Analyse the case study with reference to Michael Porter's Theory of Competitive Advantage and answer the following question:

Does America have competitive advantage in the textile and garment industry?

You answer **must** include the following elements:

1. A clear outline of Porter's theory **with supporting references**. 20%
2. An analysis of the case study with reference to the 4 main elements of Porter's Diamond. (N.B. You will not be able to comment on company structure, as the case study does not include i nformation on this. You should, however, refer to factor conditions, demand conditions, firm rivalry and related and supporting industries.) 40%
3. An analysis of the case study with reference to Porter's secondary points of chance and government actions. 20%
4. Your conclusion. 10 %

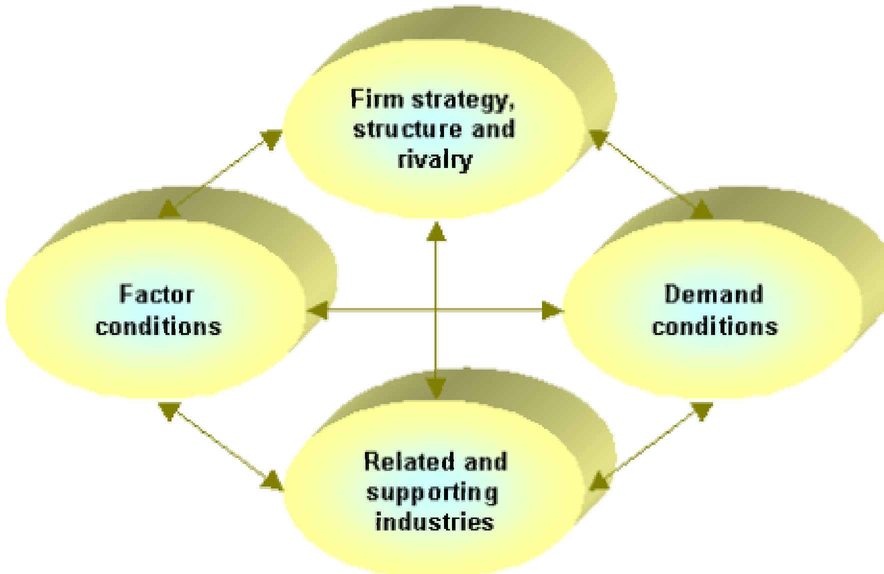
The remaining 10 % will be for grammar, style, clarity, using the correct system of referencing (the Harvard System) etc.

Literature:

Michael E. Porter. The Competitive Advantage of Nations.

Does America have competitive advantage in the textile and garment industry?

For a country to have a competitive advantage, it is necessary to understand Michael Porter's Theory of National Competitive Advantage. Michael Porter introduced a model that allows analysing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are, in his book *The Competitive Advantage of Nations*. This model of determining factors of national advantage has become known as Porters Diamond. It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition. Porter distinguishes four determinants:



Factor Conditions

- The situation in a country regarding production factors, like skilled labour, infrastructure, etc., which are relevant for competition in particular industries.

These factors can be grouped into human resources (qualification level, cost of labour, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources, capital resources, and infrastructure. They also include factors like quality of research on universities, deregulation of labor markets, or liquidity of national stock markets.

These national factors often provide initial advantages, which are subsequently built upon. Each country has its own particular set of factor conditions; hence, in each country will develop those industries for which the particular set of factor conditions is optimal. This explains the existence of so-called low-cost-countries (low costs of labour), agricultural countries (large countries with fertile soil), or the start-up culture in the United States (well developed venture capital market).

Porter points out that these factors are not necessarily nature-made or inherited. They may develop and change. Political initiatives, technological progress or socio-cultural changes, for instance, may shape national factor conditions. A good example is the discussion on the ethics of genetic engineering and cloning that will influence knowledge capital in this field in North America and Europe.

