables the reduction of tariffs rates and improves the intellectual property rules and regulations. The US has therefore signed agreements with the following countries and Institutions on textile and clothing industry. Notable among them are; Australia, Bahrain, Central American Free Trade Area (CAFTA-DR), Chile, Colombia, Israel, Korea, Morocco, North American Free Trade Area (NAFTA), Oman, Panama, Peru and Singapore, (OTEXA website). These agreements assist foreign governments to ensure that non-discriminating laws and regulations are enforced to streamline trade relations between the US and member countries. The FTA provides that transparent measures be put in place for effective rules to be enforced, it also ensures that all non-tariff barriers are removed completely, which opens the markets of the member countries to the US products. Under this agreement, all goods that qualify are said to be duty free in the US markets.

Trade Conflicts

These are conflicts that ensued between countries that trade among themselves. Trade disputes result from breaking trade rules and regulations among trading countries. These include regulations such as dumping and their effects on trading partners, restricted importation of products from trading partners, higher import quotas and tariffs and illicit subsidies. The European commission were able to wrap up various anti-dumping cases especially for products such as polyester, linen, fibres and tread as a result of the Uruguay Round discussions. However products with many varieties such as clothing still faces difficult cases yet to be addressed by the commission. There are major causes of trade conflicts among trading partners. Notable among them are; Protectionism of domestic producers in order to protect them from competition. Abusing domestic standards or discriminating against importation of goods through high taxes of imported good with the intension of protecting domestic producersCountries who attempt to enforce their domestic laws overseas through extraterritorial technical standards and domestic lawsUnfairly restricting a particular partner to favour a third party. The distortion of trade among partners by giving unfair subsidies for some products. Corporate strategies (outsourcing, globalization, foreign direct investment, export strategy, pressure for protectionism, etc.) (JAMES)Porter (1996) defines strategy as creating fit among a company's activities. He states that while operational effectiveness is a necessary tool, a clear overarching company strategy is the answer to long-term sustainability. He states that strategic positioning is a key activity for strategy. Firms in the clothing industry therefore practice corporate strategy using the following activities.

Outsourcing

Outsourcing is defined as the delegation or giving out of non-core business operations or jobs to be performed by an external entity who specializes in that area of operation or sub-contracting part of an entity’s operation to an external source. Outsourcing is a business decision that can be made for quality or financial reasons. This can be done by transferring jobs to another service provider or country, either by use of local subcontractors to do the job or building a production facility in an area where production costs of labor is low. That is, production outside the company and/or outside the country has become an increasingly popular strategy for many North

American and European companies (Bettis, Bradley, & Hamel, 1992; Bryce & Useem, 1998; Feenstra, 1998; Murray, 2001). As U. S. apparel companies have been confronted with intense competition from low-cost imports and periods of soft demand, they have been among the leaders in this movement to disperse production (Dickerson, 1999; Peterson, 2001)

Firms in the clothing industry outsource mainly because of the following reasons?

Labor Costs

Many firms in the clothing industry decide to outsource part or any of its functions includes labor cost. Labor costs in many countries like China remains low, yet it is one of the biggest proportions of costs of production. Labor cost includes providing employees with health, housing transport and other benefits. The benefit of outsourcing here means cutting off all the cost associated with keeping the employees on the payroll hence benefit to the company.

Focus

Firms also choose to outsource because they need to focus on the core business activities so they find it profitable to outsource complementary parts of the production process. Usually, outsourcing reduces production costs, this enable the company to increase its revenue by having a better focus on core competencies.

Flexibility

Outsourcing increases flexibility of the firm in their production process, this is especially if the firm does not have enough production capacity. As the contract manufacturers usually have more production capacity, this enables the company to adequately meet the customers demand.

Factors to consider while out sourcing.

Lead time, Cost and quality have always been a great concern for the clothing retailer outsourcing for the clothing industry across the globe. It is not possible to state only one factor as the reason for sourcing. Sourcing is a complicated process lead time; cost and quality are important factors. The importance of these factors is based on the product nature, the requirement of the company, and the target customer (Howard Lucas, CEO- Kahn&Lucas Lancaster Inc.).

Lead Time.

Forney, Rosen, and Orzechowski (1990) and Rabolt, Bothwell, Forney, and Barry (1988). In their study of 18 apparel manufacturers based in San Francisco, Forney et al. found that lead time was the most important criterion for production site selection for domestic firms, whereas cost was the most important for off-shore firms.

Quality.

