STRATEGIC OUTSOURCING

The sports apparel industry is responsible for producing clothing worn while actively engaged in sports of any form of physical exercise. The global sports and fitness clothing industry is highly fragmented, with many brands competing, from basic discount brands to high-end fashion names. Even well-established brands have to work hard to maintain their share of the market (Van Dusen, 1998). Consumers are demanding more versatile wear with wider functionality, which means retailers continue producing new styles of sports apparel for men and women.

In analyzing the sneaker industry, we are faced with the question, "*What are these firms core competencies*?" If manufacturing falls under this umbrella, then firms should look to produce internally. However, the core skills that set these companies apart from the competition, are their marketing, distribution, and technological expertise (Van Dusen, 1998). Applying the dominant sneaker companies areas of expertise, let's review the following questions:

- Is internalization a source of competitive advantage?
- Is manufacturing a skill our firm does better than anybody else?
- Will firms be able to leverage their manufacturing expertise in the future?
- Are we releasing any of the firm's proprietary skills/information by outsourcing?

With all of the above questions posed to any of the big four sneaker companies, they would respond with a resounding "no". Therefore, in today's global environment, the most strategically viable manufacturing strategy is the outsourcing of their products. The efficiencies that are gained, in the form of shifting of risk, reduced capital requirements, lower wages, and ability to focus on their core competencies, strongly outweigh all other manufacturing options (Van Dusen, 1998).

The three biggest and most influential companies in the athletic apparel industry are Nike, Adidas, and the up and coming Under Armour. All three of these competitors in this industry have one thing in common; they outsource all or most of their manufacturing and production jobs to several different countries. Most of these countries are located in the Asian Pacific. These three companies and the athletic apparel industry as a whole, found that there is positives and negatives in making the choice to outsource their production facilities.

Background

Athletic apparel companies have two basic options in the manufacturing of their products, they can both own and operate the factories that produce their products, or subcontract their products out to secondary manufacturers. These facilities can be located either domestically or internationally, but the majority of these facilities in the athletic apparel industry are located internationally. By manufacturing products overseas, in particular in third world economies, tremendous efficiencies are gained in the form of reduced wages, but are countered by the increased difficulty of monitoring the quality of their products and the actual working conditions in the factories. If these companies within this industry chose to produce their product domestically, the companies would benefit from ease of monitoring, skilled workforce, government stability, job creation, and well understood labor rules. However, the athletic apparel industry is highly competitive requiring companies like Nike, Adidas, and Under Armour to establish their production factories in third world countries to avoid paying workers relatively high wages required in the U.S. as compared to developing countries. Companies like Nike and others in this industry don't want to be vertically integrated, where they own and operate the factories where their products are manufactured, and are faced with large capital expenditure requirements and the management of the factories themselves, resulting in lower profit margins. Although there are some positives in having these companies in the sports apparel industry outsourcing, these positives are predominantly advantages for the upper ups in these companies. Many of the negative impacts of the decision to outsource affect the workers at the bottom of the food chain.

Team Nike, as Klein (2000) states, initiated the no-limits brand spending, together with complete disinvestment in its workers. Nike is the personification of the product-free brand. Major companies have embraced the very successful Nike model, which is characterized by mass layoffs as necessary corporate strategy, and a prioritizing of the needs of the brand over the needs of workers. However, the factories disappearing from one country do not reappear in another. Along the way, they become something completely different: an 'order' placed with a subcontractor who in turn pushes it off to ten more subcontractors, who pass it on to workers working in basements and living rooms. Thus, once the sub/contractors take out their own profit, what is left is the worker – at the bottom of the chain – receiving a paltry paycheck: "When the multinationals squeeze the subcontractors, the subcontractors squeeze the workers" (Klein, 2000, p212). This change is so extreme that super brands refuse to disclose locations of production sites, using competition as an excuse, and stating that they, like us, are "bargain hunters in search of the best deal in the global mall" (Klein, 2000, p202). But, their 'bargain hunting' has extreme negative consequences for human beings, for the workers, as all the MNCs like Nike are interested in are materials, low prices and delivery dates, paying no attention to how low the prices are, the workers, or working conditions.

