BETWEEN THE GLOBAL AND THE LOCAL: A COMPARISON OF THE BRITISH AND GERMAN CLOTHING INDUSTRY

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Abstract
The clothing industry is regarded as one the most globalised industries of developed economies, yet most studies focus on the geography of production for US firms and pay scant attention to the geography of trade or to other national cases. This paper broadens the perspective to cover the whole network of German and British clothing firms' relationships by examining both their supply chain organisation and their market strategy, including their relations with retailers. It demonstrates the interdependencies between their strategic responses at different stages of the value chain and shows that relationships with both suppliers and customers have strongly defined the industry and firms in both countries, albeit differently. The global context of the clothing industry and the common pressures experienced by the national industries are also considered. We draw on industry statistics and on early impressions from interviews with clothing firms and retailers in both countries during 2003.

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1. Introduction

The clothing/apparel industry is held to be one of the most globalised industries of developed economies (Dicken 2003). This view is derived from the fact that most writing to date has focused mainly on the geography of production, particularly the organisation of the clothing supply chain and the rise to prominence of a steadily increasing number of lower-wage suppliers.

The geography of trade, in contrast, has attracted much less attention. The geography of trade must distinguish particularly between domestic sales to indigenous retailers and exports to other countries. Where the relationship with domestic retailers has been covered in recent accounts of clothing firms, as in Gereffi's (1994) work on buyer-driven supply chains, the emphasis has not been balanced against cross-national relationships, developed as exporters. Furthermore, the focus in this literature has been mainly on the US industry (Abernathy et al 1999; Gereffi 1994). Among European clothing industries, only the Italian industry has attracted significant attention, and studies (e.g. Berger and Locke 2001) have dealt mainly with the highly distinctive production organisation found in industrial districts, rather than placing manufacturers in a worldwide and local web of dependencies with suppliers and retailers.

This paper will focus on the way clothing firms in developed countries respond to the pressures of globalisation, by focusing both on their market strategy and their supply chain organisation. We will thus cover the whole network of relationships they have developed and demonstrate the interdependencies between different parts of their strategic response. We will show that trading relationships with both customers and suppliers (of both fabrics and finished garments) have strongly defined the British and German industries and their firms. Hence this study will make clear that, in many cases, a globalised supply chain may go hand in hand with a totally domestically focused sales strategy, which also constrains responses to globalisation of many other aspects of corporate organisation.

By considering the cases of the British and German clothing industries and their networks of domestic and international relationships, this paper widens the perspective beyond the US case. It is able to show that, despite the experience of some common pressures and responses, the US pattern is simply one variant that has been over-generalised. It will be demonstrated that the social institutional framework of both the industry and the wider economy has strongly shaped the development and current state of specific national clothing industries.

Section 2 outlines the theoretical framework adopted. It provides a brief analysis of the structural characteristics of the clothing industry. After an analysis of the value chain, some ideal-typical forms of clothing enterprise are constructed. These refer to different combinations of the steps in the value chain and the weight each of the three main industry protagonists – co-ordinating (or hub) firms, suppliers and retailers – possesses in each type. Developing some of the insights in the work of Gereffi (1994), a brief analysis is then made of the contest for control between the three main industry protagonists and how this has been shifting in recent times.

Section 3 describes and analyses the German and UK national clothing industries. Section 3.1 places the development of the two industries in their global context. It points to the dual interconnectedness between these two western European industries and the industries in newly industrialising countries around the world. The fortunes of the British and German firms in the clothing industry are inextricably entwined with those in developing countries, both as their suppliers and, increasingly, as their competitors. An examination of the shifting geography of production since the early 1970s will clearly demonstrate the tremendous challenges firms in the two western countries are facing.

In section 3.2, we show the impact this dual global exposure has had on the two national industries, in terms of the decline in the number of firms and their contribution to GDP and employment. Next, we present a portrait of each national clothing industry (section 3.3) and of each retail sector (section 3.4), and identify important contrasts between them. Differences are summarised by reference to the ideal-typical structural types developed in section 2. These portraits demonstrate the exposure of each national industry to global competition and the pressures from retailers that co-ordinating firms are experiencing. We additionally indicate how most clothing firms are simultaneously very domestically and globally focused, which endows them with an incongruous mixed character.

Section 4 then moves on to examine the strategies firms in the two countries have adopted to deal with the dual pressures from global competitors and domestic retail customers. Particular attention is given to the organisation of the supply chain in British and German firms and to an analysis of the networks of external relationships that have arisen from different types of organisation. Section 4.2 examines more recent strategic initiatives adopted by beleaguered hub firms to gain better control over their markets. Relations with customers therefore are given equal weight to relations with suppliers, and firms are viewed as a network of all their internal and external relationships. The latter will be analysed according to the degree of internationalisation/globalisation they possess.

The Conclusion summarises the implications of different national firm strategies for competitiveness and draws out the theoretical insights developed.

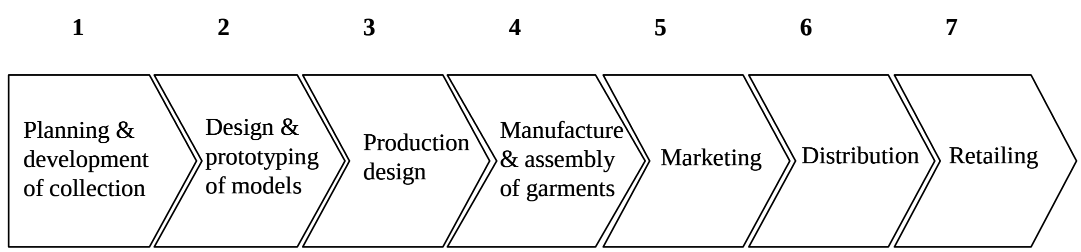
The data are taken from various statistical sources, as well as drawing on early impressions from interviews conducted in firms in both economies during 2003.

2. Theoretical Considerations

2.1 Structural Characteristics of the Clothing Industry

The value chain in the clothing industry embraces several different sets of activity, roles and occupations, the characteristics of which shape the profile of the sector. (The following adapts and develops ideas from Dunford 2001:1-2.) A stylised analysis of the value chain identifies the following steps (Figure 1).

Figure 1. Steps in the Clothing Value Chain



The first step in the chain, development and planning of the entire collection, involves a number of skilled activities. These include knowledge of market trends and of fabric availability, the integration of both into development of product lines, and the costing of the planned collection.

The second step is the design and prototyping of new models. In addition to understanding market demand, this requires both creativity and technical aptitude to devise parts of a garment which, when joined together, provide both a good fit and a stylish appearance. Again considerations of cost enter deliberations.

In the third step, a production design and sample-making function then concerns itself with devising the most cost-efficient means of producing the item, bearing in mind quality standards and cost. Decisions on where manufacturing will take place are also brought into consideration. Steps one to three thus rely on highly skilled occupations, involving technical, creative and financial capabilities.

The fourth major step is the actual manufacture and assembly of garments, which is generally known as CMT (cut-make-trim). This involves mainly semi-skilled sewing and assembly operations, using simple machines and requiring elementary skills.

The fifth step, the marketing of garments, seeks to match retail outlets to the quality and character of the clothes, and to achieve the broadest possible market access in a given segment. In practice the marketing function operates in parallel with earlier steps since most clothing firms try to spread their risk by seeking expressions of interest from retailers before moving into full production.

The sixth step, distribution, entails an increasingly sophisticated logistics operation based on computerised order tracking and inventory control systems, driven by the shortening of fashion cycles and the importance of timeliness.

The seventh and final step is that of selling the garments to consumers through various retail channels.

These seven steps involving, on the one side, different kinds of knowledge, skill sets and occupations, and on the other, clearly identified costs, can, in principle, be separated from each other and performed in different locations. This process of fragmentation of the value chain and its distribution over different locations and functions can occur in a number of different ways. The way selected depends on available knowledge and skill sets, cost considerations and the nature of the final product and its market segment.

At least five different ways of organising the clothing value chain may be identified. This makes for five different types of clothing enterprise, each with its distinctive power relationships. The latter have not only varied over time, according to shifting cost structures and market demands, but also between producers in different countries who are able to draw on different knowledge, skill sets and occupations.

