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L.A. Fashion Folks Facing Quandary of Outsourcing

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When Jennifer Grossman decided to design a line of T-shirts, she started making them out of her parents' garage. Her mother, June, had worked in the industry, so she had contacts willing to give her a line of credit. Within a few months, her rhinestone-embellished tees and terry cloth sweats had taken over the house, so she leased 1,000 square feet of commercial space in Vernon, and soon took over the entire second floor.

Now a 3-year-old, \$3 million company, Grossman is reaching the point where she could offshore production of her line, now including tank tops, dresses, leggings and jackets. She's got the quantities to outsource the work, and she's told she could save about 30 percent on her production costs. Grossman wouldn't reveal her cost, but Ankh retails for \$75 for a T-shirt, to \$220 for a rhinestone-studded jacket.

"Even as we got bigger, we still stayed here because you have control and can see things every step of the way, so you can fix things and at the end you don't have big nightmare," said Grossman, president of Ankh Apparel Inc.

But it's come up. Grossman and her mother, now CFO, have talked with their contractor about taking the work offshore, but only if he can go.

"I think in some ways he's being realistic, because there are only so many shirts that he can cut, and he knows it, too," Grossman said.

Such is the quandary of the fashion entrepreneur in Los Angeles.

"Once you start to have a \$5 million to \$10 million business, you're starting to have an infrastructure that can support overseas production," said Richard Giss, partner and retail consultant at Deloitte & Touche LLP. "It makes it easier for them to have overseas contacts and talk a bank into a line of credit."

While the bulk of Los Angeles-based apparel manufacturers are increasingly having their garments made overseas, a few are finding compelling reasons to stay. Among the most popular reasons are speed to market, greater flexibility, lower upfront costs, and control over production.

Number crunching

"In the Orient you can bring things in duty-paid today for so little, and don't think it's not tempting," said Lisa Rudes-Sandel, president of Not Your Daughter's Jeans. She ships about a million pairs of jeans annually from her warehouse in Vernon. "I wouldn't have to have half the staff I've got. I employ over 60 people here."

Rudes-Sandel makes her line of Tummy Tuck jeans for about \$17 to \$22 in Los Angeles. She could do it for \$10 to \$12 in Asia. The jeans retail for between \$88 and \$108.

"I'm not sure how much they promote people staying here and doing business, she said, citing increased workers compensation standards. "They make it so difficult."

But for her clients, Rudes-Sandel said domestic manufacturing is important. Another key for her business is repeat buyers, who want new styles on the shelf every time they shop. Turnaround time drops from three months overseas to as little as three days for clothes manufactured here. She was also concerned that her patented weave on the inner front panel of her jeans – designed for a tummy tucking effect – would be pirated in China.

“Unfortunately the nature of the beast is everything that goes over there winds up getting ripped off,” she said. “That’s just what it is.”

Deloitte’s Giss said few consumers are looking for goods made domestically, because they’ve become such a rarity.

Adriano Goldschmied, who has founded a host of high-end denim companies and now makes his \$200 GoldSign jeans out of Vernon, said consumers find the promise of quality in a brand name, not in the country of origin.

“You used to look at a label and see Made in Italy, Made in France, or Made in the USA and you knew it would be great,” he said. Now he says, American consumers are looking for the brands they trust.

International buyers are another story.

“Japan is giving a lot of attention to American-made goods,” he said. “Some of the buyers are asking me if I’m making everything in America. That means the consumer is giving attention and they are ready to pay more for goods that are manufactured in America.”

Rudes allowed that none of her buyers have ever requested only American-made goods.

“But they do know it means a lot to customers,” she said. “They think it’s wonderful and they support it.”

Goldschmied, who started manufacturing denim in Italy in the 1970s, said about 40 percent of his sales are international, although his goal is to make it 50 percent. His \$15 million business, which will experience double-digit growth this year, will stay in the United States indefinitely because the finish done by denim manufacturers in Asia is way behind what’s being done in L.A.

“That doesn’t mean it’s a rule forever,” Goldschmied said. “Our business is changing and I have to say that the quality overseas is improving. The Far East, China there’s no question that they’re becoming very competitive not only in process but also in technology... There’s no time to sleep even on the high end.”

L.A. Story

Even the L.A. faithful find that certain goods just have to go overseas.

Rudes-Sandel makes denim jackets in China. The economics of doing it here just don’t make sense here. The plain denim jacket she sells for less than \$88 could cost \$160 retail if manufactured domestically.

“We have a certain price range where we feel we can sell our products,” she said. “In order to stay in the price range we feel is right for us, based on the jeans and having anything in a nice price range, we have to make it in the Orient.”

Those jackets are now just a single-digit percentage of the company's overall sales. But she would like to grow the business.

Jennifer Grossman's will also tiptoe overseas this year for a line of cashmere, slated for holiday 2007. She couldn't find anyone to make it here.

"It's just way too expensive," she said. "You'd just price yourself out of the market."

To start, the cashmere is expected to comprise between 5 percent and 10 percent of total sales. Grossman is testing the market for new items in the hopes of expanding her business into a full-scale lifestyle brand.

Jennifer Ashley runs Hippie Ink, a 2-year old company that makes organic cotton T-shirts for boutiques nationwide. While she makes about 90 percent of her items in the U.S. The rest are made in Peru because of the incredibly soft cotton she found there.

"I want to keep things going here," Ashley said. "It's a little bit more expensive but it's worth it because you can't beat the quality. I can see what's going on, that they're doing it the right way and they pay the workers better."

Still, Giss of Deloitte points out, that manufacturers are likely to start out on their home turf, and branch out when they've gotten more successful.

"Being nimble is important always, but it may be life or death early on," he said. "If you have a piece of apparel people say they love except one little thing, you want to be able to respond, to that make the change and be back in their store."

June Grossman, who pledged her retirement savings to start her daughter's business, in some ways credits the local start with their speedy success.

"Everything has to be paid upfront when you produce offshore," June Grossman said. "We have wonderful relationships with the people we work with and that's been a big plus financially, people who say we can pay half this week, half next week, no problem."

"And we're bringing them a lot of business, too," her daughter added. "And not a lot of people are."