

COMPETITIVE TEXTILE AND APPAREL MANUFACTURING

AND POTENTIAL
FOR RESHORING IN
A HIGH-COST AREA



THE SWEDISH SCHOOL
OF TEXTILES
UNIVERSITY OF BORÅS



Sparbanksstiftelsen
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COMPETITIVE TEXTILE AND APPAREL MANUFACTURING

- And potential for reshoring
in a high-cost area

*Rudrajeet Pal
Jonas Larsson
Sara Harper
Ann Vellesalu*

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“Competitive textile and apparel manufacturing: and potential for reshoring in a high-cost area”

Rudrajeet Pal, Jonas Larsson, Sara Harper and Ann Vellesalu, 2017
The Swedish School of Textiles
University of Borås

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INTRODUCTION

Within the past forty years there has been a steady increase in companies offshoring and outsourcing, especially those working in labor-intensive industries such as clothing and footwear. As technology and society develops, the advantages of offshoring, such as lower costs, no longer outweigh the benefits of manufacturing locally. Therefore, companies are forced to modify their unsuccessful outsourcing or offshoring policies.

In order to support managers in making those location decisions (i.e. reshoring), an understanding of what makes manufacturing of textiles and apparel competitive in a high-cost area is necessary. Therefore, textile and apparel companies in the Sjuhärad region were contacted to gain an understanding of their perspective of manufacturing in a high-cost area, such as Sweden.

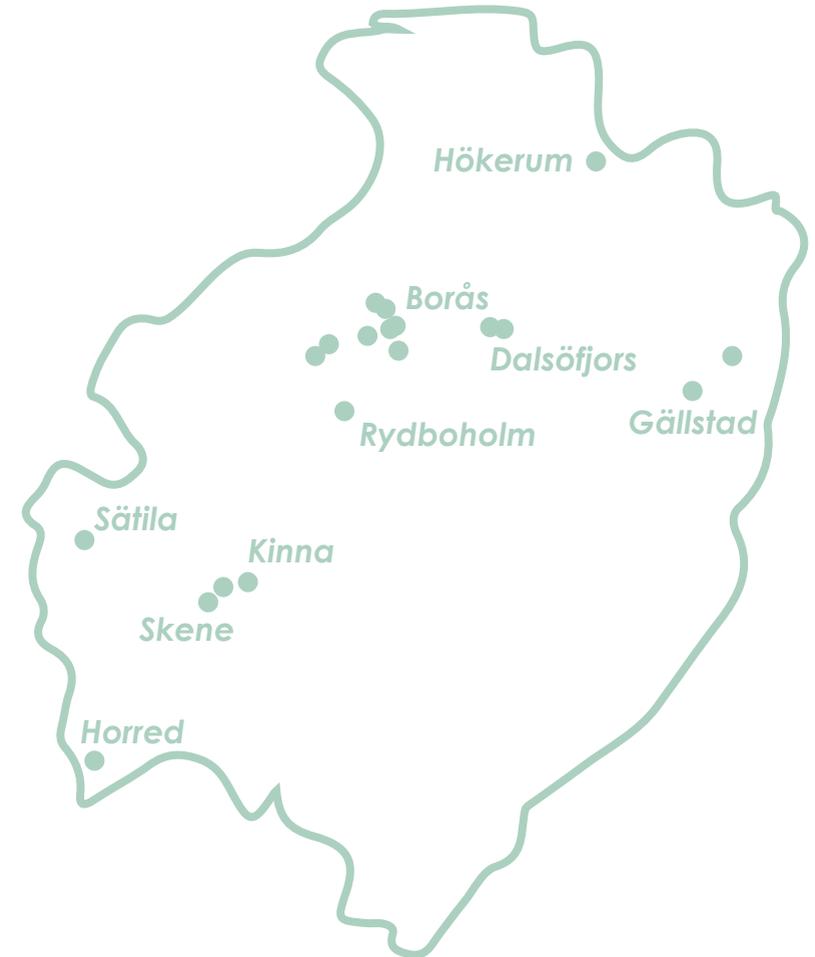
The critical success factors and challenges to competitive textiles and apparel manufacturing in a high-cost area were identified and prioritized from the practitioners' perspective. Additionally, the prioritized critical success factors were assessed for the likelihood to lead to further reshoring to the area.

PRODUCERS IN SJUHÄRAD

Textile and apparel manufacturers and producers were chosen from Sjuhärad, due to its significance to the industry in Sweden. The contacts were retrieved from Modeink's catalogue of producers and providers of textiles and apparel in Sjuhärad.