Five Business Models for Clothing Firms, Based on Different Combinations of Steps in the Value Chain

1. A common type in developed countries combines steps one to three (development of collection; design and prototyping of new models;

production design and sample making) with steps five and six (marketing and distribution). This type of enterprise employs mainly higher-level creative and technical designers and marketing staff. It has developed its own brands of high-quality clothing, which it usually seeks to sell as coordinated collections that often include accessories.

2. Where garments are mainly produced for large retail chains, often under the retailers' own labels, design and styling (Steps 1 and 2) receive less emphasis because items are developed semi-collaboratively with the retailers. The marketing effort (Step 5), on the other hand, is geared towards one or a limited number of retail clients. The degree of expertise and the number of higher-level staff required, as well as the accompanying salary bill, therefore are considerably lower than in Type 1. Clothes are more standardised and produced in large volumes, in factories that may or may not belong to the clothing firm, and that are increasingly located outside the home country.

3. Type 3, most common in both developing countries and in the informal sector of developed ones, is the enterprise solely carrying out step four (CMT operations), according to precise specifications and using fabrics specified by the co-ordinating firm. Such firms employ mainly semi-skilled operators, plus at least one technically skilled supervisor, and they range from quite small to huge operations. Some producers also take responsibility for buying suitable fabric and trims, in which case they are known as 'full package' suppliers.[1]

4. Two recently emerging types are those that have vertically integrated Step 7 and thus conduct sales through their own distribution network of retail outlets, sometimes in addition to sales through other retailers. Such enterprises require a larger staff and have to mix higher-level functions and knowledge of manufacturing with knowledge of retail and lower-level sales functions. The fully vertically integrated type, where firms have their own manufacturing, is fairly uncommon in developed countries, whereas the partially integrated type, without in-house manufacturing, has been gaining ground. This business model results in a very complex enterprise, requiring the combination of disparate knowledge and greater managerial coordinating capacity.

5. The last type, backward integration by large retailers into design and coordination of the supply chain, is becoming increasingly common. In this case the retailer cuts out – partially or entirely – the Type 2 clothing firm which is effectively acting merely as a middle man. Where the design

function is not developed, the retailer is merely a buyer or importer of clothes, and higher-level functions are executed in firms in newly industrialising countries.

2.2 Power Relations between Actors in the Value Chain

This section focuses on shifts in control, both over the organisation of the value chain and over the gains and losses from it, that accrue to the three main parties involved – the co-ordinating or hub firm, its supplier(s) and the retailer. Patterns identified differ, depending on the size, production paradigm and market strategy of firms, as well as on the structure of the retail sector. We concur with Gereffi (1994) that retailers are important actors in the network of relationships, and current developments tend towards augmenting their power. Because of concentration in the retail sector, coupled with increasing downward pressure on prices through intensified competition, retailers use their purchasing power to dictate terms to hub firms and thus are able to appropriate a disproportionate share of the value created. This then forces co-ordinating firms to pass on cost pressures to their suppliers who, because of the availability of many alternative manufacturers with largely interchangeable skill sets, become price takers. Moreover, these suppliers are vulnerable to their customers' migration to lower-wage countries.

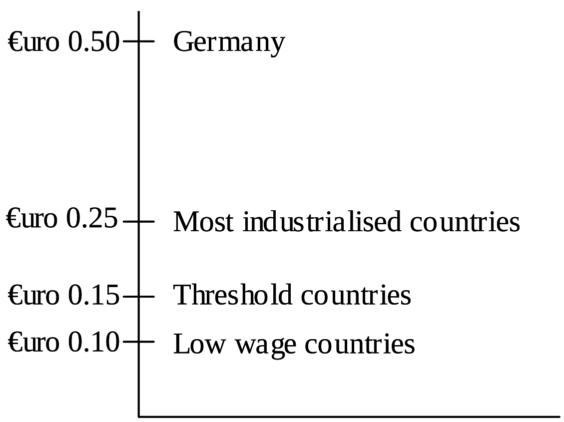
This characterisation of a buyer-driven supply chain, although in many ways an accurate depiction of the current situation and development trends, nevertheless needs some modification. This type of relationship is above all found in the US and the UK, and should not be viewed as a general type. We instead suggest that the distribution of power is shaped by contextual social institutional constellations, which differ between countries. Based on managerial capacity and skill sets available, co-ordinating firms can shape the triangle of control by developing and enhancing their own power resources. Two such resources are particularly important. The first comes from the development of a high-quality, high-fashion branded product, the individuality of which makes it possible to cultivate a large and highly diversified retailer base that extends beyond the domestic market. The second, partly dependent on the first, entails acquiring greater control over the value chain through verticalisation. A hub firm that can thus counterpose its own power resources to those of retailers then also stands in a different relationship to the supplier. Although cost remains an important consideration in this relationship, it is more often balanced against requirements of quality, demanding the maintenance of a closer and more long-term relationship.

3. The National Industries in their Changing Global and Domestic Contexts

3.1 The global context

The clothing industry of developed economies was among the first to take on a global dimension, and today it is geographically highly dispersed around the globe, situated in both developed and developing countries. As the industry has not been amenable to technological rationalisation, its low capital and relatively high labour intensity[2] have made it an obvious candidate for development in newly industrialising countries on nearly all continents, thus fostering potential competitors to firms in developed countries. Due to the huge discrepancies in wage levels between developing and developed countries, firms in the latter have had to rethink their organisation of the value chain. High wage costs, together with the ease with which the value chain in this industry fragments, have thus resulted in the steadily increasing (and now almost total) outsourcing of production operations to lower-wage developing countries. Figure 2 shows these differing hourly wage rates, which are well known throughout the industry.

Figure 2. Clothing Industry Costs per Working Minute in Different Countries (in Euros)



Source: Volksbanken / Raffeisenbanken 2003

Large-scale outsourcing, in turn, obviously has resulted in drastic cuts in employment in developed countries, particularly of semi-skilled jobs like sewing, which is mostly done by women and frequently by ethnic minority workers. At the same time the textiles and clothing industries still remain significant employers, even though the average size of firms within them has declined. Governments and firms are not prepared just to withdraw from these industries, leaving the field to firms in developing countries.

All these developments, as Dicken (2003:317) puts it, have made the industry a 'political football' in the arena of international trade. To stave off the total loss of viability of these two industries in developed economies, governments have for several decades violated the principle of free trade between nations via the so-called Multifibre Arrangement (MFA). This limits trade in textiles and clothing between developing and developed countries, through the imposition of quotas. The MFA, when it was introduced thirty years ago, was intended as an interim measure to allow firms in developed economies to adjust to competition from lower-wage countries. But the agreement has been renewed repeatedly and is scheduled for phasing out only at the beginning of 2005. In addition to quota impositions on imports into developed countries, there also exist disproportionately high customs duties.

The MFA covers most world trade in clothing and textiles. It grew out of the Long Term Arrangement on Cotton Textiles, which was concluded between 17 industrial and 13 developing countries in 1962, mainly on the instigation of the US. In 1973, when the latter was transformed into the MFA, it included continental European countries as well. The MFA was meant to introduce an orderly reorganisation of world trade, benefiting both developing and developed countries, by allowing an annual increase in trade of 6 per cent. Within the MFA, separate quotas for each type of clothing were negotiated, which regulated the export of textiles and clothing of individual developing countries for import into individual developed countries. The MFA, through periodic re-negotiation, became more rather than less restrictive over time, with a multitude of bilaterally negotiated agreements supplementing its rules.

After the Uruguay round of trade negotiations in the early 1990s, the MFA – renamed the Agreement on Textiles and Clothing (ATC) – was to be phased out in four stages over a ten-year period (1995-2005). A given percentage of quota lines were to be incorporated into the GATT at each stage. Thus, although sizeable proportions were incorporated in the late 1990s and early years of the 21st century, 49 per cent of quota lines have been left until the end of 2004. Moreover, these mainly cover the most sensitive items of clothing, where developing countries have a particularly high comparative advantage and where restrictions currently are high. Whether the restrictions will finally disappear or are replaced by new bi-lateral agreements remains to be seen. The recent decision by Bush, worried about re-election, to give in to US manufacturers' pressures to raise import barriers in violation of the ATC, illustrates the difficulties ahead.