The Evolution of Manufacturing in Third World Countries

As the economies of countries around world expand, so does their ability and skill level in all facets of manufacturing. Beginning in London in the early 1900's, and followed through to the present day, manufacturing in its simplest form consists of light manufacturing, which uses unskilled labor to produce items such as shirts, shorts, and jeans. As the economy develops along with the skill of manufacturing, countries begin moderately technical light manufacturing, which includes footwear, outerwear and, performance sportswear. The next step in this growth involves the production of technical consumer products such as radios, calculators, and wristwatches. With the most developed economies gaining high levels of technical expertise, manufacturing grows to include technical durables, which includes automobiles and computers. This progression represents the advancement of economies throughout the world today, and provides the reasoning behind sneaker companies manufacturing beginning in the United States and Germany, and passing through Japan, Korea, and Taiwan, to its present day central areas of China, Indonesia, and Vietnam. As these three countries progress over the next decade, and large amounts of new capital is pumped into their economies, their standard of living will rise along with their manufacturing expertise. Companies will be forced to relocate their manufacturing in countries such as Cambodia, Pakistan, and underdeveloped regions of Africa in search of lower wages (Van Dusen, 1998).

Nike

Nike currently enjoys a 47% market share of the domestic footwear industry, with sales of $3.77 billion. Nike has been manufacturing throughout the Asian region for over twenty-five years, and there are over 500,000 people today directly engaged in the production of their products. They utilize an outsourcing strategy, using only subcontractors throughout the globe. Their majority of their output today is produced in factories in China, Indonesia, and Vietnam, but they also have factories in Italy, the Philippines, Taiwan, and South Korea. These factories are 100% owned by subcontractors, with the majority of their output consisting solely of Nike products. However, Nike does employ teams of four expatriates per each of the big three countries (China, Indonesia, Vietnam), that focus on both quality of product and quality of working conditions, visiting the factories weekly. They also developed their code of conduct in 1992 and have implemented it across the globe, as its goal is to set the standard for subcontractors to follow if they wish to do business with Nike. However, due to a manufacturing network of this magnitude, they have faced numerous violations involving factory conditions and human rights issues, which have been widely publicized. They have responded to these issues through the Andrew Young report, the Dartmouth Study, and Ernst & Young's continual monitoring, but are still approximately two years away from completely addressing these problems throughout the globe (Van Dusen, 1998).

<u>Reebok</u>

Reebok, as the second leading manufacturer of footwear, has domestic revenues of $1.28 billion and a market share of 16%. Similar to Nike, they also utilize a 100% outsourcing strategy and manufacture their products throughout Asia. They have created and implemented their own code of conduct for manufactures to follow, but have less infrastructure than Nike across the globe to enforce it. They are facing scrutiny in regards to wage, overtime, and air quality issues, and like

Nike, are working to address these issues. However, their strength, the creation and distribution of a global brand, is allowed to foster under this manufacturing strategy, as they focus on their core competencies, and outsource their production (Van Dusen, 1998).

Adidas

Adidas is currently enjoying the fastest growth of any brand domestically, with a market share of 6% and revenues of $500 million. They have been shielded from bad publicity by the two Goliath's of the industry, Nike and Reebok, and are reaping the rewards substantially. They have adjusted their manufacturing strategy, from a vertical operation in Germany in the 60's and 70's, to an outsourcing focus today throughout Asia. Unlike the big two, they do not have a code of conduct, and their factories are considered to be the worst in the industry. It is just a matter of time before they are exposed, with an underground swelling of negativity already occurring today. In order to avoid the negative effects and lost revenues that Nike and Reebok have received, they need to immediately begin to take a proactive stance in regards to the working conditions of their factories (Van Dusen, 1998).

Converse

With a market share of 3% and revenues of $280 million, Converse manufactures their products both domestically and internationally. It is important to note that the only product they continue to manufacture in the U.S. today, is the Chuck Taylor All Star, with plants in Lumberton, NC and Mission, TX. This is a product where the "Made in the USA" label is crucial to its success, and internalization is a source of competitive advantage. These two factors serving as the sole reason why the production remains within the U.S. All other shoe models are outsourced in Asia, with the explanation of reduced wages driving this strategy. Converse, like Adidas, must also generate a higher degree of internal monitoring of their subcontractors, or they will soon face increased scrutiny (Van Dusen, 1998).

New Balance

New Balance is the one company that has kept a substantial amount of manufacturing in the United States, and has a 3% market share with sales of $260 million. They currently operate five plants in New England, employing over 1400 workers, that produces 50% of their output. With this mixed strategy, of vertical integration and outsourcing, they are very unique, with their strategic reasoning based on the advantages gained through higher levels of quality domestically, and the "Made in the USA" label. They are in a highly specialized, niche business, running shoes, and closeness of factories is more essential to their customer base than the other companies because of special orders. For their most technical products, they employ outsourcing, following the strategy of their competitors. Although there is something to be said for manufacturing domestically, they are straying away from the skills that they do better than anybody else – the design and marketing of the premier running shoe in the industry. Their long-term strategy should shift to a 100% outsourcing model, allowing them to control this niche for the future (Van Dusen, 1998).