***Manufacturing profile:*** Liwaco has moved, within the past decade, from being yet another apparel sourcing operation to a major OEM manufacturer of outdoor wear to major brand names. There was an element of luck in the transformation, as the company would be the first to admit.




# Accidental design

Liwaco Overseas Marketing, incorporated in 1990, was a fairly typical Hong Kong-based sourcing centre when it began. It sold apparel, mainly outerwear - suits, coats, etc. - to Germany especially, to the US, and some to other European markets. It was common practice, at that time, to use sub-contractors to manufacture the orders. Liwaco were no exception.

Like many others, the company had other interests only marginally related. It had a toy division, and another that produced back-packs, sleeping bags and tents.

The apparel division, which was the mainstay of the business, sold into the medium end of the market. Its largest customers were big department stores and retail chains in Germany, a sector of the market under particular strain as the 1990s progressed, with prices tumbling and margins squeezed and, more dangerous for the longer term, customers increasingly dealing direct with the factories. On top of which the prices of quota in China, over which the company had no control, were rising and making it uneconomic to produce low-margin goods in the country.



It would be no secret to say that Liwaco had problems. Changes did not happen overnight. The original plan to open its own factories envisaged manufacturing of mostly the same type of apparel as before. In fact, one opened in Indonesia still supplies brand name leisure wear. Although it is a part of Liwaco, Hans Schallenberger, Liwaco's managing director, says "it pretty much does its own thing."

That might have been that: a straightforward enough reorganisation to meet new market conditions. What actually happened was that a neighbouring company, Odyssey, a supplier of hi-tech outdoor

wear, went bankrupt. Liwaco moved to take over some of its customers. Given the very different nature of the business the company took on some of Odyssey's staff as well.

It became apparent from a very early stage that the new high-tech outdoor activity wear was an expanding market, with good margins, whereas Liwaco's traditional lines were just the opposite. Liwaco moved further into the new field. It helped enormously that it had inherited an existing customer base from the ill-fated Odyssey.

## *Rapid changes*

Within a short period things were changed considerably. Today Liwaco concentrates solely on outdoor wear (with the exception of the largely autonomous Indonesian factory). The customer roster includes some of the leading brand names in the field of outdoor wear, especially in the UK, Germany, Italy and the US, and it has its own Ozark brand which the company itself retails in China. The toy division has been sold. The backpack division has been retained and, although that continued to supply the lower end of the market until recently, that is now changing as the company seeks to manufacture increasingly for top end customers.

The other fundamental change is that Liwaco now owns and operates all its own factories. It is, as Schallenberger explains, the only way it can ensure the quality and standard needed for the very demanding products in this sector of the market. The Shenzhen plant in China, opened in early 1999, is the main garment production centre, employing 1,600 people. It is equipped with 725 sewing machines and 38 Gore-Tex taping machines. There are three embroidery machines allowing the facility to be offered in-house. Output capacity is in excess of 715,000 garments a year.

Another factory, in Tianjin, was established in 1993. It was certified to ISO9002 at the start of 1999. The site has 450 sewing machines for producing the 300,000 garments and 150,000 tents each year. 800 people are employed there.

This year will see the opening of a brand new factory at a third location in China: Dongguan. Liwaco has operated in the city for years, but the new facility will enable it to move the backpack, sleeping bag and tent production towards the upper end of the market.



## *Licensed upgrade*

Odyssey's bad luck may have proved a blessing to Liwaco. Apart from its willingness to move into the new field, Schallenberger says the thing that really determined its future success was the granting of a license from Gore-Tex. It gave the company the credibility it needed. It was fortunate too in working with a major sub-contractor (Liwaco's own factory came later) that could provide the quality needed.

Liwaco has found itself in the fortunate position of being in a sector of the market that has expanded, and continues, to do so. And, as Schallenberger concedes, it is a sector in which there is relatively little competition. The operative term here is 'relative', of course, but what he has found is that the sheer cost of the raw material, especially the fabric, puts off many would-be competitors.

