Evidence-based development of a strategy for Canadian apparel SMEs

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Abstract

Purpose – The Canadian apparel industry has long been challenged by imports from low-wage countries while its exports have declined since their height in 2002. This situation was exacerbated with trade liberalisation, which started in January 2005. Data from Industry Canada and a number of studies, amongst which those of the Apparel Human Resources Council (AHRC), showing the adverse effects of trade liberalisation since the phasing out of the multi-fibre agreement in 2005, the lack of competitive advantage for Canada as an apparel manufacturing nation and the subsequent rapid decline of its apparel industry, pointed to the need for a strategic response from the Canadian apparel industry, particularly from small to medium-sized enterprises. A study conducted for the AHRC of the Federal Government of Canada outlined a number of strategies that Canadian apparel companies could pursue, focusing on elements other than manufacturing in the traditional apparel value chain. These strategies seemed to suggest the implementation of a cluster approach where greater cooperation between suppliers would be required throughout the supply chain with a focus on functional expertise and relationships. The purpose of this paper is to determine whether a cluster strategy is being applied or if indeed it is applicable to Canada’s apparel companies.

Design/methodology/approach – A literature search, was undertaken to find the options available for the organisation of SMEs so that: an analytical framework could be created from the various theories and concepts that; would enable the evidence-based selection of an option or options suitable for adoption by Canadian apparel SMEs, to assist them to be more effective than stand-alone enterprises. Data were collected from case studies of Canadian apparel companies, an Experience Survey (conducted through face-to-face interviews with the directors of the AHRC, the Canadian Apparel Federation, Industry Canada, and Canadian retail and apparel supply executives) and from the responses to an online questionnaire sent to Canadian apparel suppliers. The data were subjected to examination using the analytical framework to determine whether the evidence existed on which to base a cluster-based strategic response to competition from overseas apparel suppliers, or whether one of the alternative options might be a more suitable match with the Canadian apparel business environment.

Findings – Neither the case studies nor the Experience Survey revealed sufficient evidence of open communication or of cooperation among suppliers in areas that would fortify horizontal clustering amongst apparel SMEs, such as the sharing of labour, market research or supply chain management;
similar findings emerged from the online questionnaire sent to Canadian apparel suppliers, which showed little evidence favouring cluster development as a strategic response for the Canadian apparel supply industry. The research also showed that industrialists, experts and government advisors all recognised that, beginning with trade liberalisation in 2005, there had been a transformation of the Canadian apparel industry from a manufacturing to a service industry with the retailers taking much stronger control of the supply chain than before, which, taken together with the lack of open communication or cooperation among apparel suppliers gives rise to conditions which favour collaboration over clustering.

**Originality/value** – The paper provides a firm evidence base upon which to develop a different strategy for Canadian SMEs than the cluster approach that has been proposed to date. The findings reported in this paper show that Canadian apparel industry leaders, government and industry-led support organisations, retailers and suppliers all recognise that the type of open communication or of cooperation among suppliers in areas that would fortify horizontal clustering amongst apparel SMEs, such as the sharing of labour, market research or supply chain management does not occur to a sufficient extent to support the adoption of a cluster strategy by the Canadian apparel sector (although it may be applicable in Quebec). Canadian retailers have now taken the leading role in the supplier/retailer relationship. Any future strategy will need to take account of this repositioning of retailers and be centred upon vertical relationships between individual apparel suppliers and retailers.

**Keywords** SMEs, Competition, Canadian apparel industry, Cluster strategy, Supply and retail trade, Surveys and case studies

**Paper type** Research paper

1. **Introduction**

An earlier paper reviewed the effects of trade liberalisation since the phasing out of the multi-fibre agreement in 2005; the lack of competitive advantage for Canada as an apparel manufacturing nation and the subsequent rapid decline of its apparel industry, pointed to the need for a strategic response from the Canadian apparel industry, particularly from small to medium-sized enterprises (SMEs) (Campaniaris *et al.*, 2011). Whilst there is no universally accepted definition of a SME, according to Industry Canada, an SME in Canada is a company with a sales volume between 1.0 and 50.0 million Canadian Dollars and with less than 500 employees (Industry Canada, 2010); the majority of Canada’s apparel supplier companies fall within the scope of this definition. Growth in SMEs is important to both regional and national economies because they have the potential to create employment, to contribute to economic growth and to lead to the emergence of larger enterprises (Hak-Su, K., Under Secretary General of the United Nations and Executive Secretary of the Economic and Social Commission for Asia and the Pacific (UN-ESCAP), 2005).