There is no doubt that the MFA/ATC has significantly shaped global trade in textiles and clothing. It has been responsible for keeping competition from low-wage countries within bounds and for upholding the current division of labour between developed and developing countries. But the MFA/ATC has had advantages for particular lowly developed countries, which gained a predictable market share quite independent of their actual competitiveness, while penalising developing countries that already exported garments before the MFA was introduced. Trade patterns are also distorted, especially towards the end of each year, by shortages of available quota on certain types of clothing from certain countries. The EU is not as restrictive as the US. It is notable that around 70 per cent of total EU imports (in value) now are without any quantitative restrictions, and in 1999, almost 50 per cent of imports were exempted from customs duties (Stengg 2001: 21).

It is clear from available statistics and from our interviews that in the last four years or so the position of textile and clothing firms in both Britain and Germany has significantly worsened. The third stage of ATC implementation affected more sensitive categories than the previous two (Stengg 2001: 21), and additionally the lowering of tariffs from the mid-1990s may have played a part. But it is very difficult to get any reliable indication of what will happen after 2005, once the bulk of really crucial quotas are set to disappear. This is partly because the MFA/ATC has always elicited efforts to circumvent it (quota hopping). This seems to have been convenient both for producers in developing countries and for co-ordinating firms in developed countries who sought access to specific suppliers of specific products. But the uncertainty also seems to be due to the fact that individual western firms simply cannot envisage how this very complex system of quotas, combined with an equally complex array of preferential customs arrangements, will affect their particular enterprise, due to their dual exposure to globalisation. Their business is reliant on suppliers in developing countries, but it could be negatively affected by retailers who circumvent western co-ordinating firms to access and import directly from producers in the newly industrialising countries. The end of the ATC will bring about a significant reshuffling of suppliers in developing countries, where the more competitive ones, like China, seem set to make large gains. This, in turn, will react back onto the developed countries.

Last, it is notable that developing countries maintain high tariff and non-tariff barriers themselves, as well as giving domestic firms more state support (Wrona 1999: 159). The ending of the ATC envisages that these barriers will be dismantled which, in turn, will open up some new export markets.

To show the effects of both the rise of competitive clothing manufacturers in newly industrialising countries and the impact of the MFA/ATC, it is useful to consider how the international ranking order of national clothing industries, in terms of exports, has changed over time. This is shown in Table 1.

Table 1. *The World's Leading Exporters and Importers of Clothing*

a) Exports

Exporting Country	2000 US$ billion	1980 %	1990 %	2000 %
China	36.07	4.00	9.00	18.10
Hong Kong, China	24.22	-	-	-
Domestic exports	9.94	11.50	8.60	5.00
Re-exports	14.28	-	-	-
Italy	13.22	11.30	11.00	6.60
Mexico	8.70	0.00	0.50	4.40
United States	8.67	3.10	2.40	4.30
Germany	*6.84*	*7.10*	*7.30*	*3.40*
Turkey	6.53	0.30	3.10	3.30
France	5.43	5.70	4.30	2.70
India	5.15	1.50	2.30	2.80
South Korea	5.03	7.30	7.30	2.50
Indonesia	4.73	0.20	1.50	2.40
United Kingdom	*4.11*	*4.60*	*2.80*	*2.10*
Thailand	3.95	0.70	2.60	2.00
Belgium	3.94	-	-	2.00
Taiwan	2.97	6.00	3.70	1.50
Above 15	125.40	65.60	68.20	63.10

b) Imports

Importing Country	2000 US$ billion	1980 %	1990 %	2000 %	Exports minus imports US$ billion
United States	66.39	16.40	24.10	31.60	-57.74
Japan	19.71	3.60	7.80	9.40	
Germany	*19.31*	*19.70*	*18.20*	*9.20*	*-12.47*
Hong Kong, China	16.01	-	-	-	
Retained imports	1.73	0.90	0.70	0.80	
United Kingdom	*12.99*	*6.80*	*6.20*	*6.20*	*-8.88*
France	11.48	6.20	7.50	5.50	-6.05
Italy	6.07	1.90	2.30	2.90	+7.15
Netherlands	4.83	6.80	4.30	2.30	-0.87
Belgium	4.81	-	-	2.30	+5.29
Spain	3.77	0.40	1.50	1.80	
Canada	3.69	1.70	2.10	1.80	
Mexico	3.41	0.30	0.50	1.60	
Switzerland	3.22	3.40	3.10	1.50	
Russian Federation	2.96	-	-	1.40	
Austria	2.47	2.20	2.10	1.20	
Above 15	166.83	74.50	83.30	79.40	+27.63

Source: WTO (2001) International Trade Statistics, 2001, Table IV-80.

These figures, which include both garment parts sent to suppliers for making up and genuine exports of finished clothing, show very clearly that, despite the MFA/ATC, the position of newly industrialising countries has strengthened at the expense of their counterparts in developed countries. They additionally demonstrate some reconfiguration of the ranking order among developing countries since the marketisation of China and its inexorable rise to industrial importance in a number of industries – among which the clothing industry is probably one of the strongest. Since it joined the WTO, China has enjoyed more liberal access to the markets of developed countries, and it is widely posited that the expansion of its share of world trade will strongly increase during the coming years. Among industrial countries, the US, Italy, Spain and Japan have lost little export share in clothing. It is, however, unclear what proportion are 'exports' of clothing parts to supplier countries and what proportion are genuine exports of finished clothing. The US, for example, is said to be not as strong on genuine exports as in gross value creation (Groemling and Matthes 2003: 13). The UK, France and Germany all have suffered a severe decline in their share of world exports, albeit from different starting positions.

How this changed ranking order plays itself out in the two countries covered in this paper is the topic of the following sections, which offer a detailed analysis of both clothing industries, including the relationship with retailers and suppliers of fabrics.

3.2 The Development of the German and UK Clothing Industries

A factory-based clothing industry, in both countries, developed in the second half of the 19th century. The UK and German clothing industries remained important industries, both in terms of employment and in their contribution to GNP, throughout most of the post-war decades. The industry's share of overall manufacturing output remained higher in the UK than in Germany (Owen 2003: 2, chart 1.2). The competitive pressures from newly industrialising countries began to be felt from the 1970s onwards. As competition was muted by global agreements, decline in both national industries at first was gradual, to become precipitous only in the 1990s. Its impact has been magnified by the fact that clothing production in both countries has a high concentration in a few regions (BBI 2001/02: 17; KFAT 2000).

Because of Germany's more highly developed collective bargaining system and ensuing higher wage rates, reorganisation of the value chain and relocation of the manufacturing function to lower-wage countries started much earlier than in the UK. Already by the 1970s, around 70 per cent of German clothing firms were involved in some offshore production, utilising both foreign sourcing and varying degrees of equity participation in roughly equal measures (Froebel, Heinrichs and Kreye 1980). In Britain, foreign sourcing on a grand scale did not start until the 1990s. This was partly due to the lower wage rates and the wide-spread utilisation of an informal sector that, in its conditions and rates of pay, did not differ appreciably from those in some low-wage countries. A second and equally important reason for the delay in the reorganisation of the value chain by UK manufacturers was the strong control over most of the big firms exerted by the largest multiple clothing retailer, Marks & Spencer. In 1985 Marks & Spencer bought one-fifth of all UK-produced clothing (Bevan, 2001), and it enforced a 'buy British' policy right into the 1990s. Hence employment decline, though not necessarily a decline in output, started much earlier in Germany than in the UK.

More recently, decline has accelerated in both countries, evident not only in shrinking manufacturing employment, but also in the number of firms and in output and turnover. The following figures, although not strictly comparable, nevertheless illustrate this process.

