Baker Ing

Fashion, Apparel & Retail in the USA

Q1 2021

BAKERING.GLOBAL

Baker Ing

Table of Contents

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Baker Ing

EXECUTIVE SUMMARY

The American Fashion and Apparel (F&A) market is the biggest in the world. With extremely little clothing manufacturing, the sector is shaped by big brands that mostly specialize in the casual, urban and sportswear segments. The most important F&A companies of the USA, such as Nike, Gap, Victoria's Secret, Ralph Lauren, and Michael Kors, have managed to build globally known brands thanks to efforts around product innovation, quality design, brand positioning, market segmentation and marketing. With good management of global value chains, they have become relatively affordable products for most people around the world.

In recent years, the footprint of these brands has grown well beyond anything that could be foreseen just a few decades ago; children in Africa, Latin America and Asia are wearing Nike's Barcelona football club T-shirt. The USA is however still by far the biggest market for these brands. More than 80% of Gap's sales and around 65% of Nike are in the USA. The most important go-to-market channels for clothing and apparel are aggregator type shops, including department stores, discount department stores, hypermarkets, and supermarkets. More recently, online giants like Amazon have replicated this model online. The weighting of mega aggregators is aligned with the most searched attributes by the typical American consumer, namely low prices, and less interest in fashion trends than in European and some Asian countries.

There is however huge diversity in socio-economic conditions within the country, where a dozen cosmopolitan metropolis, whose economies are based on high-value services such as financial, culture or tourism, cohabit with a vast territory of low population density. Patterns of fashion consumption in big cities are different than in the rest of the country, with fashion-savvy consumers willing to spend their higher disposable incomes on clothes and accessories. In cities like New York, LA, San Francisco and Miami, consumers tend to purchase more in high street shops, as opposed to malls or hypermarkets in the rest of the country. Even though cities tend to have a more European style of retail, foreign brands are struggling to be successful in the US market (including giants like Zara or H&M), as operations in the country require substantial expertise in doing business in the country (e.g., appetite for fashion, size, logistics, supply chain management and, fundamentally, communication and advertising).

Globalization has caused clothing manufacture to almost disappear in the USA over the past 40 years. However, recently, the increased complexity of global value chains of American brands and political tensions between the USA and China have triggered divestment of US companies from China, which could bring back production to the US ('reshoring'). Additionally, concerns about unethical manufacturing conditions have led to brands leveraging the 'Made in the USA' seal. COVID has increased consumers concerns, thus increasing the chances of a nascent re-birth of manufacturing in the US.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

USA OVERVIEW

Fashion and apparel (F&A) is a sector with massive importance, both for our daily life and for the global economy. The way we consume fashion defines us as citizens, members of different social or economic groups and consumers. The fashion industry, similarly to the food industry, is present in our daily life, making a lot of information about our decisions, motivations and preferences explicit to others. The F&A sector is extremely relevant for the global economy. A huge proportion of developing countries in the world are part of the global value chains of the sector's international trade, which provide jobs to millions of people around the globe. The move in recent decades of F&A industries from rich to developing countries all around the globe has modified the way significant segments of the population live, in countries -as different as Sri Lanka, Morocco or Guatemala- that have massively benefited from the delocalization. Macroeconomic stability and a smooth political environment have proved key for developing countries to attract investments to produce. At the same time, changes in production and reduced prices due to economies of scale have substantially changed the way that clothes, footwear and accessories are consumed in developed countries, increasing exponentially the number of items bought.

These changes at global level have also been affecting the US Fashion and Apparel sector. As described in 2. Economic environment in the US, the high purchase power of the American citizens, characterised by a dynamic consumption -fed by credit at low-interest rates and high employment rate-, has supported the rapid increase in F&A purchase patterns, helping American brands to expand and have a global prominent position. At the same time, the change in the functioning of the American economy in recent decades -characterised by a deindustrialisation process- has significantly affected the textile and apparel manufacturing. In contrast with the experience of other developed countries like Germany, Italy or Spain that went through a similar transformation, the US apparel sector has struggled to fully reinvent itself finding a niche in the global markets.

More importantly, different ways to produce clothes coexist in the world. As countries with low-labour cost (such as China but more recently Sri Lanka, Vietnam, Turkey or Cambodia) have specialised in production at big scale for global brands, a number of developed countries have entered new segments of the market to target consumers with higher purchase power or more specific requirements in the way the clothing is produced, including fair trade or organic processes of production. As can be seen in Chart 1.1, different technologies can be adopted in each of the steps of the value chain. In agriculture, for example, raw materials that are produced using traditional methods can be sourced, as well as inputs from producers that follow organic and sustainable methods of production and establish a fair-trade commercial relationship with their customers. The industrialization or transformation, for example, can be made using traditional manufacturing methods -based on cheap labour and economies of scale- or can be done within the Production 4.0 paradigm, in which different steps of production are automatised and flexible to adapt to constant changes in information coming from the market. The choice of the type of function of

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

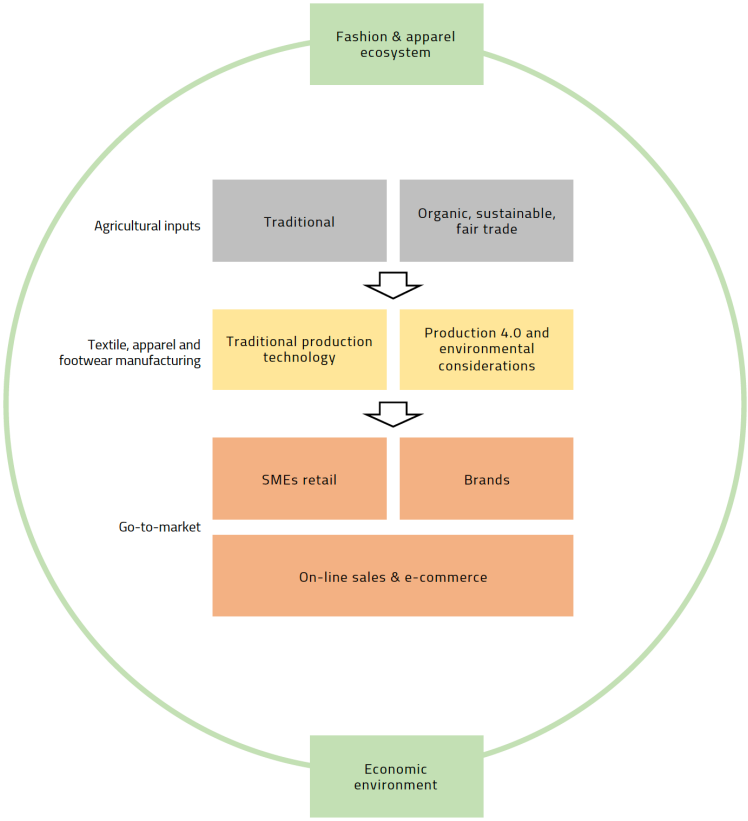
REGISTERED COMPANY

09787114

Baker Ing

production and positioning in the market that countries and companies made is, in good part, related to the ecosystem in which they operate. In 3. The American Ecosystem for Fashion and Apparel we explain how the weakened ecosystem has been a barrier for a sector reconversion as successful as what has been experienced in some European countries. In addition, in line with other sectors that are labour-intensive, the F&A manufacturing has moved from developed and rich countries to a number of developing countries. As a consequence of this, the weight of the sector in the US is extremely limited, with a small number of jobs and number of companies participating. In recent years, a movement supporting the rebuild of the industry has emerged. The combination of geopolitical factors - such as the trade tensions between the US and China-, the increase of costs on producing in developing countries and, among others, the increased complexity of extended global chains, has supported the reshoring activities of a number of US companies. We explain in some detail this trend in 4. Apparel Manufacturing in the US.

Chart 1.1: Fashion & Apparel Value Chain



Source: Baker Ing International

The go-to-market is the consumer-facing step of the value chain. The US market is characterised by three main factors. Firstly, consumption patterns are almost polarized between affluent cities (with presence of shops owned by brands and where the consumer wants to be fashionable) and the rest of the country where the main driver is the low cost. Secondly, aggregators are strongly present. Although the traditional department stores have seen their importance decrease

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

in the past decades in the retail market, supermarkets like Walmart and more recently e-commerce platforms like Amazon and others specialised in clothing continue to be key players. Thirdly, good part of the American brands with worldwide success have specialised in segments of massive consumption (eg Nike, Gap or Levi's), thanks to massive investment and know-how in the building of a global brand (including marketing and consumer experience) and in the design and innovation of new products on a constant basis. We explain the way American markets work and recent changes it has been through in 5. Retail performance and strategies of main players.

Finally, in recent years, global trade tensions between the US and China in combination with the emergence of a demand for products with environmental and ethical standards have led American companies to make some changes. Firstly, some of them are in the process of simplifying their global supply chains. This trend - essentially to disinvest in China and returning to the US or countries closer to the US- has been followed by big firms with dense and large supply chains. Secondly, smaller companies that look to build differentiated products thanks to specific quality attributes (such as work conditions, reduced pollution, organic inputs) and leverage the re-emergence of the economic nationalism have worked in the development of the "Made in the USA" seal. In 6. Nearshoring, reshoring and the "Made in the USA" we explore in some details these new trends.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

ECONOMIC ENVIRONMENT

With 260 million inhabitants, a GDP per capita of around USD 66,000 and a GDP worth USD22.6 tr the US is the biggest economy of the world. It represents around 25% of the world economy and is almost 40% bigger than China's economy, four times bigger than Japan's and five times bigger than Germany's. In contrast with Europe, the US economy is a relatively closed economy with a number of restrictions to trade, in spite of having adopted a number of Free trade agreements with Latin American countries. The US economy has significantly transformed itself in the past decades to specialise on high-tech, high added-value and knowledge-intensive goods and services. The combination of high levels of investment, a sophisticated system of R&D and relatively efficient action to link private and public activities in key sectors (such as defence) has led to a massive and extremely dynamic market where competition trough innovation in processes, products and marketing is key for the success of companies. The country is today the base of the most modern technological sector of the world (with sectors such as aero-spatial, defence, pharma, and IT leading the global markets, represented by companies like Boing, Pfizer, AT&T, Google or Facebook), a robust financial system with activities all across the world, mass consumption companies in sectors such as food, beverage or clothing (with companies like Coca-Cola or McDonalds, Nike and Levi's) and a cultural complex with international influence (Hollywood and the music industry). In recent years tensions with China -the main trade partner- has emerged forcing a number of companies to change the way their organise their global operations in order to reduce their activities in China.

