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A FEDERAL REGULATOR LOOKS AT THE APPAREL INDUSTRY IN '74

An Address

by

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Before

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The title of this speech - A Federal Regulator Looks at the Apparel Industry - might cause some anxiety on your part. Frequently, when government officials look at an industry, the industry expects - and receives - critical comments, admonitions to sin no more, and various other pronouncements of gloom and doom. I am sorry to disappoint you but I have mostly nice things to say about the apparel industry. Over the years, you have done a good job of providing Americans with a wide variety of apparel in every conceivable style and color. This has been accomplished in an environment of vigorous competition - one which may not always be comfortable for members of your industry - but which has the advantage of bringing goods to the consumer at the lowest possible price.

I would like to review with you some of the characteristics of the apparel industry which are of particular interest to an agency like the Federal Trade Commission, or to a student of industrial organization generally.

Economists have developed a sort of shorthand method for reviewing the competitiveness of an industry. They look at three general sets of criteria: structure, conduct, and performance.

Structure refers to the general organization of an industry. Conduct refers to the manner in which industry members compete - whether they do so vigorously and openly or whether they engage in illegal tactics such as price fixing. Performance is the ultimate result for consumers, reflected in price, quality, and range of choice.

At the risk of sounding too much like an economist - which I am not - I think it is worthwhile to review some of the reasons why the apparel industry has been doing a generally good job of serving consumers. Good performance by an industry is not a chance occurrence. It results from the basic industry structure. If industry output is controlled by only a few firms, competition is not likely to be too vigorous. In the extreme case, output could be dominated by one firm - a monopoly - and competition would be completely absent. When there are many sellers, however, none of which has a large share of the market, prices are likely to be lower and the industry will do a better job of satisfying the consumer.

While I would like to say that the apparel industry does a good job of serving consumers because its executives are fine people of noble character - a more fundamental reason is that they are forced to by the basic structure of the industry.

The Structure of Apparel Manufacturing

Apparel manufacturing is among the least concentrated of the major manufacturing industries. Economists regard "concentration" as a crucial structural variable. It refers to the share of an industry's total output held by the largest firms. If a few companies account for a large share of sales, competition is likely to be less vigorous than if sales are more widely dispersed over a large number of firms.

While economists differ on what particular levels of concentration mean, most would agree that industries in which the four top firms hold less than 40 percent of the market are not concentrated.

The tabulations below demonstrate that most apparel industries would fall in the unconcentrated category. Apparel is considerably less concentrated than most manufacturing industries.

Table 1 - Apparel Manufacturing
Industries by Level of Concentration

Industry	1970 Value of Shipments	Percent Accounted for by 4 Largest Companies, 1970
		0 - 20
Fur Goods	271.4	6
Pleating and Stitching	150.3	7
Women's & Misses Dresses	3,365.6	10
Women's & Misses Suits & Coats	1,605.1	10
Millinery	64.4	12*
Schiffli Machine Embroideries	92.1	13
Children's Dresses and Blouses	486.9	14
Women's & Children's Underwear	1,201.2	16
Children's Coats & Suits	163.5	18*
Apparel & Accessories	139.2	18*
Men's & Boy's Clothing N.E.C.	649.1	18
Men's & Boy's Suits	1,912.4	19
Canvas Products	242.4	19
Robes & Dressing Gowns	198.8	20
Children's Outerwear N.E.C.	476.6	20*
		21 - 40
Housefurnishings, N.E.C.	1,272.1	21
Women's & Misses Blouses & Waists	929.1	22
Women's & Misses Outerwear, N.E.C.	1,256.6	22
Men's & Boy's Neckwear	205.3	23*
Leather & Sheeplined Clothing	140.8	24*
Men's & Boy's Separate Trousers	1,415.6	26
Men's Dress Shirts & Nightwear	1,679.4	28
Corsets & Allied Products	645.7	30
Waterproof Outer Garments	345.0	30
Apparel Belts	168.0	30
Textile Bags	231.3	31*
Fabricated Textile Products	784.6	32
Hats & Caps	169.2	32*
Curtains & Draperies	558.0	33
Fabric Dress & Work Gloves	185.4	35
Men's & Boy's Work Clothing	1,367.5	40
		41 - 60
Automotive & Apparel Trim	918.9	47
Men's & Boy's Underwear	160.9	54