In Britain, a first period of marked decline in employment, but not output, occurred between 1978 and 1988. It then resumed from 1995 onwards and strongly accelerated after 1998 (Warren 2003: 231). Between 1995 and 2000, employment declined from 216,000 to 127,000, a decline of 58.8 per cent. (ONS Labour Market Trends 2002: British Apparel and Textile Confederation estimates). By 2001, a further ten thousand jobs had gone. This time employment decline was accompanied by decline in output. As this decline was strongly regionally based – in the East Midlands, Yorkshire and Humberside, Scotland, and the North West – the negative impact on employment was magnified (UK Garment Workers Report 2000). In terms of companies, some 1,600 firms (-19.2%) disappeared in 1996-2000 (Euratex, 2002), and there is no reason to expect the pace to have slowed since then, despite the break-up of Coats Viyella and the fragmentation of Courtauld. The decline in value of production, from £8.0 billion to £4.8 billion between 1996 and 2002, was, at 40 per cent, even more precipitous although the time period is not exactly comparable (BATC estimates, based on ONS data).

In Germany, the decline in employment, number of firms and output started much earlier, but the strongest overall decline also occurred in the 1990s. (The figures on employment decline during the 1990s also are influenced by the collapse of the textiles and clothing industry in eastern Germany, following unification.) The shrinkage in the number of firms (including mergers) from 1990 to 2000, including micro firms with fewer than 20 employees, was from 4,844 to 1,606 (Groemling and Matthes 2003: figure 7, p.7). Decline in employment in the same period was 65 per cent (G&M 2003: 65). Between 1995 and 2002, there occurred a 49.1 per cent decline in employment among the firms employing more than 20 people, but the decline in turnover was much lower at only 19 per cent (Manufacturing in Germany data, supplied by IHK Bielefeld).

3.3 The Current Structure of the Clothing Industries

This section makes comparisons along the following dimensions:

1. Composition in terms of firm size, employment and turnover, as well as ownership structure.
2. Managerial capabilities and skill structure.
3. Production and market strategy.

3.3.1 Composition in terms of Firm Size, Employment, Turnover and Ownership

In Germany, this industrial sector is structured on the *Mittelstand* pattern. As shown in Table 2, there are many very small and a few very large firms in the German clothing industry, but the bulk of employment and turnover now is generated by medium-sized firms with between 100 and 999 employees. The 100 largest firms, which are internationally competitive and each achieve more than Euro 25 million in annual turnover, generate nearly two thirds of the sector's annual turnover (VR 2003: 2).

Table 2. *Structure of the German clothing industry, classified by number of employees, in 2000*

Per cent	**Firms**	**Employees**	**Turnover**
1-19	66.4	8.4	4.8
20-99	23.0	25.2	20.6
100-999	10.3	57.3	61.5
>1000	0.1	2.5	2.5

Source: Statistisches Bundesamt 2000, cited by Groemling and Matthes 2003:62.

Euratex (2002) also notes the above-average concentration of turnover in German medium and large firms compared with the rest of Europe. Its analysis, which is based on different definitions of firm size, suggests that 85% of turnover is generated by such firms.

Table 3 provides some figures facilitating a comparison of the structure of the two national industries. In 2002, in the German industry, 560 firms with 20 or more employees achieved a turnover of Euros 9.7 billion and employed 53,901 people (VR2003: 1). If micro firms are included, the overall number of firms rises to 6,159 and turnover to 14.4 billion (VR 2003: 1, figures for 2001).

Until the late 1990s the clothing industry in Britain had a polarized structure, characterised by a very small number of giant manufacturers and a very large number of relatively small firms. The equivalent of the medium-sized *Mittelstand* firms was absent (TCSG: 11; Owen 2003: 61). With the break-up of the two giant public companies, Coats Viyella and Courtauld at the end of the 1990s, the industry became divided between a small number of large firms and a big tail of very small firms (CAPITB 2001: 8). A particularly large tail of micro firms constitute an informal sector. Around 74 per cent of remaining clothing manufacturers are said to have a turnover of less than £ 250,000 per annum (Warren 2003: 233). In 2002, 5,820 firms achieved a total value of production of £4.8 billion and employed 127,000 people (BATC estimates, based on the ONS Index of Production).

Thus, the German industry appears to achieve a higher turnover with a significantly lower number of employees, demonstrating a productivity deficit by the UK industry that is widely acknowledged (e.g. Euratex 1998, cited by Stengg 2001: figure 7, p. 16). (See also Dunford's (2001) comparative figures on output and employment for 1999 (table 9a: 13).)

Table 3. *Structure of the German and UK Clothing Industries, 2001/2*

	No. of firms	**Turnover (€ billion)**	**No. of employees**
German industry (firms with >20 employees)*	560	9.65	53,901
German industry (all firms)**	6,159	14.40	-
UK industry (all firms)*	5,820	8.92	127,000

Sources: VR2003; IHK Bielefeld data, 2002; ONS Annual Business Inquiry 2001 and BATC estimates

Note: * Data for 2002; ** Data for 2001

A more straightforward comparison of the two national industries is achieved when looking at industry rates of concentration. As shown in Table 4, the German industry is significantly more highly concentrated than its UK counterpart. A share of turnover by the top three companies of 32.9 per cent compares with one of 19 per cent for UK companies; the share of the German top five companies of 45.2 per cent, compares with 27.7 per cent for the UK top five. Taking the top ten companies into consideration, the level of concentration of German companies comes close to double that of the UK top ten (Euratex 2001: 36, figures for 1999, cited by Dunford 2001: 7). These data pre-date the break-up of Coats Viyella and Courtauld.

Table 4. *Share of Turnover of Companies in the UK and German Clothing Industries, in 1999*

Per cent	**Top 3**	**Top 5**	**Top 10**
Germany	32.9	45.2	62.2
UK	19.4	27.7	37.0

Source: Euratex 2001

The different size structures are accompanied by divergent ownership profiles. In Germany, total or substantial family ownership is widespread, extending even to the large firms, such as Triumph, Escada, Betty Barclay and Steilmann. Family-run firms may also be listed companies, as is the case for Escada. In the UK, there still exist a few large companies listed on the stock exchange, e.g. Burberry (which spun out of GUS in 2002 and is classified as a retailer) and Wensum. But their number has shrunk markedly in the 1990s as individual large investors or equity funds have taken them into private ownership (e.g. Sterling Group, and William Baird before it was split up) or managers have led buy-outs (e.g. Quantum and BMB). Inherited family firms are more rare than in Germany. Nevertheless, even some large British firms remain in family ownership (e.g. Desmond), sometimes with professional management to run them (e.g. Dewhirst).

Ownership of the many smaller clothing firms is less well documented but, according to industry insiders, ethnic minority owners in Britain are prominent in the industry (constituting around 35 per cent of owners, according to CAPITB 2001: 5). They have given one section of this industry, concentrated in big cities like Leicester and in the east of London, its special character. Germany does not seem to have such a sector (P. Donath, IG Metall Executive, personal communication, 7 January 2004), although an artisanal form of production is said to exist (VR 2003).

3.3.2 Managerial Capabilities and Skill Profiles

There exist no statistics on managerial education and capabilities, and the following draws largely on interview material. One industry insider described British managers in the clothing industry to us as ‘generally of very low calibre’. Levels of education and specialist expertise, with a few exceptions, appear to be significantly lower than those of their German counterparts, and some of those currently at senior levels had left school with few or no qualifications and had worked their way up in the industry. Graduate recruitment is problematic for the UK clothing industry as a whole (PSS 2000); according to CAPITB Trust (2001: 19), of new employees recruited each year by the industry, around 0.23 per cent were graduates. German managers, in contrast, were mainly graduates with relevant tertiary education. Currently, one university and three colleges of technology (Fachhochschulen) offer courses in textile and clothing engineering, management, marketing and technology (Technik) (BBI 2001/02: 34). In Britain, universities that used to have textiles departments seem to have merged them into fashion/design schools, and we did not encounter any of their graduates among our interviewees.

British clothing firms are said to attach a relatively low importance to design because they are generally competing on price, rather than excellent design, and their large retail customers in any case usually employ their own design teams. Additionally, available designers are not rated well on technical and commercial understanding, although they score highly on creativity (TCSG 2000: 12; Interview Notes 2003). One industry insider, reflecting on the popularity of fashion design courses, noted that there were jobs available for at most 10 per cent of the 3,000 graduates of such programmes each year, whereas there was a severe lack of young people with solid technical design skills entering the industry.