According to Ibrahim *et al.* (2008), many studies and articles on SMEs tend to treat these companies as a homogeneous group. In fact, SMEs are heterogeneous; even within common industry environments, SMEs differ in objectives and strategies. According to Statistics Canada (2004), some SMEs focus on being competitive, others pursue customer-oriented strategies based on product differentiation and customization; some firms are innovative or highly specialised, while others are growth-orientated and excel in many strategic areas simultaneously.

While sales or profit growth is a common goal of large companies, this is not always the case with SMEs (Stokes, 2000) – the assumption that success is linked to growth may therefore present too narrow a viewpoint because a large portion of SMEs never grow beyond their classification, either because they are incapable of doing so or because their management prefers the company to stay at its present size. SME objectives are determined by the personal motives of the owner(s) and they vary widely from survival through to growth; with strategies beyond survival being driven by the owner(s), their
motives will now need to be added to the original determinants influencing the company’s ability to attain its objectives, namely management, marketing and money. Having decided to attempt to grow, most SMEs find that there are four strategy areas that influence growth and which will need to feature in any strategic plan. The first is external equity, to which firms may need access in order to support their growth objectives; the second is market positioning towards the market niches in which they can fully exploit their competencies; the third is innovation, a key determinant of SME growth; and finally, management recruitment, the absence of which can restrict growth (Stokes, 2000). In fact, for SMEs in the Canadian apparel industry to survive or grow, strategic planning is more important than ever because with trade liberalisation, they must now not only compete with companies overseas, but also cope with changes in the industry’s internal system (Courault, 2005). Whilst manufacturers continue to compete against each other for business, they must also work to position their company favourably with the retailers who are taking over the leadership of the apparel supply chain.

A positive development from the point of view of Canadian apparel SMEs, according to Courault (2005), is that large-volume manufacturers in developed countries are disappearing due to increased outsourcing of product supply. This, in turn, has resulted in the rebirth of SMEs, for example those which have repositioned as specialists in product design and development as well as logistics. One of the more-advanced arrangements achieved by some such SMEs is the formation of flexible and responsive industrial networking systems, which, according to Courault, “[...] are mostly extended organisational competency networks, based on a complete knowledge of the products”; geographic concentration is not a consideration because these networks operate outside their local basis and their relationships extend to foreign countries.

Over the last ten years, the irreversible trend towards global sourcing, trade liberalisation and the rapid technological advance in communications and information dissemination have created both opportunities and threats to SMEs. On the one hand, an SME which can grow quickly, or become a niche player by virtue perhaps of proximity to, and knowledge of, and product customisation for the local market, or be well-placed to tie in with global supply chains, for example by skilled deployment of communication technology, can take advantage of changes to the business environment brought about by globalisation. In fact, Porter’s (1980) competitive model suggests that SMEs with such a sustainable competitive advantage could survive and grow alongside larger enterprises in this kind of intensely competitive environment.

On the other hand, globalisation may pose additional threats to those SMEs, which are neither willing nor able to compete nor, according to Porter, able to form supportive clusters – there are a variety of possible types of supportive cluster characterised, according to Enright (2000), by interdependence in the performance of member firms.

Supporting cluster development amongst SMEs, either of the horizontal or vertical type (Porter, 1990; Jacobs and De Man, 1996; Rosenfeld, 1996, 1997) is often put forward by policy makers as a possible way of improving their competitiveness and growth (Martin and Sunley, 2003). However, in an earlier paper, a search for the foundations on which to base a cluster development response using case studies of Canadian apparel companies, did not find sufficient evidence of open communication or of cooperation among suppliers in such areas as sharing of labour, market research or supply chain management activities to support horizontal clustering amongst apparel SMEs (Campaniaris et al., 2011). In the current paper, the outcomes of an “Experience Survey” conducted through face-to-face interviews with the directors of the Apparel Human Resources Council (AHRC), the Canadian Apparel Federation
CAF), Industry Canada, and with Canadian retail and apparel supply executives plus an online questionnaire survey of Canadian apparel suppliers were triangulated with the outcomes from the Case Studies; once again, little evidence was found (other than a high location quotient amongst apparel designers in Quebec) to favour horizontal cluster development as an appropriate strategic response for the Canadian apparel supply industry.

