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# Reorganization and Relocation in the German Fashion Industry

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# I. Introduction

## The Research Project Framework

The paper is based on the research project "Globalization and the Future of National Systems: Relocation and Reorganization in European Economies", jointly conducted by the Soziologisches Forschungsinstitut (SOFI/Göttingen, Germany)[1] and the Industrial Performance Center at MIT (Cambridge, MA/USA). The project (see in more detail Berger et al. 2001; Faust, Voskamp and Wittke 2004) analyzes how West European (mainly German, but also Italian and French) companies reorganize their value chains by making use of outsourcing of industrial activities, and how they use the new options for relocation of activities emerging in Central and Eastern Europe due to the fall of the iron curtain in the 1990s. We analyze strategic action of firms in a "capitalist diversity" framework. Institutional contexts shape the competencies that firms build up over time and their position in international competition. Competencies and comparative advantages and disadvantages have an impact on strategic decision making on outsourcing, value chain governance and location of activities. However, the new options opened up by globalization also allows for new combinations of competencies that can be made available by using production networks and new locations. Thereby, companies are also able "to escape constraints, exerted by national institutions" (Lane and Probert 2004: 12).

The use of these new options has an effect on employment, industry structure and competence profiles of the workforce in West European countries. These immediate effects combined with a changing bargaining situation in the field of industrial relations challenge the respective institutional setting especially in the "non-liberal" economies (Rehder 2003), all the more as in other institutional spheres (financial markets, corporate governance) pressures to adjust to the liberal market economy type of capitalism can be observed (e.g. Streeck and Höpner 2003, Lane 2003; Höpner 2001). How far institutional change has already proceeded or might proceed in the near future has been quite differently answered in the relevant research literature (Beyer 2003a). In any case, we need to pay more attention to path-deviating, not necessarily path-breaking, institutional change beyond the ideal type "varieties of capitalism" (e.g. Crouch and Farrell 2002; Yamamura and Streeck 2003). The alternatives are not "erosion" of a national model (followed by conversion to another model) or straightforward path-dependency. We have to be aware of the possibility of a transformation of institutional configurations (Rehder 2003) which allows for non-trivial change in one sphere of such a configuration without the necessary folding up like a house of cards regarding the overall configuration (Beyer 2003b). Theoretically, this implies to lower the assumptions of coherence and complementarity of institutional architectures characteristic for the "Varieties of Capitalism approach" (Hall and Soskice 2001).

To use the term „capitalist diversity" and not „Varieties of Capitalism" (VoC) denotes a partial departure from the Hall and Soskice concept (2001). There is no room to discuss this in detail. Therefore, I only briefly address the main issues that are relevant here. The VoC concept is characterized by a preoccupation with the national level of institution building and change and therefore focuses on „the broad picture". „Additional variation" which is conceded appear as „minor differences". Together with the theoretical reduction of capitalist diversity to the two ideal type models (LME and CME) (see with special emphasis Hall and Gingerich 2004) this approach is not well prepared to deal with non-core industries within each national institutional setting, to come to grips with phenomena of different institutional settings within a country (e.g. the three Italies) and to guide research comparing different countries within the two main alternatives (see also Streeck and Yamamura 2001). However, most problematic is the notion that „institutional systems tend to crystallize around coherent logics of ordering" (Crouch and Farrell 2002:7) which blocks a theory of institutional change beyond the extremes of convergence to another model or of only minor variation within an undoubted path dependency. This critique does not mean that we cannot detect and explain path-dependency and complementarities in retrospect, nor that actors cannot reflect complementarities in their course of action to differing degrees. However, the VoC path dependency thesis is based on a functionalist „short circuit" regarding the complementarities between the elements of the larger institutional configuration which make the national model. Through the backdoor of complementarities institutional determinism is reintroduced which the authors had repudiated when discussing the link between institutions and agency in general (Hall and Soskice 2001:15). The comparative advantages of a complementary institutional setting are not necessarily in the action frame of (collective) actors, especially firms confronted with new options. Research on „capitalist diversity" has to be conceptually open to institutional change that undermines the formerly perceived and valued complementarities of an institutional order. The empirical question whether „German capitalism can survive" (Streeck) (as we used to know it) should not be pre-decided by theoretical assumptions that only allow for an all-or-nothing change (see also Streeck and Thelen 2005; Lane 2003).

Figure 1 (appendix) gives an overview on our approach. In the end our research aims at assessing the impact of globalization – understood as the emergence of new options for strategic action of firms – on the institutional setting in "home-societies". In order to do so, in a first step it has to be explored how companies use the new options of outsourcing and relocation, how outsourcing and relocation are combined, and how this changes the division of labor between the home country (employment and employment structure) and the regions that are newly considered for industrial activities. This is a task in its own right. The paper focuses on

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1 Volker Wittke, Uli Voskamp and me are doing this research at SOFI. Although I take responsibility for the paper at hand it is part of our common work.

this step of our research taking the case of the „fashion industry“.[2] Empirically, we mainly analyze the 1990s which are characterized as the period in which some relevant new options and pressures emerged. In order to assess whether, in how far and in what respect the 1990s indicate a new phase or only an enhancement of a longer lasting development, we briefly look back at the development of the industry and how it has been shaped by the specific German institutional context. We are fully aware of the fact that we capture a „German“ development without always being able to identify the „Germaness“ of what we observe. Regarding the earlier development of the industry we can rely on some previous research that analyzed the German case in a comparative perspective (e.g. Heidenreich 1990). Regarding the 1990s and especially the more recent years comparative research is quite scarce (see for a remarkable exception Lane and Probert 2004; Dunford 2004)[3], but also some not directly comparative studies on other countries are of importance here (Camuffo et al. 2004; Berger and Locke 2004).[4]

## Empirical Basis

Empirically we combine secondary analyses of industry data of different origin (public and industry/trade associations) with qualitative research based on interviews with both industry experts and representatives of the relevant industry associations (9)[5] and case studies. Case studies comprise German companies from the textile (2), apparel (11) and retail (7) industry. Additionally two research trips to Romania and one to the Czech Republic covered subsidiaries or joint ventures of German companies (4) and Romanian local firms (5) having business relations to German customers (retail and apparel industry).[6] The case studies were of different intensity, depending on firm size and complexity, but also on access. In sum, for the fashion industry we conducted almost 60 in-depth interviews.

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2 For further explanations of the term „fashion industry“ see below; for comparisons with other industries see Faust, Voskamp and Wittke 2004.

3 Only referring to the luxury segment of the fashion industry see Djelic and Ainamo 1999.

4 „Theoretically comparative“ could be a good term to denote that studies that rely on an institutional approach in the broadest sense are in general suitable for and prone to comparative usage.

5 This includes three expert interviews in Romania.

6 One research trip to Romania was done jointly with the MIT team (Suzanne Berger, Georgetta Viducan) and organized by them. It also covered other industries and subsidiaries or joint ventures of Italian firms (textiles, trimmings, apparel) and one French/German firm in the footwear/sports equipment industry. Additional information could be gathered on a textile and apparel fair in Bukarest by several short interviews with different exhibitors (consultants, mechanical engineering, trimmings, textiles) dealing with the expanding Romanian market.

# II. Conceptual Considerations

In section II we present the basic categories to which our empirical accounts refer.

## Value Chain

First, we refer to a value chain approach that originally has been developed to describe the integration of (newly) developing countries in the global economy and to sound out their prospects for upgrading (Gereffi 1995; Gereffi and Korzeniewicz 1994; Gereffi, Humphrey and Sturgeon 2005).[7] It can be used as a descriptive tool to analyze the newly developing Pan-European division of labor and the ongoing process of adjustment (upgrading), as well as to describe the reconstruction of value chains and the emerging company profiles over time. Processes and results of both corporate de-verticalization that have dominated the 1990s (Ruigrok 2004; Ruigrok et al. 1999; Faust, Voskamp and Wittke 2004) and (partial) vertical reintegration can be described with this analytical tool. Accordingly, we use a value chain approach to construct a typology of firms relevant for the fashion industry (see Figure 2 below and Figure 3 in the appendix).[8] Such a typology is more or less inductive (see Sydow et al. 2003) and refers to the research field and question at hand but has some more general distinctions in common with other fields.[9]

The fashion industry value chain as depicted in Figure 2 only deviates in some point from the Lane and Probert (2004) version. Therefore, we confine ourselves to some additional remarks. The basic steps are the same. We only split the „retail“ step into „Point-of-Sales Marketing“ and „Sales“. We observe that these two steps are quite often distributed among retailers and „producers“. Regarding the first step „Planning & development of collection“ we additionally

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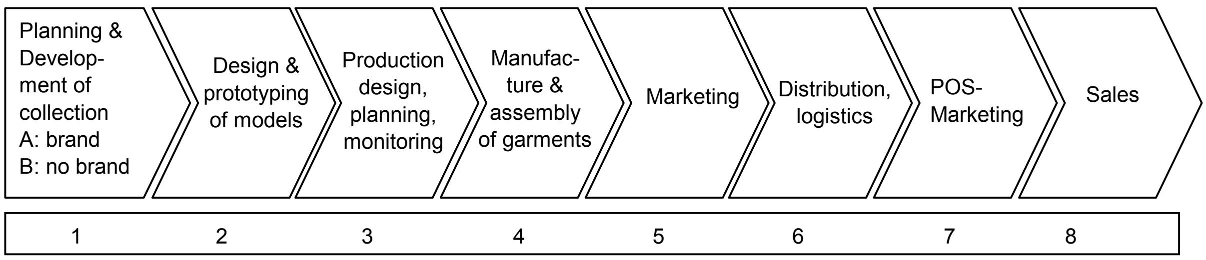
7 The early version of Global *Commodity* Chains too narrowly indicated market exchange while the term Global Value Chains is more open for non-market exchange and the increasing intra-industry trade of semi-finished goods that are produced to orders. In these cases the relationship between customer and supplier is often not well captured by a market relation but rather by some kind of network relation (see below).

8 It draws on Lane and Probert (2004) and earlier attempts of our own. The Lane and Probert typology has been constructed for the purpose of a German-UK comparison which may have other prerequisite than the task we are currently involved.

9 This refers to basic distinctions in all industries that are considered crucial in decision making on outsourcing and have an impact on the kind of relationship that naturally emerges if the value chain is split at these intersections: (1) the split between manufacturing and development/design which is considered to be especially problematic if product and process innovation are heavily intertwined, (2) the splitting up of different stages of the design/development process which is considered to be especially problematic if no modular

hint at the difference it makes whether the collection is planned and developed within the frame of a brand or not. Finally, regarding the step „Production design“ we add „planning“ and „monitoring“ just to make clear that, besides production design in a narrower sense (sample making, and decisions on manufacturing location), there are more tasks involved (fabrics procurement, material logistics, control of the manufacturing process spread out across different firms and regions). This also often includes the sounding out and monitoring of manufacturing facilities. These tasks are highly ambitious and to master them may build the basis of a competitive advantage or even a specialized role within the chain. In any case, to develop such a capability takes time, affords highly skilled, flexible and mobile personnel and is quite costly.[10]

**Figure 2: The Fashion Industry Value Chain***




* the textile steps of the value chain have been ommitted for pragmatic reasons

## Firm Typology

A value chain approach cannot be immediately translated into a firm typology. Generally speaking, the value chain approach neglects that the parts of the chain that are differently composed to firms build an *organization* that has to solve the problem to secure its boundaries.[11] E.g., Figure 2. exposes a step „marketing“ which is defined from the perspective of the producer longing to market its products through various retail/sales channels. If the roles of

design architecture can be established based on some kind of industry standard (see Faust, Voskamp and Wittke 2004; Gereffi et al. 2005; Sturgeon 2002).

10 In order to reduce complexity we did not go so far as to split up this step in the value chain itself which could have made sense as we observe that parts of step 3 move to manufacturing subcontractors in processes of upgrading, e.g. CMT firms developing to full-package-suppliers.

11 In the flow perspective of the value chain approach there is no management function or, in order to say it more generally, no functionally defined subsystems responsible for the task to reduce environmentally induced uncertainty and complexity (e.g. Berger 1984). In short: it lacks an organization theory. Firms are not just a punctuation in flows. Porter´s (1980) „value added chain“ refers to a firm specific chain and besides the „primary“ activities contains (at least) „supporting“ activities or functions that could be redefined and integrated in a strategic management approach.

the producer and the retailer are separated the same step of the value chain doubles as „marketing“ on the side of the producer and „procurement/purchase“ on the side of the retailer.[12] Thereby, in a market context a contested relationship between apparel producer and retailer is established in which both sides struggle for autonomy and not only „execute“ a value chain. There is no overall pre-defined „value“ of (or in) a value chain but a struggle about who captures what part of an unknown „value“. Therefore, both organizations construct boundary-spanning units to handle cooperation and conflict. The Gereffi (1994) distinction between „buyer driven“ and „producer driven“ makes reference to such power differentials. However, for empirical analyses such a dichotomy may not be sufficient.[13]

The fact that power relations are involved and not only technically defined steps are executed in succession[14] points at another drawback of a mere value chain perspective. On the first go a typology of firms can be based on the steps of the value chain it integrates. However, the strategic position of a firm defined as „core competencies“ or „dynamic capabilities“[15] is not sufficiently characterized by the steps of the value chain it comprises. The fact that different companies command the same step of a chain may mean quite different things. E.g., the step „Planning & development of a collection“ creates quite different strategic positions if the step is part of a successful branding. The strategic position also depends on the range and genre of products the collection contains. Moreover, even if the steps of a chain integrated within different firms amount to the same configuration, this may have a different meaning in strategic terms. Competitive advantages may be given by the capability to integrate the steps in order to meet (different) strategic objectives in different combinations (high quality standards, delivery deadlines, speed throughout the chain, flexibility, cost reduction, etc.). The resource- or competence-based view in strategic management emphasizes the unique, firm-specific bundles of competencies that make up the strategic position of a firm and cannot easily be imitated by competitors or challengers because they emerge over time, rest upon tacit knowl-

12 A similar point can be made with respect to the intersection between textiles and apparel producers. In both cases it makes a difference whether the respective supplier in the chain itself commands a brand.

13 Not to speak of the attempt to characterize whole industries by one of the two (see also Lane and Probert 2004).

14 Additionally, it has to be noted that the notion of a time-related succession itself is not always appropriate because there can be feed-back loops between the steps due to the fact that the single steps are in practice not so neatly separated as portrayed in value chain pictures. Therefore, using the value chain approach as an analytical tool has to be aware of the danger to overlook interdependencies that are faded out by its images.

15 See Prahalad and Hamel 1990; Teece et al. 1997; Teece and Pisano 1994. Lane and Probert (2004) make a similar reference. Lazonick and O´Sullivan (2000) and O´Sullivan (2000) emphasize the point that the emergence of „innovative enterprises“ can only be understood if a „dynamic capabilities“ approach is combined with a corporate governance perspective.

edge and are not „manageable“ in a technocratic sense.[16] Despite the fact that this view gives good guidance for academic analysis it is not immediately instructive for managers faced with uncertainty and high environmental pressure nor for external observers and evaluators like banks, rating agencies, (investment) banks analysts, institutional investors etc. Thus, there are popular readings of the resource based view that refer to „core businesses“ instead of „core competencies“. The latter are far less observable and assessable for external actors to which managers are accountable and in need to legitimate their decisions. It is before this background and mediated by consultancy influence (Abrahamson and Fairchild 1999; Faust forthcoming, 2005. 2002; Kieser 2002, 1997; Kipping and Engwall 2002) that role models emerge serving as „benchmarks“ and „best practices“. Depending on institutional context and corporate governance such role models of „excellent companies“ gain influence while other strategies that might have been viable in a competence-based view may not find sufficient institutional support and hence external resources (see Lazonick and Sullivan 2000).[17] In this sense the typology of firms can be used not only to describe a field or industry in time and space but also to identify the role models that find global or more context specific support.

