

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: November 10, 2010
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 10-107
Activewear Cluster Update

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None – information only.

SUMMARY

The activewear industry is one of the four clusters identified in the City's five-year economic development strategy. Driven by a desire to support jobs and economic growth and the recognition of the activewear industry as a source of both, the Portland Development Commission (PDC), in partnership with Business Oregon, the Oregon Business Council, Portland State University, the University of Bern, and Joe Cortright, engaged Portland and Oregon activewear industry leaders in a series of discussions that began in October 2009. Research, a survey, interviews, and roundtable discussion with industry leaders sought to:

- define the industry – its challenges, opportunities and key competitive markets;
- engage the industry in a dialogue that could lead to actions, policies, and initiatives to further industry growth; and
- identify opportunities for public-private collaboration that will further Portland's and Oregon's competitive advantage as a global activewear hub.

The key deliverables from this project are:

- an online directory of over 300 firms available at www.pdxactivewear.com (the directory was first launched in April 2010 and is constantly being updated);
- the first comprehensive study of Portland's and Oregon's activewear industry;
- a report and industry call to action;
- a genealogy map showing the evolution of the industry; and
- an action plan to further Portland's competitiveness as a global activewear hub with an emphasis on industry and higher education connections, the continued development of a materials resource library, and the establishment of an activewear entrepreneurship program including access to funding.

This report is a preview to a November 16 presentation with Mayor Adams and industry leaders to celebrate the completion of the report, to unveil the genealogy map, discuss next steps, and provide an industry networking opportunity.

BACKGROUND

The Portland Economic Development Strategy is predicated on the implementation of a cluster approach to create jobs. As such, PDC has been working with industry leaders and key partners to identify opportunities to further Portland's competitive location by enhancing the competitive environment for firms in the activewear industry while providing ongoing business retention, expansion, and recruitment support for the industry.

Portland's activewear cluster is a group of innovative, world-class firms that design, market, and distribute footwear, apparel, and related gear for sports, recreation, and active lifestyles. Anchored by Nike, the global leader in this field, Adidas' North American headquarters, and Columbia Sportswear, the cluster also includes hundreds of smaller firms, which develop and market their own products and provide a wide range of specialized services to other firms in the cluster. The competitiveness of the cluster is based on the skills, interests, and values of its workers, and the strong interconnections with the local tendencies for active living, sustainability, and innovation. Portland is the epicenter for designing and marketing these products and managing the global enterprise.

Oregon has the nation's foremost concentration of activewear companies. The Portland metropolitan area has the highest location quotients for footwear distribution and footwear manufacturing of any large U.S. metropolitan area. Oregon receives more patents for footwear than any other state.

Statistics

Statewide the "core"¹ activewear industry:

- employs more than 14,000 workers;
- contributes to a total statewide payroll of nearly \$1.2 billion, in 2008, and includes more than 700 firms with payroll;
- pays average wages of more than \$80,000 annually²;
- employs as many as 3,200 self-employed people; and
- generates sales of more than \$100 million annually.

Key Findings

Alpha Cluster

Experts define the cluster as an "alpha" cluster. The characteristics of alpha clusters are continuous innovation, high wages, strong geographic concentration, and strong connections to the culture and quality of life in the community. In Portland's case, the activewear cluster has important business and cultural connections to design, media, and communication, as well as to a distinctive lifestyle and other clusters in music, art, and food.

¹ Does not include the economic impact generated by activewear firms purchasing from other sectors such as professional services (legal, accounting, hr, etc.)

² We have received feedback that the \$80,000 average wage is too high for the industry. We believe that some of the larger brands skew that number and that it is more likely around \$68,000 based on anecdotal information.

Knowledge Based Economy

Activewear is a knowledge-based economy, an example of a profound shift in the underlying sources of economic wealth, away from physical production towards knowledge creation. Many early pioneering firms manufactured footwear, apparel, and gear, either for local markets or based on local inputs. Danner made boots, Jantzen manufactured swimwear, Pendleton Woolen Mills manufactured its blankets and clothing, and Columbia Sportswear made hats, vests, and coats. Today, however, manufacturing locally is the exception not the rule. Most firms have outsourced their low value, high volume manufacturing to lower cost areas in Asia, especially China, Indonesia and Vietnam. Similarly most North American distribution activity has shifted closer to the population centers of the U.S. (Tennessee, Kentucky, and Indiana).

The activities that remain in Portland tend to be the high value, creative core activities of design, marketing, finance, logistics, and management – creating and marketing new products, not producing or moving them.

A few firms do manufacture locally, driven by the need to protect intellectual property/technology and/or federal regulations that require goods produced for the military, such as boots and tools, be made in the U.S.