Given the recent transformation of the Canadian apparel industry from a manufacturing to a service industry and with retailers now taking much stronger control of the supply chain than before (Campaniaris et al., 2011), vertical rather than horizontal cluster development would appear to more closely suit some aspects of industry conditions. Even so, as with horizontal clustering, the lack of cooperation between apparel suppliers in Canada would inhibit vertical cluster formation. A less sophisticated arrangement, limited to direct vertical relationships between individual apparel suppliers and retailers is therefore proposed here.

2. Methodology
The methodology, involving a combination of qualitative and quantitative techniques was designed to enable an exploratory study (Copper and Schindler, 2006); existing data were drawn upon from Statistics Canada (2011) for determining location quotients. In the research reported here, the exploration aimed:

(1) through qualitative techniques (Case Studies and the Experience Survey) to provide insights and possible explanations for the choices of strategies and responses made by companies and organisations involved in with the Canadian apparel supply industry following trade liberalisation; and

(2) to attempt to determine, by using a quantitative method (the Apparel Supplier Survey) at a later stage, how widespread the views and understanding gained from the qualitative findings might be across the apparel sector in Canada.

According to Metzler and Davis (2002), such a mixed-mode approach that employs qualitative techniques prior to using quantitative research methods, represents a highly efficient tool for gathering germane data, because the qualitative techniques are likely to raise unexpected questions and identify topics to include for quantitative analysis that might not otherwise be considered.

Whilst quantitative data drawn from Statistics Canada (2011) have enabled the calculation of location quotients, the other key components such as industry collaboration, relationships and information flow, requiring qualitative enquiry and analysis, were determined from the apparel supplier case studies reported earlier (Campaniaris et al., 2011), triangulated with experience interviews with senior practitioners (drawn from retail companies, government, the industry’s trade association, an SME support body and educational institutions) and an online questionnaire survey of Canadian SME apparel suppliers.

Location quotient analysis
Because location quotient is the quantitative approach used by Porter (1990) to identify regional industrial concentration as part of his international study of industry clusters, the concentration of the apparel industry in Canada by province was determined in this way for the current work. A location quotient above 1 indicates a higher than average concentration in that location which may translate into a competitive advantage in that industry for the local economy. The location quotient for the apparel sector in Canada has been calculated for each province by the Institute for Competitiveness and Prosperity (2014), using employment statistics from Statistics Canada, by determining
the share of the industry’s employment within each province then calculating the location quotient, a ratio which measures the concentration of the industry in a particular location (in this case the province) relative to the national average; their results from the available statistics for 2006 (all data Copyright© 2004 Institute for Competitiveness and Prosperity), showed a location quotient of 2.99 for Quebec with all other ratios below 1.00 except for Manitoba which was marginally above at 1.08.

Employment figures from Statistics Canada (2011) showed, first, a decrease in employment in the Canadian apparel industry of approximately 47 per cent from 2006 to 2010; second, a decline of manufacturing in such traditional apparel hubs as Quebec, Ontario, Manitoba and British Columbia; and third, despite a 57 per cent decrease in its employment during the same period (2006-2010), Quebec was the only province left with a high location quotient. However, according to Bergman and Feser (1999), studies that rely on location quotients to identify industry clusters are simply sector studies in disguise, because applied in the traditional manner location quotients say nothing about regional industry clusters.

What the above suggests is that, while the quantitative approach using location quotients is considered one key component to cluster analysis, it does not address other relevant issues as the existence of inter-firm relationships, industry collaboration and information flow. Academics generally agree that in order to identify a cluster, it is necessary to conduct a qualitative analysis in addition to a quantitative analysis (Doeringer and Terkla, 1995; Jacobs and De Man, 1996; Bergman and Feser, 1999). This includes surveys and interviews with industry participants in order to obtain an understanding of buyer-supplier relationships and identify common elements between the industries involved in the sector such as technology used, workforce requirements and infrastructure needs. Essentially, the qualitative analysis serves either to confirm or contradict the outcomes from quantitative analysis and identify any potential clusters that may have been overlooked by the data analysis (Doeringer and Terkla, 1995; Jacobs and De Man, 1996).

The following research addresses these concerns.

**Apparel supplier case studies**

As reported earlier (Campaniaris et al., 2011), the key aim in undertaking the case studies was to determine among Canadian small- and medium-sized apparel suppliers the perceived strengths and weaknesses of Canada as a business setting. The reason case studies were used here is because they provide the necessary in-depth form of investigation in studies of real-life situations (Copper and Schindler, 2006). The investigation was carried out via a purposeful sample (Audet and d’Amboise, 2001), of senior executives of six Canadian apparel SMEs supplying customers with non-competing product categories in the key channels of distribution – i.e. department stores, specialty chains, independent specialty stores and discount stores, using a sample size in line with Eisenhardt’s (1989) recommendation. Only wholesalers and distributors (companies that took possession and owned the goods at some stage in the distribution channel) were used in the case studies.