More information is available about general skill structures. A sector comparison by Steedman and Wagner (1989: 47-49) found that at higher levels of training, more than ten times as many German as British employees had passed vocational examinations. According to CAPITB (2001: 16), technical specialists constituted a mere 4 per cent of all British employees. Our own impressions, too, were that there seemed to be more and more technically qualified designers and technical staff in German than British firms. At British NVQ level 3, which is equivalent to an A-level, there were only 44 passes in 2001/02 (City and Guilds of London Institute and Skillfast UK, 2003).

Further down the hierarchy, among British supervisory staff and operatives, levels of qualification are low to non-existent, and training budgets constrained. Thus, only 20 per cent of operatives have NVQ level 1 and 2 qualifications (TCSG 2000: 27). In 2001/02, only 977 NVQ certificates were awarded at this level, while in clothing supervisory studies there were none at all (Owen 2003: 60). These qualification levels are consonant with the use of a casual labour force that has low wages and no employment security (Warren 2003: 232). This is a view supported by some of our own observations, with some firms claiming to be too pressed financially to afford training. Awareness of governmentsponsored initiatives, for example Modern Apprenticeships and National Traineeships, is less than complete (PSS, 2000). The German training effort is in a different league. In 2001, the ratio of trainees to total employees was 7.5 per cent, and the total number of trainees in 2000 was 2,726, of which most were fashion sewers and fashion tailors (BBI 2001/02).

These divergent skill structures are also reflected in payment structures. In Britain, wage levels in this industry are among the lowest and were even lower before the arrival of the minimum wage in 1999. The industry in some areas has relied strongly on ethnic minority employees, many of them home workers (Taplin 1994: 211-12; Felstead and Jewson 2000; Heyes and Gray 2001; Warren 2003). In Germany, the much more union-controlled industry had to pay wages which, although below the level in many other industries, were nevertheless comparatively high. These differences in wage levels are shown above, in Figure 1.

In Germany, the hourly wage rate for manual workers in 2001 was Euros 12.41, and general labour costs per hour came to 26.1 Euros – the highest costs in the developed world (BBI 2001/02: 11, 25). (Here it is instructive to note that the salary costs of remaining German employees are almost as high as the wage costs paid to suppliers who, typically, have much larger work forces (VR 2003:2, table 2).) In Britain, hourly wages of male full-time workers in 2002 were £ 7.33, but only £ 5.95 for women (ONS Labour Market Trends). At these rates of pay, experienced female workers are choosing instead to work in supermarkets. A publication by UK Garments Workers (2000) comments as follows:

> "Some employers in the industry run what can only be called sweatshops. They break many of the UK laws on the minimum wage, health and safety and employment protection".

Savings are still being attempted by employing home workers who, although now more often paid the minimum wage, reduce employers' costs in terms of lighting, heating and maintaining production facilities (KFAT 2000).

To sum up this section, in both countries a significant share of the jobs remaining in the home country are higher level, human capital intensive jobs in management, finance, marketing, technical work and design. But this development is much more marked in the German than in the UK industry. Thus, whereas in the UK clothing industry, according to CAPITB Trust (2001: 16), white-collar staff in the managerial, technical and supervisory categories amounted to 20 per cent of all employees, in German clothing firms white-collar workers amount to a massive 45 per cent. The remaining 55 per cent of employees are mainly in logistics and in finishing processes (P. Donath, IG Metall Executive, personal communication, 7 January 2004).

3.3.3 Production and Market Strategy

The above skill structures crucially determine both production and market strategy. According to Steedman and Wagner (1989: 41), whose work pre-dates the full-scale shift of manufacturing work overseas, the German industry engages in production of small batches of high-quality goods in great variety (production run of 150-300 garments) whereas British firms depend to a great extent on long runs of standard items – in the majority of plants they visited, 15,000 garments. They pinpoint differences in technical design (greater complexity in Germany), as well as in fabrics and trim used (higher quality in Germany). This picture is confirmed in more qualitative terms by more recent sources. Thus, Groemling and Matthes (2003: 69) emphasise that the competitive advantage of German producers in international business rests on specialisation in niche products. They cater mainly for the upper middle market, with an emphasis on quality and, in most cases, brand, and have an orientation to specific customer groups. BBI (2001/02: 11) speaks about the existence of between 20 and 30 globally traded brands in the German industry. Our interview results support this strong emphasis on brand. All three sets of authors point out that this production paradigm depends on the presence of high skill levels at the upper end of value chain and on a high level of control over suppliers.

In the UK, a very small number of firms concentrate on brands with high margins (e.g. Paul Smith and Burberry, as well as some producers of men's woollen suits and some knitwear producers). They are counterposed to a majority that make fairly standard clothes in the middle to low market segment. Few of these have been able to foster a brand. Abandonment of a branding capability has occurred in favour of achieving the apparently greater security, but lower margins, of contract clothing production sold under the retailer's label. Large firms that had owned both branded and contract clothing businesses, such as Coats Viyella and William Baird, seemed unable to manage the different investment and marketing strategies required. Compared to their main competitors, British firms have a lower level of capital investment (TCSG 2000: 7), and tend to be reluctant to make the up-front marketing investments required to build a branded presence.

The TCSG (2000: 9) finds that 'because a large part of the industry has relied on supplying goods for High Street retailers' own labels, many UK textile and clothing manufacturers have not developed high levels of marketing expertise' and thus have not developed brands for exports. The close relationship to powerful domestic retailers relieves these firms of problems of design and marketing, "but at the cost of leaving them invisible to the consumer and with a limited capacity to innovate" (Owen 2003: 56).

Given these divergent production paradigms and products, clothing enterprises in the two economies also differ in their export performance. German firms achieve the relatively high export ratio of 32 per cent (VR 2003). As, due to cultural changes in buying of clothes, they have encountered greater difficulties in their home markets in recent years, firms have increased their exporting efforts and since 1995 have achieved a growth rate of 6 per cent per annum. In international comparative terms, this export growth rate exceeds that of the UK, the US and even that of Italy (Groemling and Matthes 2003: 77). An analysis by Euratex (2002: 86) suggests that Germany's share of EU sales directed to non-EU countries rose from 12.4 per cent in 1996 to 19.1 per cent in 2000, making it one of the EU's most successful exporters. Destinations are mainly other western European countries, but exports to CEE and particularly to Russia (VR 2003) have also seen a steep increase from a low base.

British exports of apparel are unreliably documented (ONS figures mix genuine exports of finished items of clothing with exports of clothing parts sent for making up by factories in lower wage countries), but most qualitative accounts speak of a very low export ratio (Warren 2003: 231). Indeed, Euratex (2002: 105-6) notes that UK trade with non-EU countries remains below the EU average, while the share of sales directed to other EU countries, at 25.7 per cent, was approximately 10 percentage points below the EU average. This is consistent with the orientation of most large firms to focus on domestic retailers. The majority of large firms we interviewed did no exporting at all and were not aiming to achieve any. Exceptions are brands such as Paul Smith and Burberry, and firms making medium- to highly-priced men's suits, such as BMB and Berwin and Berwin.

Thus, in both national industries we find that, apart from sourcing activity, firms hardly correspond to our image of global firms, either in terms of size and turnover or in their degree of activity abroad. The larger German firms may be characterised as international or European players, both in terms of their size and in their sales activity, but most British firms seem to be entirely confined to the national market. Thus, in both countries, few firms are multinational companies. In both countries, a few have one or two foreign subsidiaries doing manufacturing, and some German firms have sales offices mainly in the European countries that are their main markets.

The clothing industry also is closely connected to steps in the value chain of other industries. As fabrics are both the basic raw material for and the most costly input into clothing manufacture (VR 2003: 2), the textiles industry is one of the main upstream suppliers to clothing manufacturers. The quality, design and innovativeness of fabrics have a strong bearing on whether clothing may be sold in the middle and upper market segments and on whether a manufacturer can occupy a market niche that is partially sheltered from competition (Wrona 1999: 153). The German textiles industry, although under pressure, is still of significantly larger size than its UK counterpart, as well as containing more and larger producers of technical textiles for clothing use. A close relationship with textile machinery manufacturers also is of importance, in that innovations in machinery often translate into innovative stitching, etc. (Interview Notes 2004). Again, the survival of such machinery producers in Germany, but not in the UK, makes quick diffusion of such innovation into the German clothing industry more likely.