19 companies, with 20 practitioners took part in the research. The companies are active within a wide range of activities, from offering dyeing, printing, or sewing as a service, to designing and producing many products related to textiles and apparel, including labels, garments, and home textiles.

42% of the companies in the final sample are micro companies with 10 or less employees, and 58% of the sample small and medium sized enterprises. Practitioners from each company represented a variety of positions, ranging from CEOs and owners of the companies to production and supply chain managers.



KEY CONCEPTS

There are several different aspects that need to be considered when making a location decision. Costs, product/production and time, along with the relationships between actors in a supply chain, are the most important areas that require managerial attention. Additionally, other aspects such as awareness of environmental issues and transparency in the supply chain can support location decisions.



CRITICAL SUCCESS FACTORS

The resulting list of critical success factors is presented below in order of importance according to the practitioners in Sjuhärad.

1. Flexibility to meet short lead times

Many participants described the ability to deliver quickly as one of the main benefits of producing locally. One participant explained that the company's reputation to deliver high quality fast is very important.

2. Extremely high quality of product and/or service

High quality of products has been mentioned to be important. Additionally, several participants have explained that they must offer a high quality of service, for example taking care of many aspects of production for the customers.

"That's the basic idea of our organization: to offer high quality and extremely high service with shorter times..."

- CEO of a small production company

3. Customized product and/or service

The ability to produce customer specific products and services has been important for many of the participants. Some participants have described customization as a capability but not a major part of the business.

4. High control and efficiency of production or supply chain

Co-location of activities was mentioned as important to enable high control and efficiency, leading to dependability of delivery.

5. Flexibility of purchasing practices (suppliers offering small batch sizes/no minimum orders)

The ability to buy smaller quantities has been described as one of the main requirements for maintaining relationships with suppliers.

6. Flexibility to respond to changes in demand (number and type of products)

Being able to meet customer demand for small order sizes was mentioned as important and several have explained the importance of being able to change between products quickly.

“...here in Sweden we produce very small quantities...it's important for our customer...you need to produce 10, 20, 100, 500.”

- Marketing coordinator of a micro production company

7. Available production capacity

Several participants have mentioned that there is significant available capacity that could be better utilized, and that they have difficulties with seasonal demand.

8. Specialization of production and/or service

Several participants have described that the company is able to do some aspects of

production which cannot be easily copied.

“... all the companies who are left in Sweden in textile production are specialists in their own little area, that is why they are living, I think.”

- Owner of a small finishing company

9. Commitment to environmental protection

Several participants have expressed environmental protection as an important aspect of the business. However, some have said that the company is more interested in these issues than their customers.

10. Closeness (geographical distance) to skilled labor and know-how

Proximity to skilled labor and know-how has been described as a benefit for being able to seek support; however, it was mainly seen as a challenge.

11. Closeness (geographical and cultural distance, close relationship) to customers

Being in the same country as customers has been described as a benefit, but it has been said that sharing the same general culture and/language can be more important.

12. High potential for innovation

Overall, innovation was described as more closely related to the type of products than the location.

CHALLENGES

The resulting list of challenges is presented below, not in order of importance, as there was not agreement between the practitioners. As a wide variety of companies participated, their perspectives varied based on their size and activities. While there were different challenges that were perceived as most important, several were faced by many.

High fixed costs with own production

Difficulties with having higher fixed costs due to owning a factory were mentioned by several participants.

“...the request goes up and down, but you still have your factory, you still have the machines, and most important the staff...”

- Sourcing and production manager of a small production company

High costs due to strict labor regulations

Many participants expressed concerns over higher costs related to labor making it difficult to be competitive.

Balancing low inventory with high variety

Difficulties with producing and keeping a stock of a high variety of products were explained as challenging.

Lack of skilled labor

Many participants stated that necessary skilled labor is not available locally, and they must train all new employees. Additionally, for smaller companies the lack of skilled labor was leading to inadequate production capacity.

“We have to educate more or less everyone. That is a big challenge.”

- CEO of a small production company

Lack of consumer awareness of local production and benefits

Consumers, both B2B and end user, are not aware of, and often not willing to pay for the benefits of producing locally including high quality, speed, and sustainability.

“Everybody wants to buy and produce here but they want to pay China prices in Sweden...It’s too few who are prepared to pay for it yet...”

- CEO of a small production company

“The customer needs to be more aware of the high quality and it’s better to produce here in Sweden ... I think we have to speak about it more and be even more out to the customers and show our product...”