**Experience survey**

The aim of the Experience Survey was to corroborate or challenge the findings from the apparel supplier case studies. Also known as a Key Informant Survey, the Experience Survey was accomplished by semi-structured or unstructured interviews with emphasis on identifying and extracting information from perceptive experts to
obtain an insider's view of the state of the industry and its causes (Copper and Schindler, 2006, p. 201). The reason for choosing this qualitative research method is because its investigative format is flexible enough to explore different alternatives that emerge during the interview. The result may be the confirmation of a hypothesis, or a new hypothesis or perhaps the discarding of an old theory or notion (Copper and Schindler, 2006, p. 201).

Sample selection followed two points guidance provided by the University of Illinois Extension Service-Office of Program Planning and Assessment (2001) namely:

1. choosing interviewees considered experts in their respective fields and articulate enough to share that knowledge; and
2. ensuring the interviewees represented a mix of experts (in this case from different sections of the apparel supply chain).

Experience Surveys were therefore conducted not with the apparel suppliers themselves, but with representatives from organisations which work with or support the apparel industry in Canada, namely: retail companies, government, the trade associations and educational institutions.

Given that retailers play a key role in the apparel supply chain (Gereffi and Memedovic, 2003) interviews were therefore conducted with executives from the two major department stores in Canada, Sears and The Bay; two discounters, Wal-Mart and Winners; and six specialty stores, representing a cross-section of Canadian apparel retailing.

Interviews were also carried out with four government representatives, (one from the AHRC, two from Industry Canada and one from the City of Toronto); one senior representative of the CAF (the trade association of Canadian apparel manufacturers); one senior representative from the Toronto Fashion Incubator, (an organisation dedicated to nurturing new fashion entrepreneurs) and two with representatives from educational institutions, George Brown College and Seneca College, both located in Toronto.

Four Expert Interview Discussion Guides were therefore prepared, one for each of the four distinct groups of experts. Questions were based on the findings from the case studies but were much more targeted than those used in the case study interviews, and, whilst not significantly different from each other, were nevertheless specific to the expertise and interests of each group. As with the case studies, all interviews were recorded and transcribed.

Apparel supplier survey

The aim of the survey was to check the appropriateness of statements arising from the apparel supplier case studies and the Experience Surveys with the Canadian apparel suppliers. A self-administered internet-based survey tool called “SurveyMonkey” (Listio, 2009), was chosen owing to its availability, low cost, its ease of application and because a well-defined group (database) of apparel suppliers was being targeted; as the survey was designed to confirm (or not confirm) the findings of the earlier qualitative studies, the low response rate typical of a self-administered survey would not be an obstacle.

The questionnaire consisted of participant instructions, an introduction, administrative questions to identify the respondent plus their position in the organisation, and the target questions about the operation of apparel businesses in Canada. The target questions were all of a structured nature utilising a variety of response strategies, such as multiple choice, checklists, rating and ranking. An incentive to participate in the survey taking the form of a top line report from the survey was offered to those completing the questionnaire in full.
The questionnaire was tested in its online format with four apparel companies for comprehensibility and its ability to be completed in less than ten minutes (McDaniel et al., 2009).

The survey was conducted with a sample of Canadian apparel executives selected from company contact data held in four independent databases developed by:

1. The Federal Government (Industry Canada);
2. George Brown College (Fashion Department);
3. Trends Magazine; and

The four databases were consolidated into an alphabetical list consisting of 1,616 apparel companies, including manufacturers, wholesalers and designers, from which a return of at least 30 completed questionnaires was being sought. As an issue of around 400 online questionnaires was expected as a minimum to yield the required number of returns, the list was systematically sampled (McDaniel and Gates, 2005; Burns and Bush, 2006) with a skip interval of four, yielding a sample of 404 Canadian apparel suppliers. The first mailing to the sample took place on 16 March 2010 and the survey was completed by 28 May 2010. During the intervening period, two further mailings were sent to those who had responded partially to the questionnaire to encourage completion and two additional mailings were sent to prompt non-respondents, one of which offered the option of completing the survey manually, an option to which four companies responded.