Home Demand Conditions

Home demand conditions influence the shaping of particular factor conditions. They have impact on the pace and direction of innovation and product development. According to Porter, home demand is determined by three major characteristics: their mixture (the mix of customers needs and wants), their scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets.
Porter states that a country can achieve national advantages in an industry or market segment, if home demand provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Normally, home markets have a much higher influence on an organization's ability to recognize customers' needs than foreign markets do.

Related and Supporting Industries

One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).
A typical example is the shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as leather working machinery, design, etc.

Firm Strategy, Structure, and Rivalry

- The conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition

Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries.

Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies.

Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

Having dealt with the outline of Porter's theory, it is necessary to consider the case study and decide whether the American textile industry has a competitive advantage in the textile and garment industry. Firstly, the factor conditions will be discussed. The country has land on which cotton is grown and the case study mentions that America is the second largest grower of cotton in the world after China. It has abundance and quality of natural sources. Secondly, textile making is capital intensive and requires specialist skilled workers. There seems to be plenty of skilled labour force in the country. In this respect, it satisfies two of Porter's factor conditions- skilled labour and natural resources. The article mentions that textile production has moved to Mexico because of clothes manufacture has gone there because of low costs. However, it also mentions that it makes sense to have textile production nearer the cotton growing areas. Also, at present there are local disadvantages in the textile production, this will lead to innovation and restore competitive advantage in the foreseeable future.

In the area of clothes making, it does not have the factor conditions. China is able to manufacture goods at the lower labour cost and also Mexico does offer cost advantages in this area. Clothes making does not require highly skilled workforce and high technological equipment or industry. The closure of companies in the USA is an indication that it is losing cost advantage to the Mexico and China. However, the case study mentions that there are 1.4 million workers in the textile and garment industry and they produce $100 billion worth of goods. This by itself indicates that the industry is competitive in productivity.

The article mentions that China has become a member of WTO and textile barriers will come down in 2005 and this will create more competition in the USA and lead to more closures and loss of jobs in the industry. Therefore in this area, it does not have competitive advantage over the Chinese in textile making.

Despite globalization, the America has top fashion houses, with brand names. As cost is not a factor in high fashion sector and there are skilled workforce in this area, America has factor conditions to withstand challenge in this area at least.

Another factor condition is the pool of knowledge, whether it is scientific, technical and marketing. The case study mentions that the American garment makers offer electronic ordering, automated distribution centers and inventory management systems tied to those of their customers. The best manufactures have learned how to deliver orders at a few days' notice that the overseas competitors cannot match. The country is able to upgrade and remain competitive though innovation. As Porter mentions that factor conditions are not natural or inherited but created and this is an example of it.
Last factor condition is the quality of infrastructure, such as transport and communication. This is in plentiful supply and China has a long way in catching up.

Porter argues that strong local demand is essential for increasing a nations competitive advantage. For a nation to be competitive it must possess strong local demand.
Local demand:

- lets the producer know what the buyer wants;

allows then to respond faster to this than producers in other countries
This is evident in the case study and for this reason Levi and Gap are already experimenting with scan so that the customer gets what it wants. In this respect it is ahead of its competitors. Also, the American distributors are using technology to avoid soc of garment that are not sold.

In order to have national competitive advantage, it is necessary to have related industries and these have to be innovative too. The industry is developing the scans through related industries. Nothing is mentioned about China in this matter.
Computer industry is supplying better distribution systems to keep the garment industry competitive.
It is not possible to explain American national competitiveness in terms of firm rivalry and firm structure as no references have been made in the case study.

As regards Porter's secondary points of chance and government actions, this case study does mention that government action has an adverse effect on the textile and garment industry in the USA. The USA government entered into NAFTA (North American Free Trade Area) agreement. This has meant lower taxes for goods coming into the USA from Mexico. Also the USA has agreed to removing barriers to textile trade and this has had an accelerated effect on the industry. The article only talks of its effect on USA, but not on the opportunities for US firms to trade in China. Newspapers are full of news about USA and Europe trying to protect its industries from ill effects of the removal of trade barriers.
Chance does play an important role in maintaining America's national competitiveness. New inventions such as scans and better distribution systems have been mentioned in the case study and earlier on.