* 1970 concentration ratios not available; 1967 ratios were used.
Source: U.S. Bureau of the Census, Annual Survey of Manufactures: 1
Value of Shipment Concentration Ratios M70(AS)-9 (U.S.) Government
Printing Office.

In only two out of the 33 apparel industries did the four leading firms have more than 40 percent of total shipments. 1/ For manufacturing as a whole, about two-fifths of all industries had four-firm concentration ratios above 40 percent. 2/

In apparel, about two-fifths (13 of 33) of the industries had four-firm concentration ratios of 20 percent or less compared with only one-fifth (89 of 416) of all manufacturing industries. Without going any further into these statistics, it is clear that apparel is considerably less concentrated than most manufacturing industries. Looking at some of the principal apparel products categories, the lack of concentration is further evident. In women's and misses dresses 3/, for example, in 1967 the four leading companies had 10 percent of the market, and the eight leading firms had 13 percent of the total. This could hardly be called a concentrated industry by anyone's standard. While some apparel industries show considerably higher levels of concentration, they are generally the smaller, more specialized industries, such as automotive and apparel trimmings.

1/ In fact, the number should be one of 33 because of an anomaly of the SIC classification system whereby some underwear is classified as a textile mill product, rather than as an apparel product.

2/ F.M. Scherer, Industrial Market Structure and Economic Performance, Rand McNally, 1970, p. 60

3/ SIC 2335.

These low levels of concentration suggest that competition should be vigorous. Just how vigorous is shown by the high failure rate of firms in your industry. In 1970, a total of 197 apparel and related products companies failed. 4/ This represented 10.2 percent of all failures in manufacturing and mining. One out of every 10 failures in this category was an apparel firm. While this seems like a large number of failures, in earlier years it was even greater. In 1955, 445 apparel firms failed; representing 20 percent of total manufacturing failures. These figures make it clear that exit from the apparel industry is all too easy for firms which fall behind in the competitive race. Economists, however, are more interested in the ease with which firms can enter an industry. Here indications are that entry into apparel manufacturing is quite easy. Most apparel firms are small businesses and it does not require much capital to set up operations. In 1968, the average apparel corporation had assets of only $603,000. 5/ Less than 10 percent (1,615 out of 18,250) of apparel corporations had assets of $1 million. 5/ While a million dollars may seem like a fair amount of money, it has been estimated that it would require one billion dollars to enter the automobile industry. 6/ Entry into apparel is very easy by comparison.

4/ Carl Priestland, Focus: Economic Profile of the Apparel Industry, American Apparel Association, 1972, p. 55.

5/ U.S. Internal Revenue Service, Statistics of Income, 1968 Corporation Income Tax Returns, U.S. Govt. Printing Office, p.32.

6/ Lawrence J. White, The Automobile Industry Since 1945, Harvard University Press, 1971, p. 61.

Along with the relatively low capital requirements, other aspects of the apparel industry make entry easy. Processes and technology are well known. Product differentiation is not a substantial barrier to entry. While some apparel brand names are well established, most consumers buy clothes on the basis of style, quality, and price. Thus, there is room in the industry for any new entrant who can produce quality goods at competitive prices. I do not mean to minimize the challenge of producing quality goods at a competitive price. The free and easy competition of the apparel industry means that there is little margin for error for a new entrant or any other producer. The record of failure indicates that many are unsuccessful. But the important point is that entry is possible and everyone at least has a chance.