Of the 404 questionnaires issued, 353 did not respond and nine opted out. Of the remaining 42 companies that did respond, 36 completed the survey in its entirety; two of these companies were, however, disqualified as not being SMEs because both had annual sales of more than C$50.0 million.

3. Findings

Overview of the Canadian apparel industry

The following table, Table I, provides a summary of the Canadian apparel industry’s profile. It shows that, in a relatively stable domestic market, the value of Canadian-made apparel continued to decline, while imports continued to increase. According to Industry Canada (2013), the main causes of this change in the Canadian apparel manufacturing sector have been trade liberalisation and the restructuring of the Canadian retail industry.

<table>
<thead>
<tr>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>% change 2005-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>2,549.0</td>
<td>1,947.0</td>
<td>1,300.0</td>
<td>1,363.0</td>
</tr>
<tr>
<td>Shipments</td>
<td>5,227.0</td>
<td>3,547.3</td>
<td>2,213.2</td>
<td>2,247.3</td>
</tr>
<tr>
<td>Total imports</td>
<td>7,001.0</td>
<td>7,392.0</td>
<td>7,799.0</td>
<td>8,563.0</td>
</tr>
<tr>
<td>Domestic exports</td>
<td>1,955.0</td>
<td>1,200.4</td>
<td>690.3</td>
<td>668.2</td>
</tr>
<tr>
<td>Trade balance</td>
<td>−4,793.0</td>
<td>−5,921.0</td>
<td>−6,855.0</td>
<td>−7,521.0</td>
</tr>
<tr>
<td>Apparent domestic market</td>
<td>10,020.0</td>
<td>9,468.3</td>
<td>9,068.2</td>
<td>9,768.3</td>
</tr>
<tr>
<td>Import penetration</td>
<td>69.9%</td>
<td>78.1%</td>
<td>86.0%</td>
<td>87.7%</td>
</tr>
<tr>
<td>Export orientation</td>
<td>32.2%</td>
<td>33.8%</td>
<td>31.2%</td>
<td>29.7%</td>
</tr>
<tr>
<td>Employment</td>
<td>67.3</td>
<td>54.5</td>
<td>35.3</td>
<td>35.7</td>
</tr>
</tbody>
</table>

*Note:* Values given in millions of Canadian dollars, employment figures in thousands

*Source:* Industry Canada (2010, 2013)
In fact, any manufacturing in Canada has increasingly moved towards niche markets, such as performance apparel and high-end/designer clothing. Most other apparel production, however, has moved off-shore, with value-added activities, such as design, marketing, logistics and distribution, remaining in Canada.

According to Industry Canada (2013): “To remain competitive on the global market, leading Canadian apparel manufacturers are adopting new technologies and automation throughout the supply chain. However, the lack of skilled labour is a key concern for Canadian apparel manufacturers”.

Case studies
The case study outcomes using Porter’s Diamond as the template are:

- **Factor conditions.** According to all the case study respondents, manufacturing in Canada is declining and suppliers are net importers of apparel. Capital investment in manufacturing has been reduced; however, perhaps more importantly, investment is now focused on design and product development, supply management and marketing and sales.

- **Canadian demand.** Apparel suppliers believed that it is the retailers who are driving the business in Canada. Furthermore, in their opinion, the consolidation of Canadian retailers and the influx of foreign retailers are reducing the market for local suppliers, who suggested that the market is not large enough to sustain them.

- **Related and supporting industries.** According to the case study respondents, textile and findings companies have either moved off-shore or closed down their facilities. Suppliers of such merchandising tools as showroom fixtures and hangers, as well as modelling, advertising and styling agencies are still considered important.

- **Company strategy, structure and rivalry.** The strategic focus of apparel suppliers depends on the industry sector and the channels of distribution in which they operate. However, with the exception of two respondents who, at the time of the interviews, had minimal production facilities to take advantage of small and/or high value orders, for none of the remaining suppliers interviewed was domestic production a competitive advantage. The strategic direction of the individual companies determined their structure, which in turn was determined by the level of service required or cost-effectiveness. For example, one of the suppliers working with Wal-Mart on replenishment products was structured around systems operated by “retail analysts” that allowed the supplier to obtain and fulfil the orders, monitor their performance, by size and colour for each store across the country and replenish on a Stock Keeping Unit basis. Overall, competition was perceived to be a zero-sum game as the rivalry for shelf space was keen.

Using Porter’s value chain model as the template:

- **Company activities.** All respondents generally agreed that outbound logistics, receiving, storing and transportation planning are a necessity and not a competitive advantage. Most other activities are focused on providing service to retailers.