The typology is not complete in the sense that all developments are depicted.[18] It concentrates on the main configuration. The typology is in the sense conceptual that not necessarily a firm belongs to one type. There are firms that integrate different types, e.g. type I and II or type III.a and III.b. Branded producers quite frequently have a second business line selling their products as private labels as well. On the other hand, private label producers that want to escape from their unpleasant position vis-a-vis powerful retail customers develop simulta-

16 Of course, we concur with Lane and Probert (2004) that the competence-based view on strategic management has to be complemented by an institutional perspective as companies do not develop competencies from scratch but rely on institutional or societal support and resources that vary across countries and regions.

17 Unfortunately, we are not able to examine the latter point systematically. However, we have some clues. E.g., the dominant trend of manufacturing outsourcing and relocation in the apparel industry is influenced by banks and bank-based rating procedures often combined with external consulting. If a company comes into trouble, whatever reason it may have, and needs additional bank loans, its owned and home-based manufacturing infrastructure is critically assessed according to an average industry standard. We know of two cases in which this occurred. In contrast to these cases, the private entrepreneur of the only German fashion company that is vertically integrated and solely produces on a home basis praises himself of being completely independent from borrowed capital and to never listen to consultants. All indications show that the company´s strategy is viable and this can be traced back to a unique, idiosyncratic combination of competencies. Ironically, meanwhile a highly visible firm adopting a similar „vertical“ strategy on a global scale, the Spanish „Zara“, has become a new role model which the backyard German company never achieved, mostly serving the German market. It always has been treated as a strange „runaway“ out of which no consultant would have molded a strategy template.

neously own brands or labels. Or a firm deploys different strategies for different markets (private label in the home market, own labels or brands in foreign markets). The typology can also be used to describe the development of the individual firm over time.

We refrain from spelling out the firm typology in more detail at this point. We rather integrate this in the presentation of the industry development.

### Value chain governance and/or a typology of (production) networks

Any analysis of value chain architecture, of de-verticalization and (partial) (re)integration puts the question of value chain governance (Gereffi et al. 2005) and inter-firm relations on the agenda. This includes the question whether there are „drivers" or „focal actors" in the chain or „network" and how power relations among the actors look like.[19]

Regarding the basic modes of co-ordination, the „Varieties of Capitalism" approach, besides vertical integration/hierarchy, operates with the distinction between market relations and inter-firm relations entailing relational contracting (Hall and Soskice 2001). While in all modern market economies markets and hierarchies are relevant modes of co-ordination, the authors suggest that in different national institutional settings different modes of co-ordination will be more prevalent. While in LME markets and hierarchies get most institutional support, in CME relational contracting between firms is more likely to emerge (see also Lane 1997; Lane and Probert 2004). Both theoretically (see e.g. Crouch and Farrell 2002 and *introduction*) and empirically, the „strong version" of this argument has been put into question. For the US, the prototype of LME, there is ample evidence that the national institutional context does not rule out relational contracting or network relationships.[20] All the more, the impact of institutional support and constraint on choices of inter-firm relation is even more ambiguous if cross-bor-

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18 E.g., in recent years specialized logistics companies have emerged, not only doing conventional transportation but also performing some tasks from step 3 and 6 (warehouse management, parts of quality control, etc.).

19 To identify „drivers" or „focal actors" implies to look at a whole value chain or network. Drivers or focal actors are the ones that dominate a chain or a network based on whatever source of power. Often they are the ones that initiate the network which suggests the term „strategic networks" (Sydow 1992). However, if such a type of actor cannot be identified, the network is not necessarily power-free. Power may be an attribute or a dimension in any single relationship within the chain or network and can be wielded on basis of all thinkable sources.

20 E.g. Hollingsworth 1997 and Powell and Smith-Doerr 1994 with various references; Uzzi 1997, 2000 with a study on the New York apparel industry; Herrigel and Wittke 2004 regarding OEM-supplier relations. This

der „networks“ are considered, a situation where more than one institutional context impacts choices (Lane and Probert 2004: 39). To only reckon with „country-of-origin“ effects of the dominant players would overlook that strategic actors may tap into the new option in order to evade „country-of-origin“ constraints and/or to utilize „country-of-destiny“ contexts (Faust, Voskamp and Wittke 2004).

With respect to the conceptual problems the more recent debate in economic and organizational sociology has made the network term prominent which often substitutes the term „relational contracting“. Or, to put it the other way round, relational contracting has been frequently used to characterize networks (Powell and Smith-Doerr 1994). We ourselves use the network term[21] to describe inter-firm relations in the broad center field between vertical integration (hierarchy/organization) and market relations (Berger et al.2001; Faust, Voskamp and Wittke 2004).[22] Inter-firm relations that result from de-verticalization often do not end in „pure“ market relations because goods are intermediate products and built to order. This requires a more dense cooperation than markets are able to provide. However, the unspecified network term may be too broad to capture relevant differences within the „swollen middle“. For this purpose we suggest to distinguish between „modular“, „captive“, and „relational“ networks.[23] We have to confess that we are not able to make this network typology fully operational but see ourselves in good company with many others in this respect.[24] Instead, we

suggest that the VoC approach does not only fail to offer a sufficient explanation for the analysis of cross-border networks but also is too restrictive with respect to the national context (Lane and Probert 2004: 39).

21 Although coming from different theoretical origins and fields of research, in recent years the network term has gained prominence as a mode of co-ordination but also beyond this as a „signature of the epoch“ (Wolf 2000; see also DiMaggio 2001, Krücken and Meier 2003). With respect to co-ordination modes, some versions conceptualize networks as a distinct mode, „neither market nor hierarchy“ (Powell and Smith-Doerr 1994, Powell 1990, Windeler 2003), others as a hybrid out of markets and hierarchies (Williamson 1985; Sydow 1992). Both versions are „governance approaches“ (Windeler 2003) and can be distinguished from (structural) network approaches, most common in economic sociology (Granovetter, White, Burt, just to name the most prominent authors). Notions like „Markets from networks“ (White 2002) and „markets as networks“ (Fligstein 2001) put the basic idea in a nutshell. Here, we only call to mind the meanwhile elaborate and still confusing debate on the network term which lead to a „cacophony of heterogeneous concepts, theories and research results“ (Oliver and Ebers 1998: 549; see also Hirsch-Kreinsen 2002; Wolf 2000; Windeler 2003; DiMaggio 2001), a puzzle we do not claim to resolve here. Maybe the attempt of Wiesenthal (2005) to develop a theory of co-ordination mechanisms could be helpful in this task. In any case, it is helpful to be more explicit about the meaning of the network term in any research literature.

22 To use the network term to characterize inter-firm relationships has to be distinguished from the use of the term to denote the spatial distribution of physical entities, like plants. E.g. the term „cross-border production networks“ is often used in this sense, containing both independent suppliers and vertically integrated but remote subsidiaries of a lead firm. This would not be a network in the governance sense but a mixture of governance modes within a spatially extensive value chain architecture. Therefore, we prefer to talk about value chain architecture in such a case and hopefully stick to this throughout the paper..

23 Gereffi et al. 2005 use the same typology but base it explicitly on a „transaction cost theory“ explanation.

24 Powell´s (1990) network definition is full of „more or less“ distinctions.

use it as a tool to sort cases relatively into a field of basal co-ordination mechanisms (see Wiesenthal 2005). In this sense „modular networks“ can be distinguished from the basal market mechanism by more relying on the „organization“ mechanism while the „captive“ network can be distinguished from „organization“ by more relying on the market mechanism. Nevertheless, placed within a continuum modular networks are closer to the market mechanism[25] and captive networks closer to the organization mechanism. The „community“ mechanism, resting on the resource of „unspecified trust“ (ibid.), can be seen as an additive to both mechanisms. It can add to and emerge from repeated market exchange as well transform relations in a formal organization (e.g. „implicit contracts“, informal expectations and obligations). Thus, to talk of relational networks means that this additive is highly relevant for the co-ordination in inter-firm relations. Wiesenthal suggests that the triumphant advance of the network notion (in the academia as well as in everyday life) denotes a particularly intensive blending of the three basal co-ordination mechanisms in co-ordination ways.

## Defining industries and „fields“

Why „fashion industry“? As the boundaries between the „producing“ apparel industry (nowadays often themselves selling their goods to the final customer and only „organizing“ production) and the different formats of retail firms (nowadays often (co-)designing products and organizing its production) are blurring (see below), the term „fashion industry“ (see also Djelic and Ainamo 1999) indicates, that the broader „field“ and its changing and overlapping role models have to be explored. When recently (end of 2002) the two associations of German textiles producers („Gesamttextil“) and apparel producers („BBI“) merged they applied this term in their new name: „Gesamtverband der Textil- und Modeindustrie“ (Mode=fashion). Especially, if we look at other countries (e.g. Italy, Turkey)[26] we find quite some companies that integrate textiles and apparel production. Moreover, some of the so-called „Verticals“ (Hennes & Mauritz, Zara) not only organize the apparel production but also (parts of the) textile stages of the value chain and in selected cases also own manufacturing sites in both textiles and apparel. Finally, the textiles industry (in Germany and to differing degrees also in

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25 „Marketization“ of companies (e.g. profit-responsible business units) (see Faust, Jauch and Notz 2000) can be interpreted as the use of the market mechanism within organizations and thus as a specific blending of market and organization mechanisms which still has the fall-back option „organization“ (the „shadow of the hierarchy“) (Wiesenthal 2005). Historically, such „marketization“ has been often the precursor of „modular networks“.

other highly developed countries) increasingly does not serve the apparel industry (e.g. different lines of „technical textiles“) (IKB 2000) so that only parts of the textile industry could be ascribed to the fashion industry.[27] In any case, this suggests that „fashion industry“ increasingly denotes the „organizational field“ (DiMaggio and Powell 1983; Fligstein 2001), in which actors observe each other and take each other into account. However, regarding identities there are still retailers, apparel and textiles producers besides „fashion providers“. Conventional industry definitions (that follow official statistics and membership of industry and trade associations) may increasingly become less relevant. Unfortunately, the statistics on which we have to rely, do not depict the development. Firms covering the same steps of the value chain and being direct competitors can be statistically counted as either retailers or producers, only due to historical coincidence (e.g., one being a former producer, the other being a former retailer or wholesaler). Therefore, using the term „fashion industry“ highlights a reorganization trend not to be found in the statistics.

## III. The Situation at the Outset of the 1990s

Empirically we concentrate on the period from 1990 to date. In order to assess in how far and in which respect the 1990s mark a new development we have to call to mind the previous development of the industry. However, a comprehensive industry history is beyond this paper. Thus we can only give a sketchy outline of the development that allows to delineate the main characteristics of the industry, the main directions in strategy formation, and the set of actors in the field.[28] Previous research only occasionally dealt with national or regional institutional contexts explicitly and compared the German development with other highly industrialized

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26 Zegna is one of the prominent examples from Italy and the Sahinler group one from Turkey. The latter comprises textile and apparel production, has own labels/brands, and „vertical“ retail outlets e.g. serving the German and other West European markets with their own apparel products.

27 In 1999 only 30% of all textile production went into the apparel industry ( (IKB 2000:4). Meanwhile technical textiles and innovative textiles for the apparel industry account for 45% of total turnover (TWnetwork 2.6.2005).

28 Just as a reminder: Accounts on industry development are always in the danger to read history backwards and thereby missing potential points of departure. But even if the author is sensitive to this trap another shortcoming is almost inescapable. The fundamental uncertainty of the actors in everyday decision making tends to be downplayed. What seems consistent in retrospect and is backed by average industry data may have looked highly complex, confusing and uncertain for the involved actors at that time. And average data do rather not go back to average strategies. There are not only survivors that change their strategy in order to adapt but also firms that do not and fail and firms that try and fail. Last but not least, there are firms that try unconventional strategies and survive. Later on , the latter may be perceived as a new model.

countries that would help to explain the development and the situation at the outset of the 1990s.[29]

## Post-war Industrialization

Only in the German post-war socio-economic development, the (belated) Fordist era, which gave rise to the „short dream of eternal prosperity“ (Lutz 1984), apparel production cut itself loose from its origins in craft and housework for one´s personal need and developed the features of mass production based on mass consumption. „Fashion for millions, not for millionaires“ was the slogan of one of the prominent German entrepreneurs of these times. This was a relatively short period, boasting a peak in employment in the 1960s. It clearly showed characteristics of a mass production industry. It followed a Taylorist production concept with narrowly defined job profiles in direct manufacturing which allowed for the recruitment of semi-skilled, mostly female workers. Rationalization concentrated on enhancing efficiency and productivity by habitualization, the increasing use of semi-automated single purpose machines on workplace level and by work flow management for the overall manufacturing process.[30]

## Early Crisis of Mass Production Strategy and its Causes

A concurrence of several external developments, industry-specific limitations, and specifics of structural and institutional embeddedness of the industry lead to an early crisis of mass production roughly to be associated with the 1970s.

1. Demand for apparel products grew less dynamic than overall demand. After the unsatisfied needs of the immediate post-war period had been met, household spending shifted to other product categories and services with the effect that the share of apparel expenditure in total household spending decreased. Moreover, demand diversified increasingly due to the emergence of different life-cycles (childhood, youth), lifestyles, social environments

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29 The following section III draws on a body of research literature which is mostly in German. It comes from industrial economics and industrial or economic sociology. The main texts with special focus on the apparel industry (monographs and edited volumes) are: Adler and Breitenacher 1984; Deubner 1987; Engel 1985; Fischer et al. 1983 (especially the chapters by Weißbach and Niebur); Fröbel et al. 1977, 1986; Heidenreich 1990; Fischer and Minssen 1986; BMFT 1983; Wassermann 1985. Additional reference will be made to Lutz 1984 and Piore and Sabel 1984. It foregoes a detailed literature and data reference which could be added from the aforementioned texts.

30 In these respects Heidenreich (1990) observes a quite similar development in France for this first post-war period. Most probably, however, Italy will have to be treated differently.

and backgrounds („Milieus“) and „individualization“. To present oneself (one´s self) and not only to guard oneself against environmental influences was increasingly sought after. To meet the diversified demand came into conflict with the production model aligned to mass production.

2. (Newly) developing countries all over the world prominently used the apparel industry for strategies of export-oriented development.[31] This was particularly suitable because the dominant production model enabled to utilize cheap, semi-skilled labor abundant in these countries. This gave rise to a globally spread manufacturing infrastructure in apparel (almost) ready-to-use for retailers and importers.[32] The rise of these competitors was supported by the overall trend of trade liberation in this period to which German industry as a whole and government officials felt obliged[33] because the German model and its „diversified quality production“ (Streeck) made most German industry more and more dependent on exports and hence on free access to foreign markets. The increasing import competition on the German market concentrated on mass production products and the lower and middle genre of the whole product range suggesting to even more focus on quality, fashion, higher genres and accompanied branding strategies. This reinforced the aforementioned conflict with the traditional production model.