I stress the freedom of entry into apparel manufacturing, because it is vitally important for the functioning of our competitive system and because there are so many industries in which successful entry is virtually impossible. When was the last time a new firm successfully established itself in the auto industry? Not since the 1920's. When did a new firm last enter and stay in the tire industry? More than 40 years ago is the answer. What chance does a new competitor have in many of our concentrated industries? Two chances - slim or none.

The good performance of the apparel manufacturing industry stems from the fact that it is not dominated by a few entrenched companies. There is constant competition among a large number of existing producers, as well as many potential entrants who serve to keep a damper on price levels and profits.

The apparel industry thus comes about as close as any in the manufacturing sector to the model of a competitively-structured industry. It is not surprising therefore that performance has been generally good. Before going further, I should explain what I mean by performance. A list of criteria for a "workably" competitive industry has been developed by Frederick Scherer: 7/

(1) Firms' production operations should be efficient.

(2) Promotional expenses should not be excessive.

(3) Profits should be at levels just sufficient to reward investment, efficiency, and innovation.

(4) Output levels and the range of qualities should be responsive to consumer demands.

(5) Opportunities for introducing technically superior new products and processes should be exploited.

(6) Prices should not intensify cyclical instability.

7/ Scherer, *op. cit.*, p. 37.

(7) Success should accrue to sellers who best serve consumer wants.

In terms of most of these criteria, the apparel industry comes out pretty well. Production appears to be reasonably efficient. Promotional expenses do not appear to be excessive, certainly not in comparison with industries such as tobacco, drugs, and cosmetics. Apparel industry advertising amounted to 8/10 of 1 percent of sales in 1969, compared to an average of 1.1 percent for all manufacturing industries. 8/

Profit rates in apparel have generally been near or below the average for all manufacturing.

8/ U.S. Bureau of the Census, Statistical Abstract of the U.S., 1972, p. 760, based on U.S. Internal Revenue data.

Table 2

Profits After Taxes as A
Percent of Stockholders Equity

Year	Apparel and related products	All manufacturing corporations
1950	10.1	15.4
1951	2.9	12.1
1952	4.4	10.3
1953	5.1	10.5
1954	4.5	9.9
1955	6.1	12.6
1956	8.1	12.3
1957	6.3	10.9
1958	4.9	8.6
1959	8.6	10.4
1960	7.7	9.2
1961	7.2	8.9
1962	9.3	9.8
1963	7.7	10.3
1964	11.7	11.6
1965	12.7	13.0
1966	13.3	13.4
1967	12.0	11.7
1968	13.0	12.1
1969	11.9	11.5
1970	9.3	9.3
1971	11.2	9.7
1972		
Average:		
1950-63	6.0	10.8
1964-72	11.9	11.4

Source: Economic Report of the President, U.S. Govt. Printing Office, 1973, p. 281. Based on Federal Trade Commission data.

After-tax profit rates of apparel companies were below the average of all manufacturing from 1950-63, 6.0 percent compared to 10.8 percent. In the 1964-72 period, apparel profit rates have averaged about the same as all manufacturing. Apparel has been having some good years recently, but it is not characterized by the persistent, above-normal profits found in many oligopolistic industries.

Looking at other aspects of performance, apparel measures up reasonably well. The industry certainly provides consumers with a wide range of qualities and styles. Prices and output levels appear to be flexible. New products can and do rapidly appear, as the growth of double-knit suits and pantyhose demonstrates.

One question mark in evaluating the industry's performance relates to the introduction of new technology in manufacturing operations. Apparel is still a very labor-intensive industry, with relatively little automation of operations. In 1970, 8.6 percent of all manufacturing production workers were employed by the apparel industry. In contrast, the industry accounted for only 3.9 percent of manufacturing value added and 1.9 percent of new capital expenditures. Gross value of plant and equipment equals $2,335 for each apparel worker compared with $24,245 per worker for all manufacturing. 9/

9/ U.S. Dept. of Commerce, U.S. Industrial Outlook, 1973, p. 160.