The American Economy

The economy has expanded at an average rate of 2.0% year on year between 2001 and 2019, with a drop in 2008 and 2009 as a consequence of the sub-prime crisis. The expansion of the economy occurred in a context of low inflation, which averaged 0.9% in the same period. Relatively low levels of interest rate -mortgage of 30-year maturity average 5.1% in the 2000-2019- have helped boost private consumption and investment, which in the past 20 years averaged 21.1% of GDP. However, high fiscal deficits averaging to 5% of GDP –which jumped to 15.8% in 2020- in the past two decades have put the gross debt of the central government to GDP in an historical record of 132%.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

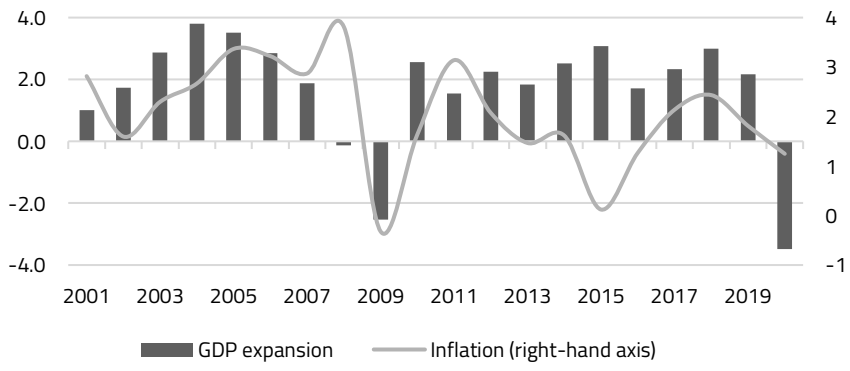
REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

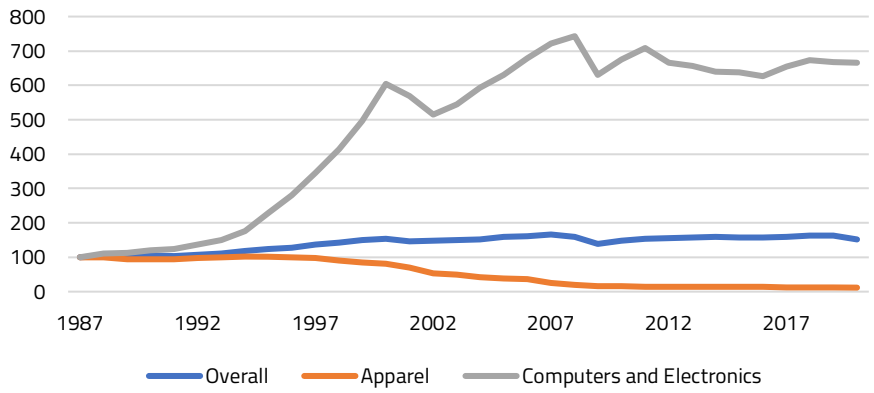
Chart 2.1: GDP and inflation in the USA



Source: Baker Ing International with data from IMF

In recent years, the US economy has radically transformed its productive structure. The relevance of manufacturing, which used to be the leading component in the added value, has been decreasing systematically. The manufacturing industry, which in the late 1980s used to represent around 18% of GDP, represents now only around 10% of GDP. The drop in manufacturing was replaced by the rise of other sectors such as information and telecommunications, or professional and scientific activities. Importantly, although manufacturing continues to play a strategic role in the American economy, its nature has changed. As can be seen in the chart 2.2, the US has specialised in high-tech to the detriment of low technology-embedded manufacturing. Sectors with high-tech manufacturing such as pharmaceutical, computers, electronics, optical products and aerospace-related products have expanded strongly. The manufacturing of computers and electronics, for example, increased by 560% in the past 30 years. During the same period, overall manufacturing expanded by less than 60%. In the meantime, the performance of sectors such as the apparel manufacturing decreased dramatically by almost 90%, deeply affecting a sector that has not been able so far to adapt to this new paradigm.

Chart 2.2: Expansion of selected manufacturing sectors



Source: Baker Ing International with data from Federal Reserve Bank of St Louis

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

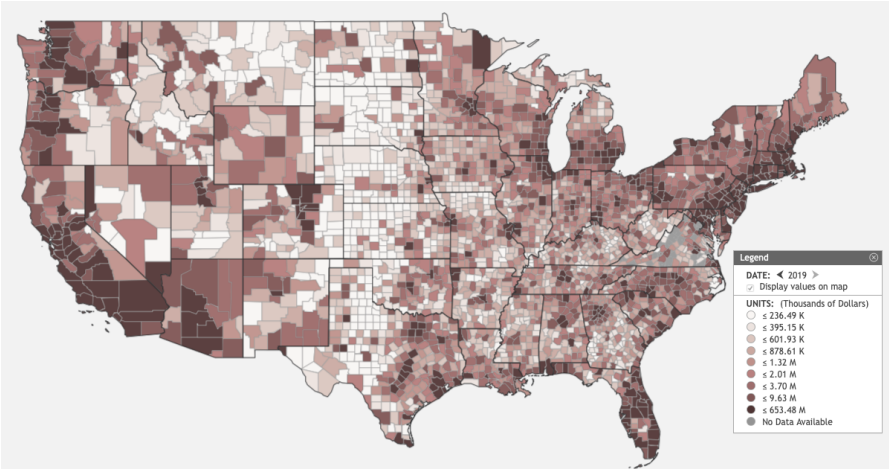
09787114

Box 2.1: Heterogeneity of the US and the importance of geography

The US is a vast territory (the contiguous 48 states cover an area of 8.1 million square km, 62 times bigger than England and almost twice the area of the European Union) with deep heterogeneity in the distribution of natural resources, quantity of population, and economic functioning.

Home of a significant proportion of the country population, the north of the Atlantic coast sees its main activities as services. With cities like New York or Boston -traditionally oriented towards Europe-, sectors such as finance and professional and business services are the key drivers of the economy. A similar pattern of economic specialisation occurs in other cities of the north of the country like Chicago. A number of cities –Detroit being the most prominent- that traditionally have specialised in manufacturing have suffered as a consequence of the disinvestment and globalisation that has moved manufacturing to other regions of the world. In the West Coast, naturally oriented towards Asia, a series of cities - Los Angeles, San Francisco and Seattle just to mention the most important- are other poles of services. Los Angeles is the base of the biggest cultural industry in the world. Close to San Francisco is the Silicon Valley, the base of the digital transformation of the world economy in recent decades. In the South, Texas holds the biggest oil reserves of the country. Florida, a State that developed extremely rapidly in the past 50 years, is the tourism, art and leisure centre and a key node for business with Latin America. The interior of the country is mostly covered by big rural extensions, and sees agriculture as the main economic activity with both cattle and crops. Boasting mild weather and vast spaces, the country is the second biggest producer of cereals in the world (with 16% of the world production) just behind China and the second biggest producer of soyabean (with 35% of the global output) just behind Brazil.

Map 2.1: Income per county in the US



Source: GeoFRED

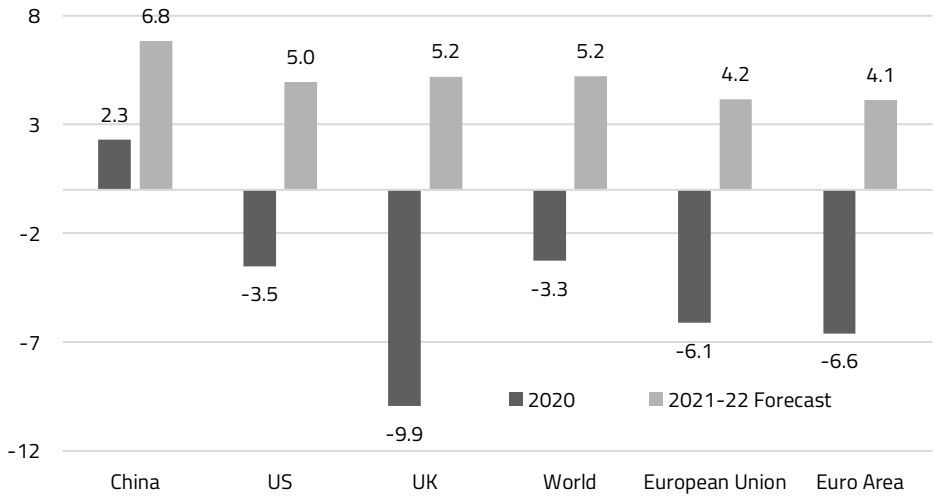
Baker Ing

The geography of the US represents an outstanding challenge for companies who operate nationally. Firstly, large distances between key metropolitan areas require distribution logistics that are really different from what is needed in other developed countries such as in Europe for example. Secondly, strong differences in patterns of consumption between metropolitan areas and the rest of the country are another challenge as the economies of scale cannot be fully benefitted from. As a consequence, companies tend to focus on some areas of the countries. Although this is a challenge for all the industries, this is particularly relevant for low value and big or heavy products, which are more expensive to move. Products that have a short life cycle or are renewed quickly are also affected. Many products from the F&A sector, especially from Europe, do have these characteristics. As will be seen in detail in 5. Retail performance and strategies of main players, global non US companies have failed to succeed in the country as they have done in other areas of the world.

Effects of COVID on the economic spheres

The collapse of the global economy is estimated at around 3.3% in 2020. The US, just like the rest of the world, was hit heavily by the COVID crisis. Early spring lockdowns, voluntary social distancing, disruptions in supply chains and lower demand led to a record drop in economic activity. However, the combination of relatively less stringent lockdowns than in the rest of the world and a fiscal policy that provided extensive support to households helped to keep the collapse to minimum levels. The American economy went down by 3.5%, whilst the Euro Area experienced a drop of 6.6% and the UK contracted by 9.9%.

Chart 2.3: GDP growth of selected regions and countries (2020 and 21-2)



Source: Baker Ing International with data from IMF

The combination of a strong fiscal policy with monetary easing has helped the economy to recover quickly. Vaccines roll-out has further helped. As a result, GDP jumped in Q1 to 6.4%; the best period for GDP since the Q3 2003 and after the previous quarter when the economy was fully reopened after the COVID.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill, London, EC4M 7JN

REGISTERED COMPANY

09787114

THE AMERICAN ECOSYSTEM FOR FASHION AND APPAREL

The ecosystem is the network of assets such as know-how or expertise and actors such as the private and public sector, academia or scientific complex that are connected for the development, production and sales of a set of products in a specific sector. In each country and sector, the ecosystem works differently. In some instances, the ecosystem is extremely regulated -as could be the case in the food production or pharmaceutical products- and others regulations and quality standards are less relevant, for example with furniture design. At the same time, the cooperation between different actors is really relevant in some markets -a typical example being the aerospace and defence industries in the US or the European Union, where the private and public sectors work together in order to innovate and reach the desired levels of quality-, and in some others coordination by actors tends to be made in a decentralised way -for example with catering-, with companies developing their relationships between suppliers independently.