3. German retail in general is highly concentrated and exerts a considerable market power on its suppliers. Although concentration in apparel retail is lower than in other segments (e.g. food), German retail companies are the more powerful partners in the producer-retailer relationship and able to wield their influence regarding prices, risk-sharing and other (delivery) conditions. Especially the large retailers (department stores, mail-order companies, retail chains)[34] were able to use the emerging global apparel industry by establishing a procurement organization on their own. Moreover, already since the 1970s large retailers started to develop own labels or brands for which they (at least) could claim

31 The textiles industry followed hard on the heels inducing similar pressures on the German textile industry. However, textile companies had a wider range of strategic answers at their disposal, especially combined product and process innovation. The also remarkable employment decline refers far more to success in increasing labor productivity.

32 Gourevitch 2004 points out that this is not the normal case. Other industries show a more agglomerated picture. This again is due to the specifics of this industry, especially the low hurdles of skill formation and finance supply.

33 Notwithstanding the fact that the two sides of industry in apparel and textiles sought to moderate this process and to give time for adjustment for affected companies.

34 Increasingly they came not only from the segment specialized on apparel sales („Facheinzelhandel“).

to find capable suppliers abroad. This reinforced the pressure on German apparel companies to diversify, find market niches in high quality, high fashion and quick response, and to enforce branding and exporting strategies. The inter-industry relationship (apparel-retail) is in a special state of imbalance in Germany, at any rate compared to Italy and France (Deubner 1979; Engel 1985; Heidenreich 1990; Howe 2003; Potz 2002). This can be seen as a structural condition (partly) explaining the early crisis of apparel (mass) production in Germany and to some degree also the answers to the resulting challenges.

## Blocked Solutions

4. It is due to industry-specifics that one solution to deal with increasing price competition from low-wage countries was blocked. Sweeping process innovation that could have drastically increased productivity and lowered labor-intensity did not emerge. This solution, developed together with mechanical engineering, helped other industries to escape from low-wage competition. Specific material features (the missing bending strength) balked at a higher degree of mechanization, not to speak of automation. Of course, there were visions of an automation progress and several attempts to realize them. However, how far these ideas could have been realized technically, never could be proved in the end. The apparel industry in high-income countries in general was too small and could not mobilize financial resources for a great endeavor. Meanwhile, mass production eroded and thus conditions for radical process innovation deteriorated. It would have been necessary to develop automation that allows for flexible use in one step. Even technological progress regarding single-purpose machinery often did not pay out given increasing flexibility demands and smaller batches. Moreover, German mechanical engineering companies ceased their efforts in these fields as they meanwhile predominantly served customers abroad with completely different wage calculations. Thus, from the view of the mechanical engineering firm the universal purpose sewing machine celebrated a renaissance which also (though maybe more sophisticated) returned to the German shop floor in order to better meet flexibility demands.[35]

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35 Moreover, the apparel industry does not master fundamental product innovation as well. Basic product innovation comes from the textiles industry, the fiber industry and the associated mechanical engineering. There is some room for co-development between the apparel industry and the textiles industry regarding new materials. However, most product innovation refers to fashion design. To produce superior quality is more a matter of strong dedication to known manufacturing methods than a matter of developing something completely new.

5. Another solution that could have helped to lower the problems of price competition was blocked as well. The German system of industrial relations did not give room to escape into low wage regions or (informal) segments of the labor market within Germany.[36] In international comparison it has been argued that this specific constraint of the German institutional context forced German industry (compared to UK and France) to look for alternatives while the same industry in other countries were kept inclined to (at least longer) stick to traditional locations and product or market strategies.

## Provisional Solutions and Emerging Situation

6. One solution has already been mentioned. As an answer to changing demand in quality and increasing imports German apparel companies increasingly focused on high quality with an emphasis on "good fit", upper genres and more fashion impact, often combined with branding strategies.[37] Increasing imports not only referred to basic mass products but also to the lower and middle genre of the fashion segment. Branding strategies were also supposed to counterbalance the power of large retailers by directly communicating with the final consumer. Drawing upon this changing profile German apparel producers made strong efforts to export their products to other high-income countries in order to escape the German market restrictions.

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36 Certainly, quite early German apparel companies tried to use regional disparities in wage conditions. The so-called „march to the countryside" („Zug auf´s Land", Wassermann 1985) from urban districts also profited from government subsidies for the disadvantaged regions near the GDR border. However, quite soon the apparel industry was faced with competition on the labor market by other strongly expanding industries regarding exactly that type of semi-skilled workforce. To a considerable degree, the relatively high percentage of vocational training offered by apparel companies can be explained by the attempt to gain a comparative advantage when recruiting young women. This evoked corresponding expectations regarding scope of work and occupational promotion. These were often disappointed resulting in an high fluctuation of skilled people into other occupations and industries and continuing recruiting problems. This is to say regardless of the fact that the German apparel industry shows higher proportions of skilled labor in manufacturing than in other countries and in other comparable industries. The reform movement on work organization of the late 1970s and 1980s tried to make use of this. Despite limited use of the German „Facharbeiter" in direct manufacturing the vocational training system provided technicians, a degree which builds on the first steps of vocational education. Companies heavily used this potential also for organizing and monitoring manufacturing abroad. Thus, concurring with Lane and Probert (2004) we can say that the German apparel industry made use (though unconventional) of the vocational education and training system that the German model provided in general. Compared to other countries (UK, see ibid.; France, see Heidenreich 1990)) this enabled different strategic answers to comparable pressures.

37 It has been frequently noted that fashion impact was lower than for instance in Italy. The Italian fashion industry, surpassing the former leading country in this respect (France), also is said to occupy the highest genre in ready-to-wear apparel while the French fashion industry was mostly kept in mind because of its famous designers in „haute couture". To a certain degree the specific specialization patterns in upgrading were due to different tastes and consumption patterns in home markets. In any case the emerging speciali-

7. Additionally, since the 1960s German apparel producers started to use foreign locations to produce their collections and used own importing (commodities) to round off their collections in the lower price categories. This „active internationalization“ was as a strategic answer to the „passive internationalization“ of the German market exerted by retailers. Therefore, observers of the industry development rejected the apparel industry´s lamentation about rising imports pointing at the fact that to a considerable degree the industry itself produced these figures. The early active internationalization of German apparel industry has been interpreted as a reaction to the specific blocking of alternatives that were given by the industrial relations system and by the specific power imbalance in relation to retail. And in fact, compared to other European countries, German apparel companies started earlier and more intensely to rely on own subsidiaries and subcontracting[38] abroad, mostly based on Outward Processing Trade (OPT).[39] The OPT regulation was originally developed in Germany and then taken over by EU authorities. It was explicitly supported by the German textile industry which expected to stay in business more easily thanks to this measure. Increasing internationalization was accompanied by a steady decline in employment. Apparel producers mostly transferred the remaining mass production parts and the less time critical items to foreign, low-cost facilities. However, over time the whole production program changed as depicted above and even the relocated parts of production needed to be produced with enhanced skills and more flexibly. German producers made quite some efforts to enable their foreign subsidiaries and subcontractors to meet the changing demands. In turn this gradually changed calculations on locational decisions. Already in the 1980s several observers saw the German apparel industry undermining their home production base by their upgrading efforts abroad. To partially rely on foreign low-wage production enhanced the competitiveness of German apparel companies. Within Germany, the fact that using the outward option was more

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zation patterns served as a basis for exporting strategies. In this respect the Italian Fashion industry took the lead while Germany gradually passed the traditional French counterpart.

38 OPT figures are often used as a proxy for foreign subcontracting, i.e. the emergence of some kind of network relation instead of vertical integration (owned and majority controlled subsidiaries). However, it has to be kept in mind, that German firms also organize the relationship to their subsidiaries as „Lohngeschäft“. According to Adler and Breitenacher (1995) in 1993 about 20 % of all OPT imports came from own foreign manufacturing sites.

39 „Passive Lohnveredelung“ in German. To „work in Lohn“ has become familiar in English and still today in CEE countries everybody involved in the industry uses this term. In 1988, at the end of the period under consideration, German apparel industry had an outstanding record in using the OPT mode compared to other EU members. Extra EU OPT-traffic (intra-EU is not considered) came close to 1200 million ECU while the second best (France) was below 200 million ECU and Italy almost below notice (Adler and Breitenacher 1995). German OPT referred heavily to the former state-socialist countries (prominently Yugoslavia), other European rim regions (Portugal, Turkey) and North Africa (Tunisia).

suitable for larger firms, contributed to the ongoing concentration process in the industry that was also fostered by the considerable costs of branding strategies. Companies that could not apply these strategies were more likely eliminated from the market.

8. In the 1970s it was increasingly recognized that the new division of products between German and foreign locations together with the overall change in product range resulted in the fact that in German factories mainly the so-called „flexible residual manufacturing“ (Heidenreich 1990) remained, with which the traditional production concept could not come to terms. Both sides of industry started a government supported program to develop new flexible work organization schemes and to make more appropriate use of the qualification base provided by the vocational system. Although the introduced solutions never arrived at the initial ideas some increase in flexibility could be realized to meet the changing demands.[40] In the early 1980s quite some observers of the industry saw a chance that efforts to reorganize manufacturing processes could help to keep half of the production capacity at home (Niebur 1983); later on hopes were somewhat reduced, but still it was expected that German companies could not afford to abandon a „flexible residual manufacturing“ basis within Germany. It is an irony that the skill base provided by the German vocational system was less relevant to develop a production system in line with the idea of "diversified quality production" at home, but rather to develop a cross-border production network with the help of the "German" apparel technician.

9. At the outset of the 1990s the set of actors can be characterized as follows: On the apparel industry side there were branded as well as private label producers having different power position vis-a-vis retail. To some degree there remained some manufacturing subcontractors („Zwischenmeister“)[41] already coming under severe pressure from alternatives abroad. On the retail side power concentration was already on the way and large retailers had developed their own sourcing organization. Regarding some product categories

40 Heidenreich (1990), comparing these experiences with similar ones in France, highlights the fact that the German solutions more rely on personal flexibility due to the broader and systematically developed skill base in Germany.

41 To the best of our knowledge there are no reliable statistics on the relevance of manufacturing subcontractors in the overall German apparel value chain. At certain points of time we can refer to surveys that specify production and (out)sourcing strategies (see e.g. Adler and Breitenacher 1984; 1995). All indication show a considerable decline of subcontracting at home. However, according to Grandke (1999: 115) in the mid 1990s 19% of respondents had some German subcontracting, mostly covering less than 20% of production. Today, according to Lane and Probert (2004) the relevance of this type of actor is very different between

retailers still relied on German private label producers. Branded producers could maintain or even enhance their position vis-a-vis retail. The process of backward verticalization had only started and the New Vertical did not play a remarkable role.

# IV. Reorganization of the Value Chain and the Set of Actors

In the following two sections we analyze changes since the 1990s.[42] Regarding the structure and reorganization of the value chain traditionally the split of the value chain between the function design/marketing and manufacturing has been focused. According to this the two interlocked questions were of major importance: the outsourcing decision, including the type of relationship involved, and the decision where to locate manufacturing or where to source from.[43] Of course, this issue is still highly relevant and the 1990s showed some remarkable changes that among others spring from European enlargement. We will deal with it in the following section in more detail.

However, this part of the value chain and the actors involved have lost significance to describe the overall picture of the fashion industry value chain.[44] Moreover, the changing profiles of different actors and the changing relationships between them has an impact on the *production* network formation in the narrower sense.[45] Therefore, we start with the overall value chain architecture in the fashion industry. We organize this according to the set of

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Germany and the UK. Whether this has to be qualified for earlier times has still to be examined more precisely.

42 As has been noted above we do not argue that the 1990s mark a complete break with the past. There is quite some path-depending development. Some tendencies of the earlier decades have been proceeding steadily, others have accelerated considerably, and new factors have started to exert influence. However, even without a complete break a new situation could emerge. However, to grasp the „new“ and the „old“ is a quite ambitious undertaking. To some degree we have to leave it open in how far these changes have occurred more gradually but undetected or may have had forerunners for which we did not have the suitable terms to differentiate them from traditional role models at that time. It is not merely a matter of collecting data but rather of carefully assessing the different interpretations given by the actors involved based on which they themselves decide on their further course of action.

43 There is some „Germaness“ in this focus on „producer-driven“ production networks as we can learn from the comparative perspective provided by Lane and Probert (2004).

44 Only at first glance this seems to be a contradiction to the Lane and Probert (2004) findings that emphasize the (enduring) relevance of the German „co-ordinating firm“. To state this in comparison to the UK situation does not preclude change in the overall architecture to which these firms belong.

45 Just a short remark on writing style and references. We keep it in the style of a story that aims at describing and assessing the overall picture. The given interpretation is based on case study and expert interview evidence that cannot be referred to in detail. Only where examples or citations are helpful it will be noted.

actors, their strategies and relationships (see Figure 2 “Typology of Firms”). Interdependencies of actors, strategies and relationships will be introduced in turn following the actor typology.

## The Challenge of the New Verticals

In the 1990s we witness a “triumphal procession” of the so-called New Verticals[46] on the German fashion market. The most prominent representatives are internationally operating foreign groups like Hennes & Mauritz (H&M) from Sweden and Zara (belonging to the Inditex group) from Spain. They both successfully conquered the German market, more recently followed by the Spanish Mango.[47] From total turnover H&M makes 30% in Germany. Besides these foreign companies there are quite some of German origin. Vertical chains cannot be overlooked in German downtown areas nowadays. The historical origins of these companies can be different, some were previously producers verticalizing forward, some were retailers verticalizing backwards, some started as whole-salers or importers and verticalized in both directions. The existence of a wide-spread apparel manufacturing infrastructure can be seen as a prerequisite for the emergence of this type of actor. It is the extraordinary expansion even in stagnant markets like Germany and the compelling profitability of its main representatives that attracted attention. From this a role model of the New Vertical developed that refers to the prominent cases but is detached from individual peculiarities that exist among them. The role model radiates in both directions, to retailers and producers. Thus we have to regard the New Vertical both as a relevant competitor[48] and a new role model (a typified actor).[49] (e.g. “Zaras Zeit” in Textilwirtschaft, 18.3.1999).

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Where we can corroborate qualitative interpretation with quantitative data, of course, sources will be made available.

46 The term has not always the same meaning in all references. The German association of apparel retailers (BTE) refers to the group of firms that are prominently associated with it as „specialized system (branch) chains“ („spezialisierte Systemfilialisten“).

47 A precursor can be seen in the Italian Benetton group that entered the German market earlier. Only with the advance of H&M the concept became a role model. However, not all of these foreign companies that tried their luck on the German market were successful. The American GAP failed and recently their shops were overtaken by a competitor.

48 H&M was the 6th largest apparel retail company in Germany according to the TW-network ranking list in 2000 and reached 5th position in 2002. This certainly served more as a signal than the 1,7% of total textiles and apparel sales in 2000 (all „specialized system chain“: about 5%) (source: Textilwirtschaft: Absatzwege 2000).