- **Companies’ competitive advantage.** None of the SME company executives interviewed perceived their competitive advantage to be cost leadership. Therefore, different elements of differentiation were quoted as a competitive advantage, including, design and styling, extensive in-stock programmes, strong sourcing networks, and known brands.
• **Key success factors.** Findings showed that each of the companies in the case studies had significantly different sets of key success factors, ranging from sourcing and cost structure to information technology, and perceived value to branding and sales.

As for their relationships with associated institutions, the general consensus was that, with the exception of colleges and universities, which were a source of future employees, the role of other institutions such as the government and trade associations was limited.

*Experience survey*

*Retailers.* Retail experts unanimously confirmed that it was the retailer that drove the business. Depending on the size of the retail organisation, design ideas were said to evolve from a variety of sources ranging from their apparel suppliers to their own fashion design department. Proximity to the source of manufacture was not considered to be a critical issue and retailers would work with both local suppliers/importers as well as off-shore contractors as long as they complied with the retailers requirements of cost-effectiveness, value and value consistency, timeliness, communication and use of up-to-date technology. Given the choice, all of the Canadian retailers surveyed said they would rather work with local suppliers/wholesalers/importers because they shared the same culture, had similar understanding of the Canadian consumer, and had the ability to develop on-going marketing programmes. However, it was perceived amongst most of the retail respondents who worked with some local manufacturers that most suppliers, primarily producers, did not leverage the advantages of being located locally. Another element of the apparel value chain that determined the retailer’s decision to associate with a source was marketing and sales, although this was highly dependent on whether the retailer carried national brands or their own private label. Of the nine retailers interviewed, only two were operating with private label only; the remaining seven out of nine, looked to their key suppliers of national brands for direction. There was a general consensus amongst retailers that a key element in the relationship with sources was distribution and customer service, and specifically the timeliness of the merchandise delivery. The majority of national retailers expressed a concern about the government’s laws and regulations, specifically pertaining to taxes and language, which inhibited their growth, while department stores, specialty and discount chains also considered that Canada’s population of ca. 34 million was small and a limiting factor to growth within the internal market. In fact, with a retail market characterised by a lack of growth, competition among retailers, much like with suppliers, is a zero-sum game. Although Canadian retailers appeared to be community-minded, favoured networking events and had some camaraderie amongst them, as well as with their suppliers, they did not cooperate in business and, according to one retailer, had “no common interest to feed a cluster approach”.

*Educational institutions.* The educational institution representatives believed that there was not enough integration between industry firms and colleges, and that their immediate role was to provide a relevant curriculum to the needs of employers. Most Canadian educational institutions learned about the apparel industry’s direction through third parties as opposed to direct contact with senior management staff in apparel suppliers or retailers; third party advice together with Programme Advisory Committees shaped the curricula of the educational institutions, which was not enough
to put them in a leadership role of assisting the industry to move forward globally through knowledge (Leadership in this particular respect can only be achieved if industry and educational institutions could collaborate on an equal partnership basis. Until this happens and the limitations in communication are resolved any clustering possibilities involving educational institutions are arguable). At the time the research was carried out, the key challenge to educational institutions in maintaining growth of fashion-related programmes was the availability of adequate funds and skilled personnel to teach specific courses.

The trade association. As the sole trade association for the apparel industry in Canada, the CAF’s general initiatives include lobbying, advice on product standards legislation, seminars and missions. Membership of the CAF is skewed towards domestic producers, which is a long-term challenge for viability of the Association because changes in sourcing in recent years now necessitate that the CAF broaden the scope of its membership to include importers and retailers who source their own private label products. Furthermore, as the industry is not one coherent industry but consists of multiple distinct sectors, such as men’s suits, women’s lingerie and babies’ sleepers, the challenge is to find common elements of interest for all sectors. The CAF’s general initiatives include lobbying, advice on product standards legislation, seminars and missions. According to the CAF, the Canadian apparel industry is an industry of “coalition” but not a cluster, because there is no evidence that companies work towards a common goal. The CAF believes that areas such as branding and the use of technology will provide companies with a competitive advantage in their effort to survive and/or grow.

Government bodies. Currently, the role of government bodies such as Industry Canada and the City of Toronto (including the Fashion Incubator) is limited because, based on the interviews with the government representatives, government-funded incentives and support programmes for the apparel industry have now ceased to exist. The AHRC perceived that collaboration between government and industry was possible as long as there was:

1. a redefinition of the industry;
2. improvement of management skills and competencies;
3. financial assistance in the transition from a production-based to a knowledge-based economy; and
4. restructure of the industry’s image to promote it as a discrete discipline and profession.