In conclusion, it can be said that the American competitive advantage is under attack. It is not able to withstand for low cost garments, but it is able to maintain its competitive position in relation to fashion and quality goods. Its cotton growing sector is not likely to disappear as American textile industry is capital intensive and can innovate quickly to maintain its market share. As regard the four determinants such as factor conditions, demand conditions, related and supporting industries, structure of firms and rivalry, chance and government action, America is just behind in terms of cost. It is not behind in skilled workforce, technological superiority, in having discerning customers and rivalry. It is behind in labour costs, but this one factor is eroding its own industry.

America's textile industry employs 1.4 million workers and produces more than a 100 billion of dollars of goods each year. The American textile industry is protected by quotas tariffs and other barriers. By the end of 2005 China would have entered the WTO and the American textile industry will be exposed to the harsh winds of globalization.

Each weeks there are factory closures and jobs are being sent to Latin America or Asia where they belong. However despite this American exports still seem to be rising. Employment is expected to fall to 100,000 by 2006 according to industry projections. One particular researcher reckons the domestic market share will fall to about 25%, but stabilize there for the foreseeable future. Why is this?

Factor conditions

A country like china is able to make clothes and garments at the fraction of the price of America. A country exports goods and services that make most of their factor conditions. A country such as China with a largely uneducated force should exports labour intensive goods such as clothes. Country like America makes the most of its factor conditions. Textile making in America is a capital intensive business where few relatively skilled worker watch over huge looms. America is the second largest grower of cotton.

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Goods such as Paris and Milan are not sensitive to price change. Also there is always demand for high quality from the small domestic garment maker's of fine suits In London's Saville road or New York's fifth avenue. Producer know what the buyers want in this case study for example it is fine suits from saville road. Producers therefore are able to produce these suits faster than producers in other countries.

America is the second largest producer of cotton. For producers to respond and make clothes faster than firms abroad they need local suppliers.

A company cannot provide national competitive advantage on its own. It needs the related industries and its suppliers to be innovative too.

Local suppliers can be cheaper (lower transport costs).and
Local suppliers know the home environment and market and can react quicker.

Domestic rivalry is important.
Within a country that has competitive advantage in an area there will usually be several firms doing well. .
They will also tend to be clustered close to one another firms are clustered in the southern states e.g. Mississippi and North Carolina. In this case study the
It is the rivalry between home firms that pushes them to internationalise and that helps them to keep their edge.
All 4 factors interact and are needed for a nation to have competitive advantage.
Porter suggests that countries advance through 4 stages and should look to the stage they are in to get competitive advantage.

Summary
The American textile industry possesses certain characteristics which suggest it has a competitive advantage in the textile industry. In concern to factor conditions the USA is the second largest grower of cotton after china this is its natural resource. It has a skill;ed workforce to make textiles it also has capital intensive looms which poorer countries can't afford. America has a competitive advantage in textile making. Obviously it does not have a competive advantage in clothes making as china has lower labour cost as the cost advantage is not there. Factories making garments are closing howver this has not affected fashion house as they have established a brand name and people buy their goods and do not worry about the cost. Howver for companys lioke gap it makes sense to locate production in china as price is unbeatable.
Cotton is grown in north Carolina and Mississippi they supply cotton textile weaving companies they inturn supply their companies making the clothes. The case study does not deal with the clustering firms . it only talks about production of textile movement to mexico where clothes are made.
The essay talks about rivalry between levis and gap. The competition is forcing the companies to innovate and they are working on scanner tio stay ahead of competiton. Competiton has resulted in improving ordering, distribution and inventory management. Opening up the market is causing factory closures the Nafta agreement was reached and this moved [roduction to mexico.