49 The latter is indicated by Harvard Business Review articles (Ferdows et al. 2004) and consultancy attention (KPMG 2001).

Despite different shapes regarding individual firms, as a role model the New Vertical can be characterized as follows:

– It has complete control over the whole value chain (manufacturing and logistics).[50]
– The company is the brand. It defines the standardized store concept and controls the stores (owned, franchise system or partly joint-ventures). The store itself is a main marketing device. Collections and models are designed by own design teams and sold under the company´s brand (and sub-labels).
– Quick responses to market and fashion trends by own design and topical decisions on production/procurement. There is no buying and selling involved as between retailer and producer. Quantitative and qualitative information from the point-of-sales is quickly passed backwards to the design and procurement teams.
– Sales risks of high fashion items are minimized by acceleration of all processes within the value chain (no reduced sales; total cost calculation, not unit-cost calculation).
– Higher profitability is achieved by gathering margins normally shared between producer and retailer and by low tied capital within the value chain (low stocks in the stores, production on demand, strategically produced shortage of new products in order to teach the consumer to buy immediately).
– The basic idea is: Increasing speed is prior to cost reduction per part as normally purchase departments of retailers calculate (see also Ferdows 2003; Ferdows et al. 2004).

However, also drawbacks and risks are reported. The concept is only applicable to focused consumer groups and high fashion markets. This helps to reduce complexity in the chain that otherwise would be inescapable. Only under these conditions worldwide applicability is given because differing national tastes and fashion trends can be bypassed. The concept affords high investment in own design teams and stores (mostly in the more expensive city areas) and

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50 The two most prominent firms differ in one important aspect. H&M does not own any manufacturing sites, while Zara/Inditex heavily relies on own manufacturing both in textiles supply (including dye-works) and manufacture of clothing. Zara/Inditex is even the most profitable among the New Verticals although it most blames the “best practice” story of outsourcing. It defines as a core competence the ability to accelerate production and distribution flows which seems to be best possible on basis of a broadly defined value chain integration (see Ferdows et al. 2004). H&M has a production department at its headquarter supervising and organizing the 21wordlwide purchasing offices (10 in Asia, 10 in Europe, 1 in Africa) distributing orders to the 750 subcontractors. The purchasing offices are responsible for monitoring and supervision of the subcontractors in one particular region. 60% of all items come from Asia, the rest mostly from Europe (Twnetwork.de today – Jörg Nowicki 27.5.2004). In Europe the main manufacturing basis is Turkey, but there is also an office in Romania.

manufacturing/logistics infrastructure. There are high entry barriers for newcomers.[51] Also regarding fashion innovation there is the risk of becoming stewed in one´s own juice.[52]

The New Verticals are direct competitors for various retail companies regarding market share and real estate prices. Moreover, they indirectly affect the competitive position of a variety of German apparel producers and wholesalers, because they are faced with a declining market share and turnover of their traditional retail partners, especially in the shrinking segment of family owned, small specialized retail stores. Private label producers are excluded from most of these (backward) value chains from the start because the New Verticals rely on their own design and manufacturing organization.

Pushed by the extraordinary success of New Verticals „verticalization“ emerged as a new succes model to be applied also by other types of actors. This refers both to traditional retailers (backward) and producers (forward). A special application of the basic ideas can be seen in so-called „vertical systems“ developed in co-operation between (branded) producers and (traditional) retailers.[53]

## Retailers – Backward Verticalizing and its Limits

In overall textiles and apparel retail tendencies described for the situation at the outset of the 1990s continued. There is no room for a detailed picture of the German retail industry in general nor for the textiles and apparel part (see Blöcker and Wortmann 2005; Wortmann 2003 and on this conference). Only main tendencies should be mentioned. Besides the rise of the New Verticals (see above) we witness a decline of the small, mostly family owned specialized retail stores (especially the less focused ones), an increase in concentration, and an increasing market share of non-specialized retailers (see BTE 2002).[54] Here, we focus on

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51 One of our cases was a failing newcomer in this firm type. Regardless of the long-term viability of the fashion and store idea the company ran out of money to finance marketing and store expansion in expensive city centers.

52 Traditional Retailers can avoid this by working together with different suppliers that themselves have different customers. This enhances the information diversity while New Verticals may be faced with redundant information within one system.

53 This was highlighted by the CEO of Esprit Europe, Heinz Kogner, who was cited with the sentence: „Together we are Zara“. This happened on occasion of a 2002 *TextilWirtschaft* conference on which Inditex/Zara was chosen for entrepreneur of the year.

54 From 1992 to 2001 the market share of specialized retail („Fachhandel“) declined from 60,8% to 54,2% (BTE 2002: 83). The share of small independent retailers declined from 34,2% in 1998 to 32,3 in 2002, while the specialized retailers with more than 5 branch stores increased their share from 35,1% (1998) to 36,2% (2002) (BTE 2004: 115). In general, from 1997 to 2002 the larger retailers with more than 50 million Euro turnover increased turnover by 27,9%, while retailers with less than 1 million turnover lost sales by 24,1% in the same period. In the TW-network list of the largest market players for 2002 the discount shop „Aldi“ ranked on 7th, the supermarket group „Edeka“ on 8th and the „coffee shop“ chain Tchibo on 9th position (BTE 2004: 111).

changing strategies of large retailers that had and still have business relations to German producers, both branded and private label.

Strategic change refer to the following four elements that heavily affect apparel producers.[55]

1. Store and category management, point-of-sales merchandising: Stores have been reorganized more strongly focusing on selected consumer groups and designed as "experience worlds" ("Erlebniswelten") instead of the former functional departmentalization according to product categories. Coordinated offers and complete outfits gain importance. Apparel offers are combined with accessories (shoes, perfumes, bags, etc.). Therefore, suppliers are increasingly selected on their capability to offer complete outfits often including accessories.

2. Acceleration of change in line of goods: Retailers increasingly try to overcome the traditional two-seasons cycle of product presentation by intermediate collections or product ranges and special offers in order to increase movement of goods and to avoid reduced sales of shelf-warmers. Therefore, suppliers are confronted with the demand to deliver intermediate collections and special offers. Orders in advance are reduced.

3. Retail brands/labels[56]: Large German retailers increasingly integrate retail brands into the range of the products they sell. In these cases branding and at least parts of the design task are seen as a retailer´s function. The basic idea is to save the margin of the producer, to imitate verticals regarding speed and to avoid sale risks inherent to the traditional cooperation with producers. With this strategy retail companies try to better position themselves both vis-a-vis New Verticals (young fashion) and traditional branded companies. The relevance of retail brands in the whole line of goods and the way the backward value chain is organized differs between companies. Moreover it changes over time and often strategies are contested within the same company.

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55 Our case study evidence is restricted to department stores and specialized chain companies. However, we know of similar trends in the field of mail-order companies. Within this market segment more focused companies are on the advance. Some also try to overcome the traditional two-seasons rhythm and to offer intermediate lines of goods and special offers. The small, family owned specialized retailers are only able to apply these strategies in parts.

56 We do not go into the debate how to distinguish between brands and labels which is not trivial. However, it has to be noted that we call brands that are developed by retailers "retail brands". In German these are

In the first department store only 30% of total sales refer to retail brands while it heavily relies on top brands. The increasing share of retail brands was mostly at the expense of no-name products. The second department store more heavily relies on retail brands and plans to reach a share of 70%. The brands included in the line of goods refer to a lower genre.

The organization of the backward value chain differs with respect to the question in how far traditional German private label producers remain suppliers and in how far the retail company engages in the design task. No retailer uses owned production facilities and none is engaged in the sourcing of fabrics and trimmings. Choices depend on genre, complexity of the collection (e.g complete outfits) and availability of capable suppliers. The first department store almost completely quitted cooperation with German private label producers. They mostly source in foreign markets. They rely on own design capabilities and capacities and closely cooperate with their supplier´s design departments. They need a full-package supplier with own design capabilities. Thus the partners come close to the type of private label producer which now resides abroad. E.g. a young fashion retail brand was completely produced with Turkish partners. The second department store also used similar ways of organizing but additionally cooperated with German private label producers and the private label business of branded companies. This refers to more complex lines of goods with higher quality claims.

Obviously, this has an pronounced impact on both private label producers and branded companies. Private label producers are in danger to be pushed out of business unless they cannot adapt to the changing demands and maintain a visible and acknowledged core competence. Brands are confronted with increasing competition and have to sharpen their brand image in order to be selected as a supplier. High visibility on the market is increasingly important. Branded producers have to prove that they are able to reach high yields per selling area and to attract customers to the stores.

4. Establishing "vertical Systems" with branded producers: Integrating the measures (1) and (2) large retailers develop so-called "vertical systems" with brands. Thereby they imitate elements of the New Verticals model without the need to become New Verticals themselves. We deal with this in more detail in the following subsection.

Clearly, these strategies have an impact on the producer. Although there are cases in which the producer is urged or even forced to meet the concomitant demands, we hesitate to strictly present "vertical systems" as a retail strategy. In many instances it is better conceived of as a co-development between retailers and producers which could include different objectives in the end.

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mostly called „Eigenmarken des Handels" while the term „Handelsmarken" is reserved for brands/labels of producers that foremost communicate with retail customers and less intensely with the final consumer.

## Branded producers[57]: Partners in „vertical systems" or becoming "Verticals" on own account.

We can draw on the basic development as described in section III (6). To develop and strengthen brands is the basic strategic answer to both the emergence of New Verticals and the concentration process in retail going along with verticalizing strategies of large retail companies. A brand communicates directly with the end consumer, shifts power to the producer, tends to make the retailer more dependent on the producer and opens up the possibility of own forward integration which is quite often the only way to enter foreign markets. The 1990s show some additional movement within branding strategies: partnerships in "vertical systems" with retailers and strategies of forward verticalization. Apparel producers are differently capable to pursue such strategies, depending on size, finance, and former brand reputation.[58] There are and most probably will be traditional relationships between smaller specialized retailers and (often less prominent) brands or labels, however in a shrinking market segment.

To develop „vertical systems" together with retail partners has the following conditions that resonate with prevailing requirements from retail customers:

1. Branded producers have to be able to offer complete outfits for the focused consumer groups (including accessories) and „fashion worlds". Quality, genre and fashion impact have to be integrated with a specific and suitable "lifestyle" concept of the brand to be communicated to the market.

2. The producer has to be capable to offer more than the traditional two order and delivery cycles. The degree to which order and delivery cycles increase and additional "flash programs" are offered depends on genre and fashion extent which is normally higher in womenwear than in menswear. Moreover, for particular items the producer has to offer NOS (never-out-of-stock) programs as well.

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57 Here we refer to the ideal type „branded producer". Real-world firms that are known for their brands more often than publicly known (and they are very discreet about this) also offer private label services for their retail customers. This goes beyond so-called special make-ups that keep being associated with the brand. A similar collection could be offered as a producer´s brand as well as a retail brand.

3. Producers are supposed to change basic attitudes. The frequently heard idea “we have to learn to think like a retailer” expresses a change from a production orientation to a marketing orientation. This orientation materializes in different forms, ranging from additional offers for POS merchandising, to shop-in-shop systems and ending in concessions where the retailer only provides the basic sales facilities.[59]

The resulting “vertical system” involve a variety of forms with different risk and responsibility sharing between the producer and the retailer. In some cases the producer takes over (some of) the sales risk while the retailer delegates decisions on the range of products to be offered in its stores.

“Vertical systems” are often presented as a win-win solution. However, there is also an ongoing struggle on gain sharing depending on the market power of the partners, the purchase power of the retailer and the brand reputation of the producer.[60] To become a partner in vertical systems is highly demanding for the producer. Case study evidence gives examples of successful partnerships with mutual benefits, assuming high-trust relationships, but also relationships that are characterized by lasting distrust on both sides. Then, retailers try to be prepared to substitute partners by own or other competing brands. The retailer is in danger to incubate new competitors in their own business if the producer learns to act like a retailer.

“Vertical systems” in cooperation between retailer and branded producer already pave the way to forward verticalization. Mono-label stores as concessions or Franchise systems can be seen as transitions to complete vertical systems under command of the producer. They represent a captive network. The final step is not so far then: owned stores. Several branded producers did this in the 1990s and the early years of the new century. According to BTE (2004 :

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58 “Vertical systems” are also not fully convenient for small retailers as well. Thus branded producers may have different systems with different retail customers.

59 In early 2004 (BTE 2004: 50) 8200 shop-in-shop systems were reported and another 1300 were planned in 2004. Other models (“corners”, “contractual selling spaces”) that are more convenient for smaller apparel companies are also very common, more than 7000 in 2002 (BTE 2002: 49). Concessions are far less frequent (about 70 in 2002), but also gaining ground (more than 350 in early 2004) (BTE 2002: 49; BTE 2004: 49). At the end of 2004 BTE (2004: 50) expects almost 500 concessions. Franchise stores sum up to almost 400 in 2002 and more than 600 in 2004 (ibid.), associated with 88 different producers. The overall market share of all models (so-called “Flächensysteme”) was approximately 10% of total sales in 2003 (BTE 2004: 48).

60 Former specialists have to integrate a broader product range beyond their previous core competence which may build an obstacle to pursue such a strategy. To deliver a more complex product range in shorter cycles is a challenge for supply chain management and distribution because often a wide range of suppliers have to be integrated..

50) there were 520 producer-owned stores in Germany in early 2004 and another 130 to come during 2004.

Hugo Boss, for example has more than 500 own shops worldwide. In Germany the shops are mostly managed by Franchising, only so-called Flagship-stores are completely owned. Gerry Weber plans to increase its owned stores to 47 in 2005; additionally the company has 57 franchise stores. Also in this category the numbers are rising. In the long run there should be 300 to 400 own "Houses of Gerry Weber". Gerry Weber plans to make 80% of its sales through franchised and own stores in the future.

It is openly discussed among our interview partners that their are two basic alternatives: the emergence of vertical structures from both sides, producers and retailers, or the co-existence in a new form of partnership named „vertical systems".

## Private Label Producer – Caught in the Middle

Private label producer in principle cover the same steps of the value chain as branded producers, however, lack the brand reputation. We also assign companies to this type that do not offer complete collections ("outfits"), but only cover special product categories.[61] This is more unfamiliar in the group of branded companies although also there we know of specialists (e.g. shirts, trousers).[62]

Due to several reasons the situation of the private label producer is more problematic than the average industry`s. Not protected by brand reputation they are faced with a shift in the overall market structure that goes at their expense. Their traditional retail customers lose market shares to New Verticals. Some of their larger customers expand the business with own retail brands based on own design and procurement and shift sourcing of no-name and traditional private label products to foreign suppliers (full import). The 1990s witnessed a remarkable increase in capable suppliers in low-cost regions.[63]

Private label producers have been looking for answers to these challenges. The following refers to the large producer in our sample:

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61 Our cases in this category cover both cases: a large producer with offers in many product categories and coordinated collections, working for a variety of retail customers; a small company, specialized in skirts, only working for one retail customer for a long time.

62 It is a discussion of its own whether specialized brands will be able to survive: different respondents, different answers.

63 The large company in our sample lost business with one of its traditional customers, a large mail-order company, exactly for these reasons.

