

**WWD.com**/markets-news/markets-features/made-in-usa-grows-in-la-7686391

May 20, 2014

# Made in USA Gains Steam in Los Angeles

By KHANH T.L. TRAN

**LOS ANGELES** — The Made in America resurgence is trending in Los Angeles, but so are the challenges it brings.

In the fashion industry alone, more than 3,500 companies manufacture in Los Angeles and neighboring Orange County, according to the California Fashion Association. No matter which industry they're in, all the companies face dramatic shifts driven by technology and new resources.

While fashion brands' direct-to-consumer retail strategies bolster their plans to manufacture in the U.S. by spurring demand on their Web sites and in their own stores, companies still must overcome new challenges to domestic production, such as finding skilled labor and paying a higher minimum wage. Major changes in China, which has seen labor costs rise and strategies shift to manufacturing more for its domestic market, have been part of the impetus for bringing back more apparel production to the U.S.

At the recent third annual West Coast Manufacturing Conference, Michael Rosen, chief financial and operating officer at Velvet by Graham & Spencer in Culver City, Calif., said the amount of time foreign factories require before starting production has increased to 120 to 150 days from 75 to 90 days. While Velvet makes the majority of its jersey tops and the new denim line it's launching this fall in Los Angeles, it relies on Chinese factories to produce woven jackets and knit sweaters.

A number of clothing companies are also returning their production to the U.S. as Chinese facilities grow into bigger entities and prefer doing business with bigger brands, said Greg Harvey, director of retail at labeling and packaging company Avery Dennison, which has clients such as Nike and Oakley. "The factories are turning into megafactories."

An issue that apparel executives must tackle on both sides of the Pacific Ocean is rising labor costs. Three months ago, President Obama signed an executive order to increase the country's hourly minimum wage to \$10.10, from \$7.25, in January. Last month, Republicans in the U.S. Senate blocked the measure that would have been the first increase for the federal minimum wage in five years. Despite the impasse on the national level, California's hourly minimum wage is set to increase by \$1 to \$9 on July 1 and then again to \$10 in 2016, making it one of the highest in the country.

As such, prices for clothes made in California are likely to increase, unless manufacturers decide to absorb the higher costs for labor if they don't already pay more than the minimum wage. American Apparel Inc., for example, pays piece rates to its workers, who can earn as much as \$16 an hour. Rosen said he's already planning for the upcoming wage increase at Velvet and the contract factories it uses.

"I'm expecting increases across the board," he said.

Despite higher wages, executives find it difficult to hire skilled workers. Marty Bailey, chief manufacturing officer at Los Angeles-based American Apparel, said the retailer invests three months to one year to train a sewing

operator from scratch. Its 6,000 employees are prepared to make any one of 140 styles each day and nine operators can sew 2,500 T-shirts daily. The problem is, Los Angeles is home to a plethora of skilled workers who are undocumented immigrants, he said.

In September 2009, American Apparel fired about 1,500 immigrant production workers because they were unable to prove to federal authorities they had the legal right to work in the U.S. The dismissals resulted from an investigation started by the U.S. Immigration and Customs Enforcement Agency in January 2008.

“That is one of the biggest challenges for employers,” he said, adding that to further the resurgence of domestic production, “immigration reform is absolutely going to be one of those keys.”

A campaign to promote Made-in-L.A. could also help, especially as brands build their direct-to-consumer businesses. Rosen said Velvet is brainstorming a marketing initiative to launch possibly this year on its Web site. As Velvet ramps up e-commerce sales and scouts a site in New York for its third store, the domestic factories play a more crucial role in constructing clothes.

“It helps us on the production side,” he said. “We can control our needs because we’re our biggest customers.”

But companies increasingly are adopting a multicountry sourcing strategy utilizing factories in Asia as well as the U.S. Despite the factory tragedies in Bangladesh, U.S. firms still see potential in manufacturing there. Backed by investors such as Alexander Soros, New York-based TAU Investment Management is committing \$200 million in a fund to target textile and apparel manufacturers in emerging markets such as Bangladesh, Indonesia, China, Cambodia and Turkey. Over the next three years, TAU plans to raise more than \$1 billion that it will use to invest \$20 million to \$50 million in garment makers that generate \$100 million to \$1 billion in annual revenue. In a sign of its commitment to transform Bangladesh’s textile and apparel industry, it’s setting up its first regional operation in that country.

“Although TAU’s targeted \$1 billion fund is currently focused on Asian and emerging markets, we fully support the Made in America movement,” said Oliver Niedermaier, TAU’s chairman and chief executive officer, who did not attend the conference. “TAU intends to raise the bar for environmental, operational and labor practices across the entire industry, seeing factory jobs become viable and desirable in both the U.S. and across the globe.”

Whether in Asia or the U.S., the treatment of workers is a major concern. California’s proponents said one advantage that the state’s manufacturers have over foreign factories is a state law called AB 633 that makes manufacturers and the contractors they hire jointly liable for labor violations, such as failure to pay overtime and allowing sewers to bring work home. Every garment manufacturer must also register with the state, meet federal safety and health regulations and pay workers’ compensation benefits.

Such compliance measures make “Los Angeles the mecca for other companies to make clothing here,” said Ilse Metchek, president of the trade group the California Fashion Association.

From a brand’s perspective, AB 633, enacted in 1999 after the discovery of an abominable sweatshop in El Monte, Calif., outside of Los Angeles, can be loosely interpreted, allowing for scant evidence, said Velvet’s Rosen.

“It does pose considerable potential liability,” he said. “I think it’s a good law. The reality is employees should be treated fairly and you, as a manufacturer, should pay a fair price.”

Bailey added: “You want to do it because it’s the right thing to do. We’re talking about people.”

**WWD**

**Copyright © 2014 Fairchild Fashion Media. All rights reserved.**