The American ecosystem for F&A has been shaped to support firms in building strong and global brands. In order to do so, the ecosystem has provided the expertise and assets for understanding firstly the needs of the costumers and their changes in preferences and, secondly, how to translate that into appropriate product design and effective marketing and branding investments. One of the clearest examples of this is Nike, a brand that has managed to be recognised globally as the most important company for sports and more recently for casual and urban wear, generating a powerful global image. Something similar has happened with brands such as Ralph Lauren or Tommy Hilfiger: Although they operate in higher-quality segments usually dominated by European companies, they have managed to build global and successful brand images.

Global segments of the F&A sector

The global F&A sector can be characterised with four different segments, each of them representing a different type of experiences for the customer. Each of these segments requires companies to use specific sets of skills and knowledge to fulfil consumers' expectations. As shown in Table 3.1 the F&A sector can be divided according to two dimensions. The first one is based on the production process. We can distinguish here two main strategies: the massive production method, based on low-cost strategy, and the "Production 4.0 & differentiated" one. Massive production refers to a non-personalised experience of products, which are part of a series of items manufactured through an extremely long and dense global value chain. In contrast, the "Production 4.0 and differentiated" strategy is based on the use of high-technology and highly skilled people for the production of lower quantities; in some instances the production can be even labelled as "artisanal". In the second dimension, we describe the brand positioning in terms of purchase power of the targeted audience, high-end and middle and low-end. Each of these four types of consumers looks for different experiences that the brands can identify, develop and exploit.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

Table 3.1: Strategies for the F&A specialization

		Brand Positioning	
		Middle and low-end	**High-end**
Production method	**Massive with low labour cost**	Customer's expectation: up to speed with global fashion and being part of a "community" Companies' main skills: flexible production, logistics and clarity in the brand construction.	Customer's expectation: Aspirational luxury Companies' main skills: brand positioning and ability to maintain luxury attributes at affordable prices
	Production 4.0 & differentiated	Customer's expectation: Responsible consumer Companies' main skills: research of valuable attributes to be included in the brand	Customer's expectation: unique personal experience Companies' main skills: highly skilled people and ability to link to a "sophisticated cultural" experience

Source: Baker Ing International

As expected, the biggest segment of the market combines the "massive" type of production and "middle and low-end" of brand positioning. In this segment we find most of the brands present on the high street in the US and in European and Asian countries. We can mention as examples Nike, Gap, Uniqlo, Zara or H&M. In general, as the products of these brands are massively produced in globalised value chains, they are affordable and consumed at mass scale, and generate constantly new products and collections. The logic of the segment is based on the idea that the customer is up to speed with the global fashion trends for casual outfit and sportswear. Companies working in this segment manage to react very quickly to changes in trends and can organise their production, logistics and marketing accordingly. An extremely efficient system to manage the supply chain and control the quality needs to be in place. Transport and infrastructure logistics in combination with skills to adjust human resources to operational aspects of "new collections" are key. Technologies to manage inventories at global level in combination with sophisticated systems to track orders to suppliers and from customers in e-commerce are essential to the success of the business.

For the "massive" and "high end" category, we can think of all the brands that are traditionally associated with exclusive and expensive consumers experiences but who in recent years have expanded their business, changing significantly the way they produce. In some of these cases, the "aspirational luxury" brands have licenced the brand in other countries; in other cases, they have decided to produce in countries other than where they originally produced- this is the case for brands moving away from expensive European countries to other areas of the world. One of the key assets of companies operating in this segment is probably a great understanding of their customers and of how to talk to them. The ability to produce massively whilst keeping good quality that can be associated with luxury is also a key expertise. Some examples of these brands are American Ralph Laurent or Tommy Hilfiger, or European Burberrys, Lacoste, Dolce & Gabbana or Armani.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

The "Production 4.0 and differentiated" clothing production has been the increasing method that developed countries are adopting. Although Europe or the US are not just producing on this method, the "Production 4.0 & differentiated" is the new prominent system of production, at the expense of the low- labour cost method. The "Production 4.0 & differentiated" is compatible with both levels of brand positioning. In terms of high-end, good part of the luxury brands and niche segments (such as baby clothing) are still produced locally –for example in Europe, and to some extent in the US- with methods that use a considerable amount of highly-skilled people, in workshops that combine traditional technics with highly advanced research in areas such as the use of materials, design technologies or studies of heritage and culture for inspiration and adaptation of products. Moreover, companies in this particular segment have managed to introduce a personalised experience, allowing the customer to, for example, be part of the design. This segment requires not just extremely highly skilled professionals (in diverse areas such as fashion design, marketing, interior design, etc) but also the ability to create a "sophisticated cultural" experience, frequently based on a vibrant cultural environment. Examples of this are brands are mostly found in Europe, like French LVHM or Hermes.

In terms of "middle-end", the "Production 4.0 and differentiated" puts the emphasis on environmental and quality attributes of the products, as consumers look for a responsible experience. In this segment, organic and sustainable production of raw materials or fair-trade and high standards of labour conditions are highlighted. Moreover, emphasis is placed on research, development and the adoption of new materials (usually more eco-friendly) and on a waste-efficient and green energy-intensive production. In this segment, companies tend to have a range of certifications for their products and process. Finally, although it is a smaller segment with a slower pace of adoption, "Low-end" also combines with the "Production 4.0 and differentiated" production, to include new trends such as circular economy or "Made in the USA".

Both the "Production 4.0 and differentiated" and the "Low-cost" systems of production require an ecosystem that provides a number of assets and skills for the companies to operate within their respective paradigm: mechanisms to connect the R&D with companies' needs, smooth adoption of technology, a skilful workforce and companies with enough resources and clarity in their strategy to be able to adopt the necessary changes. Whilst the functioning of the American economy changed in the past decades, leading to a substantial drop in low-technology production affecting in particular the textile and clothing industry, a robust ecosystem focused on the development of high-value activities such as brand and marketing has helped the American F&A sector to find its way to lead globally some segments of the market.

The F&A ecosystem of the US

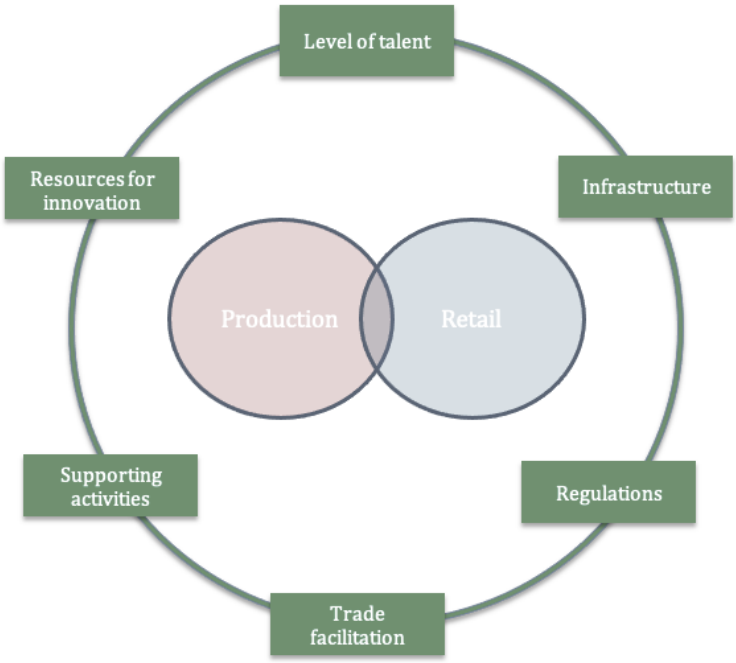
The F&A sector of the US has specialised in the development of brands, leaving behind the production. With some of the biggest retail brands of the globe (like Nike or Levi's), the development of the F&A sector is in part explained by the strong and dynamic ecosystem in which it plays. This ecosystem is the network of actors and actions that supports the development of companies and sectors. It is formed by companies, schools and government agencies and the quality of the links between them. There is a retro-alimentation and constant dialogue: in general, the ecosystem adapts to the

Baker Ing

sectors and the sector adapts to the ecosystem. In the case of the US, the ecosystem has played a key role in making the F&A in the US a sector built around the brand construction and marketing efforts.

With a relatively close economy -in terms of other developed countries-, a geography that requires extremely sophisticated and efficient logistic and high cost of non-qualified labour, the sector has focused in leveraging the main assets of the ecosystem. Among the main components of this ecosystem, we can mention the combination of "level of talent", "resources for innovation" and "supporting activities". These have been extremely helpful for the creation of brands with global impact. Not only does the US have the most valuable brands of the world, but it also boasts the best-known and most recognizable ones. This success is a combination of investment in marketing, product quality and the customer's experiences created. In order to get to this success a number of macro factors (geopolitical, economic diplomacy, trends in global trade) are combined with the ability of companies to leverage all the talent that is available (including expertise in global marketing, knowledge of the markets, ability to use big data info).

Chart 3.1: The F&A ecosystem



Source: Baker Ing International

Nike, Ralph Lauren or GAP are brands that have managed to benefit from that alignment and to leverage these assets. Nike is an outstanding example of a company that has managed to create a global brand that is universally recognised and valued. Through the use of global superstars as brand ambassadors and in product design, the company has managed to innovate in the way to make a brand global. Nike has also been extremely successful in penetrating new segments of the market (such as football, tennis, or more recently female sports) and in creating new niches like running communities, combining great expertise in understanding different markets with the ability to create a relationship with customers based on loyalty.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

APPAREL MANUFACTURING

The apparel manufacturing industry is extremely globalised. It employs directly and indirectly millions of workers worldwide, and thousands of companies participate in the production through sophisticated Global Value Chains (GVCs). American brands who control good part of the global retail market thanks to marketing, branding, innovation and differentiation efforts, outsource their manufacturing all around the world. In the 2017-2019 period, apparel exports totalled on average USD 0.6tr, representing around 3% of the global trade. Exports of F&A products are mainly dominated by China (37% of the total exports in the 2017-19 period) and by some EU countries such as Italy (6.2%), Germany (5.6%) and Spain (3%).