- Marketing coordinator of a micro production company

Increasingly short lead time expectations and fast changing fashions

Difficulties with meeting expected lead times and changes in demand was described as challenging, but also as an opportunity if able to produce in-season.

Lack of know-how

Some challenges were related to the lack of know-how locally, mainly related to less suppliers to choose from in the country and to some extent throughout the EU.

Supplier minimums too high

Several face difficulties with sourcing raw materials or components because of supplier requirements, which some related to the lack of industry in the country.

“...you have to buy more compared to many years ago, because there is a little bit less industry [textile], which means that the transport costs have been more expensive and you need minimum volumes to have shipments.”

- CEO of a small production company

FUTURE RESHORING

The findings show that the same factors that were most important for the competitiveness of companies producing textiles and apparel locally were thought to be likely to lead to more reshoring to the area.

In particular, high quality of products and services, including the ability to meet short lead times, were described as most likely to contribute to more production locally in the future. This higher quality was attributed to materials, often sourced regionally from the EU for control and sustainability, and to providing many services to customers for added value.

“We are sourcing material mainly from Europe and that’s because we want to keep control of the material, and have it nearby...”

- Sourcing and production manager of a small production company

The ability to accurately meet demand is related to the short lead times that were considered to be crucial for sustaining competitiveness, and is likely to be necessary in the future. However, some companies that offer products or services to other textile and apparel producers are limited to producing offshore to be located close to their customers’ production for the required lead times.

Customization was not rated as likely to lead to reshoring, in contrast to the high priority for contributing to success. However, specialization of production and/or service was perceived as highly likely to lead to reshored production in the future, as being a specialist in a specific area was described as contributing to competitiveness.

“We have competition all over the country but maybe we have the largest range of products [for a specific customer group]...but we have it all...I think that is our strength.”

- Owner of a micro production company

However, with larger order sizes and longer lead times, offshore production will likely continue to be the preferred option.

“I don't think we can specialize here in Sweden because the demand is not high enough to only make one product...as the quantities get higher it will be outsourced to low-cost countries.”

- Sales manager of a small production (service) company

Overall, the higher control obtained through producing closer to customers is considered likely to increase the attractiveness of reshoring in the future for higher value products, fast delivery times, and smaller order sizes.

CONCLUSION

The insights gained from the diverse group of textile and apparel producers have shed light onto what is important for competitive manufacturing and production of labor-intensive products in a high-cost area. These insights can provide guidance to managers when making location and make/buy decisions.

Notably, several of the benefits for local production from research were not found to be significant for success, in particular lower costs. Higher costs were seen as challenging, especially related to labor and other fixed costs, or overhead. Additionally, proximity to customers was not seen as important, but contributed to meeting short lead times and maintaining the relationships necessary for customized products or production.



In conclusion, the most important factors for competitiveness were considered to be the ability to meet short lead times, to offer high quality products and services, and to customize products for the needs of specific customers or customer groups. The ability to offer higher quality

products, compared to offshore production, was also considered to be most likely to lead to future reshoring. The importance of short lead times, described as crucial for competitiveness, is expected to continue to grow due to increasingly fast changing fashions. Additionally, specialization of products or focusing on specific customer groups is expected to be important for future reshoring.



SUMMARY

The research from the Swedish School of Textiles revealed the aspects related to the competitiveness of textiles and apparel manufacturing in Sjuhärad, Sweden.

The results show that the key areas to focus on to sustain competitiveness are:

- meeting short lead times
- extremely high quality of products and/or service
- customization

The same areas, along with specialization of product/production, were found to be likely to lead to further reshoring of textiles and apparel to the region.

Although no consensus was reached regarding the importance of challenges, those related to costs and industry dynamics, including lack of skilled workers, were faced by many.

The results can support managers in making location and make/buy decisions, and provide guidance as to what is necessary for the sustainable competitiveness of manufacturing and future reshoring strategies.

Companies that participated in the research:

Bamatex AB

Cansocks AB

Christina Edursdotter AB

Dahléns Konfektion AB

Ekelund, Linneväveriet i Horred AB

FOV Fabric AB

Hobby Reklam AB

Korallen AB

Liturgisk Utrustning i Hökerum AB Kihléns Konfektion

Ludvig Svensson AB

Margret Gardinkonfektion AB

Myrås Gardin & Textil AB

Nilörn AB

Nordiska Etikettbolaget AB

Rydboholms Textil AB

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