This overview of the two national clothing industries makes it clear that they contain very different populations of firms. In terms of the firm types introduced in section 2.1, type 1 predominates in the German industry, whereas type 2 and (in the informal sector) type 3 are most frequently found in the UK. Type 5, as the next section reveals, is growing in both countries. The gradual emergence of type 4 in Germany will be discussed in section 4.2.

3.4 The Retail Sector

In Germany, the retail sector for clothing has a polarized structure. On the one side, there still exist the small independents with one or a few retail outlets (about 60,000, or 38 per cent at the turn of the century) (BBI 2001/02: 3; Baden and Velia 2002: 58). On the other side, there are giant department store chains like Karstadt and Kaufhof, as well as very large mail order firms. The top four clothing retailers occupy one-quarter of the market (Jean Pascale, Annual Report 2002) – see Table 5, below. In recent years, large retailers have embarked much more on creating their own brands (Wrona 1999: 158), and they increasingly buy directly from overseas suppliers (ibid: 152; Baden and Velia 2002: 103; VR 2003). Two further important actors in clothing retail are supermarkets and food discounters. The latter are said to have grown from 1.7 per cent to 12 per cent of the market during the last 20 years (Wrona 1999). Last, new foreign verticals like Zara, Promod and Mango have contributed to intensified competition in the retail market.

Although German independents have been shrinking heavily during recent years they remain much more important than they are in Britain. Product quality ranks highly among considerations for German consumers (Wrona 1999: 156), and this partly sustains the independents that deal in the 'high quality' segment of the market. Collective buying through purchasing associations may be another contributory factor to the longer survival of the independents, who can thus partially overcome their individual weakness as buyers. In between these and the giants are the medium-sized, often regional, chains of department stores, as well as a number of newer, specialised clothing retailers. No retailer approaches the size and influence of Marks & Spencer in the UK, but concentration in the retail sector is nevertheless growing.

Clothing retailers in Germany have experienced a fall in demand for clothing, as well as pressure on their margins. (Despite rising incomes, the proportion spent on clothes has declined drastically over time, from 6.4 per cent in 1990 to 4.9 per cent in 1998 (Groemling and Matthes 2003: 23)). Prices in this sector have risen more slowly than inflation, and competition between retailers has become intense. Thus, the power resources of retailers vis-à-vis manufacturers have been growing, and German clothing manufacturers are confronted with raised demands with respect to service, delivery time, frequency of collections, etc. (Wrona 1999: 158). But this development is fairly recent and has come much later than in Britain.

Despite the above, concentration in the retail sector is relatively low compared with Britain, and German clothing firms still possess a greater variety of sales outlets for their products than British ones, both domestically and in foreign markets. Several large German clothing firms claim to refuse to deal with the giant department store chains because they are not willing to tolerate the steadily worsening terms of supply; instead they are actively seeking to open their own retail outlets (Interview Notes 2003).

Table 5. *Share of turnover of top four clothing retailing groups/companies*

Germany	Karstadt-Quelle; Otto; C&A; Metro	25%
UK	Marks & Spencer; Arcadia Group; Storehouse; Next	40%

Sources: War on Want 2001: 8; Jean Pascale Annual Report 2002

In Britain, as Table 5 shows, concentration in the retail sector is significantly more advanced than in Germany. Specialist clothing retailers, such as Marks & Spencer, Arcadia (Top Shop, Dorothy Perkins, Evans, Miss Selfridge), the former Storehouse (Bhs and Mothercare) and the Next Group dominated in 2000 with a 40 per cent of the market for clothing (War on Want 2001: 8), of which Marks & Spencer held the lion's share. According to Retail Intelligence (2000a: 4, quoted by Baden and Velia: 62), the index of concentration in British retail is 75 per cent – the highest in Europe. The power of Marks & Spencer over manufacturers is legendary. Baden and Velia (2002: 60) say that, of the remaining jobs in the UK clothing industry, 80,000 are dependent on M&S. Also of importance is the highly concentrated supermarket sector, where Tesco and Asda offer very competitive, own-label clothing created for them by known designers, and now occupy a significant share of the clothing market. Thus, sales of Tesco's own labels have been growing at six times the market rate, and Asda's George label has made the supermarket the fifth largest clothing retailer in the UK (The Guardian, 16 January 2004: 3). This concentration of clothing retailing among large multiples has virtually eliminated independent retailers.

The resulting high degree of competition in the clothing retail market has depressed prices and margins (Baden and Velia 2002; Retail Intelligence 2000, cited by War on Want 2001: 8). The largest retailers have been seeking to pass on the costs of this reduction in margins to their suppliers. The second largest retailer, the Arcadia Group, gained infamy in 2002 through its one-sided imposition of price cuts on clothing firms. Direct buying by retailers has increased (Interview Notes 2003). Next and Littlewoods, for example, maintain overseas buying offices (Robins and Humphrey 2000: 13-14), and Marks & Spencer is also experimenting with buying directly from producers overseas (Interview Notes 2003).

The big British retailers are said to have a sales volume that is about eight times greater than that of even the biggest clothing firms (Warren 2003: 233). This high level of buyer concentration, contrasted with a low level of seller concentration, indicates a huge imbalance of power and a consequent large negative impact on sellers' margins (ibid: 233). This imbalance is further accentuated by the fact that most sellers lack high-end, fashionable branded products with which to seek alternative markets.

For most British clothing producers the choice of retail customers thus is severely restricted, as most do not engage in exporting. Hence, they are tied to the small number of highly concentrated retailers that dominate the domestic market, plus a few independent department stores. In this situation clothing firms do not have a significant level of control, either over the size of their market and the conditions of sale, or over the durability of the customer relationship. Where firms have tied their fortunes to only one or a handful of large domestic multiples, the size of their market will fluctuate with the market share of those retailers. Moreover they will also be vulnerable to their ability to satisfy the retailers at least as well as competing suppliers. Because relationships with high street retailers are not contractual, in the sense that there are never guarantees of how much product a retailer will procure in any one season (let alone year), these clothing firms remain highly vulnerable to a fall from favour. When Marks & Spencer consolidated its supplier base in 1999, it discontinued at three months' notice a longstanding relationship with Baird – which at the time was one of its largest suppliers in some categories of clothing. Baird lost a legal battle for compensation and was commercially ruined.

Thus, to sum up, in both Germany and the UK there is a concentrated and powerful retail sector, but the degree of concentration is significantly more advanced in the UK than in Germany. Furthermore, German clothing firms, being larger and more skill-intensive as well as often being specialised brand producers, have more power resources of their own. Their large and growing export activity is the final factor, which prevents the total dependence on domestic retailers we found in a large number of cases in the UK. To date, this has prevented the emergence of buyer dominance, as underlined by Gereffi (1994) for the US. Thus, although German retailer-buyers are important in the triangle of power, they are not consistently dominant because of the countervailing power of clothing producers.

Nevertheless, in both countries, albeit to differing degrees, clothing firms are under intense pressure from two sources. On the one side, there is growing competition from low-wage countries, where some firms have engaged in technological upgrading and are not far from becoming hub firms in their own right. Many are already trading directly with retailers, cutting out the co-ordinating clothing firm 'middlemen' in developed countries. The phasing out of the ATC in 2005 is likely to further intensify such pressures. On the other side, there are powerful retailers who exert growing pressure on two fronts: first, via increasing pressure on margins, while simultaneously raising requirements in terms of frequency of model and fashion changes. Ever-shortening fashion cycles confront clothing firms with tightening delivery schedules. Second, retailers are establishing direct relations with suppliers in low-wage countries. This will be much easier for UK retailers who handle predominantly low- to middle-market clothes where mediation by British co-ordinating firms is not essential. The next section examines how clothing firms in Germany and Britain are adapting to these threatening pressures.

4. Company Strategies in Response to Growing Pressures

Two main strategies have been adopted in response both to competition from low wage countries and to pressures from retailers:

1. relocation of steps in the value chain to low-wage countries
2. a strategic reorientation concerning products and market access

In each case, companies' adaptation may be either passive, i.e. centred on a simple adaptation of the goods and services a firm offers to changes in demand, or active, i.e. launching products with new features and actively differentiating products to secure niche markets (Dunford 2001: 5). Adaptation is not exhausted by initiatives in the product area, but may additionally involve organisational strategies to reach new markets.