Table 4.1: Top Apparel exporting and importing countries

Main Exporters			Main Importers		
Country	USD bn	Global share	Country	USD bn	Global share
China	192.2	36.0	Top5-EU	140.3	26.3
Top5-EU	104.6	19.2	US	113.7	21.5
Vietnam	40.6	7.5	Japan	35.6	6.2
India	19.4	3.6	UK	31.9	6.1
Turkey	16.0	2.9	China	26.5	5.0
Indonesia	12.5	2.3	Korea	11.9	2.3
Cambodia	8.0	1.5	Canada	11.8	2.2
US	6.6	1.2	Russia	9.3	1.8
Rest	140.7	25.8	Rest	148.8	28.2

Source: Baker Ing International with data from Comtrade

With an extremely small manufacturing sector, the US plays a minor role among exporter countries, selling abroad even less than countries such as Vietnam, India, Indonesia or Cambodia. However, the US is the biggest importer of the world, with almost as much imports as the biggest 5 countries of the European Union. This pattern has been driven by a deindustrialization process, which particularly affected low-qualified labour-intensive activities, where textile and apparel production are prominent. As the US F&A ecosystem weakened in recent years, the F&A manufacturing sector collapsed. Only a few niches have managed to survive. More recently, with the emergence of an economic nationalism, the domestic apparel manufacturing has shown signs of a potential recovery.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

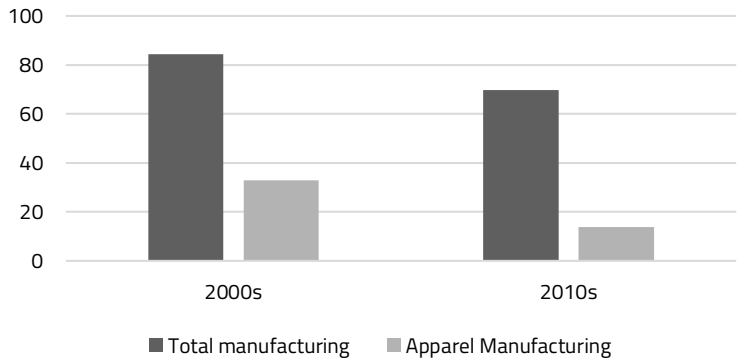
09787114

Baker Ing

Overview of the US apparel manufacturing sector

Textile and clothing used to be a key sector of the American manufacturing industry. However, in the past decades it has lost a substantial ground in the national economy. At the beginning of the 1990s the manufacturing of apparel used to employ almost 900,000 workers in around 14,000 companies. In 2020, there were just 4,800 companies employing less than 85,000 workers. As can be seen in the Chart 4.1 although the drop of production has been generalised in all the manufacturing sector, the collapse of the apparel sector has been particularly acute.

Chart 4.1: US production output per sector (% of 1990s average)



Source: Baker Ing International with data from Bureau of Census

This movement can be explained by a few factors. Firstly, as part of the general trend of deindustrialization experienced in the developed countries, rich economies have managed to reallocate resources to the production of goods and services with more added value. Secondly, although the US economy is not as open as the European ones, the apparel sector was one of the most affected by the globalization. The move of the production to Asia -in particular China- in the first place and then to some countries of the Western Hemisphere -including Mexico and Central America more recently- has decimated the local production as American companies cannot compete with lower wages. Third, the productivity of the apparel sector has not changed in recent decades whilst in parallel salaries of the sector in the US have increased by around 50% in the past 15 years, reducing the competitiveness of the sector vis-a-vis other countries. Although the salaries in US dollars of other countries tend to move as consequence of exchange rate movements, the Chart 4.2 shows that the labour cost of the US is clearly above the other countries' where apparel products are produced.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

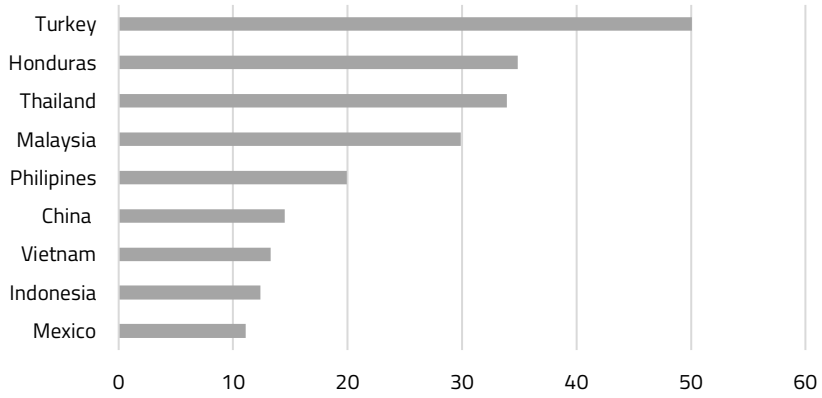
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Baker Ing

Chart 4.2: Minimum wage in apparel manufacturing countries as % of US minimum wage

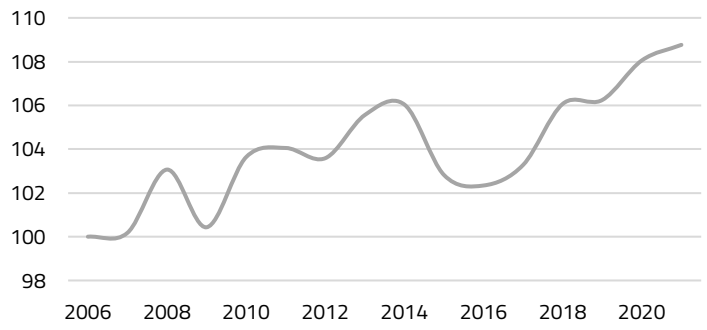


Source: Baker Ing International with data from Sewport.com

Box 4.1: Changes in clothing prices and profitability of American firms

The high level of imported clothes consumed in the US is explained by the combination of two main factors. In the first instance, the price of retail clothing sold in the US has not increased in recent decades. The level of prices for clothing in the US big cities is in 2020 similar to the value of 15 years ago. In the second instance, the increase of prices for producing in the US has increased by around 18% but the prices of importing clothing have increased by just 8%. Without a faster increase in their productivity, American firms have witnessed a decreased in profitability vis-à-vis the foreign producers.

Chart 4.3: Ratio of prices of clothing production in the US against the prices of imported clothing (Index 2006=100)



Source: Baker Ing International with data from Federal Reserve Bank of St Louis

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

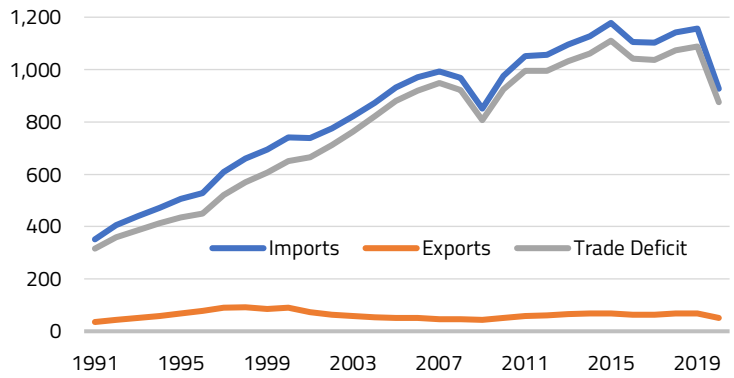
REGISTERED COMPANY
09787114

Baker Ing

Foreign trade of the US F&A sector

Around 97% of the clothes sold in the US is imported. The US has run a substantial trade deficit in the apparel and footwear sector. In the past 30 years the deficit has increased from around USD300 bn to almost USD1.200 bn in recent years. The increase in the deficit is almost entirely explained by the expansion of imports. For several decades the domestic production has been replaced by imports. The performance of the imports contrasts strongly with the exports. In the past 30 years the sales to foreign markets have been almost flat, averaging around USD60 bn per year in the 2016-20 period.

Chart 4.4: US apparel and footwear foreign trade (in USD bn)



Source: Baker Ing International with data from Comtrade

China has been for years the main source of imports of the US. In the 10 years to 2019, annual imports from the giant Asian country have averaged USD465 bn. However, the importance of China has decreased in recent years. In 2010 China represented around 48% but the figure decreased to just above 30%. As the weight of China decreased other countries from South East Asia (such as Vietnam, Bangladesh and Cambodia) have seen imports to the US increase from 20% in 2010 to around 37% in 2020. Other Asian countries like India or Pakistan have kept their weight unchanged (around 7%). Latin American countries (including Mexico and the Central American ones) have also kept unaltered at around 10%.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

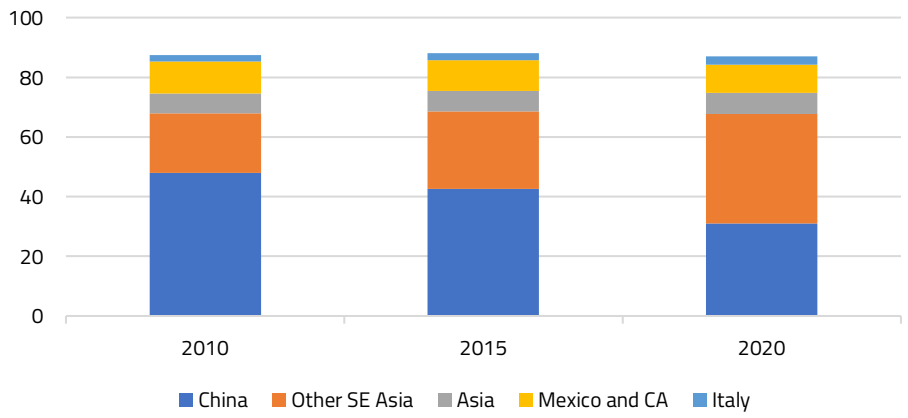
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Baker Ing

Chart 4.5: US apparel and footwear imports top 5 origins (in % of the total)



Source: Baker Ing International with data from Comtrade

The reduction of the weight of China as a source of imports in the US has been driven by several factors. Firstly, production costs in China increased (in the period 2000-14 the Chinese wage for employees in the clothing production increased by 285%, almost ten times than the value in the US or Mexico). Secondly, the rapid expansion of the GVC has led to increase costs and efforts to control the quality of the production, to react quickly to changes in preferences of consumers or to adapt to new technologies. Moreover, big logistic changes result in non-environmentally friendly products, which in recent years have been the subject of explicit concerns from consumers and governments around the world. Thirdly, the escalation in the political tension between the US and China in recent years has led to a number of measures making more difficult the Chinese imports. This "trade nationalism" has also given impetus to the creation of a pro-American textiles and clothing rhetoric, which has translated into a number of companies disinvesting from China and restarting operations in the US, and basing their brand image in the "Made in the USA" seal. We analyse in some detail this trend in **Nearshoring, reshoring and the "Made in the USA"**.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