However, since the interview took place, the AHRC has ceased to exist. As for the Toronto Fashion Incubator, although it is viewed as a vehicle for generating a working relationship among industry participants, it is not considered a cluster because its support is limited to just a few participants.

Apparel Supplier Survey
Over three-quarters (76.5 per cent) of the respondents agreed that Canada’s apparel manufacturing industry is winding down, the top three reasons cited for the decline being:

1. high labour rates;
2. limited Canadian demand; and
3. lack of Government incentives.
Nearly three-fifths (58.8 per cent) of respondents perceived that the Canadian market is not large enough to sustain them and their competitors. The top three reasons cited were:

1. the influx of foreign retailers that source their own products (61 per cent);
2. the suppliers’ own retail customers that are now sourcing off-shore directly (60 per cent); and
3. strong brands selling across many channels of distribution (57 per cent).

The majority of respondents (70.6 per cent) believe that it is the retailers that drive the business.

Over 90 per cent of exporters indicated that they received no assistance from either the Government or the CAF. In fact the CAF ranked behind the Government and educational institutions in importance, although it was the primary source of information for exporters who indicated that the top three areas of CAF assistance were:

1. export market information (50 per cent);
2. trade shows, seminars and workshops (33.3 per cent); and
3. simplification of regulations (33.3 per cent).

The most important supporting and related industry sectors to apparel suppliers are yarn and fabric mills, but they have moved off-shore; from the survey, the top three Canadian-based industry support sectors were considered to be:

1. styling and photography studios (79.4 per cent);
2. fashion advertising and modelling agencies (76.5 per cent); and
3. showroom fixture suppliers (59.8 per cent).

The top three areas in which respondents perceived themselves as having a competitive advantage were:

1. customer service/customer relationship management (73.5 per cent);
2. product development (70.6 per cent); and
3. product sourcing (58.8 per cent).

The respondents ranked the following attributes in descending order of importance as essential to a company’s ability to compete effectively:

- excelling and controlling the creative design (77.4 per cent);
- being a well-financed company (71.9 per cent);
- maintaining a lean overhead structure (70.0 per cent);
- employing a knowledgeable and active sales team (62.5 per cent); and
- having a strong manufacturing base overseas (58.6 per cent).

The majority of the respondents (64.7 per cent) neither engaged nor perceived any advantages in either joint activities or partnerships with other suppliers, confirming the secretive nature of the industry. The remaining respondents indicated that any partnerships that did exist involved either joint ventures, joint marketing activities or shared market information.

Over 90 per cent of the respondents were indecisive as to whether the apparel industry could be clustered.
4. Key findings from the research study

The salient points from the research study are:

- Canada’s apparel industry was not considered by those involved to be a cluster because most business owners focused on their own personal interests/gains, but it appeared instead to be an industry of coalitions driven by benefits to those participating in the coalition.

- Canadian apparel suppliers understood the necessity to conform to the requirements of their customers, i.e. the retailers, and most (70.6 per cent) agreed that it was the retailers that drive the Canadian apparel market.

- Most Canadian retailers, especially chains, expressed a concern regarding their Canadian suppliers’ lack of strategic focus, a statement that is supported by the AHRC’s labour market update study, which states that: “71% of companies continue to operate without strategic plans” (Apparel Human Resources Council, 2011, p. 12).

- The research also showed that suppliers ranked product development as the second most important competitive advantage after customer service.

- Most of the retailers interviewed (seven out of nine) utilised a dual branding strategy in that they carried both private label and suppliers’ brands, even though private label brands in Canada outsold national/suppliers’ brands, a fact supported by CAMM, which showed that in 2010 the top ten brands in Canada were private label brands (NPD, 2011).

- According to the respondents in both the case studies and the online survey, Canadian apparel suppliers did not work with all the retailers in Canada as some of the retailers were part of a global network and worked independently. At the same time, some Canadian retailers were also sourcing part of, or their entire private label, independently, which may have excluded Canadian suppliers, and further limited their market potential. This situation would force the suppliers to look outside of Canada for growth. Statistics show, however, that the Canadian apparel industry’s foray in export markets was unsuccessful, even though the opportunity to gain market share in its major export market, the USA, was, and may possibly still be present (Richter Consulting, 2004).