1. Attempts to develop complete collections under an own label to be distributed by specialized retailers, that are not able to invest in own design and supply chain management and are affected by the rise of the verticals chains. In some respect the concept is similar to the ones branded producers and New Verticals apply: complete outfits, short order and delivery cycles, weekly changing themes, focused consumer groups/young fashion. They explicitly try to imitate Zara and Mango. They keep the option open to invest in own sales channels if the concept turns out viable.

2. Offering design and production services for non-textile retail companies without design and production/procurement network organization (Aldi, Tchibo);

3. Changing profile of traditional private label business with large retailers: It is reorganized according to the new requirements of their customers. It does not focus on product categories any more and offers more order and delivery cycles. Based on these capabilities the company was able to gain also business from retail brands in cases where the product range is more complex and has special quality demands and the retailer hesitates to invest in these competencies on its own.

   "You have to be capable to pattern permanently, not only twice a year. You have to place a design team and a sourcing team at his (the customer´s) disposal, which is able to produce new topics permanently, new developments, permanent sourcing and production" (Interview with head of production).

   Regarding the reasons why retailers in some cases decide to do this not on their own: "For instance, these two lines, the menswear and large sizes collection for women, they have done on their own. However, they gave it up. They realized – given the number of parts per month of about 40 to 50 000 - that they were not effective. You always need one designer, whether he or she is working for 10 or 30 days a month. You need a fabrics sourcer and so forth. Costs do not stand in a fair relation to turnovers. You have to do all the production control, to take care of the logistics chain, you have to finance fabrics, trimmings, everything. (...) this means, the supplier bears all the financing costs. That´s a lot." (ibid.)

4. In order to stay price competitive the company shifted the manufacturing and sourcing base completely to low-cost regions and developed a world-wide manufacturing and sourcing infrastructure.

These strategic initiatives rest upon traditional strengths of the company in design, manufacturing and supply chain management. The company relies on an extended worldwide production "network", including owned factories in CEE countries, reliable CM(T) and full-package-

suppliers. It commands an extended organization of logistics and quality assurance offices in the countries where major production and sourcing occurs. However, it was and is controversial whether the attempts to adapt will be sufficient to secure the future of the company.[64] Despite the severe crisis the company was faced with in recent years we hesitate to complete write off this type of apparel company. There may be room for this kind of business although on a smaller scale than before.[65] However, the private label business could be the next step for foreign companies that develop their capabilities beyond the subcontracting types III.a and III.b (see Figure 2), a state that Turkish firms have achieved
quite early.[66]

## V. Manufacturing Outsourcing, Relocation and Spatial Value Chain Architecture

Let us just recall the main points from section III. regarding the situation at the outset of the 1990s. Earlier than others German apparel producers used the outsourcing and relocation option. This was driven by increasing price competition due to massive importing while the alternative to rely on home-based low-wage opportunities was blocked. Already before the 1990s the concurrent upgrading of product ranges, a higher fashion degree and branding strategies altered the terms of decision-making on outsourcing and relocation. Capable and reliable suppliers became compulsory and nearby locations even more favorable. The 1990s changed the situation again. Earlier expectations that the decline of manufacturing at home

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64 After our interviewing a major downsizing occurred and the group had to sell some of its own label business because this was quite promising and could be sold more easily in order to resolve the current liquidity crisis. The company was able to get large orders from the non-textile retail chains (like Aldi and Tchibo) but these turned out to be not profitable. Some of the orders to produce a retail brand for a large customer were withdrawn later on. This business is quite volatile. The more capable foreign suppliers step on the scene, the more previous calculations of the customers are undermined.

65 E.g. the smaller, very focused company managed to survive as a captive supplier for a large apparel and textiles retail chain after they had quit their manufacturing at home and shifted it to CEE supported by a mediating company which does the selection and monitoring of the subcontractors and organizes customs duties and logistics.

66 There is not enough information to make a separate sub-section about the German manufacturing subcontractor (“Zwischenmeister”) at the moment. The case of one of them to be mentioned below in the relocation section would also speak for the fact that there is no future for it in Germany. The entrepreneur of this company decided to move all operations to Romania several years ago and there are reports on others that did the same. However, very recently we came across a newly opened small company specialized in repair services for deliveries from the Far-East. In these cases delivery deadlines are tight and there is no time to send it back to the foreign supplier for repair. The fabrics involved are too expensive and the customer relationship too valuable to just forget about it.

could be stopped were disappointed. The emergence of New Verticals often relying on a global manufacturing infrastructure from the start, new strategies of (other) large retailers, the emergence of highly capable suppliers in low-wage regions in the European periphery increased the price pressure again. On the other hand, the new options for manufacturing outsourcing and relocation strategies given with the European enlargement suggested to intensify outsourcing and relocation, a course of action with which German apparel producers were already familiar. New challenges for production and procurement emerged from strategic changes and (retail) customers´ demands besides price competition: (1) acceleration of order and delivery cycles and (2) increasing complexity due to the extended range and mix of products. These challenges are partly incompatible and difficult to balance. While due to price competition German apparel producers keep on abandoning manufacturing at home there are quite different answers to the question whether and in how far a company should have own or majority controlled manufacturing sites abroad, and regarding the question, which type of production and/or procurement network is adequate to meet the challenges. The basic alternatives are:

1. Own manufacturing abroad and in Germany
2. Manufacturing Subcontracting to a CM(T) type foreign company[67]
3. Full-package supplier networks
4. purchase of commodities

All apparel producers, both brand name and private label, apply all these alternatives together, although in a different mix.

Figure 4 (appendix) shows the employment development for the 1990s and figure 5 (appendix) the development of the employment structure. The white-collar/blue-collar ratio ("Angestellte"/"Arbeiter") is only a rough indicator but nevertheless shows a dramatic shift in employment structure. In 2004 almost 50% of all employees are "Angestellte" and definitely not occupied in direct manufacturing.[68] The German apparel industry ceases to be a manufacturing industry at home.

67 As has been noted above, in option (1) and (2) OPT may be involved.
68 This is highlighted when compared to the UK (see Lane and Probert 2004).

### Manufacturing at home

The data given by Grandke (1999) (table 1) show that no significant home manufacturing base is left already in 1998. Although more than 60% of respondents report any manufacturing in Germany, most of these use it for less than 20% of their production. The overall employment data and our case study evidence prove that the German manufacturing base has eroded even more since 1998. In almost all of the companies that had own manufacturing at home, in recent years manufacturing sites have been closed down or drastically reduced. There are only few cases left in which manufacturing comprises more than making prototypes and parts of sample production. And it is not mere coincidence that these companies are quite successful and not under pressure from banks because of a current company crisis.[69] In these cases the home manufacturing is seen as a competence center and flexibility buffer which has to be big enough to produce under industrial conditions.[70] The manufacturing site is also used to hold out personnel for training initiatives, quality assurance and “fire brigade” duties in the foreign subcontractors´ sites. In more than these cases relevant parts of management were committed to the idea that it is indispensable to have a competence center for the core products and its production as a means for maintaining core competencies and to keep oneself distinguishable from possible foreign competitors. However , this can be realized differently, at home and abroad.

### Make-or-buy abroad

Besides the decision to abandon most of its manufacturing sites in Germany companies have to decide, whether and in how far they rely on owned or majority controlled (joint venture) manufacturing capacities abroad or on independent suppliers in different forms (option (2) to (4) see above). Grandke´s data (see table 1) show that own manufacturing abroad is a relevant option for a third of the respondents used to differing degrees. This is in line with case study evidence.

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69 We found similar arguments in favor for a German manufacturing base in these cases but without a chance to be heard and considered under crisis conditions.

70 These cases all refer to menswear. However, our case study sample is to small to make a convincing argument out of this. There are some hints that the need to have a competence center near design is more pronounced in men´s suits production because of “good fit” requirements. However, the same arguments did not catch on in other menswear companies.

**Table 1: German Apparel Companies and Own Manufacturing Sites**

| Typ | Share in % |
|---|---|
| Own manufacturing total | 73,0 |
| Own manufacturing Germany | 63,5 |
| Own manufacturing abroad | 33,0 |
| Own manufacturing Germany and abroad | 24,0 |

| Companies with own manufacturing | in Germany Share in % | abroad Share in % |
|---|---|---|
| None | 36,5 | 66,7 |
| Below 20% | 34,9 | 11,1 |
| 20-50% | 15,9 | 6,3 |
| > 50% | 12,7 | 15,9 |

n=62, data from 1998. Source: Grandke 1999, o.114.

There are companies that do not rely on any own manufacturing abroad. One company increased its engagement after having worked almost completely with subcontractors for some time. Another company is about to abandon own manufacturing abroad because of negative experiences in a joint venture. Finally, a company that for many years did all manufacturing in own sites, abroad and at home, decided more recently to have a mix of own manufacturing (based in Tunisia where they started), a stable relationship to one subcontractor (Romania) and more fluctuating sourcing from full-package and commodity suppliers. In our sample of apparel firms the range of own manufacturing abroad is from 0% to almost 40%. Menswear producers are more likely to have own manufacturing but not as a strict rule.

There is an ongoing struggle within firms whether and in how far own manufacturing is at least necessary abroad. Different viewpoints depend on the definition of core competencies. A common denominator of all cases seems to be, that companies maintaining one or several production sites abroad usually upgrade it over time, attach more functions to it regarding logistics and use these sites for control and surveillance of surrounding network partners. This is the case with four of the companies we investigated. The investment in own manufacturing capacities and to upgrade it to a competence center with full access to all the company know-how in manufacturing is also motivated by the experience that the upgrading of OPT partners (see for CEE countries Corporate Solutions 2001) is not without risks. The more the partnering company learns from co-operation the more likely it will be interesting for competitors, especially for retail companies looking for manufacturing partners for their retail brands. Moreover, it cannot be excluded that foreign partners use their newly acquired competencies to become competitors themselves over time. Other interview partners acknowledge these risks but see them unavoidable. They see more advantages working with subcontractors and see their core competencies elsewhere (design and marketing) and not in manufacturing. Although not any company would arrive at the decision to completely rely on own manufacturing, some of them tend to produce core products on their own, which make them indispensable for their retail customers.

Just to give a better idea about arguing, here comes an interview passage from a large menswear branded producer: “You have to have a certain amount of own manufacturing capacities to know what´s going on regarding delivery times (deadlines), prices (calculation) and know-how. We have been losing know-how before because we did not have any high volume manufacturing site any more. Here (at the headquarter) we only have a production which tends to become a „Manufaktur“ (workshop). With our investment in (country X) we have preserved our high manufacturing know-how regarding high volume production.“

## Network types and network organization

Let us consider the alternatives to own manufacturing at home and abroad. The data provided by Grandke (1999: 115) (see table 2) show that all options are used by the responding firms. Not surprisingly, subcontracting at home (“Zwischenmeister”) is the less common option, while subcontracting abroad using CM(T) type suppliers via OPT is the most frequently used option and covers most manufacturing.

**Table 2: German Apparel Companies and their Supply Alternatives**

| Typ | Share in % |
|---|---|
| German cubcontracting | 19,0 |
| SC/OPT abroad | 70,0 |
| FPS | 32,0 |
| C | 44,4 |

| Companies using | SC Germany | SC/OPT | FPS | C |
|---|---|---|---|---|
| None | 80,7 | 30,7 | 69,5 | 56,5 |
| Below 20% | 16,1 | 12,9 | 11,3 | 24,2 |
| 20-50% | 3,2 | 11,3 | 9,6 | 8,0 |
| > 50% | 0,0 | 45,1 | 0,6 | 11,3 |

n=62, data from 1998; SC=subcontractor; FPS= full-package supplier, C=commodities. Source: Grandke 1999, p. 115.

Our case study evidence suggests that German apparel companies use the foreign subcontracting via OPT especially for their core products, some in addition to own manufacturing, some without relying on own manufacturing at all. These are the products where European fabrics are used more often.

However, the increasing importance to deliver complete outfits and coordinates to their customers and the corresponding need to reduce complexity in the organization of the value chain gives rise to an increasing use of full-package suppliers. The use of full-package suppliers can be a result of an upgrading process of former OPT/CM(T) partners, but also a different choice from the start. Table 3 (see below) gives data from one of our case studies. Regarding core competence products own manufacturing facilities still play a role and more “organized” forms of networking are of considerable importance. However, more modular networking relationships are to be found here as well which clearly dominate the complementary product range.

**Table 3: German Apparel Companies and their Supply Alternatives - the case of a womenwear branded producer -**

| Manufacturing/Sourcing type (% of total parts) - year 2003 (planned) - | FPS | SC/OPT | own facories |
|---|---|---|---|
| Total | 57,0 | 34,0 | 9,0 |
| Ready-to-wear (core competence) | 42,0 | 45,0 | 13,0 |
| Knitwear/shirts | 86,0 | 14,0 | 0,0 |

FPS=full-package supplier; SC/OPT=Subcontracting in Outward Processing Trade

## Characteristics of network relations

The advantages of outsourcing in comparison to own manufacturing are basically given by a greater flexibility in the overall production network, lower investment, no responsibility to load existing capacities and the chance to switch production according to changing market conditions, especially regional shifts in wage costs. Although the case study companies appreciate these advantages and make use of them they are additionally inclined to reduce the number of partners involved, to establish long-term relationships to them and to build up regional agglomerations backed by a network infrastructure regarding quality assurance and logistics, in some cases grouped around own manufacturing sites. There is a tension between the aim to use the flexibility of a more fluctuating production network giving the chance to make use of wage cost differentials and the need to reduce the complexity of the overall network regarding a wide range of coordination costs and the need of having specifically qualified and reliable partners in the network. Case study evidence shows that all companies are aware of these conflicting demands and constantly are looking for a favorable overall balance (see also Herrigel and Wittke 2004).[71]

To give examples:

(1) The large private label producer in our sample depends on the ability to use wage cost differentials quite heavily. It has the most extended network meanwhile covering also extreme low cost regions in Eastern Europe. According to the middle genre of its products it is more important to make use of wage cost differentials for this type of a company than for brand name producers. Some years ago the company managed a network of more than 200 manufacturing partners. They realized that this extended and fluctuating production network caused a lot of problems regarding quality assurance and reliability of delivery and resulted in high coordination costs. They decided to reduce the number of manufacturing partners to 60 and to only rely on larger companies. Besides reducing transportation costs and lead times, this enabled the company to reduce its workforce of German travelling technicians dramatically. Instead they more rely on local technicians for the production surveillance, specifically trained by the German company and supervised by a regional center.

(2) A brand name producer for the first time started to use OPT/subcontracting relationships in the 1990s. It reduced its German production facilities considerably. Additionally to a large own manufacturing site in Tunisia it makes use of OPT partners both in Tunisia and in Romania. In Tunisia the company established a logistics center and controls and coordinates the regional CM(T) partners from there. In Romania the company concentrates the OPT business to only two partners with which they try to establish a long-term relationship. They stick to the principle „not to have too many partners" In their view "a partner always has to have prospects for the future“. The German company qualifies these partners to meet their demands regarding their core products. One plant was especially established for the German company by the Romanian entrepreneur. For more marginal and occasional products they additionally use specialized contract manufacturers elsewhere with which they cooperate more loosely. The company tries to moderate the problem of shifting wage cost relations by the attempt to enable the Romanian partners to rationalize production on their own. Nevertheless, recently the company decided to establish a new cooperation in Bulgaria. This is motivated both by the aim to make use of lower wages there and to spread risks. However, this does not mean to give up business with the Romanian which has been lasting for more than 10 years.