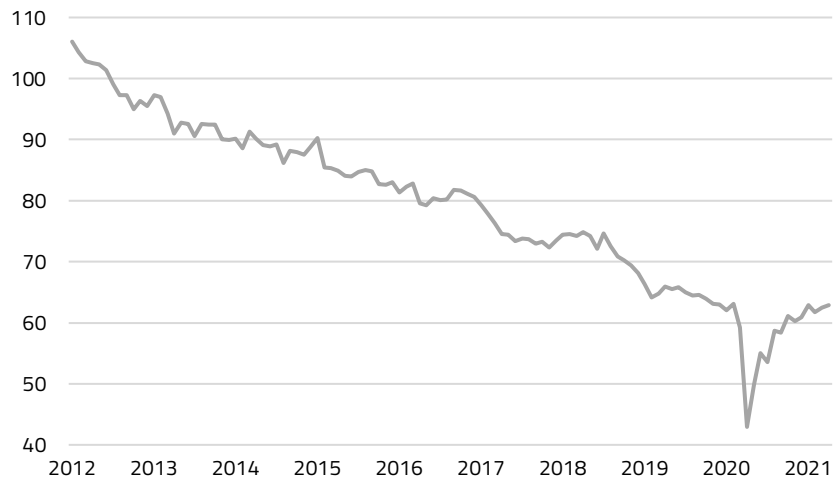
09787114

Baker Ing

The impact of COVID in the US F&A manufacturing

The output of F&A manufacturing in the US was in 2019 just 12% of the value of 1972. Out of the 193 quarters since the information is available, the sector showed negative performance on a year-on-year basis in 133 quarters. Before the COVID crisis, the latest quarter with a positive result was Q3 of 2010.

Chart 4.6- Performance of the manufacturing sector in 2020



Source: Baker Ing International with data from Federal Reserve Bank of St Louis

Similarly to almost all the economy, the COVID-19 has hit the U.S. textile and apparel production. However, the collapse of the sector was a continuation of declining performance from previous years. The output of U.S. apparel and leather goods decreased by as much as 25% and 12% in the second and third quarter of 2020, respectively, compared with a year ago. However, the drop of the year was just 11.8%, which was along the lines of the figure of 2019 (10.8%). After the historic collapse of Q2 the sector started a recovery and in Q1 2021 recorded a positive result (year on year) of 1.4%, the first positive figure in 40 quarters.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Baker Ing

RETAIL PERFORMANCE AND STRATEGIES OF MAIN PLAYERS

With clothes and accessories' annual sales of around USD260 bn, the US is the biggest consumer of fashion and apparel in the world. The sets of skills and know-how to be successful that are needed by the participants of this sector are shaped, like in any market, by its idiosyncratic characteristics. Firstly, within such a big and extended country, we can identify almost two ways of consuming: An urban consumption pattern, found in affluent cities like New York, Los Angeles or San Francisco (with the presence of shops owned by brands, the consumer wants to be fashionable and where high-end and luxury brands are operating), and another pattern common to rest of the country where the main driver is low cost. Secondly, the US market is characterized by a strong presence of mega aggregators. Although the share of traditional department stores has significantly decreased in the retail market, supermarkets like Walmart and more recently e-commerce platforms like Amazon and others specialised in clothing continue to be key players. Thirdly, good part of the global successful American brands has specialised in segments of massive consumption, like Nike, Gap or Levi's. They have been massively investing and developing expertise in the building of a global brand (including marketing and consumer experience) and in the design and innovation of new products on a constant basis. Finally, there is a space for brands that endorse some other attributes (like organic, fair-trade, etc.) but the niches are relatively small.

Retail performance in the US

According to the Bureau of Census, in 2018, 50,000 companies and 132,000 establishment were part of the retail of clothing and clothing accessories in the US and employed 1.7 million people. The sector has been through a concentration process: in 1987, 87,000 companies were operating with 141,000 establishments, employing a million people. As a consequence, fewer companies have on average more employees (7 per establishment in 1978, and 13 in 2018 on average).

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Baker Ing

EMAIL
admin@bakering.global

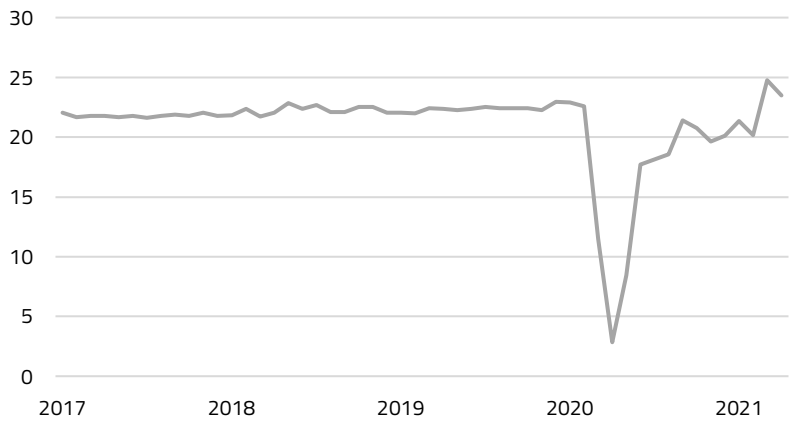
TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Chart 5.1: Apparel retail sales in the US (in USD Bn)



Source: Baker Ing International with data from Federal Reserve Bank of St Louis

Sales of apparel increased by a CARG of 3% between 1992 and 2019. After a rapid expansion between 2010 and 2012 (with an average growth of 5.3%), sales slowed down and expanded in the 2013-2016 period at an average rate of 2%. As can be seen in the Chart 5.1, the expansion has been even slower in in recent years as the expansion averaged 1.1%. As expected, retail sales collapsed during 2020 as a consequence of the COVID outbreak. The drop reached 24%, the highest figured ever recorded. However, after the collapses of March, April and May (-49%, -87% and -62% year-on year, respectively), the activity started a slow recovery, and reached in March 2021 values higher than the ones pre-COVID with USD23.5 bn.

Structure of the market

The main channels for retail clothing in the US are mega aggregators, large-scale stores who, for most, don't produce their own apparel. Among these large-scale stores we can identify the following main types: supermarkets, department stores and clothes aggregators. Both supermarkets and departments stores sell a variety of products including clothing. On the contrary, the only type of products sold in clothes aggregators stores are fashion and apparel items. In general, these companies are distributed across the country and located in shopping mall or in their own premises, outside the centre of the cities.

The top 7 retailers of the country are large-scale shops. With sales of around USD150 bn per year, they represent almost 60% of the total sales in F&A in the country. Amazon is the leader of the market with 25% of the market share of clothing. Walmart, the biggest supermarket in the country, represents more than 20% of the market. With sales for clothing totalling USD24.5 bn, Macy's is the biggest department store in terms of F&A in the country. Discount or affordable clothing tends to be the main go-to-market strategy for these companies.

Although all these large-scale companies are moving towards the e-commerce for clothing, the shift from their traditional model has been slow. In this context, Amazon has managed to penetrate and dominate -as it is doing in other sectors- this F&A

Baker Ing

retail segment. In March 2021 the company even toppled Walmart as number one in the F&A retail.

Table 5.1: Top 7 apparel retailers in the US

	Market Cap (in USD bn)	Sales (in USD bn)	Type of retailer
Amazon	1,600	41	Online aggregator
Walmart	399	35	Supermarket
Macy's	6	24.5	Department store
TJ Maxx	81	24	Clothes aggregator
Target Group	112	15.2	Supermarket
Kohl's	9	14.8	Department store
Ross Stores	45	14.2	Clothes aggregator

Source: Baker Ing International with information from companies' websites

Although it is not present in the top 7 F&A retailers, another important group of players is worth mentioning. This is a group made of F&A labels whose go-to-market channels are based on stores they own. The biggest group with their own fashion label in terms of sales is Gap, which sells in the US around USD13.5 bn per year, making it still an important player, although with less than 5% of market share. With a focus on the construction of their label and higher proximity to customers, this group's strategy is radically different from the Top 7.

Box 5.1: The collapse of department stores

Americans have historically been huge department stores consumers. Although local versions also exist in other countries (i.e. M&S or John Lewis in the UK, Galeries Lafayette in France and El Corte ingles in Spain), department stores have been a symbol of the American economy, and the way for middle classes to access products that previously were reserved only for the a few wealthy ones. However, department stores have considerably suffered in recent years. In 2019 -before the COVID-, sales in department stores were just 54% compared with the value of 2000. In the same period, the share of retail sales made in departments stores decreased from 15% to less than 4%.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

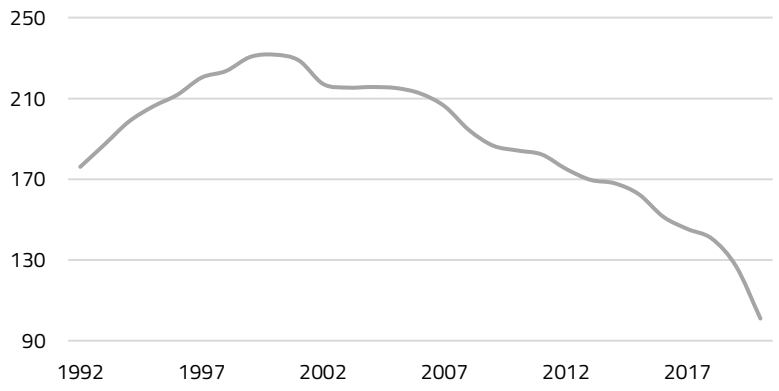
REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Chart 5.2: Retail sales in US Department Stores (in USD bn)



Source: Federal Reserve Bank of St Louis

The decline of departments stores, which started at the beginning of the century, was accelerated with the crisis of 2007, the Great Recession, that altered the social and economic environment of an important part of the American society, affecting the middle class. Companies like Macy's, which used to target the robust middle class was strongly affected, closing 120 of its 800 U.S. branches between 2017 and 2020. Other companies that target more affluent consumers, as is the case of Nordstrom, also suffered contraction in its activities.