- All supplier respondents indicated that one of the key criteria for successful entry into the US market was the suppliers’ ability to work with a better-trained retail professional than in Canada, which meant developing retail account marketing plans, having a thorough knowledge of and, preferably, experience with technology tools that support various functions of the value chain, and being able to provide value-added services to retailers. This, unfortunately, would exclude a large number of Canadian suppliers as most of them did not have a strategic plan to help them to prepare to offer these improved ways of working.

- According to all of the retailers interviewed, their choice of supplier was also driven by cost-effectiveness, consistency in product value, responsiveness, communication and use of up-to-date technology, all of which translated to higher gross margins for the retailer.

- According to the Apparel Human Resources Council (2011), the most critical challenge was the fact that over one-third of the companies that it surveyed...
faced business continuity issues and that more than 80 per cent of these companies had no plan to address the situation (Apparel Human Resources Council, 2011).

- The AHRC identified two other issues: first, the need to improve the transition of post-secondary graduates into the workforce in order to facilitate workforce integration at the entry level, and, second, the need for both employee and management training in specific functional areas because of lack of know-how in such areas as new market entry, use of the internet for sales and marketing, facilitating financing and recruiting (Apparel Human Resources Council, 2011).

- Interestingly, the AHRC study pointed to the need for a new definition for the industry, which focused on domestic product development as opposed to domestic production that included the current domestic producers, importers/distributors (which the AHRC refers to as wholesalers) and vertical retailers. This “redefinition” of the industry, according to the AHRC “point(ed) to an industry that did not evaporate, but merely shifted business models to adapt to the new realities” (Apparel Human Resources Council, 2011, p. 11), and, for those suppliers that played an active role in the retailers’ product development and product sourcing efforts, it alluded to a need for a closer cooperation between retailers and suppliers (because these endeavours could not be achieved in isolation and required communication and cooperation between suppliers and retailers).

5. Summary and conclusions
The Canadian apparel industry has traditionally been challenged by imports from low-wage countries while its exports have been declining, a situation that was exacerbated with trade liberalisation, which began in January 2005. Data from Industry Canada and a number of studies, not least that conducted for the AHRC (Richter Consulting, 2004) showing the adverse effects of trade liberalisation since the phasing out of the multi-fibre agreement in 2005, the lack of competitive advantage for Canada as an apparel manufacturing nation and the subsequent rapid decline of its apparel manufacturing industry, pointed to the need for a strategic response from the Canadian apparel suppliers, particularly from SMEs.

A study conducted for the AHRC of the Federal Government of Canada (Richter Consulting, 2004) outlined a number of strategies that Canadian apparel supply companies could pursue, focusing on elements other than manufacturing in the traditional apparel value chain. The AHRC strategies seemed to suggest the implementation of a cluster approach as a way forward, where greater cooperation between suppliers would be required throughout the supply chain with a focus on functional expertise and relationships. The research findings reported in the current paper, however, do not support such proposal:

- Case studies of Canadian apparel companies did not reveal sufficient evidence of open communication or of cooperation among suppliers in areas such as the sharing of labour, market research, or supply chain management to fortify horizontal clustering amongst apparel SMEs.

- An Experience Survey, conducted through face-to-face interviews with the directors of the AHRC, the CAF, Industry Canada, and Canadian retail and apparel supply executives indicated that they did not consider clustering as a viable strategy for Canadian apparel SMEs.
Data gained from an online questionnaire sent to Canadian apparel suppliers, showed little evidence of them favouring cluster development as a strategic response from the Canadian apparel supply industry.

With little evidence of the basic requirements for clustering being applied at present by Canada's apparel supply companies, and its future applicability being questionable because of lack of sufficient communication or cooperation between suppliers, it becomes necessary to seek a more-viable alternative strategy. There are three key features around which such a strategy could be built:

1. A shift to a more service-oriented rather than manufacturing role by Canadian apparel suppliers.
2. Improved communication between Canadian apparel suppliers and retailers.
3. The development of partnerships with the aim of enhancing the quality of the vertical relationships between Canadian apparel suppliers and retailers (although vertical relationships between retailers and suppliers exist, the best term to describe them would be coalitions rather than partnerships, because at present they are, like coalitions, more self-serving than partnerships).

Whilst clustering may have been the wrong choice of strategy by the AHRC, it remains necessary for the Canadian apparel supply industry to develop and adjust so that it can meet the requirements of the more-open market that now exists following trade liberalisation. Adoption of and support for a strategy based on partnerships between apparel suppliers and retailers would be an appropriate research-based response in the current circumstances.

References


Evidence-based development


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