JUNE 30, 2020 4:03PM ET

One of Reshoring's Biggest Uphill Battles? Money, Money, Money

By Vicki M. Young

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COVID-19's unmistakable influence on the globe-trotting fashion supply chain has rekindled interest in making goods closer to home, and undertaking that's likely easier said than done.

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Though companies once flocked to China's low-cost manufacturing prowess, many have since diversified to nearby neighbors in Asia in a race to chase the cheapest needle. And while spreading out their sourcing laudably helped many businesses skirt overexposure to President Trump's tariff-happy trade war with China, companies found themselves facing a shortfall of inputs when the coronavirus pandemic tore through the world's factory, poking gaping holes in its vaunted supply engine.

The forgotten upstream check

In the earlier days of the pandemic, many apparel producers quickly realized that although they'd limited their exposure to manufacturing in China, they still relied on the nation for a supply of critical raw goods. By shifting production and sourcing closer to their end consumers, companies could mitigate some of the risks involved with relying on overseas vendors for urgent ingredients and expertise.

"When the pandemic started, a lot of my clients said, 'Thank God we are doing production here,' and then everything here shut down," said Gary Wassner, chairman and CEO of financing firm Hilldun, which specializes in offering financing to high-end designers. "This global pandemic has broken everything in the supply chain.

"Coming out of this, people who are retailers are starting to ask a lot of questions of their manufacturers, not because of anything other than wanting a shorter term to get product to the stores," he added. "They don't want to have time where goods are on the ocean, or with issues monitoring production overseas." Interest in domestic production will inevitably remain on fashion's mind, he said.

But recreating the complex sourcing and supply chain required for apparel manufacturing in the U.S. is going to take time, and a whole lot of money to boot. Abandoned factories from years ago, if still in existence, are in disarray and would need to be rebuilt. Leftover machinery is far too old to be used and would need to be replaced, given the advances in technology. And most important, workers—the lifeblood behind any federal or state grant or other funding program—would benefit from retraining programs to reskill for a new industry.

Grants and funding in the U.S.

In the past, federal funding has aided redevelopment projects, but not necessarily the apparel sector. In 2016, the U.S. Economic Development Administration, part of the U.S. Department of Commerce, provided Detroit $4.1 million through two grants. The money helped re-industrialize the city and redevelop Georgia Street, part of the I-94 Industrial Corridor that would include zoning for a 186-acre complex for manufacturing, warehousing and connected logistics space.

But Detroit is also best known as the automotive sector's hub, and the grant has been viewed by some as a measure to provide financing to revive the distressed city's manufacturing strength—and the auto industry's supply chain producers—following its municipal bankruptcy in 2013.

Missouri's city of St. Louis has what Detroit can't lay claim to, and that's an historic and sizable foothold in apparel manufacturing. Formerly the second largest apparel manufacturing center after New York City, the city is home to the St. Louis Fashion Fund, which functions primarily as an incubator of new fashion talent and fosters economic growth by marrying apparel design with technology. Its most recent success story is Evolution St. Louis, a flat-bed knit manufacturer using 3D technology.

On the East Coast, the Council of Fashion Designers of America has been working in collaboration with the New York City Economic Development Corporation to support local apparel manufacturing and keep the Garment Center alive.

The CFDA's Fashion Manufacturing Initiative—started with help from designer Ralph Lauren, Theory founder Andrew Rosen and the Coach Foundation—last October expanded to become a $14 million public-private partnership with Walmart as its newest underwriter.

Local Production Fund, a newer program, encourages American designers to increase production in the city by matching them with manufacturers that have received credits for use towards valid production runs.

An existing FMI Grant Fund helps bolster the use of and investment in innovative technology. Plus, the CFDA partners with the Industrial Sewing Innovation Center to assess how to expand training and workforce development opportunities to ensure a talent pipeline of workers with the skill set needed to operate new technology.

Wassner, who invested in Evolution St. Louis, said that with the right equation of government support and affordable cities, it is possible to create a production center where factory workers can also live without having to commute from far away. While there was an initial push to move some production to Brooklyn's Industry City, that area now largely houses outlets for many brands at the street level. "It doesn't seem that New York City's Mayor's Office has been interested in supporting the rebuilding of the manufacturing base. There's so much money that goes to so many places," Wassner said. "I don't know why some of it couldn't have gone to revitalizing apparel manufacturing."

Reshoring isn't without its obstacles, however. "In knitwear, you don't need all the bindings and stuff that is needed for ready-to-wear, which still needs zippers and shoulder pads, and they all come from China," Wassner noted, adding that most fabrics are produced in Europe and China.

Getting around barriers to fund innovation in fashion

That's not to say fashion manufacturing can't make inroads close to customers. At the World Economic Forum's annual meeting in Davos in January, a blog post by Katrin Ley, managing director of Fashion for Good, and Catharina Martinez-Pardo, a principal at the Boston Consulting Group, pointed out that the sector's transformation requires "disruptive innovation, at scale, in the form of new materials, processes and business models." And to bring the needed components to market in a way that's also sustainable, the "ecosystem of fashion brands, supply chain partners, investors and so on, need to step up to accelerate innovation," she added.

While Fashion for Good provides fundraising support through its Good Fashion Fund to firms in India, Bangladesh and Vietnam, broadly speaking, financing is needed to reimagine supply chains globallys.

The investment opportunity is great, but projected to require about $20 billion to $30 billion annually until 2030. That could be a problem; funding is limited currently because many investors are unaware of the opportunity and have little experience in fashion innovation. Part of that is because the demand for fashion innovation is a recent development, hence the limited knowledge on the part of private, public and philanthropic investors as to the size and scale of the investment opportunity, the blog post said.

The post noted six strategies that can work together to provide paths for investment in the transformation of the fashion sector. One to way to mitigate investment risk to drive the sector's transformation is through industry-wide collaboration. Consortiums of brands, supply chain partners and innovators, along with investors, can work to concentrate resources that would help de-risk investments. Brands can also co-develop projects or pilot programs working with innovators to provide volume commitments, while manufacturers and upstream operators like fiber producers can partner to offer expertise and access to equipment, and maybe even provide capital to acquire the successful innovators.

Innovators in turn must provide realistic implementation plans for commercializing their solutions, and investors can work with brands, manufacturers and innovators to craft investment transactions that match their return-risk profiles. And finally, the public sector can increase direct investments and support to help drive additional funding from the financial and philanthropic fronts.