More recently, department stores have been affected by e-commerce. They have failed to innovate in this segment as other retail shops have done. The gap between department stores and e-commerce platforms (in some way the new department stores) like Amazon has been increasing dramatically. The latest blow to these types of stores was the COVID-19 pandemic. Both the sudden impoverishment of the middle class and the e-commerce boom intensified during 2020 and stores such as JC Penney (with 1067 branches), Lord & Taylor and Neiman Marcus went bankrupt.

The online F&A market

Amongst the most impactful shocks that the F&A retail sector has been through recently is the transition from physical stores to e-commerce. Although the development of online shopping had started well before the COVID crisis, the pandemic accelerated it. E-commerce has already started to transform a number of markets (including sectors as different as books, food, transport, travel and entertainment). The F&A retail sector is also changing quickly. Global fashion e-commerce sales are estimated at USD531 bn in 2019. Although there are several estimations, some figures indicate that the e-commerce in the US for apparel, footwear and accessories reached USD110 bn in 2020, representing around the 30% of the American F&A sector.

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

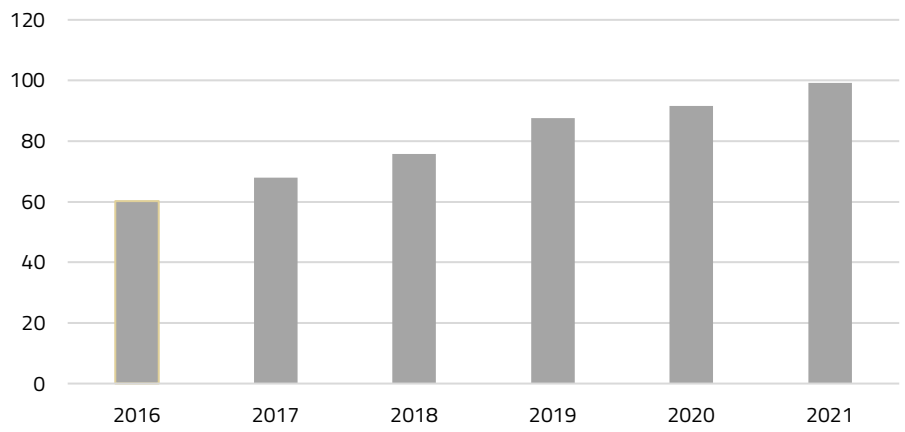
REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Chart 5.3: Apparel e-commerce market size in the US (estimates in USD bn)



Source: Shopify

Most apparel retailers see e-commerce as the new go-to-market channel and are in the process of adoption. However, e-commerce could also bring a number of challenges for the established leaders, who have built their leadership on the physical stores. Firstly, they can find themselves overinvested in stores, with all the financial implications this situation entails. Secondly, they may show less flexibility to adapt to the new sales paradigm. E-commerce is not just about having a webpage to sell; it requires changing the way the business works, including inventories management processes, new logistics and storage, and different communication and branding strategies. Moreover, in order to keep customer satisfaction high, it also requires extremely efficient systems to standardise the quality of the products (including size) to minimise bad experience and avoid high return of items rates.

At the moment, there are four main types of players in the online F&A market in the US. The first group is made of the aggregators and department stores. With a long tradition in physical sale and with a high heterogeneity of items sold, the transition is not easy. However, with an outstanding number of consumers using their website (Macy's website has, for example, around 60 million visitors per month) the transition is more than necessary. The second group of players is made of clothing brands that have lived the pre-online world and are making a transition. All the big brands have launched their webpages with online shops. They have followed different strategies and paces but it is a growing area of their business. Online sales of some segments of Zara, for example, have already reached 20-25% of the total sales. The third group is made of generic platforms like Amazon (with 30% or the US online apparel market and the 11% of the total retail market) or eBay. Some of this pure player retail companies have launched fashion specific online portals such as Amazon Fashion. The fourth group is made of the companies that are basically online marketplaces dedicated to clothing ; some are brand aggregators such as Asos for example ; others are online second-hand marketplaces ; finally, we can also find smaller online clothing retailers that are growing even faster than the industry, some of which are digitally native and vertically integrated, which means they control every step of the process from garment design to direct sales to consumers. According to Digital Commerce 360, all of the top 10 fastest-growing online apparel retailers are born-on-the-web-brands and six are consumer brand manufacturers that are categorized as digitally native.

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Strategies for brand differentiation and key players in the US

Regardless of the go-to-market channel chosen, brands adopt differentiation strategies in order to target and capture particular segments of the global market. Brands make significant efforts in thinking, working towards and communicating around their positioning. We have identified two main axes: a) the go-to-market strategy and b) the segment or niche of the market targeted. As reflected in Table 5.2, the first relevant consideration is if the go-to-market strategy is based on low prices or quality attributes. The biggest part of the market is in the low-price type of strategy. Within this strategy, brands target different segments such as accessible luxury, outwear and casual, and footwear & sportswear. Companies like American Michael Kors, Ralph Lauren, Italian Armani and Dolce & Gabbana, French The Kooples, Zadig & Voltaire or Maje for example are in the "aspirational luxury" category. Low-price strategy doesn't mean that the companies don't have good quality standards or specific certifications for process or products. However, their positioning and branding is usually not around those quality attributes. Instead, they are based on other aspects, such as the capacity to quickly adapt to diktats from trends. In the low-price strategy, we find some of the biggest companies in the world, who operate in several segments at the same time. This is the case of American Gap, Levi's and Calvin Klein, Spanish Zara, Swedish H&M or Irish Primark or British M&S. Among the sportswear and footwear, we can mention for the US Nike, New Balance, Timberland or Under Armour, and for example in Europe German Adidas and Puma, British Clarks and Spanish Camper.

Fewer companies follow the strategy based on quality attributes. Their goal is to exploit a series of attributes that are associated to the production or sale of the product. The attributes can be diverse, and the value consumers give them also changed with time. However, it is easy to affirm that the "design by author" is one of them. Within this category, there is a big gradient in terms of quality, but we can mention for the US brands like Oscar de la Renta, Amiri, Khaite, Vera Wang or Donna Karan. Among the segment of "valuable standards of production" we can find a variety of companies. Some of these may base themselves on environmental credentials, others on fair-trade, and some may even highlight their origin. Vitamina A, for example, produces swimwear collections from recycled and plant-based materials. Patagonia has been one of the early defenders of environmental ethics in the activewear fashion industry. It is also an early adopter of using recycled materials and organic cotton, and more recently has expanded its commitment to labour ethics. A new label has also been growing in the US, the "Made in the USA" label. This label includes a number of attributes which go beyond the fact the product is made in the US, such as lower pollution as consequence of less transport, or better working conditions. We can also mention in this group companies like Buck Mason or American Giant. We analyse this in more detail in **6. Nearshoring, reshoring and the "Made in the USA".** Finally, in the "circular economy" niche, we can mention all the second-hand markets that have recovered prestige in recent years. Among the most relevant in the US are The RealReal, Tradesy, Etsy, Stay Alert and thredUP.

Baker Ing

Table 5.2: Differentiation strategies for F&A brands

		Segment or niche		
Go-to-Market Strategy	Low price	**Accessible luxury** (Ralph Lauren, Michael Kors, Dolce & Gabbana, Armani)	**Outwear, casual & urbanwear** (Gap, Levi's, Calvin Klein, Vans, Zara, H&M, Primark, M&S)	**Footwear & sportwear** (Nike, New Balance, Timberland, Under Armour, Adidas, Puma, Clarks, Camper)
	Quality attributes	**Design by author** (Oscar de la Renta, Amiri, Khaite, Vera Wang, Donna Karan)	**Valuable standards of production** (Vitamina A, Patagonia, Eileen Fisher, Alternative Apparel, Reformation, Fair Indigo, Amour Vert, Pact)	**Circular economy** (The RealReal, Tradesy, Etsy, Stay Alert, thredUP)

Source: Baker Ing International

Key brands in the USA

The high purchase power of American consumers -in addition to the millions of affluent tourists that visit the US' main cities each year-, in combination with the global adoption of some dimensions of the American culture, has helped towards the development of strong American F&A brands. American brands operating in different segments are global leaders. The most prominent examples are in the sportswear segment with companies like Nike or in the outwear and casual segment like GAP. The top 5 American F&A companies (Nike, GAP, LBrands, VF Corporation and PVH) have combined annual sales of around USD90 bn globally, employing around 330,000 people. All these companies have a series of brands to reach different segments of the market, with the exception of Nike whose key brand is particularly big within the overall business. In the US, these brands are sold both through department stores (and other type of aggregators), however they are also developing a giant network of their own shops. More recently, they have heavily invested in e-commerce platforms Most of these companies' brands are recognizable not just in the US but also in the rest of the world. Enormous efforts for brand creation and differentiation have helped these companies segment their audiences and target them with appropriate value propositions. Although most of these brands have become global leaders and have presence in most countries of the world, the US remains the core of their business.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill, London, EC4M 7JN

REGISTERED COMPANY

09787114

Table 5.3: Top 5 American F&A companies (2019)

Company	Key Brands	Key segment	Revenues (in USD bn)	Employees (in 000s)
Nike	Nike, Converse, Hurley	Sportswear, urbanwear	37.4	75
GAP	Gap, Banana Republic, Old Navy, Intermix, Hill City, Athleta	Outwear, casual & urbanwear	16.6	135
LBrands	Bath & Body Works, Victoria's Secret, Pink	Outwear, casual & urbanwear	12.9	60
VF	Altra, Eagle Creek, Eastpak, Icebreaker, JanSport, Kipling, The North Face, Napapijri, SmartWool, Supreme, Timberland, Vans	Outwear, casual & urbanwear	13.8	50
PVH	Van Heusen, Tommy Hilfiger, Calvin Klein, IZOD, Arrow, Warner's, Olga, True & Co., Geoffrey Beene	Outwear, casual & urbanwear	9.8	20

Source: Baker Ing International with information from companies' websites

Box 5.1: Top global players per segment

The globalisation of the F&A sector in recent decades -in parallel with the outstanding expansion of Asian economies- has led to the surge of giant global players that not only have a substantial portion of the market share but also have managed to mark the pace of innovation in the industry. The biggest segment for the F&A is the *outwear and casual*. Sales of the top 10 companies in this segment totalled around USD150 bn, equivalent to the GDP of Peru, a country with 30 million inhabitants. These 10 companies have more than 30,000 stores around the globe, employing more than a million people. Together, Inditex and H&M – the two biggest ones- represent almost 40% of the sales of the Top 10. In this group we find four American companies: GAP, L-Brands, VF Corporation and PVH.