4.1 Outsourcing: Production in Low-wage Countries

The most important adaptation to competitive pressures from low-wage countries, as already indicated, has been the relocation of the manufacturing function to such countries in Asia-Pacific, North Africa and East and Central Europe. The clothing industry is a highly labour-intensive industry in which wages for relatively lowly skilled workers account for a significant share of the production costs, and, with a low scope for automation, is likely to remain so. Nevertheless, as section 3.1 indicates, quota costs and tariff rates have as least as much impact on decisions on outsourcing locations as do wage rates. This section explores sourcing general strategies, as well as recent changes in them.

Four different possibilities are open to hub firms when considering the location of their production:

1. Retaining the production function in fully or partially owned production facilities, through FDI in lower-wage countries.
2. Manufacturing to order by third-party contractors, which usually takes the form of outward processing.[3] Contractors may or may not be "full package" suppliers.
3. Direct importing ("buying in") from lower-wage countries, sometimes through an agent. Bought-in goods are often items necessary to complete (or complement) a collection that cannot be designed in-house due to lack of capacity or lack of expertise.
4. Retaining the production in the home country, either in self-owned production facilities or by engaging in local outsourcing.

Combined strategies are, of course, adopted in many cases.

Before examining the types of strategy adopted by German and UK firms, it is necessary to emphasise the very different timing they have adopted, pointing once again to an active adaptation by German firms and a passive one by UK firms. Thus, early outsourcing in Germany from the 1970s onwards (Froebel, Heinrichs and Kreye 1980) may be contrasted with a very late start in the UK, from the mid-1990s onwards (BATC 2003).

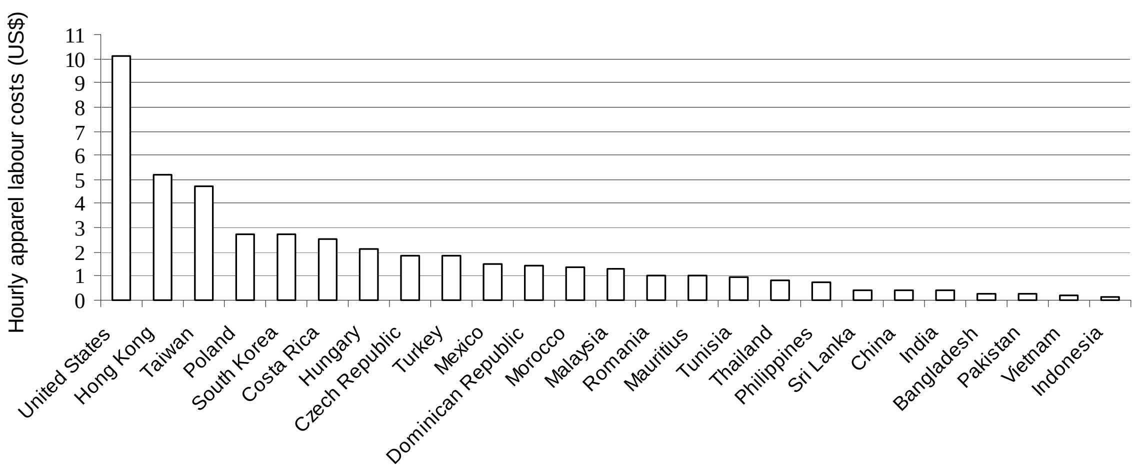
For German firms, relocation of the production function in the form of outward processing is by far the most prevalent strategy, and one that has gained in importance since the end of the 1980s. In distant second place come both direct importing and full package manufacturing; and third, manufacturing in lower-wage countries through direct investment in their own factories (Adler 2002, quoted by G&M 2003: 80). Concerning the fourth option, our interviewing showed that it was highly exceptional among the larger firms to retain their own manufacturing in Germany, except as a minor facility for making samples. Domestic sourcing for short runs and re-orders in Germany also is said to be infrequent and instead occurs in neighbouring CEE countries (P. Donath, IG Metall Executive, personal communication, 7 January 2004).

Only impressionistic evaluations of British firms' arrangements are available, supported by estimations based on our interviews. In Britain, too, outsourcing to independent third-party suppliers is by far the dominant strategy and appears to be increasingly of the 'full package' variety. However, where clothing firms are supplying to a dominant retailer, the latter now more frequently specifies the fabric source, thereby depriving clothing firms of another area of expertise (Baden and Velia 2002). The clothing firms themselves increasingly expect 'full package' supply by their third-party contractors, and some will not consider dealing with a supplier unless it is financially strong enough to bear the cost of fabric purchase (Interview Notes 2003). Some firms retain ownership of production facilities in low-wage countries, both in CEE and in Asia although, as in Germany, this is a less favoured strategy. Every firm we spoke to uses third party suppliers for some part of its product range, even if only for top-up flexibility. Continuation of domestic manufacturing in self-owned plants is now very rare for the bigger firms, with numerous plant closures having taken place in the last three or four years (Interview Notes 2003).

What remains more widespread in the UK than in Germany, however, is outsourcing both by retailers and by co-ordinating firms to domestic suppliers for replenishment and experimental short runs. This work is still being carried out by smaller firms, which themselves often have several tiers of their own suppliers and use home work (Warren 2003). Outsourcing to lower tiers is done informally, probably without the explicit knowledge of the firm placing the order. Payment at or even below the minimum wage, plus few social payments, sustain this practice, which explains the large and continually shifting population of micro firms in a largely informal sector (KFAT 2001; Warren 2003).

The practice of extensively using local suppliers (within lower-wage Europe and North Africa) for replenishment and some high fashion clothing should be seen as a complement to the high proportion of foreign suppliers in distant Asian countries where wage rates in several are below those in CEE (see Figure 3). (Note that these hourly rates date back to just after the Asian currency crisis, which will affect dollar values of some Asian wage rates, but the general order of magnitude probably remains valid.[4])

Figure 3. Hourly Labour Costs in the Clothing Industry, 1998



Source: Based on material in Werner International Inc., Hourly Labor Cost in the Apparel Industry

Tables 6a and 6b show in more detail the geographical location of the suppliers most widely used by German and British firms.

Table 6. *Sourcing Locations*

a) Top ten suppliers of outerwear to Germany in 2001 (in millions of Euros)

Turkey	2,378
China	1,359
Italy	1,350
Netherlands	836
Bangladesh	747
Poland	646
Hong Kong	634
Romania	510
India	417
Greece	403

Source: Eurostat, cited in Sippo 2002.

b) Top ten suppliers of apparel to Britain in 2001 (in millions of Pounds)

Hong Kong	1,584
Turkey	756
China	657
Italy	473
Bangladesh	350
India	349
Belgium/Luxembourg	332
Germany	321
Romania	285
Morocco	109

Source: HM Customs and Excise, supplied by BATC.

The data in these tables, although not strictly comparable, nevertheless indicate that there is significant overlap of sources for finished garments. What is less apparent from these tables is the great extent to which Germany uses suppliers from CEE countries for outward processing work. The countries (and therefore wage structures) where they are closely involved with supplier firms overlap relatively little with the geographical locations favoured by UK firms (predominantly Asian countries and Turkey).

For German firms, four fifths of outward processed clothes came from central and east European states, plus Turkey (Groemling and Matthes 2003: 80). Poland and Romania were by far the two most important sources. According to BBI (2002/03: 24), in 2001 only eight countries among the 23 largest German suppliers were not from CEE; namely Tunisia, Turkey, Morocco, Portugal, Greece, Vietnam, Malaysia and China. Turkey and China are said to be the most favoured countries for 'full package' production to order, working with prescribed patterns and quality standards (VR 2003: 4). This could be because of the local availability of fabrics that the factories can source themselves, again to the specification of the company placing the clothing order; it was certainly the pattern that emerged among British companies interviewed.