(3) A special case is a former German „Zwischenmeister“ who used to work mostly for a large branded producer. In the early 1990s both sides became aware that manufacturing in Germany would be a phase-out model. The principal company encouraged the German subcontractor to look for alternatives abroad because they wanted to continue the successful cooperation and give him a chance to find a more suitable cost basis. The subcontractor decided to invest in Romania with the promise of the principal firm to fill the new capacities abroad with orders for several years. The subcontractor meanwhile operates the Romanian firm for many years. Besides the initial customer he gained a variety of other, mostly German customers of the same genre. Additionally he established laundry and dye-works facilities nearby working for many new customers (foreign and domestic) from Romania. From there he plans additional manufacturing facilities in Ukrainia. The entrepreneur stressed that he was only able to establish and develop the green-field project in Romania because he was able to use the highly qualified personnel (technicians) from his factory at home. Only after this had been achieved the German location was closed down.

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71 Therefore, in most cases it does not make much sense to qualify the entire network or sourcing architecture of a company by one governance type. Mostly it is a combination of different types and each can change character over time.

Many of these relationships to subcontractors can be qualified as captive, at least in the beginning. There is a lot of “organizing” effort of the principal company and a clear power imbalance involved. However they take on the character of a more modular relationship over time, as the subcontractors develops generic capabilities that can be and are used by different companies. In both phases the relationship can have and often has some “relational” additive. It is based on personal trust between relevant representatives of the involved firms.

To invest in long-term relationships to partners is not without risks itself. Firms use manufacturing subcontractors to gain more flexibility, to avoid own investment and the responsibility to load the facilities with orders. On the other hand, exactly this is the reason why the principal company cannot prevent its agent to additionally work for competitors or to develop and market products on their own. Only in very rare cases a principal company is large and potent enough to exclusively use a partner company.[72] Usually, for most companies the relationship to the OPT partner is not captive in the narrow sense of the word. To a certain degree and under certain conditions this may not cause problems and can even be welcomed as a chance for the partner to develop its capabilities. The main problems are:

1. Know-how drift to immediate competitors.

2. Loss of the efforts to qualify the partner. This is especially a problem in cases where large retail companies are looking for partners to produce their competing retail brands. Their product managers are explicitly seeking for manufacturers abroad which have previous experience with a similar product of a highly reputed brand.

3. Qualifying partners to competitors themselves. There are reports that former contract manufacturers use the qualifying and upgrading efforts by the branded producer to develop and market own brands, partly quite shamelessly copying ideas.

In how far these risks actually crop up depends on the power relations between the partners and hence the ability to exclude some of the risks by the design of contracts and/or the development of high trust relationships. Our case study companies deal quite differently with these

72 As far as we know from data provided by the Romanian subsidiary of the German GTZ (a development agency) also subcontractors working for Hennes & Mauritz in Romania have other customers as well, although it is often assumed that the H&M production network is completely exclusive and “captive” in this sense.

risks. Some of our interview partners state that one has to learn to live with these risks („such is life"), others take these risks as arguments to use other forms of value chain governance instead, joint ventures or hierarchical control, at least regarding core products. Seen from the other side of the relationship (as we know from interviews with local Romanian firms) there is the risk that the foreign customer mostly takes advantage of the given capabilities, develops the subcontractor only gradually and shifts orders to cheaper locations when available, leaving the subcontractor in a state where he is not able to play a new role in a new situation.

**The CEE Option – Enlarged Europeanization or Globalization**

We have been dealing with the role of CEE in the emerging production networks or supply chain architecture already. Now let us come back to this more explicitly, trying to examine its role before the background of our initial assumptions, the changing strategies of the main groups of actors, and the overall governance of the value chain.

The initial assumption of our project was: German companies can combine the advantage of proximity to the markets, a considerable level of industry specific qualification of the work-force and competitive wage cost levels by using CEE countries both as new location for own manufacturing or for subcontracting. Proximity advantage is given both regarding nearness to the German design centers and the important West European (consumer) markets. In general these assumptions are confirmed by both official data and by case study evidence.

Let us start with some data (Table 4, appendix). Starting already from a high level[73] apparel imports from CEE increased considerably during the 1990s. In the same period the Asian import share was slightly reduced; only in 2000 it again surpassed the 1988 figure.[74] In 1998 the CEE import share for two years was beyond the Asian share. In 2000 32% of all imports came from there. Among the ten largest importing nations in 2000 three were CEE countries: Poland (ranking 3), Romania (4), Czech Republic (10). In general from total imports 35% are

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73 The data do not reveal the enormous shift within CEE. In the early 1990s, till the Balkan crisis, former Yugoslavia had a major share. The data for Poland and Romania (table 4) indicate a shift within CEE from countries with rising wage costs (Poland) to cheaper countries within the region (Romania). The rising imports from CEE countries were at the expense of other European rim countries, foremost Portugal. Imports from Portugal had its peak in 1991 (920 million Euro), more than Poland and Romania together, and declined steadily afterwards to only 62 million Euro in 2004.

OPT imports. In 2000, from all OPT imports 76,5 % came from CEE countries. Among the ten largest OPT-countries are eight from CEE, except Tunisia (ranking 3) and Turkey (10). That means that German *apparel producers* mostly use CEE countries for the CMT-type subcontracting, even if we bear in mind that parts of OPT imports refer to own manufacturing sites in these countries (Adler and Breitenacher 1995). On the other hand CEE countries heavily rely on the OPT mode of economic integration in the fashion industry as 84,4 % of all exports from CEE to Germany are OPT-exports. In 2001 the share of CEE countries peaked and since then slightly decreased. Since 2002 the share of Asia quite remarkably increased and reached almost 40% in 2004, China alone accounting for 18,5%.[75]

Case study evidence shows: All apparel companies use CEE countries for the OPT-type of subcontracting, though to different degrees. The private label producer most heavily makes use of the most far Eastern and "cheapest" countries while the branded producers hesitate to use this opportunity. Nevertheless, Romania and more recently also Bulgaria, and not any more Poland, Hungary and the Czech Republic, seem to be the most interesting countries for the OPT business. Romania has already overtaken Poland as the most important CEE importer. Moreover, five of eleven companies have own or majority controlled manufacturing sites in CEE countries.

But of course, in general sourcing from CEE is not without alternatives. Let us consider the following case study evidence (see Table 5). The example already hints at the relevance of the Far East and of South East Europe, namely Turkey as an alternative to CEE sourcing (see also table 4). This is true for apparel producers but even more for retailers. To both we can only provide a rough outline of the regional sourcing strategies.

The decisions on regional preferences are taken by considering the following, partly incompatible conditions:

1. Cost/price advantages
2. Capability of suppliers

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74 The year 1991 with the enormous extra demand for cheap clothing items due to the German reunification marks an exception. This demand could only be met by Asian, including Chinese imports through German retail.

75 What the end of the quota system in 2005 will mean for the position of CEE countries on European markets remains to be seen. In any case, in 2005 Poland is among the European countries loudly opting for EU safeguards against Chinese import torrents.

3. Availability of fabrics and trimmings
4. Proximity, transportation time and costs.

Besides these four criteria international trade regulation, especially quota restrictions and costs, have to be considered.

**Table 5: German Apparel Companies and their Regional Supply Structure - the case of a womenwear branded producer -**

| Supply Region | Share in 2002 in % | Tendency since 1999 |
|---|---|---|
| CEE | 26,0 | strongly growing since 2001 |
| Western Europe | 9,0 | declining in 2002 |
| Far East | 25,0 | slightly declining since 2000 |
| North Africa | 10,0 | increasing, slightly declining in 2002 |
| South East Europe | 30,0 | strongly increasing over whole period |

Regarding apparel producers the following tendencies are relevant.

1. Given the increasing significance of full-package supply and the acceleration of order and delivery cycles, especially in the high fashion markets, other regions than CEE gain importance. Turkey is the main candidate in this respect (see again table 4 and 5). Turkey has highly capable full-package suppliers, a pronounced trade or market mentality and a highly capable textile industry for a wide range of fabrics. Turkey is the case of a country which started as an OPT/subcontracting partner but developed far beyond these capabilities[76] and is nowadays in some fields even a competitor to German brand name producers. The relevance of Turkey is emphasized by the decision of the Hugo Boss AG to establish its main foreign manufacturing site there.

2. In the middle fashion segment, with more tolerance regarding lead times, the Far East is an alternative to CEE countries were the producer takes the option of full-package supply and where mostly Far East raw materials are used. The Far East is increasingly characterized by more and more capable suppliers. Cotton and silk fabrics and synthetics are available for many fields and the availability of trimmings is not any more a problem. One of our interviewees mentioned that in some cases even high fashion can be produced

76 Table 4 depicts that OPT traffic is of little significance for Turkey, sharply contrasting CEE countries.

in China in sufficient quality, because wage cost advantages overcompensate even flight costs.[77]

„In former years all the trimmings, zippers, special buttons, labels and all that were sent to Asia. There is no need for this any more, you can find it here. All the qualities (fabrics) we can buy in Taiwan, China or South Korea should be produced there as finished goods. Meanwhile, we are more than ten years in Asia. First we were in Hon Kong and distributed orders from there. We have said good by to Hong Kong and now we have our office in Shanghai and distribute from there. I was there last week and have been there six weeks ago: every time new activities. It is a booming market. It´s crazy what´s going on there. Some years ago we would have said: „you can´t take local yarns, buttons or zippers“. Forget about it. At last all the suppliers listed with us fulfil all the ecological standards because our customers demand it – and without problems. There all the certifying institutes down there. To dream that you cannot do this down there – forget about it.“

(...) „all the sophisticated products e.g. sportswear are made in the Far East, because it is labor intensive and the raw materials come from there. Whereas simple parts are never produced in the Far East, they always come from Europe. If the fabrics come from Europe and the part is relatively simple it is European production, e.g. skirts and trousers. But you have to think of quotas as well at least till 2004. (After 2005 the situation could change?) Yes, this could be. However what will not change is the long transportation time of 4 weeks at least which always will decide for Europe in case of high fashion and in case of qualities (of fabrics) you will only find in Europe, e.g. in Turkey. (...) Regarding some fabrics Turkey is still in the lead, e.g. for light ready-to-wear clothing, dresses, blouses, skirts, trousers“ (Production manager).

3. Corresponding to this, CEE countries are the most natural partners where West European fabrics are used predominantly and where there is a close cooperation between the branded producer and the subcontractor as described above. Most CEE partners are not or not yet able to provide the full-package supply partly demanded by apparel producers and especially by retail companies when looking for partners for the production of their retail brands. This is the reason why in some cases German private label producers still stay in the game, themselves using CEE countries via the OPT/subcontracting option.

(Why are not e.g. Romanian companies adequate partners, are there not any?) „I know very little. It starts with sourcing of fabrics. You have to go to the important fairs in Paris and Italy. You have to be able to show the customer all the qualities, you have to have your own ideas regarding design, have to present them. Then you have to take the risk to make the cutting and the pattern production. Then you have to present the collection. The customers will select and from 100 parts are 50 left, perhaps, or only 40, maybe 60, depending on your hit rate. So far are the companies not yet in Romania, nowhere in Eastern Europe. There are quite a number of German companies that have gone to Romania or other countries and which have taken with them more functions besides manufacturing, the cutting and pattern production as well. (...) There are some (Romanian) companies which are highly qualified, but only a few. E.g. a company in the middle of Romania having been working for Hennes & Mauritz for years. They do an excellent job. From

77 The amount to which this is done was somehow surprising to us. It mostly refers to womenwear producers using Aisan fabrics. At least in some market segments the proximity and lead time advantage of Europe seems to be less relevant than expected.

design to delivery they cover all for Hennes & Mauritz stores. Its CEO is Swedish and Hennes & Mauritz is a Swedish company. This guy had the contacts and the know how. He quite early started to offer the full package. This company runs optimal. They receive an order from Sweden or Hamburg (H&M headquarters Germany): „buy fabrics from this or that company, where we have blocked an order. The trimmings you will buy at here and there.“ As soon as everything is prepared he will receive the order and delivers the finished goods within a very short period. At the end of the chain there is a transport company taking up the goods and delivering them to the stores“ (Production manager).

4. There are some hints so far that a number of CEE originated companies have developed their capabilities and now are able to serve as a full-package supplier, sometimes themselves using a wider network of cheap subcontractors elsewhere in CEE countries.[78]

*Retail companies´* sourcing strategies differ in main aspects. For their retail brand business retail companies need more capable suppliers than on the average to be found in CEE countries. This is the reason why they rely on German industry partners in some cases. In other cases in which speed is also of importance, they prefer Turkish companies that are able to deliver the full-package. Both retail companies and New Verticals report a shift from Asia to Europe in time critical businesses. However, this does not predominantly go to CEE countries, on the contrary:

„You have to differentiate. In the field of young fashion, where speed is the key factor, there has been a dramatic shift from Asia to Europe in recent years.[79] The main area here is Turkey, by far number one in young fashion, but also the littoral countries of the Mediterranean Sea, Maroc, Portugal, South Italy. Countries like Romania, Bulgaria, the Ukrainia, Lithuania are at the beginning. But to be clearly, with countries like Ukrainia we would not get into as a retail company. There we still need the know-how of an industry partner. Because they can guarantee that technicians on-site care for quality and delivery. This only works where we find well-trodden paths like in Turkey. (..) But if you go into new countries, where you first have to build up know-how in production you have to do it with an industry partner“ (Manager department store).

Regarding most brands all West European countries and partly the US are the sourcing regions. However, the average import of German retail companies covers quite different market segments than those served by the average German apparel industry. The degree of fashion and especially the genre is in general far lower. In all these cases Asia is the main

78 This has to be explored in more detail in forthcoming texts. Evidence so far is quite mixed and difficult to interpret. E.g., it was expected that Poland would be able to develop full-package supply and to fulfil other roles than being a mere OPT-type subcontractor for which wages had been increased too much. However, the most recent data show that most imports from Poland are still OPT imports, only slightly lower than in Romania (see table 4).

79 Also Esprit Europe and H&M reported a shift in global sourcing from the Far East to Europe in the 1990s according to their business reports.

sourcing region which gains most heavily in recent years given its extraordinary development regarding quality, reliability and textiles infrastructure.

This picture is confirmed by data given by the German AVE (Außenhandelsvereinigung des Deutschen Einzelhandels) (see table 6 below).[80]
In the year 2000/2001 AVE member companies imported from:

**Table 6: AVE apparel imports 2000/2001**

| Country | 2000 (%) | 2001 (%) |
|---|---|---|
| EU countries | 30,3 | 17,7 |
| EU accession candidates | 3,3 | 4,1 |
| Turkey | 16,2 | 18,0 |
| Europe others | 1,4 | 1,5 |
| Asia | 46,7 | 56,5 |

According to these data, the share of CEE countries from 1997 to 2001 remained fairly the same. The difference between CEE countries and Turkey is emphasized by the fact that from all imports to Germany that come from Turkey 31,5% are covered by AVE imports, almost the same as from EU countries. However, Polish and Romanian imports to Germany only to 3,8% respectively 0,7% are AVE imports.[81] These data are mirrored by the predominant role of OPT imports from there. This means that most CEE imports to Germany come via German apparel companies (or even more indirectly via other West European importers that also rely on the CEE manufacturing base on OPT terms).