Luxury is the second biggest segment with sales around EUR104 bn in 2018. With higher prices, it has higher productivity in terms of the sales-employees ratio. In this segment, LVHM is the unchallengeable leader with around 40% of the sales made by the Top 10 companies. Close to luxury, sales of the *sportswear* segment reached EUR102 bn in 2018, with around 50% of the market share of the Top 10 going to Nike and Adidas. Segments like *urbanwear* are relatively smaller with sales of around EUR27 bn globally in 2018. Although smaller than all the previous ones, the *childrenwear* is a growing sector. In 2018, the sales of the segment reached almost EUR10 bn. American Carter's is the leader in the segment.

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114

Table 5.4: Top 10 global companies per segment (2018)

Segment	Top-10 companies	Sales (in EUR bn)	Stores (in 000s)	Employees (in 000s)
Outwear & casual	Inditex, H&M, Fast Retailing, GAP, L-Brands, VF, Primark, PVH, C&A, Bestseller	120	30.7	1,196
Luxury	LVHM, Kering, Richemont, Chanel, Chow Tai Fook, Hermès, Ralph Lauren, Michael Kors, Tapestry, Tiffany	104	14.3	334
Sportswear	Nike, Adidas, Intersports, Decathlon, Dick's, Foot Locker, Under Armour, Puma, Sports Direct, JD Sports	102	31.6	420
Urbanwear	Levi's, American Eagle, Urban Outfitters, Abercrombie & Fitch, Global Brands, Guess, Superdry, Diesel, G-Star Raw	26.8	18.5	75.6
Childrenwear	Carter's, The Children's Place, Gymboree, ÏDKids Group, Mothercare, Orchestra, Kidiliz, Mayoral, CWF, Zippy	8.8	7.5	60.5

Source: Baker Ing International with information from themds.com

Although the companies leading the global F&A market are giants and look invincible, shocks to the environment in which they operate affect them, forcing them to respond in order to maintain their market share. In recent years, challenges to the global value chains reflected by the nearshoring trend in the US, the Brexit in Europe, or the commercial tensions between the US and China are affecting the way these companies operate. COVID has also proved to be a considerable challenge to the sector, who was not only affected by the drop in purchase power and logistics disruption but, more importantly, by the disruptive rise of e-commerce, as it becomes evident that is –and will be- substantially changing the market. Last but not least, the COVID crisis can lead to changes in preferences -mainly in rich countries- towards more sustainable products. Companies react in different ways to these challenges. Factors such as history and organization culture, growth strategy, type of management or adoption of new technologies are all variables that are relevant to react to the new challenges.

In addition to the 5 leaders, the American market is also formed by a considerable number of smaller companies. Although they are substantially smaller than the ones in the Top 5, there are around 15 companies with around USD5 bn revenues annually. The sportswear segment is the biggest. The main four companies have combined sales of around USD26 bn (just 70% of Nike) and are also global players. In the urban apparel group, which has combined sales of around USD17 bn, we can also find extremely big companies like Levi's or Guess, whose penetration of international markets is also important. Sales of companies in the luxury segment are around USD20 bn. In this segment some of the American brands struggle to compete globally with the brands from French group LVMH.

Table 5.5: Main American F&A companies by segment

Segment	Company	Revenue (in USD bn)
Sportswear	Dick's	8.9
	Foot Locker	8.1
	Under Armour	5.1
	New Balance	3.9
Urban	Authentic Brands Group	5.2
	Levi's	5.2
	American Eagle	4.0

Baker Ing

	Abercrombie & Fitch	3.7
	Guess	2.4
Luxury	Ralph Lauren	6.4
	Michael Kors	4.9
	Tapestry	4.7
	Tiffany's	4.2

Source: Baker Ing International with information from companies' websites

Box 5.2: The challenges of the American market for European firms

Despite their size, expertise and international ethos, the biggest fast fashion European brands have struggled to penetrate the US market. The case of Inditex -owner of Zara and the world's largest fashion retailer- is a good example: only 99 of their 6,829 stores in the world are in the US. For H&M, the second largest European company, the US represents just around 15% of the global sales.

European fast-fashion brands face a few challenges in the US market. Firstly, differences in attitude in the US and Europe towards fashion has proven relevant. Zara -the epitome of fast fashion- needs consumers with an appetite for being "fashionable", attribute that is not as present in the US as in European markets. Tastes in fashion also differ in the US, where American consumer tends to consume different types of products than the one offered by the Spanish company. Another particularity of the American market is the difference in sizes of American consumers -35% of the US population is overweight-. The slim fit garments that have been associated so much with the identity of Zara -almost a synonym of elegance-, are too small for Americans, especially outside the main and affluent cities like New York, Chicago or Los Angeles. Something similar has happened with another fast fashion giant, H&M. Social experiments carried out by the English media show that a portion of American are reluctant to buy from the Swedish brand as they feel uncomfortable when they try its clothes sizes.

Logistical efforts to have a high turnover are extremely big in a country of the dimensions of the US and constitute another challenge. Zara, for example, bases its business model in carrying out the entire process of production -from initial design to sale- extremely quickly. In order to do so, a sophisticated supply-chain management and infrastructure is required. However, given the distance between the key areas of consumption, their differences in consumption patterns and in the duration of a season, having that is extremely expensive and complex.

Imposing a new brand in the market is not easy. That effort requires not just significant investment, but also a clear understanding of how to do it. Zara, for example, is a brand that does not use advertising, and whose key marketing component is the in-store advertising. In the US however, advertising is essential -especially targeting the segment of women between 17 and 26 years old-, and Zara's strategy has proved ineffective. Moreover, the competition based on the quality of location that Zara has so finely developed in Europe is not necessarily useful in the US, where the brand is not so known.

Finally, most of the competition among F&A brands in the US is based on price. A company like Zara is not regarded as a brand with convenient price/quality relationship. Primark's prices are adapted to the US consumers' expectations,

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

however since its first opening in the country in 2015, the company has only cautiously opened 8 stores (out of 354 stores worldwide), entering a market extremely saturated in low-cost offering where its brand remains still almost unknown.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

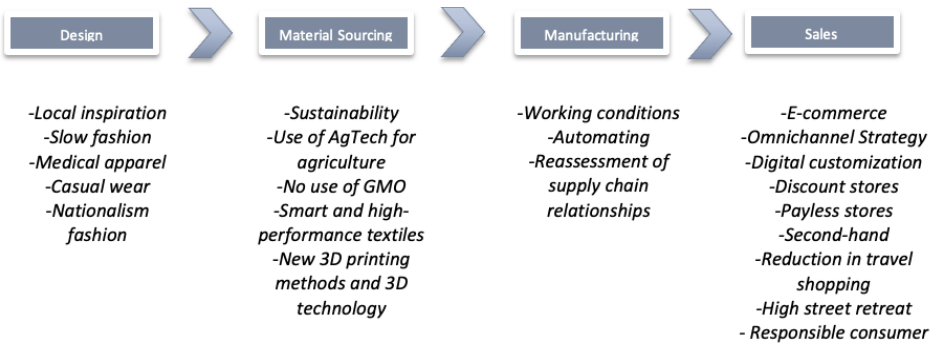
09787114

NEARSHORING, RESHORING AND THE "MADE IN THE USA"

F&A is a dynamic and fast-moving sector. It has managed to adapt to the changing demands from consumers, creating high efficiencies across the globe in terms of value creation, and all through the manufacturing chain and sales points. The F&A value chain is extremely globalized, complex. It is very connected with other sectors of the economy and reactive to new trends. For decades, the sector has been highly innovative in order to maximise efficiency through global operations in order to respond with products and experiences valued by customers. In recent years, some of the processes used by the industry with detrimental impact on the environment and social wellbeing are being questioned and some new challenges emerged.

In the US, two different forces have combined to provide a response to these new concerns. On one hand, big companies with global operations have started a process of reorganisation of their global activities, which has led to a disinvestment in China. In a first instance, companies have moved their production to other markets in Asia, however, they have also moved some of their operations to countries in the Western Hemisphere. Some American companies have started to move some of the production back to the US. The phenomenon of nearshoring (bringing operations closer to the US) or reshoring (bringing the operations to the US) has become a hot topic in the political agenda of the US and across the globe. On the other hand, small companies that cannot compete with low costs in foreign markets have started to understand and, very importantly highlight and communicate on the virtues of producing the clothing in the US. The concept of the "Made in the USA" has been restored in the mind of consumers that don't necessary look for "nationalism fashion" but that are concerned about environmental consequences of extensive supply chains and poor working conditions in countries with labour of low cost. Both concepts (nearshoring/reshoring and "Made in the USA") are leveraging the deep changes and key trends in each step of the value chain than can be seen in Table 6.1.

Table 6.1: Key trends in the F&A manufacturing and retail sector



Source: Baker Ing International

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

New risks for overseas operations: nearshoring and reshoring

The F&A sector was one of the first sectors to develop extended and complex global value chains. As part of the globalization process, the production that used to be located in rich countries moved to countries with low-cost labour. The US was one of the countries that started that movement, and, in a few years, almost all the country's manufacturing production of clothing and apparel moved abroad. Good part went first to China, then to other countries of South-East Asia and Mexico and Central America.

In recent years, the movement for the delocalization of the production has stopped and even reverted. Few reasons are behind this change in global production. Firstly, the global value chains' operations are today extremely complex, and more expensive. Big brands could have value chains formed by tens of thousands of suppliers. This has reduced both the capacity to control the quality of production and the ability to introduce changes to the production. Moreover, with this extended network of suppliers, small shocks that affect the production (including logistic disruption, economic or political crisis or weather-related disruptions) could have a significant impact on the production process. The increased complexity of the network of suppliers has forced the companies to introduce new processes and checks in order to guarantee quality. At the same time, costs in countries that used to be considered low cost have increased vis-à-vis the cost of American manufacturing. Despite some short-term depreciation, wages in US dollars in developing countries have increased in recent decades. Although they continue to be lower than in the US, the gap has considerably narrowed.

Secondly, a growing number of groups of consumers -not just in the US but all around the developed countries- have raised their voices, condemning the offshore activities based on several negative externalities. Concerns have mounted on the pollution caused by long freights associated to apparel items, poor (and frequently illegal) working conditions in developing countries, inexistent environmental controls related to production (including use of energy, water, dangerous waste), destruction of social communities and traditions where manufacturers operate, and use of natural resources (such as cotton) produced without the minimum controls. The response of the big companies to this has been the development of systems of environmental and ethical audits to guarantee acceptable conditions. Even if companies launched a considerable number of programs to control their suppliers, reduce the environmental impact, and rebuild communities, the reputation of these brands remains challenged.