One other preferred and important factor in outsourcing in the clothing industry is quality. The product quality builds the company image and makes it competitive. though it is not always important to be the cheapest or fastest to sell, clothing companies should always ship high quality product. Retailers now have extensive testing schedules in place and any substandard components detected will most likely cause a cancellation of that style and supply. For apparel companies manufacturing under a national brand, it can

" make or break" its brands image with the consumer based on the quality of the products

Customer Segments

In 2011, clothing and accessories retail sales in the U. S. totalled $226. 5 billion (up by 4% over 2010), furthermore, Plunkett Research estimated that 80% ($147. 3 billion) of departmental stores sales, 60% ($24. 4 billion) of sales at sporting goods stores and 40% ($47. 8 billion) of sales at discount department stores were for clothing and accessories. While compared to 2003, total US clothing sales were $166 billion, down 5. 1% from $175 billion in 2002, according to the NPD Group. Sales for women clothing dropped by 7. 1 % to $90. 1 billion and that of men fell by 6. 4% to $46. 9 billion as compared to 2002. The women’s wear group accounted for just over 52% and menswear accounted for 28% of the year's sales in 2003 (Standard and Poor's, 2004). Today, most companies in the clothing industry segment their customer by use of demographic characteristics. E. g, Generation Y - the 75 million people born between 1977 and 1994, a group making 25% of the population in the US -spend or determine the spending of about $200 billion annually (Standard and Poor's, 2004). This group is also has an impact in deciding trends that impact on the future product design for older Generation X.

Product Design and Launch

In an open-innovation environment, ideas can come from anywhere within or outside the company. Additionally, innovation can also take place at the functional level.

Globalisation

The term ‘ globalization’ has been defined as the ways world markets have been brought together and the ways in which production has shifted geographically to meet the demand of the consumersGlobalisation of the clothing industry has been mainly by firms in the developed countries, cloth manufacture is more fragmented and are by small firms. The basic move in the marketing structure is a having big impacts all over the clothing industry and promotes the adoption of modern technologiesThe US firms’ strategies focus mainly on leading age in the fashion market or cut costs and raise productivity, this was done through increased levels of off-shore processing by using suppliers from developed countries. These strategies have been used by those firms competing in mass market and brand names and by mass adverts example in Jeans manaufacture, Levi Strauss. The use of off-shore production has been one very important strategy used by the US firms which has been greatly upheld by European firms such as Hugo Boss, this involves more than 45% sub-contracting firms adopted to off-shore production strategies due to high domestic production costs, this is a similar case in the British clothing firms. The shift towards globalisation in the clothing industry is mainly explained by the trade off between the cost of labour and the need to reach markets bearing in mind regulatory constraints of MFA and this further is broken into global regions as shown below. In the east Asian region, due to restrictions of the MFA, many countries such as China, Malaysia, Thailand, Indonesia Cambodia and Vietnam firms from Hongkong South Korea and Taiwan, moved to off-shore production. International trade agreements such as the North American Free Trade

Agreement (NAFTA), the General Agreement on Tariffs and Trade (GATT), and the World Trade Organization (WTO) have been formed to lower trade tarriffs and abolish quotas system on imported goods, furthermore, opening up the American market textiles imported cheaply also created pressure on American manufacturers to lower wages.

Foreign direct investment

Foreign direct investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset (Dunning, 2006; Dunning & NarulW, 2004),

Firms in the clothing industry encourage FDI for the benefits as analysed below.

Resource seeking:

FDI developed at the time when most of the big companies had their production unit mainly in developed countries and were putting investments abroad to secure the delivery of some essential production resources, raw materials or primary goods. At the time most companies imported raw materials, process it and re-exported to the developing countries and this increased the cost of production and sales. Many companies adopt this strategy in the country having an absolute advantage in a particular scarce natural resource, namely in developing countries. Thus many companies have now resorted to FDI as a strategy and use it for acquiring scarce resources.

Market seeking:

One other important reason for FDI as a corporate strategy is market seeking by companies in the clothing industry. Here the companies do exactly what the parent company does so that they can enlarge access to a foreign market. FDI is more geared toward developed market economies as compared to developing countries. Companies look for economies of scale as a result of their size and wealth of host market and transport cost saving.

C. Efficiency seeking:

Many companies in the clothing industry reorganise their activity on a global scale in positioning their subsidiaries in different countries and activities, including the production of some of them and semi-finished clothing materials in a network of their plants located in different locations (Countries), especially in those countries with low labour cost. FDI refers to locating the manufacturing plant low labor cost countries to exploit lower costs and improve their efficiency, and these plants are also used as an export markets.

D. Asset seeking:

Most companies take on to acquiring assets located outside their parent location that are because such locations likely to enhance their expansion, productivity and competitiveness, and give it a competitive advantage. Asset seeking is being done through acquisitions and Agglomeration which gives rise to positive externalities especially from the host economy where they are located. Efficiency seeking strategy and Asset seeking are both associated with the process of globalisation (Dunning & Narula, 2004).

Export strategy

Diversification of Exports

Export diversification can be understood as the expansion of exports by introduction of new products or expansion to new markets. Amurgo Pacheco and Pierola (2008) provide a useful narrower definition by discussing a geographic dimension with export diversification via the extensive margin is the export of new products to existing markets, old products to new markets, and new products to new markets (WTO-Website)With increasing competition among companies and countries in the clothing industry it has become inevitable that for firms in the industry to continue surviving the must diversify the products in the i9nternational market with the aim of achieving economies of scale , this concept of diversification spread among firms as a competitive export strategy with corporation this has become a corporate strategy. Export diversification as a corporate strategy is important because it builds company and industry resilience of small firms and countries to satisfy the customer demand and result to external economies of scale for the local firm.