The emerging spatial value chain architecture has quite some features of an enlarged Europeanization that stands for substantial parts of the alleged globalization (Fligstein and Merand 2001). However, the apparel industry is a case in which quite early mostly buyer-driven value chains took on a real global shape. Moreover, the increasing CEE involvement cannot be taken as an *increasing* Europeanization, although there are some reports on relocation from Asian to European sources. However, mostly increasing CEE shares were at the expense of other European countries. More recently it even becomes questionable whether CEE countries can maintain their share gathered during the 1990s.

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80 "Foreign Trade Association of German Retail". It does not organize all German retail, but most of the big players (Karstadt, Hertie, Quelle, Neckermann, Otto, Kaufring, Metro, C+C, real, Kaufhof, Praktiker, Adler, Extra), including very different quality and price levels of textiles and clothing. AVE apparel import figures account for about 20% of total apparel import to Germany.

81 Calculated on basis of AVE data and overall apparel import data (table4).

# VI. Conclusions and Outlook

Earlier than other European apparel industries German producers were confronted with price competition on their home markets via a highly concentrated retail industry. Retail industry only could exert this pressure in more conventional product categories because of the export-oriented development strategies in many developing and newly industrializing countries. As for other apparel industries in high-wage countries the solution to move to a different development path based on mechanization and automation was blocked. While the alternative to rely on home-based low-wage opportunities to lower price pressure was blocked by the industrial relations system, German apparel companies combined strategies of upgrading, branding and exporting and "active internationalization", i.e. the use of low-cost regions for manufacturing. These strategies could build on capabilities provided by the vocational training system. This refers both to the specific features of product strategies, e.g. the high emphasize on quality and fit, and to the capability to organize cross-border production architectures. Thus, at the outset of the 1990s the German apparel industry had already lost much of its post-war employment peak, not only due to early relocation of manufacturing but also to the concomitant shake-out of the industry, i.e. the withdrawal of firms that could not follow industrial upgrading. On the other hand, the remaining companies already were on their way to a market position beyond mass production opening the opportunity to gain market power vis-a-vis retail and to enter foreign markets.

What changed in the 1990s? First of all, it has to be noted that there is quite some path-depending development and not a break due to an alleged new phase of globalization. However, there is also more than trivial change.

The set of actors and in some respect also their strategies changed. The advance of the New Verticals, often foreign companies, on the German market marks one of the decisive points. The New Vertical can be seen both as a new competitor and a new role model for an emerging fashion industry. It is an direct competitor for many traditional retailers and an indirect competitor for parts of the German apparel industry, that used to serve the affected retail companies. The success of the New Verticals has several causes, one of which can be seen in the fact that they rely on the emerging global manufacturing infrastructure from the start which they command more or less directly.

Following the vertical model in different ways traditional retail companies developed their own brand business more intensely as well as they demanded so-called vertical systems to be developed with their traditional branded suppliers.

German apparel producers put even more emphasis on branding and conquering export markets. They accelerated order and delivery cycles, offered more complete outfits and a variety of other marketing and sales related services as required by retail. Within the 1990s very rapidly a variety of “vertical systems” in cooperation with retail developed. Thus following the requirement “to learn to think as a retailer”, firms to a differing degree developed the capability for own forward verticalization. This step has been increasingly done in the end of the 1990s.

The situation of the private label producers turned out to be especially problematic although this type of actor should not be written of completely. However, this will be the fate of most German CMT type manufacturers, the so-called Zwischenmeister, some of which found a new place in the newly emerging CEE manufacturing architecture.

Thus, we see a new set of actors and an erosion of traditional role models. In any case, the formerly clear boundary between retail and producing industry is blurring. This does not mean that the old roles are not played any more, but on a smaller scale. Does this mean that “producer driven” value chains are vanishing and “buyer-driven” are on the advance? Maybe, the main point here is, that the distinction itself is of less significance in this industry. Does this mean that Christel Lane and Jocelyn Probert (2004) are wrong in asserting that the German industry is far more characterized by the so-called “coordinating firm” compared to the UK? This distinction remains relevant, however, it cannot grasp the tendency that the range of coordinated functions within the chain is extending in several cases, making the distinction between producer and retailer less significant.

Change described so far had an impact on decision making on relocation. First of all, the pressure to use low-cost regions for manufacturing did not diminish. Second, the fall of the iron curtain, the subsequent system transformation of CEE countries, and the EU-enlargement process opened up the option of relocation strategies that could combine the virtues of a skilled workforce, a low level of wage costs and proximity. Due to the changing product and market strategies German producers have been increasingly seeking exactly this combination.

This can be seen as an extension and acceleration of relocation strategies that had already started earlier. Firms used these new options in ways they were already familiar with, partly by own subsidiaries abroad and mostly by subcontracting to CMT type firms. However, also due to new product and market strategies other types of manufacturing partners, i.e. full-package suppliers, and sourcing strategies based on mere import ("Zukauf") gained importance. Thus, in the end the value chain architecture of German producers combines different types of actors and different governance forms covering the whole range from vertical integration to markets, as well as sourcing regions where the different types of actors are prevalent to differing degrees. At any rate, this stands in contrast to the expectation that a coordinated market economy institutional setting like in Germany would strongly support relational contracting and rule out other types of governance like modular networks or market relations. Again, this is not a contradiction to the Lane and Probert findings that relational contracting is more relevant in Germany than in the UK which supports the varieties of capitalism approach in the sense that it refers to the "broad picture".

Overall this resulted in the employment figures data we depicted in the beginning: another heavy decline of the workforce going along with a remarkable shift in employment structure (Figure 4 and 5). It has to be noted that these figures do not show that meanwhile also parts of production planning and other service functions are shifted to low-wage regions, be it by an upgrading of own subsidiaries or by a more intense use of full-package supply. It turned out that the skill base developed in the German institutional setting mainly was used to develop a specific strength in product design, to upgrade their manufacturing partners abroad, and to establish adequate supply chain management systems. Of course, also additional competencies had to be developed in order to pursue the required marketing orientation. "To learn to think like a retailer" and to enact such a new orientation quite frequently has been supported by recruiting experts and managers with a strong retail background.[82]

Based on these strengths a smaller German apparel industry developed brands and export business. From 1989 to 2004 the export share of total turnover increased from 20,6% to 33,4% (Statistisches Bundesamt, Fachserie 4, Reihe 4.1.1, several issues). Branded producers from our sample even reach export quota of 70%.

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82 It fits to the image of an emerging fashion industry that backward verticalizing retailers and New Verticals increasingly recruit personnel with a "producing" industry background.

The resulting competitive position makes the German apparel industry less vulnerable to the rise of Chinese imports to Europe compared to other European countries and the U.S.. This explains the quite modest reaction of the German industry association to the end of the quota regime in 2005.[83] Together with Italy, French government became spokesmen of the textile and apparel industry calling for EU commission countermeasures, thereby supported by European countries that still have a large share in the textile and apparel industry (Portugal, Spain, Poland)[84]. In contrast to these initiatives German government, backed by industry officials, declared that their industry was "already fit for the world economy" (Handelsblatt online 29.04.2005). Only in a open world market the qualities and competitiveness of the German textile and fashion industry could pay off, as German "Gesamttextil" already pointed out in its 2003 yearbook (Jungbauer 2003).[85] The German apparel industry is far less affected by rising imports from China because these mostly address different market segments, while at the same time German apparel producers themselves could be negatively affected by counter-strategies against China. Quite some German apparel producers source parts of their product program from China and have started selling their brands in the upper genre to the emerging new rich there.[86]

83 Not astonishing, the umbrella organization of European textile retail associations (AEDT) heavily advocates against new safeguards against Chinese imports since their members to a considerable degree rely on sourcing from China (TWnetwork 10.5.2005). This reaction is in line with the tradition of overall German industry trying to avoid any damage to the ongoing process of market liberalization that could negatively effect German export business to China, as the German "Industrie- und Handelskammertag" (DIHK) declared (TWnetwork 10.05.2005).

84 Recent news from Italy and France indicate that some of the old "virtues" of the French and Italian industry, namely their being capable to make use of informal labor within their countries is not any more a sufficient safeguard against price competition from China. This refers to a heavy increase of bankruptcies in the Paris fast fashion quarter "Sentier" (TWnetwork 8.6.2005).In Italy, in 2005 textiles and apparel unions organized protest strikes to urge their government and the EU commission to enact safeguards against Chinese imports that are said to force more and more firms to outsource manufacturing or to close down completely. There is widespread fear that the informal economy of small subcontracting firms could not any more serve as a buffer against import pressure and that Italy could face a similar employment development as Germany, France and the UK (TWnetwork 9.3.2005; see also Dunford 2005), putting more optimistic assumptions into question that date only some years ago (Camuffo et al. 2004).

85 Out of consideration for the EU constitution referendum in France, German government did not oppose to EU commission initiatives although German industry officials frequently had warned against precipitate measures.

86 Moreover, the German fashion industry association, also representing the textiles industry, is strongly interested in developing business in the field of technical textiles with China. In general, German textile industry is less affected by the end of the quota regime than other European industries because German textile companies persistently specializes in market segments that are not covered by low-cost competitors.

In the end, compared to other West European countries (e.g. Lane and Probert 2004) a quite successful apparel industry remained following the "diversified quality production" model but almost without a manufacturing basis at home.

## Varieties of Capitalism or Capitalist Diversity?

Let me end with some remarks on the question how these findings fit into the VoC approach regarding the challenge of „globalization" (Hall and Soskice 2001: 56).

1. For the industry under consideration, Hall and Soskice have been confirmed that „firms are not essentially similar across nations" and that firms from different institutional contexts react differently to similar challenges, including globalization (ibid.). In several respects it could be demonstrated that strategic responses to internationalization were shaped by institutions characteristic for the German CME while other national industries were differently exposed to these challenges as well as reacted differently to them.

2. Hall and Soskice suggest that „firms in LMEs may be more inclined to move their activities abroad to secure cheaper labor than companies based in CMEs, because the former already coordinate their endeavors using the market structures that less developed nations usually provide, while the latter often pursue corporate strategies that rely on high skills and institutional infrastructure difficult to secure elsewhere" (ibid.:57). (At least) for the fashion industry this assumption could not be confirmed. On the contrary, within the Coordinated Market Economy (CME) Germany apparel companies made use of low cost manufacturing regions earlier and to a higher degree than within the Liberal Market Economy (LME) UK (Lane and Probert 2004). Moreover, this is not only by chance but due to exactly one core element of a CME, the industrial relations system, that does not allow for an internal low cost labor market segment to emerge.

3. There seem to be alternatives for „pure" market relations „to secure cheaper labor" abroad, i.e. networks, that help to maintain the CME type high quality standards in manufacturing. Hall and Soskice do reckon with the possibility that firms engage in a form of „institutional arbitrage" (ibid.) which in the end would even reinforce the specialization patterns in both camps. However, they seem not to count with the kind of „institutional arbitrage" we witness in our industry case which led almost all manufacturing jobs vanish

while only highly skilled jobs in marketing, design, and management remain. It is exactly this division of labor that at least to a considerable degree accounts for the relative success of the German apparel industry among other European industries that are confronted with similar developments in a global environment.

Thus, we get a mixed picture. In some respect the industry case is in line with VoC reasoning, in others not. Does this lead to a comprehensive answer regarding the explanatory capabilities of the VoC approach? Not yet. First, as the concept addresses comparative advantages of institutional configurations on a national level, industry level analyses have to be integrated into such a “broader picture”. Below, we discuss some aspects of this issue. Second, so far we have dealt with the question, how strategic action of firms in an industry have been shaped by the institutional context and whether the results of this analysis are in line with VoC expectations. We refrained from a further exploration whether and in how far the institutions that shaped the development in partly surprising ways themselves have changed. This issue of institutional repercussions requires empirical accounts in more detail that cannot be delivered in this paper. Therefore, we can only maintain that the results of such an analysis will support the general conclusions below.

If the development in the industry at issue would be of general significance one cornerstone of the approach would be drawn away. At least implicitly it is assumed that a “diversified quality production” has some relevant manufacturing base and that the comparative institutional advantage that we can also find in the case at hand would open a viable way of achieving prosperity for the entire economy.[87] However, this is what already several years ago Wolfgang Streeck (1997) put into question when he asked: Can German capitalism survive? Rising and persistent unemployment is still the major point of reference for all debates in Germany that put into question the German model or at least relevant parts of it.

As noted before, the VoC approach does not seem well suited to deal with non-core industries. It rather addresses the „broad picture“ which normally empirically covers industries

87 The viability of different institutional configurations within a world economy cannot be reduced to the survival of firms.

which seem more typical for an CME context, at least with respect to labor intensity in manufacturing. One could argue that the loss of German apparel manufacturing is only the result of an ongoing specialization guided by the assumed comparative advantages. And in fact, there were consumer goods industries in the past that completely or almost completely vanished while other industries and public services more or less compensated for the induced job losses. Therefore, only similar developments in industries belonging to the core, could be a challenge to the concept. Of course, there are no core industries in Germany that face such a development as the one in the apparel industry. However, there is massive relocation of manufacturing in other industries that follow a similar pattern without reaching the dimensions of the apparel case (see Faust, Voskamp and Wittke 2004).

Maybe the real challenge to the VoC concept in policy terms is that many industries stay competitive because they make use of the new options of reorganization and relocation. Thus, comparative advantages on firm level are maintained while the manufacturing workforce is shrinking and unemployment is rising or stays on high levels. However, the causal relation between industrial restructuring/relocation and general unemployment figures are far from being obvious and there is a heavy public dispute about this topic, even among economists, the ones that claim to give profound answers to such questions. Also in this case “causality is open to negotiation” (Czarniawska and Joerges 1996). The proponents of neoliberal ideas are making use of the unpleasant situation to insistently present their solutions to solve the problem, especially insisting on further labor market deregulation and thereby tackling a core element of the German CME model. However, whether and in how far high unemployment is due to relocation strategies and/or to other factors (e.g. reunification and the way it has been publicly financed) is discussed controversially as well as the question whether high unemployment could be lowered by the labor market deregulation remedies offered by neoliberals.

Hall and Soskice assume that in CME countries „goverment should be less sympathetic to deregulation because it threatens the nation´s comparative institutional advantages“ and the „business community is likely to provide less support to it“ (ibid.: 58) because they draw competitive adavantages from relational contracting and „firms and workers have common interests to defend because they have invested in many co-specific assets, such as industry-specific skills.“ In any case, at present public debate in Germany shows far more than just „some calls for deregulation“ which Hall and Soskice expect in CME contexts to emerge (ibid.). And since the late 1990s a government led by Social Democrats gave in to quite some of these deregulation claims. There is more on the public agenda than would be expected in the VoC framework and it remains controversial whether change that has occurred in different spheres of the institutional setting has to be qualified, as “minor changes”, as “transforming” (Rehder 2003) or path-breaking. This is not only a matter of more empirical research but of a appropriate theory of institutional change. In any case, institutional complementarities so prominent in the Hall and Soskice approach do not show effects independent from reasoning and acting, they have to be actualized and confirmed in the political and managerial discourse and backed by relevant actors and political coalitions. Therefore, we need a “capitalist diversity” framework that both allows for more diversity within each national context and for other mechanisms of institutional change than the “Varieties of Capitalism” approach has to offer (see Streeck and Thelen 2005).