On top of the operational and reputational risks, a third factor contributed to the reduction in offshore activities. In recent years, increasing commercial tensions between the US and China have reduced the attractiveness of China as a trade partner. With the escalation of tension between both countries, the emergence of unilateral and discretionary decisions could affect the normal movement of goods. At the same time, the trade war could lead to changes in trade tariffs or barriers to trade that can modify the profitability of operations. Moreover, the use of information (fake or real) about companies in organised campaigns aiming to affect the brands' reputation can be part of the battle.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

The response of American companies has been diverse. Some companies have decided to reduce operations in China and moved to other countries in South-East Asia. A second type of response has been to move operations to countries in the Western Hemisphere. A third response has been to move operations back to the US. The apparel sector has become one of the most important sectors to reshore its production. Since 2010, 576,000 jobs have come back to the US in the F&A manufacturing sector with 952 apparel companies reshoring manufacturing since 2010. Around 60% of these companies are coming from China, 20% from Mexico, and 6% from Japan. Over 20% of US F&A companies' sourcing volume could be from nearshore (and onshore) by 2025. At the same time, at least a third of more than 430 American companies in China are considering moving production out of the country, according to a business survey conducted in September 2018.

Box 6.1: COVID and more pressure for reshoring

Since the COVID crisis has started, the US consumers' awareness on the origin of production has increased, shown for example by the significant surge in traffic to IBuyAmericanStore.com (which showcases more than 40 companies in its apparel directory). In addition to the rise in traffic, the number of enquiries from people who were keen to buy US-made apparels (or any item made in America) has also increased more than in previous years.

Table 6.2: Apparel brands in the directory of IBuyAmericanStore.com

Type of products	Company
Adults	All American Clothing Co., All USA Clothing, Anderson, Little Bill's Khakis, Bullet Blues, Bunker 27, Diamond Gusset, Edward Field, J Wingfield, Jack and Mary Designs, Jolie & Elizabeth, Marc Nelson Denim, Match Grade Apparel, Montauk Tackle Company, Pendleton, Pointer Brand, Todd Shelton, WhiteDressShirts.com
Children	American Adorn, CWD Kids, TwirlyGirl
Sports and outdoor	American Fitness Wear, American Made Cap Company, Appalatch, Diamond Apparel, Gaulf, Ibex Outdoor Clothing, NoNetz, tarn, Ujena Fashions, WSI Sports,
Working	American Oilfield Apparel
Accessories	Fox River Mills, Goodnighties, Hanky Panky, Calligramme, Imperial yarn, Newberry Knitting Company, Nomar, Schaefer Outfitter, Stormy Kromer, Wigwam Mills, Zentek, Ziky Boutique

Source: Baker Ing International with data from ibuyamericanstore.com

Today, Americans are asking for more of consumables made in the US and are showing increasing willingness to go out and purchase more "Made in the USA" apparels. A research from the Cotton Incorporated Lifestyle Monitor shows that 52% of consumers say that it is important to them that their dresses are made in the US.

Baker Ing

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill, London, EC4M 7JN

REGISTERED COMPANY

09787114

"Made in the USA" as an umbrella for quality attributes

The "Made in the USA" is a response from small US companies against a competition based on low prices and fast fashion. Although the idea of "Made in the USA" can firstly be associated to the origin of production, it includes more attributes such as labour conditions and environmental respect.

New brands that sell US-made clothing have become niche companies, targeting customers that value sustainably made products and supporting the local economy and its craftsmen and designers. The DNA of these brands sits in almost the opposite side of fast fashion, whose materials used and speed at which it changes trends generate innumerable amounts of garbage. Companies that sell "Made in the USA" products emphasize that quality must come before quantity, and that fair wages and good working conditions for workers in the industry are more important than low prices. Durability is another of the attributes highlighted by these companies; these brands market durability based not just on the quality of the materials and their manufacturing processes, but also on the way they are designed. Sustainability is another potential attribute of the "Made in the USA" seal. Using organic cotton, planting a tree for each item sold, hand-made producing or using just renewable energy, are some of the processes followed by these companies. The concept of community is another pillar of the new "Made in the USA" brands. These companies tend to emphasize that their main goals is not to make big profits but to fulfill a social role within their communities.

Table 6.3: Top retailers offering "Made in the USA" apparel (2017 & 2018)

Retailers	Number of "Made in the USA" apparel products offered (in 000s)	Total number of apparel products offered (in 000s)	Percentage of "Made in the USA" apparel products to total products offered
Walmart	60.4	13,238	0.5
Nordstrom Rack	21.5	314.2	6.8
HauteLook	17.6	208.3	8.5
Fashion Nova	16.1	67.5	23.9
Tradesy	10.8	1,711	0.6
Bloomingdale's	6.3	72.2	8.8
Saks Off 5th	5.9	82.8	7.2
Saks Fifth Avenue	5.3	63.9	8.3

Baker Ing

Neiman Marcus	4.4	76.7	5.8
Bergdorf Goodman	3.1	46.8	6.6

Source: Edited

Today, around 3.5% of the clothing consumed in the US is produced in the country. However, not all of that is marketed as "Made in the USA". Although the "Made in the USA" concept is just a minor segment of the market, it has started to penetrate the traditional go-to-market channels as can be seen in Table 6.3. The "Made in the USA" products are still a curiosity for some retailers, especially those that are specialized in low-price sales such as Walmart. However, in relatively luxurious department stores, such as Bloomingsdale's or Saks Fifth Avenue, their participation amounts to 8.8% and 7.2% respectively. Fashion Nova, a fast fashion producer from California has the highest percentage of the table. However, the company has been accused of conflict with their workers and of having a poor record in environmental processes. This shows that the label's essence still remains the origin of production, with other attributes in sustainability or social responsibility being desirable, but not always a necessary condition.

Products with the "Made in the USA" are relatively important in some particular segments such as dresses, all-in-one, swimwear and suits. Comparative advantages in these categories depend increasingly on unique designs (size standardisation for example is not so easy to achieve, or high quality is not easily perceived in these specific categories). The "Made in the USA" label also tends to be more present in niches of higher added value. As can be seen in Table 6.4, around 37% of the products manufactured in the US belongs to the Premium and Luxury segments, vs only around 20% of the imported items. "Made in the USA" brands and retailers are targeting locally-produced clothing for market segments where prices are less relevant for consumers. Conversely, the low-end segment of the "Made in the USA" is underrepresented. Indeed, this segment, where the price is a key variable tends to be a problem for local producers: on average, clothing made in the US for the value and mass market segments is almost twice as expensive as the imported ones.

Table 6.4: Relevance of "Made in the USA" and imported apparel by segment

Segment	Made in the USA (in % of total)	Imported (in % of total)	Brands
Value+ mass market	**62.4**	**79.7**	Buck Mason, American Giant, Simplicitie, Stan Ray
Value	18.1	59.2	
Mass	44.3	20.5	
Premium + luxury market	**37.6**	**20.3**	Reformation, Battenwear, Elizabeth Suzann, Todd Shelton
Premium	26.6	10.8	
Luxury	11.0	9.5	

Source: Baker Ing International with data from Edited and companies' websites

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London, EC4M 7JN

REGISTERED COMPANY
09787114

Baker Ing

EMAIL
admin@bakering.global

TELEPHONE
+44 (0)20 1234 5678

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY
09787114

The reach of the "Made in the USA", in spite of its growing popularity, will be limited in the short term. As the American market is extremely biased towards discount shops and brands, the big gap between labour cost between the US and other countries will make a rapid expansion of the local production very difficult. American Apparel shows a clear example of the challenges faced by companies who want to base their expansion on the "Made in the USA" asset. The company, which originally used the "Made in USA" flag, had to move its production from the USA to Honduras and Nicaragua, only to go into bankruptcy afterwards. Locally-made fashion seems to be possible only for small quantities and highly specialized series.

Although the importance of the seal is still small, it seems that renewed consumers' attitudes can support the expansion. According to a recent research, almost 8 out of 10 consumers prefer to buy a domestic product over an imported one, and more than 60% would be willing to pay up to 10% more for it. The same research indicates that among the main reasons to buy "Made in the USA" are confidence in quality, helping the economy and maintaining jobs in the country. Although willingness of consumers to pay more for some attributes do not necessarily translate into more purchases, it is easy to see the momentum that the "Made in the USA" is gaining with American consumers.

Table 6.5: Some relevant "Made in the USA" brands

Brand	Products
American Trench	Coats, outerwear, socks, ball caps, beanies
American Giant	Men's and women's shirts, pants and outerwear
Buck Mason	Men's designer jackets, polos, sweaters, accessories and pants
Bluer Denim	Men's shirts, pants and outerwear
Battenwear	Men's shirts, pants and outerwear
Todd Shelton	Men's shirts, pants and outerwear (highly personalized)
Emerson Fry	Women's designer blouses, dresses, shoes and jackets
Karen Kane	Women's designer tops, dresses, jumpsuits, loungewear, including a plus-size line
AMVI	Women's shirts, pants and outerwear
Simplicitie	Women's shirts, pants and outerwear
Stan Ray	Women's shirts, pants and outerwear
Elizabeth Suzann	Women's shirts, pants and outerwear
Reformation	Women's dresses, tops, denim, shoes, accessories, swim
Gamine Workwear	Workwear for women

Source: Baker Ing International with data from companies' websites

There are a few companies that have focused on the attributes of quality of the "Made in the USA" brand. Buck Mason is one of the most successful. Founded in 2013 and using online sales only, the company has developed with already 7 physical stores in the country. It sells more than USD30 m annually, and manufactures men's clothing with relatively simple designs, focuses on quality over quantity. Like other clothing "Made in the USA" brands, it emerged as a response to fast fashion, in opposition to the manufacturing of large quantities of low-quality garments that will then be used

Baker Ing

rarely before becoming garbage. In addition, the company has further strengthened its good image by donating a million masks to health personnel and essential workers in 2020, during the COVID-19 pandemic. Born in 2012, American Giant is another of the "Made in USA" companies that has managed to be known. Its strategy, in addition to contrasting with fast fashion in terms of quality and durability of its products, is to build a loyal clientele with personalised experiences. It has also focused on the military personnel and received, through special promotions in 2018 more than 6,000 orders from the military.

EMAIL

admin@bakering.global

TELEPHONE

+44 (0)20 1234 5678

WEBSITE

bakering.global

REGISTERED OFFICE

Office 7, 35 Ludgate Hill,
London, EC4M 7JN

REGISTERED COMPANY

09787114