Joining Production and Distribution Networks

Many countries and industries in the clothing industry have realised that to promote sale and sales turn over, the companies have to join participation in production networks as an important part of the development strategy in clothing industry, this is essential if they are to realise their potentials.

Pressure for protectionism

Consequences for national income and employment (industrialization, de-industrialization, consequences for low skilled, unemployment) (JOHN)

Employment as a result of industrialization

According to Peter Dicken (2009), clothing industry has played a big role in the provision of employment. For example, China, a leading producer of garments, employs 2. 7 million people, followed by Indonesia. Other significant employers are Vietnam, Japan and Thailand. 80% of the workers in the clothing industry are female, who are mainly employed as machinists or hand sewer. The women employed work at home and are paid on low, piecework rates of pay. According to the map of employment, as in figure 10. 3, Asia dominates as the leading employer, as shown below; A great proportion of the labour force is unskilled or semi skilled and most of it is hired on contractual terms. This is attributed to the fact that the demand for clothing industry products keeps on fluctuating, hence affecting the production process/volume. There is there is therefore job insecurity for the employees hired on contractual basis, since they can be hired and fired easily. The clothing industry sector is also associated with low levels of trade unions' representation, which may be a justification of job insecurity. Additionally, the sector is regularly referred to as un or underemployment, especially in the poverty-driven rural environment, where people work for the purpose of earning just a living. In developed countries, most of the employees in the clothing industry work in the more sensitive segments of the lobour force, which include female, ethnic minorities and immigrants. Because of this, trade relations among developed countries have greatly improved. A case in point is the involvement of Italians and Eastern Europeans in the clothing business with both US and UK on the basis of the recently employment of blacks, Hispanics and Asians by UK and US. In developing countries, employment is largely geographically concentrated and near to the export processing areas. Clothing industry is associated with associated with high labour intensive technology and less capital intensive technology, hence creating high demand for human labour. Although there are two types of technologies being admired to be adopted, namely; one that would replace the manual with automated operations and the other technology which would increase speed by which the production process is handled, it has remained quite difficult to fully automate the process because some production activities run for a short while and hence do not require automation. For example, the two dimensional material, such as materials that are soft and limp in nature require a series of labour-intensive handling procedures. Specifically, the sewing and assembly process requires labour-intesive technology, hence facilitating the provision of labour.

De-industrialization

Due to the eradication of the eradication of the Multi-Fiber Arrangement (MFA) in 2005, great competition has occurred in the clothing industry since quotas no longer exist. Christopher Kollmeyer (2009) provides that employment share of manufacturing sector has drastically declined in developed countries. This has been greatly evident in Europe and US. It has also occurred in Japan and East Asia. De-industrialization has contributed to the widening of income inequality in the US and has led to high unemployment in Europe. The growth of many labour intensive clothing industries in developing countries has led to the displacement of jobs in the advanced developed economies. Many companies have tried to re-locate so as to be near the raw material and labour sources, in an effort to reduce production costs. Developing countries' costs in the clothing industry are low, hence motivating some international firms to shift, due to globalization. This therefore creates a drop in employment (unemployment) in developed countries since the production process is carried out in developing countries. Ina Eirin Eliassen (2012), indicates that China has gone as far as setting up clothing industries in Sub-Saharan Africa, specifically in Zambia, in an effort to benefit from the low costs of production. This has an effect on the Chinese since most of the labour positions in the industry are taken up by Africans, hence creating employment gaps in China. In addition, due to steep competition, some firms have engaged themselves in offshore production. For example, Levi Strauss went into agreements with Li and Fung to carry out production and gave all the authority for Li and Fung to export directly to US, which led to a job of 3, 000 in 2002.

National income

The fact that foreign exchange come into countries engaged in clothing sector, it can be comfortably be said the sector contributes to national income. Labour costs can be translated into national incomes of countries whose citizens are employed in the clothing industry. According to T. C Malhotra (2006), clothing industry in Bangladesh contributes to 45% of the employment engaged in the manufacturing sector, and that the clothing sector contributes 5% of the total national income. 78% of the export earnings of the same country are from textiles and apparel. 5billion of its exports value is from textiles and apparel. From the table below, a lot of million US Dollars are obtained from export of textiles. The export revenue from exports is translated into national income for the concerned countries. For example, basing on the graph below, China obtained 94 Billion dollars and 154 Billion dollars from textiles and clothing, respectively in 2011, which contributed to the country's national income.(see appendix 3)

Major exporters of clothing, 2011 (Value in US Billion Dollars)

Source: World trade organization International statistics, 2011. Summary and Outlook

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IssuesSecond edition. Published by Elsevier Ltd