I am not suggesting that apparel can (or should) become as capital-intensive as the chemical or petroleum industries. However, some observers feel that the American apparel industry may not be as automated as the industries of foreign competitors. 10/ It is obvious that we cannot compete with foreign apparel manufacturers on the basis of lower wages. In the long run, the U.S. apparel industry is dependent upon technological advances to maintain its position.

Recent Changes in Apparel

The most dramatic recent change in apparel has, of course, been the growth of imports. In 1971, imports amounted to $1.6 billion, or 7.5 percent of domestic apparel shipments - up from 3.2 percent in 1967. 11/ The growth of imports now appears to have slowed, as a result of trade agreements with apparel-exporting countries and currency devaluations.

While the rise of imports can hardly be viewed with enthusiasm by your industry, I see it somewhat differently. Import competition can have a healthy effect on an industry if it stimulates efforts to reduce costs and raise productivity. I hope that it has that effect on your industry and is not viewed merely as an excuse for

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10/ Standard & Poor Corporation, Industry Surveys - Apparel, April 26, 1973, p. A 100.

11/ U.S. Industrial Outlook, 1973, p. 160

increasingly restrictive trade barriers. Two other recent developments deserve mention. One is a wave of mergers and acquisitions involving apparel firms. The other is a rise in concentration in some apparel markets. While it is easy to draw a connection between mergers and rising concentration, the two developments are not necessarily linked.

A large number of apparel companies have been acquired in recent years. While a complete count is not available, at least 423 firms were acquired from 1961-72. 12/ Most of these of course were very small firms, but some large companies were also acquired. Looking at "large" manufacturing and mining firms - those with assets over $10 million - a total of 40 such firms were acquired from 1948-72, with assets of 2.5 billion.

While a large number of mergers have involved apparel firms in recent years, most of these have been product extension or conglomerate acquisitions. The table below shows that, of large acquisitions taking place between 1948 and 1972, only seven have been horizontal.

12/ Based on data compiled by the Bureau of Economics, Federal Trade Commission.

Table 3

Acquisitions of "Large"*
Apparel Manufacturing Firms,
1948-72

Type of Acquisition	Number	Assets ($ Millions)
Horizontal	7	$ 109.9
Vertical	1	20.6
Product extension	14	506.9
Market extension	0	0
Conglomerate	9	1,665.2
Total	31	$ 2,302.6

* This table is based only on acquired firms of over $10 milli
in asset size for which data are publicly available.

Source: Bureau of Economics, Federal Trade Commission.

Nevertheless, there has been a rise in concentration in many apparel industries. This is illustrated in Table 4 below, which shows changes in concentration for larger (over $500 million in 1970 value of shipments) apparel industries between 1947 and 1970.

I must confess that I do not fully understand the reasons for these rises in concentration. There has been a sharp decline in the number of firms in most apparel industries. In men's and boys' suits and coats 13/, for example, the number of firms was cut nearly in half between 1947 and 1967 - from 1,761 to 904 firms. Sharp competition, particularly during the 1950's, probably accounted for part of this decline. Profit margins were low and marginal firms were squeezed out of the industry.

It appears, however, that there has also been a growth in the size of apparel manufacturing plants, suggesting that economies of scale may have played a part in eliminating smaller firms. For apparel as a whole 14/, the average size of manufacturing establishments increased from 43 employees in 1959, to 57 in 1970. In men's and boys' suits, average establishment size increased from 94 to 141 employees over this period, with a substantial increase in very large establishments - those with over 2,500 employees - from 113 in 1959 to 143 in 1967.