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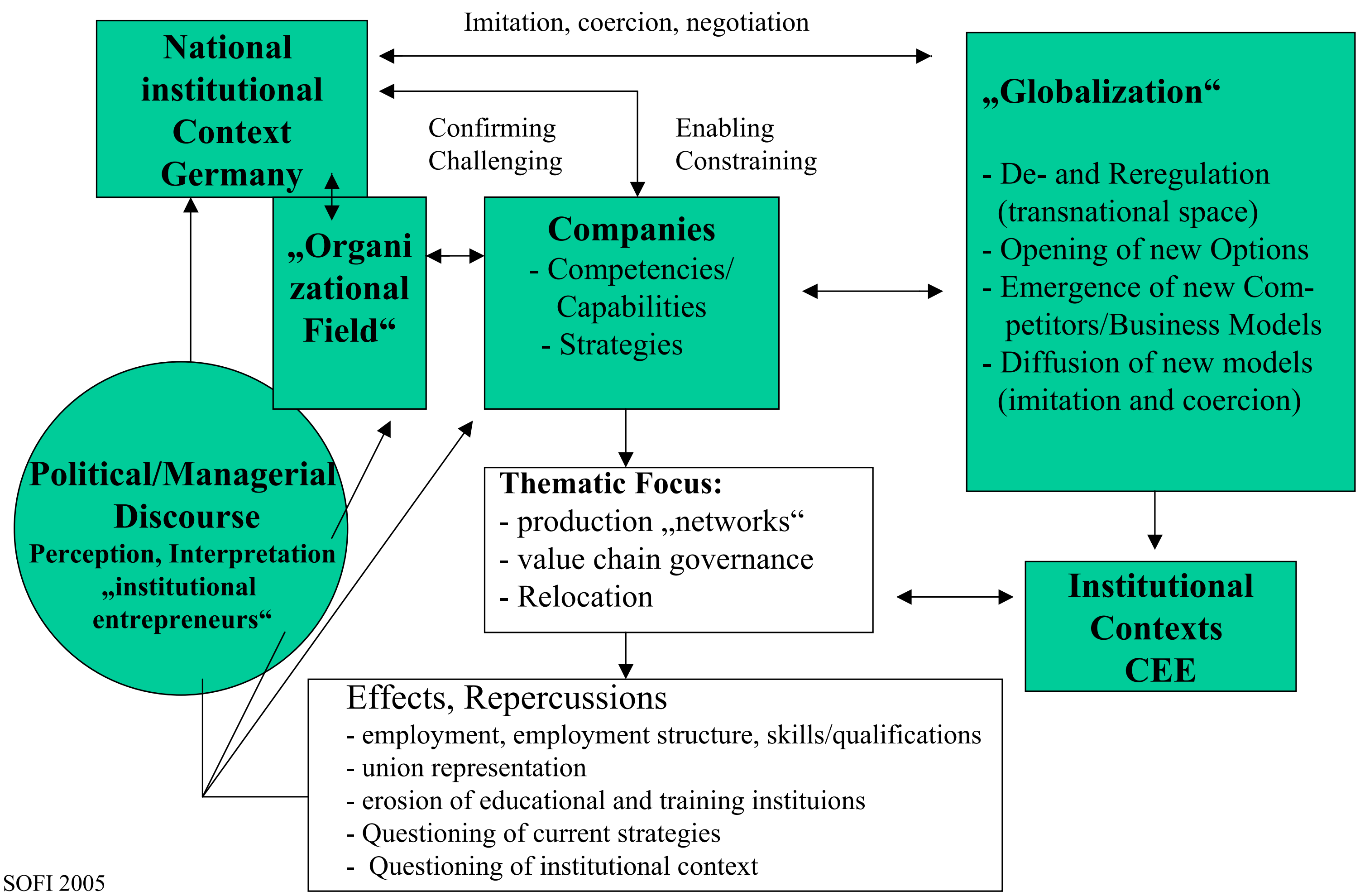
# VIII. Appendix

## Figure 1: SOFI Project - Overall Theoretical Framework

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# Figure 3: The Fashion Industry Typology of Firms

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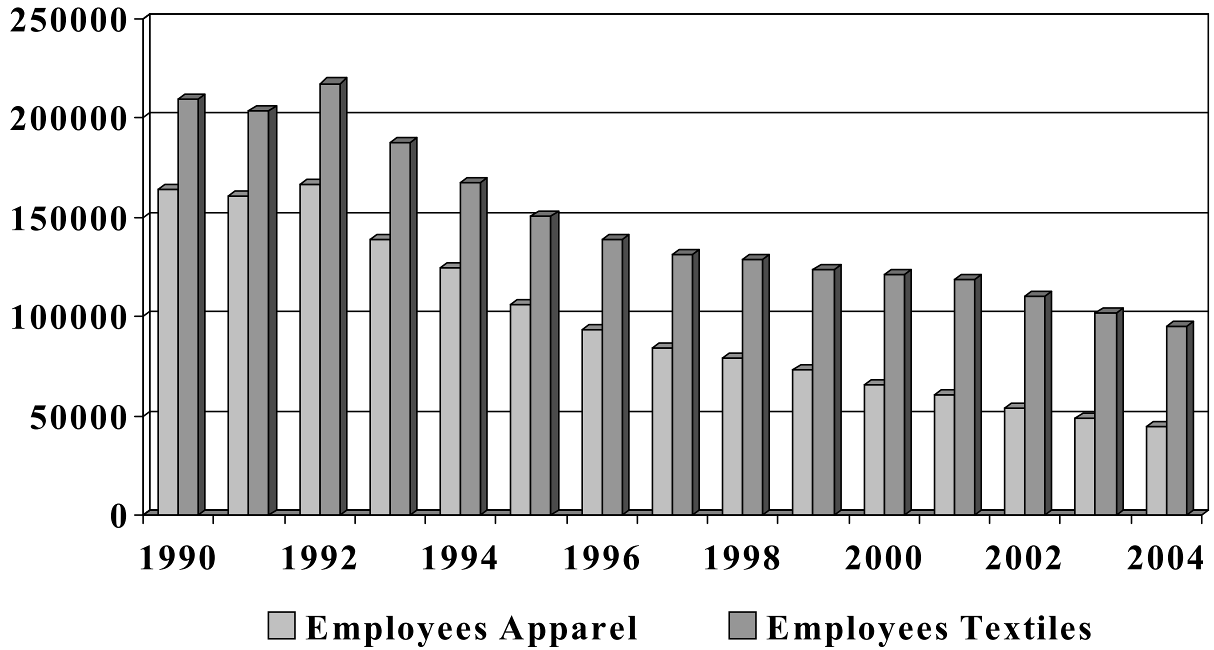
| Type of Firm | Collection<br>1 | Models<br>2 | P.-design<br>3 | Manufacture<br>4 | Marketing<br>5 | Distribution<br>6 | POS-M.<br>7 | Sales<br>8 |
|---|---|---|---|---|---|---|---|---|
| **I Branded producer a) traditional** | Collection | Models | P.-design | (Manufacture) | Marketing | Distribution | | |
| **b) forward verticalizing** | Collection | Models | P.-design | (Manufacture) | Marketing | Distribution | POS-M. | (Sales) |
| **II Private label producer** | (Collection) | Models | P.-design | (Manufacture) | (Marketing) | Distribution | | |
| **III Manufacturing Subcontractor a) CMT** | | | | Manufacture | | | | |
| **b) FPS** | | | ( P.-design) | Manufacture | | (Distribution) | | |
| **IV Retailer a) focused** | | | | | | purchase | POS-M. | Sales |
| **b) backward verticalizing** | (Collection) | (Models) | | | (Marketing) | purchase | POS-M. | Sales |
| **V New Vertical** | Collection | Models | ( P.-design) | (Manufacture) | Marketing | Distribution | POS-M. | Sales |

# Figure 4: Employment German Apparel and Textiles Industries

## 1990 - 2004

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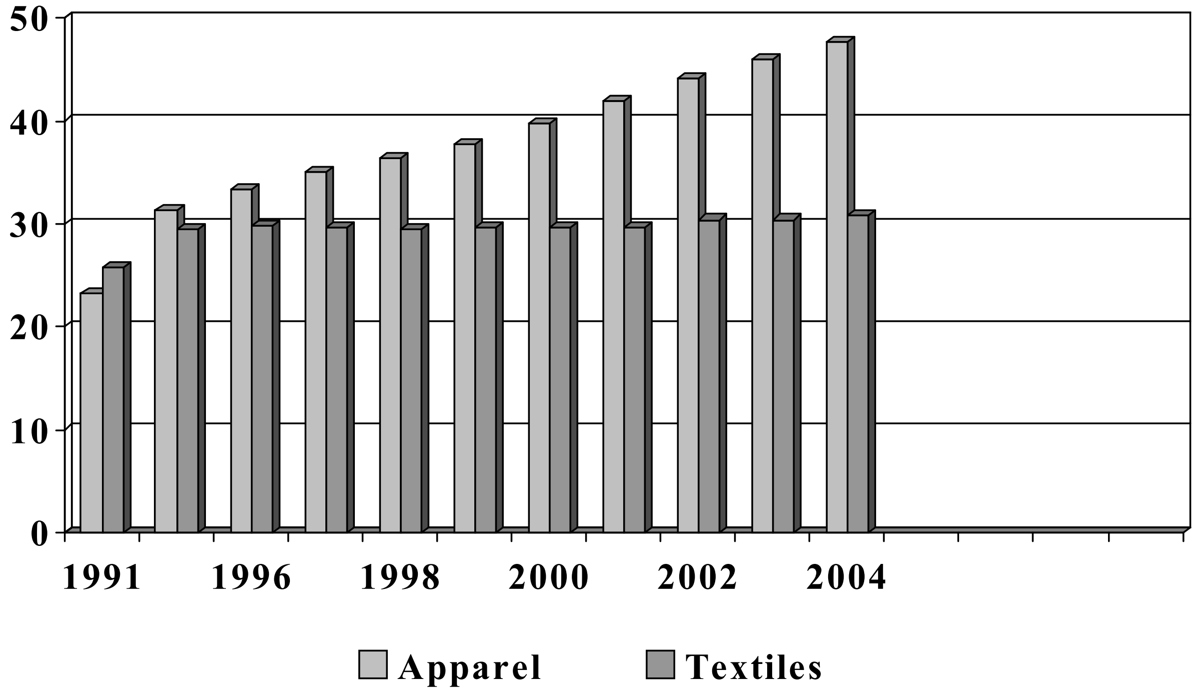
Since 1992 including East Germany

# Figure 5: Employment Structure - Percentage White-Collar Employees German Apparel and Textiles Industries

## 1991 - 2004




Since 1992 including East Germany

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**Table 4: Apparel Imports to Germany from 1989 to 2004 - according to (selected) regional origin (in 1.000 million €)**

| | Total | Total OPT | CEE | CEE OPT | Share CEE (3/1x100) % | Turkey | Turkey OPT | Share Turkey (6/1X100) % | Asia | Share Asia (9/1x100) % | Poland | Poland OPT | CEE Share Poland (11/3x100) % | Romania | Romania OPT | CEE Share Romania (14/3x100) % | China | Share China (17/1x100) % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| **1988** | 7.385 | 1.189 | 1.372 | 965* | 18,6 | 430 | - | 5,8 | 2.437 | 33,0 | 188 | - | 13,7 | 154 | - | 11,2 | 454 | 6,1 |
| **1989** | 8.522 | 1.434 | 1.634 | 1.148 | 19,2 | 590 | - | 6,9 | 2.731 | 32,0 | 219 | - | 13,4 | 179 | - | 11,0 | 600 | 7,0 |
| **1990** | 10.051 | 1.739 | 1.976 | 1.403 | 19,7 | 731 | - | 7,3 | 3.156 | 31,4 | 340 | - | 17,2 | 182 | - | 9,2 | 925 | 9,5 |
| **1991** | 12.182 | 2.152 | 2.344 | 1.814 | 19,2 | 812 | - | 6,7 | 4.277 | 35,1 | 509 | - | 21,7 | 185 | - | 7,9 | 1.530 | 12,6 |
| **1992** | 11.187 | 2.175 | 2.306 | 1.853 | 20,6 | 761 | - | 6,8 | 3.522 | 31,5 | 634 | - | 27,5 | 232 | - | 10,1 | 1.176 | 10,5 |
| **1993** | 10.840 | 2.458 | 2.618 | 2.108 | 24,2 | 850 | | 7,8 | 3.617 | 33,4 | 803 | - | 30,6 | 305 | - | 11,7 | 1.215 | 11,2 |
| **1994** | 11.304 | 2.850 | 2.968 | 2.401 | 26,3 | 830 | 109 | 7,3 | 3.638 | 32,2 | 924 | 808 | 31,1 | 377 | 342 | 12,7 | 1.303 | 11,5 |
| **1995** | 10.717 | 2.938 | 3.078 | 2.493 | 28,7 | 949 | 92 | 8,9 | 3.210 | 30,0 | 986 | 871 | 32,0 | 409 | 367 | 13,3 | 1.034 | 9,6 |
| **1997** | 12.050 | 4.450 | 3.648 | 3.207 | 30,2 | 1.105 | 185 | 9,2 | 3.829 | 31,8 | 997 | 886 | 27,3 | 590 | 548 | 16,2 | 1.288 | 10,7 |
| **1998** | 12.329 | 4.704 | 4.002 | 3.482 | 32,5 | 1.118 | 171 | 9,1 | 3.712 | 30,1 | 1.112 | 953 | 27,8 | 716 | 664 | 17,9 | 1.205 | 9,8 |
| **1999** | 11.886 | 4.393 | 3.813 | 3.262 | 32,1 | 1.098 | 160 | 9,2 | 3.724 | 31,3 | 999 | 824 | 26,2 | 766 | 697 | 20,1 | 1.284 | 10,8 |
| **2000** | 12.275 | 4.315 | 3.903 | 3.288 | 31,8 | 1.221 | 160 | 9,9 | 4.268 | 34,8 | 954 | 785 | 24,4 | 812 | 718 | 20,8 | 1.404 | 11,4 |
| **2001** | 12.526 | 4.487 | 4.210 | 3.559 | 33,6 | 1.275 | 151 | 10,2 | 4.134 | 33,0 | 969 | 800 | 23,0 | 911 | 785 | 21,6 | 1.424 | 11,4 |
| **2002** | 10.963 | 3.814 | 3.554 | 3.086 | 32,4 | 1.181 | 115 | 10,8 | 3.785 | 34,5 | 721 | 617 | 17,4 | 855 | 753 | 24,1 | 1.503 | 13,7 |
| **2003** | 10.723 | 2.927 | 3.334 | 2.333 | 31,1 | 1.107 | 113 | 10,3 | 3.861 | 36,0 | 624 | 530 | 15,9 | 799 | 686 | 24,0 | 1.673 | 15,6 |
| **2004** | 10.327 | 2.972 | 3.089 | 2.368 | 29,9 | 1.097 | 129 | 10,6 | 4.120 | 39,9 | 521 | 329*** | 16,9 | 843 | 709 | 27,3 | 1.914 | 18,5 |

Source: BAFA 422-Stat und BBI, several issues, own calculations.