The Players

The establishment, growth, and success of Nike were vital to creating an activewear industry cluster in Portland. Phil Knight and Bill Bowerman created a new set of products (high performance athletic shoes) and a business model (global branding of footwear) that dramatically changed the apparel and footwear industries. As the number one firm globally in the industry and the number one activewear employer in Portland, Nike essentially defined the current version of the industry, and many of its workers have gone on to play leadership roles in other firms. Former Nike employees Rob Strasser and Peter Moore were responsible for bringing Adidas North American headquarters to Portland, and played key roles in helping update the company's organization and global strategy in the early 1990s. A significant fraction of Columbia Sportswear's principal managers previously worked with Nike. In addition, start-up and small apparel firms around the state frequently employ Nike alumni as well.

Nike anchors the region's brand and credibility as a center for activewear business. Its scale and economic importance are key drivers for the local economy, with a direct economic impact on the Portland area estimated at \$1.9 billion per year in 2004. Nike attracts skilled workers to the region and develops the skills of its employees, many of whom go on to work at other jobs in the activewear cluster and elsewhere. Nike provides a business model for other firms, and its former employees have started many spin-off businesses, especially in activewear. In addition, Nike supports many professional and creative firms as well as self-employed individuals that serve as critical vendors/suppliers to Nike.

Over time, Nike's role has changed; while it was the progenitor of the cluster in the 1970s and 1980s, today Nike employment is less than half the cluster total. Most of the job growth today is coming from other firms, and the cluster is more complex and diverse than in earlier decades.

Very Large, Very Small

While Nike is still vitally important, the cluster is now much bigger than one business, and is characterized by two distinct kinds of firms: very large and very small. Three companies (Nike, Columbia and Adidas) have more than 500 employees, seven others (including Leather,

LaCrosse/Danner and Pendleton) have between 100 and 500 employees and all the rest have fewer than 100 employees. The large firms have a global scale (offices and operations around the world), and operate their own retail stores, in addition to distributing their products through independent outlets. Smaller firms in the industry specialize in product design and marketing.

Talent is Most Critical Asset

The critical ingredient in the growth and success of the industry is the local talent base. The region's great environment, abundant recreational opportunities, and widespread sustainable ethic attract the kind of talent who help the industry to flourish.

The creative people, who design the products, develop the brands, and help market them are at the center of the activewear industry cluster. Those with expertise to manage the financial and logistical aspects of the industry support them. Large and small firms alike identify talent as the key competitive factor in the industry.

Historically, attracting talented workers to Portland has not been a problem, although some in the industry worry that a combination of high personal income taxes and deteriorating public school quality, particularly K-12, may make it harder to attract talent in the future. Moreover, for C-suite level executives there is the concern about a lack of other executive opportunities should the job not pan out, and in some cases concern about the spouse's ability to be gainfully employed.

The Hybrid Life

The ability to combine career with personal passions in a supportive environment is a decisive advantage for this cluster. The boundaries are blurred between the individual's role as an employee, consumer, and citizen. Significant fractions of those working in the activewear cluster, especially the creative workers, are passionate participants in active recreation. They use their own products, and they embrace a lifestyle that emphasizes these values. Portland's physical and cultural environment provides diverse opportunities and strong support for active living and sustainability. Keen, a local firm has coined the term "hybrid life" as part of their brand.

The hybrid lifestyle also connotes certain images and assumptions about live-work balances and manifests itself in a pronounced schizophrenia about the region's work ethic. Employers recognize and value the fact that their workers are committed to balancing work and outside interest, but are dismayed, as one put it, that the parking lot is empty at 5:00 pm on Fridays. Industry leaders say it is not unusual for people to take and stay at lower paid jobs in Oregon, choosing the lifestyle that the region affords them.

Where We Are Matters

Portland and Oregon's physical environment and emphasis on outdoor recreation and active living are strong complementary assets for this industry. The region's mild climate, and relatively easy access to a wide range of outdoor recreational opportunities (the Pacific Ocean, the Columbia River Gorge, the Cascades and Mt. Hood, Central Oregon's high desert, and the Willamette Valley), make Portland an attractive place for people with an interest in active living. Oregon residents are far more likely to engage in most forms of outdoor recreation than other Americans are. Moreover, industry leaders point out that workers and other passionate early adopters offer a rich source of information and feedback for product development and testing, hence informing the notion of the Portland region as a living lab.

Competitive Markets

Competing and complementary clusters characterize the activewear industry. Boston, Los Angeles, San Francisco, New York, and Boulder are all frequently mentioned as prominent cluster locations for apparel, footwear, and outdoor gear in the U.S. Each has strengths and specializations. Boston is a key center for footwear firms including Reebok (Adidas subsidiary) and New Balance. Los Angeles is a major center for apparel distribution, and has a vastly larger local manufacturing base than Portland for prototyping as well as smaller scale production. The garment districts in New York still have strong concentrations of designers and distributors as well as a wealth of suppliers and cutting and sewing contractors; that infrastructure does not exist in Portland. The San Francisco Bay Area has many outdoor and activewear firms. Boulder is strong in outdoor gear and apparel.

China's Pearl River Delta, just outside Hong Kong, is a major center for global footwear production. Centered on the City of Dongguan, this region has more than 3,000 footwear factories, employing 200,000 workers who produce more than one billion pair of shoes annually, and is responsible for about 50 percent of Chinese footwear exports.