13/ SIC 2311

14/ SIC 23

Table 4*- Change in Concentration, 1947-70, Selected Apparel Industries

SIC	Industry	1970 Value of Shipments ($ Millions)	Four Firm Concentration Rati	
			1947	1970
2311	Men's and Boys' Suits and Coats	1,912.4	9	19
2321	Men's Dress Shirts and Nightwear	1,679.4	19	28
2327	Men's and Boys' Separate Trousers	1,415.6	12	26
2328	Men's and Boys' Work Clothing	1,367.5	15/27	40
2329	Men's and Boys' N.E.C.	649.1	13	18
2331	Women's and Misses Blouses and Waists	929.9	7	22
2335	Women's and Misses Dresses	3,365.6	15/ 6	10
2337	Women's and Misses Suits and Coats	1,605.1	16/ 3	10
2341	Corsets and Allied Garments	645.7	16	30
2591	Curtains & Draperies	558.0	18	33
2392	Housefurnishings, N.E.C.	1,272.1	33	21
2396	Automotive and Apparel Trimmings	918.8	15/58	47

15/ Concentration ratio is for 1963, the earliest year available

16/ Concentration ratio is for 1954, the earliest year available

Source: U.S. Bureau of the Census, Annual Survey of Manufacturer: 1970, Value of Shipment Concentration Ratios, M70 (AS)-9, U.S. Govt. Printing Office, 1972.

* This table is based on acquired firms for which data are publicl available. An additional nine large apparel companies were acqui during this period but they are not included because their asset data is available only from confidential sources.

The increase in the size of apparel manufacturing establishments suggests that rising concentration is more likely a result of increased scale requirements than a result of mergers. In this light, it is not particularly disturbing, since overall concentration levels are still low enough to place most apparel industries in the competitive category.

Role of the FTC

What is the role of the Federal Trade Commission with regard to apparel? Perhaps our first responsibility is to see that the apparel industry remains competitively structured.

What does this involve? First, scrutiny of mergers which might have the effect of injuring competition. I am not going to attempt to set forth any particular guidelines for mergers in the apparel industry. In general, however, the mergers most likely to attract the Commission's attention are those which link direct competitors and which have the effect of significantly raising industry concentration. Mergers joining firms which have a supplier-customer relation may also attract antitrust attention, as well as those resulting in elimination of a significant potential entrant. I would suggest that to be on the safe side you obtain prior clearance from the FTC before going through with a merger involving any apparel firm with a significant market share.

In addition to its concern with mergers, the FTC also is interested in seeing that the competitive game is played fairly. The very intensity of competition in apparel may lead some firms to take "short-cuts." This brings me to the subject of discriminatory advertising and promotional allowances. I really do not want to dwell on the problem. I think it has been less serious recently than in earlier years. Nevertheless, it is illegal under Section 2(d) of the Clayton Act to give allowances on other than proportionately equal terms to all competing customers.

I want now to mention another area of FTC activity. It is not antitrust in the traditional sense of chasing "law violators," but it is a very important part of the FTC's activities and I hope it will become even more important in the future. I am speaking of the provision of information. The economy works best and the need for close government regulation is lessened if the consumer has adequate information upon which to base his choice of competing products. When consumers have no objective way to judge product characteristics, they easily fall prey to various deceptive practices.

Over the years, the FTC has taken a number of steps to provide consumers with information about apparel products. The FTC has enforcement responsibilities under the Wool Products Labeling Act of 1930 and the Textile Fiber Products Identification Act of 1959. These acts require that textile products be correctly branded and they enable the consumer to get the kind of products he is paying for. In 1972, another measure to improve consumer information was taken by the FTC. Apparel manufacturers were required to place permanent care labels on garments. Such labels provide information which is extremely helpful to the consumer, both in making purchasing decisions and in later caring for the garment. The care labeling program is an example of a regulatory effort involving provision of information that is of substantial benefit to consumers, at minimal cost to industry.

Another program for which I solicit your support involves setting of flammability standards. The Department of Commerce last year adopted a flammability standard for certain sizes of children's sleepwear. I hope and expect that similar protective flammability standards will be extended to other children's garments in the future, and to adult clothing where warranted.

In closing, I would like to congratulate the apparel industry for a job well done. As for the future, I urge you to compete vigorously, both on the domestic front and with foreign producers. I also urge you to continue your cooperation with informational and safety programs that are in the best interests of consumers and businessmen alike.