Again, information about UK firms' sourcing strategies is more anecdotal. Industry observers, and firms themselves, mention historical reasons for the high proportion of activity with China and the Indian subcontinent: for example, exporters and agents based in Hong Kong invested in China (and later elsewhere in Asia), and those in India invested in Bangladesh and Sri Lanka, once quota in their home countries had become difficult. Ethnic links between the UK and supplier countries also play a role. More than one British clothing firm mentioned that Turkish-owned suppliers, to whose British factories they had outsourced production for years, had invested in Turkey during the 1990s and now filled the orders in Turkey rather than in the UK. Specific historical or political reasons for sourcing from Morocco are unclear, other than that Morocco has a tariff-free trade agreement with the EU (as does Turkey).

The popularity of the foreign sourcing option for clothing firms in both countries, as against production in their own foreign subsidiaries, receives the following explanation from managers. It offers a high degree of flexibility; sufficient, even if not complete, control; and a low tie-up of capital. Flexibility here usually refers to the possibility of moving on from one supplier to another. This occurs either for reasons of efficiency or, more often in recent years, because new, even lower-wage countries offer viable facilities. Although such footloose behaviour is not rampant, it is nevertheless a strategy that firms in both countries adhered to – even firms whose managers strongly subscribe to the notion of close and long-term relations with suppliers (Interview Notes 2003).

Thus, German firms started out in the 1970s with southern European firms, such as Greece, Portugal and the former Yugoslavia, as well as Turkey and some Asian firms (Groemling and Matthes 2003: 80). Currently, due to price rises in CEE countries in view of imminent accession to the EU, there is a strong trend to move further east to Romania, and a weaker trend towards Bulgaria, Lithuania and Ukraine. Among Asian countries China is the most popular, with about 4.1 per cent of clothing imports having come from Chinese firms during the decade between 1990-2000 (Groemling and Matthes 2003: 49, figure 13b). British firms are also moving eastward in Central and Eastern Europe and have become more focused on China, but Turkey and Morocco have also gained greatly in popularity (BATC 2003).

To what degree and how do German and UK hub firms exert control over their nominally independent suppliers? Although coordination of the relationship by German firms occurs through contractual agreements, production in reality remains under the influence of the German principal. The degree of vertical integration is only minimally affected (Wrona 1999: 161). The presence of strategies to retain control, such as having their own technical staff with the supplier, was also confirmed by our interviews. The British firms had more mixed methods to exert control, ranging from the use of agents to employing roving inspectors who conduct quality controls. Since British firms have less geographical proximity with their suppliers, and have fewer trained technical staff available to them compared with German clothing firms, one may conjecture that control is less fully maintained than in the German case.

4.2 Adaptation in Product and Market Strategy

Active adaptation of product and market strategy was mainly evident in German firms, whereas British firms were again mainly passive adapters. For German firms, the following strategies are reported in the literature and supported by our interviews:

1. Utilisation of market niches, by developing whole collections with matching clothing and accessories, or by responding to new demand for multi-functional casual clothing and the more eclectic combination by consumers of low-cost items with high-cost garments (Groemling and Matthes 2003).
2. A stronger development towards customer orientation, including quick response delivery and increasing fashion content by adopting a greatly increased number of (and partially overlapping) fashion cycles per year.
3. An attempt to gain fuller control over the final stage of the value chain, i.e. by selling directly to final consumers. Measures to this end included efforts at verticalisation by opening self-owned retail outlets, and by building up ‘shops within shops’ devoted to putting across a complete fashion concept.
4. Strengthening presence in exports markets and vis-à-vis foreign consumers by setting up new retail outlets abroad. Thus, retail-related FDI has jumped phenomenally since 1995 (Matthes 2002; Groemling and Matthes 2003: 78), mainly in developed countries in Europe and North America, which suggests it has occurred principally to support exports. By having offices and shops in the importing country, better customer contact is maintained (ibid). Interviews confirmed this trend.

Above all, efforts to strengthen brand, both at home and abroad were paramount (see Groemling and Matthes 2003, for a more extended description).

British co-ordinating firms also forged closer customer relations but, with a few notable exceptions, they were not pro-active in the other measures described above. They mainly strove to do better what they had always done, which was to match the increasing demands of the retailers they served.

5. Conclusions

The paper has advanced three main theoretical claims and has striven to substantiate them in the light of data on the organisation of the German and UK clothing industries.

First, it has been suggested that clothing firms need to be viewed in the network of all their relationships, considering both the geography of production and the geography of trade. Such a dual focus makes clear that firms in the clothing industry are simultaneously strongly localised and very internationalised, if not globalised.

German firms are more internationalised than UK firms. They have relocated production for a much longer period, albeit mainly to lower-wage south and east European economies, and they are strong exporters, mainly to European destinations. They have recently invested in sales offices and retail outlets in their main foreign markets. Hence German firms cannot be described as globalised – they are at most internationalised or even Europeanised. Most British companies, in contrast, have been held captive in their national economy by big retailers for many decades. Their extreme dependence on the latter, and their failure to develop their own recognised brands, has shaped both their sourcing and their exporting activity. Foreign sourcing came late, but production networks are now more far-flung than those of German firms. The focus on their main retail customers has hampered the development of export activity, intensifying even more their dependence and their mainly national orientation.

Very few firms in either country are large multinationals, and the structure of both industries suggests nationally specific firm profiles: in the German case, mainly *Mittelstand* firms; and in the UK, a small number of large firms together with a large tail of very small and under-capitalised enterprises. Thus, we urge some caution in presenting the clothing industry as a highly globalised industry. Instead, we point to an incongruous mixture of national embeddedness and, in the UK case, dependence, combined with some insertion into international/global production networks.

Second, we have argued that consideration of the relationships of co-ordinating firms with both their suppliers and their retail customers influences how one sees the triangle of power between these hub firms, the suppliers and the retailers. Gereffi's (1994) notion of commodity chains dominated by retailers is not universally applicable; rather, it is peculiar to Anglo-American capitalism.

The pattern of German firms' structure and strategy has shown that principal firms can develop their own power resources. This saves them from total dependence on large multiple retailers and enables them to balance sales abroad with sales to domestic customers. This decisive difference between German and UK clothing firms rests on a different skill structure and the utilisation of that structure to become actively adaptive to global pressures, rather than just responding passively, as do most large British firms in this industry.

Third, we have suggested that the hitherto dominant pattern of co-ordinating firms in developed countries and dependent suppliers in developing countries is showing some signs of change. Producers in low-wage countries are moving up the learning curve, and the best are preparing to become active competitors to clothing firms in developed economies. Such competition can take two forms: retailers in developed countries can deal directly with manufacturers in low-wage countries; and the best firms in the more advanced newly industrialised countries have now become direct competitors in the markets of the advanced countries. Wrona (1999) points out that specific suppliers in low-wage countries have made large investments in plant and machinery, and now stand on the threshold of acquiring the capability of developing and marketing their own collections. The first trend, as this paper has shown, is already well under way. The second trend is only emergent as it demands the development of high levels of skill both in the upstream functions of the value chain and in knowledge of western markets. But the knowledge and skills of the clothing industry are neither highly complex nor esoteric, and the absence of clear intellectual property rights makes copying relatively easy. Gereffi (1999) points out that firms in some developing countries have developed from 'full package' suppliers to 'own brand' manufacturers, thus becoming direct competitors in the markets of developed countries. Some firms from Hong Kong, such as Episode, Baleno, Bossini, Giordano, Jean West and Moiselle, have already acquired this higher level of expertise and have retail networks in major cities around the world (Gereffi 1999: 56; German Chamber of Commerce 2002/03: 15). It will only be a matter of time before firms in currently less developed economies will follow suit. The decline of the clothing industry in developed economies therefore will continue. This decline will be much more precipitous in the British than in the German clothing industry.

Notes

[1] 'Full package' supply means doing work that extends "from acquisition of the fabric to final trimming of the finished garments" (Scott 2002: 1292).

[2] This discussion ignores the high-end knitwear sector, where the capital intensity of the machinery utilised can be high and the labour intensity low.

[3] Definition of outward processing: Goods are exported from one customs area into another, where further work is done on them, before they are sent back to the country of origin. Customs duty is payable on the value added in the foreign country and not on the total value of the goods. Although this rationale for outward processing has largely disappeared, the processes remain.

[4] Baden and Velia (2002: 68) note that retailer buyers are knowledgeable about wage costs in different countries, but that it is not clear where their information comes from or whether it is adjusted for productivity differences.

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