Rivalry and Competition

The rivalry among individuals and firms in the activewear industry is legendary. And while it continues in earnest on some levels – competing for market share, signing endorsement contracts, hiring talent, and developing new products – company representatives said that at the personal level and within the region, there is a widespread ethic of cooperation. The frequent movement of workers between firms in the industry fosters a web of professional contacts throughout brands and companies. Because of Nike's history and size, its alumni work at a large percentage of the activewear firms in the region. In addition, while the large incumbent firms (Nike, Adidas, and Columbia) generally confine their collaboration to a few large-scale issues (trade and tariff regulations affecting footwear and apparel imports and anti counterfeiting initiatives), key executives at each company acknowledge that the presence of a cluster of firms works to the benefit of all.

Sustainability

The emerging green ethos plays a dual role in the activewear industry: in a general sense, it increasingly defines the industry's core values, and more specifically, it stimulates product and market innovation, driving more environmentally friendly products and processes. Embracing sustainability as part of corporate culture is helpful in attracting and retaining talented young workers, who seek employers that embody and apply sustainability as part of their business strategy. Sustainability strategies are also seen as risk-avoiding: getting ahead of the curve by developing alternative materials and processes helps insulate the company from the negative effects of higher oil prices, tougher product safety regulations, and changing consumer tastes.

Sustainability has also served as common ground for industry-led cooperation, evidenced by the recently launched Outdoor Industry Association (OIA) Eco-Index, currently in beta testing and scheduled for formal launch in January 2011. The index offers companies a way to benchmark and measure their environmental footprint to inform sourcing and product improvement decisions. Columbia Sportswear, Nau, and Keen have been actively engaged in this initiative. And PDC has been recognized for its leadership and support on this initiative. PDC provided seed funding to leverage the investment of Portland firms and brought the Portland nonprofit,

the Zero Waste Alliance (ZWA), to the project given their experience in developing an index for the electronics industry.

Changing Dynamics

Continuous change, frequent mergers, acquisition, and growth mark the activewear industry. Major brands (Nike, Adidas, and Columbia) are seeing their global markets expand as incomes rise around the world and interest in active lifestyles grows. New entrants are identifying, developing, and expanding niche markets for specific products and activities. Talent moves between and across companies; new firms start up and begin to grow with a few expanding to become established players in the industry, and others remaining as small “lifestyle” companies. Acquisition of small growing firms brings new ideas and competencies into larger firms, and recapitalizes investors and entrepreneurs. Closures can prompt dislocated workers to start their own firms, ultimately triggering further growth. The cluster has grown by the relocation or expansion of activewear firms from other locations to Portland such as Keen, Icebreaker, Yakima, Merrell, and Li Ning.

Product development demands constant innovation, research, and improvement. Oregon based firms account for a high fraction of the patents issued for innovations in footwear manufacturing. Several of the larger companies have begun to integrate more sophisticated technology into their products, and technology will play an increasingly critical role in product performance, business costs, and sustainability goals.

Genealogy Map

The genealogy map developed by Heike Mayer, the University of Bern, Switzerland is a way of visually representing the evolution of the industry. The map, to be unveiled at the November 16 event, is informed by the responses of 80 companies. Of those 80 companies, 36 were spin-offs from Nike, 12 from Adidas, and six from Columbia Sportswear. The map is currently being designed by Portland design firm Opolis.

Opportunities and Action

Based on discussions with industry leaders, the future will focus on exploring the following opportunities to support Oregon firms and further Portland and Oregon’s competitiveness as an activewear hub. These opportunities will be defined in a separate action plan. Industry leadership will be critical to the successful implementation of the action plan.

- Acknowledge and promote the region’s leadership position as the world’s premier activewear industry hub;
- Promote networking of firms and professionals in the activewear cluster;
- Execute the materials resource library business plan, through the newly established non-profit organization the Portland Center for Design & Innovation;
- Nurture activewear entrepreneurship and start-up activity by improving access/availability of working capital programs, resources, mentorship, and networking;
- Expand industry specific education to prepare more Oregonians to compete for jobs in this globally competitive industry;
- Look for opportunities to “on-shore” manufacturing;
- Address key state and local policies on taxes and education funding;
- Develop cross cluster connections to the region’s other alpha clusters; and

- Continue to identify opportunities such as the OIA Eco-Index to further industry understanding of sustainability and innovation and Portland's position as a sustainable leader.

CONCLUSION

PDC has cultivated a relationship with activewear firms for several years. The result of this study and report is that we will have an informed action plan with roles and responsibilities. It is obvious that industry leadership is critical to the success of the development and implementation of the action plan with the public sector as a partner. PDC will provide leadership in developing an action plan with a responsibility matrix including the identification of industry leadership to champion the various plan elements. PDC's priority items over the next four to six months will be to facilitate discussions with industry leaders and higher education to identify gaps and opportunities, and to develop an entrepreneurial program including a "boot camp" in partnership with other providers, access to the Portland Seed Fund, mentoring, and networking.