The fabrics now being used, Schallenberger explains, are sometimes "very, very, expensive". By way of example he shows a couple of special hunting jackets - both using special fabrics, the specification for one being that the jacket must prevent body scent escaping lest the downwind prey picks it up. This item is for the US market, for a customer specialising in hunting gear. He notes that the market in Europe for hunting apparel is still more traditional: with lederhosen-type wear on the Continent and the waxed-cotton favoured in the UK and Italy. Personally he is not an enthusiast for waxed-cotton, which may prove a blessing for those who use it extensively.

## *High-tech=innovation?*

When Liwaco first entered this sector the term high-tech was frequently used in association with innovation. And it's true that while innovation continues apace - as the item above demonstrates - there has not been a big change in some time. Gore-Tex remains the big name in the breathable membrane field. Moreover, the several Asian suppliers, coming mostly from out of Japan, Korea and Taiwan, have good products but have not been anywhere near as successful as Gore-Tex in their marketing.

There have been new applications for existing products as well as some superficial changes as in the use of colours for example. Traditionally, colours had a safety aspect in the company's product range. Schallenberger says that is still the

case, although these days a wider range of colours is being introduced, as the products gain a higher appeal as fashion items.

That matters because the customer does all the specifying: Liwaco receives instructions that range from design through to product specification. "We're essentially OEM suppliers," Schallenberger agrees. Liwaco does not do any original design or specification work, except for its own Ozark range. Customers do all the materials research.

This demarcation system should make the production process relatively smooth and such is the case. The biggest problem is likely to occur in the prototyping stage. Paper designs are sent from the customer but "so many things can change what seems like a good idea on paper to what actually emerges: a colour could look wrong; the drape of one fabric may have to be substituted for another; there might be insufficient elasticity around an elbow joint.."

## *Problems with time*

This, in itself, is not really the problem - it is an accepted part of the business, after all. "The biggest problem is in establishing, and then maintaining, the time lines." What happens is that designers can easily forget that even minor changes will affect schedules, Schallenberger explains, and although some changes may be essential or necessary, it is very easy for minor changes to be made for what appears to be, at the manufacturing end, no very good reason. It can have a knock-on effect and, if one is not careful, it can affect the final production schedule.

The other principal problem is ensuring the supply of the materials on time. "Suppliers are not always accurate with delivery dates", he observes dryly.

Other changes in the market are relatively minor. For instance there is a wider use of welding rather than sewing. Right now it is still in what Schallenberger calls the "early stages.... but it has growth potential". The problem he sees is that when stitching a Gore-Tex fabric, the membrane may be punctured and that, in turn, may affect the waterproofing. Liwaco has started using welding "on a small scale" and on parts of the garment not susceptible to a lot of stress.

Another novelty he has observed is the increasing use of waterproof zippers: so, instead of having to hide zippers under flaps they can now be exposed.

## *Ozark expands*

This links conveniently into a consideration of the company's own brand. With the Ozark range of outdoor wear, back packs, sleeping bags and tents, Liwaco no longer needs to observe anonymity beneath the names of market brand leaders but can openly flaunt itself.

Although the early and mid 1990s saw a rush of big brand names into China, the major outdoor suppliers were not among them. Schallenberger says he noted some of the European brands were available, but there was no concerted push, and many were either pirated copies or export 'overs'. As a result, some four years ago, he decided to try and enter the marketplace. It was, and remains, a matter of building the market. But it is proving successful, albeit a long-term process and he does not claim even now that it's a runaway success.

The Ozark range is made up of full-specification products and they are Liwaco's own design. Because this is not a particularly price-sensitive sector of the market, even in China, the materials and designs are similar to those used in the products produced for the big brand labels. The experience gained from customers' research into materials has been beneficial, of course, but Liwaco does its own research too, and visits trade events to look for new products and trends.

There are presently 16 retail outlets, mostly company counters, within large department stores in China's major cities, including Beijing, Shanghai and Quangzhou, as well as in Lhasa (Tibet). The reason for doing it this way, rather than wholesaling, is that it ensures payment. Collecting receivables is a problem in China, says Schallenberger by way of understatement. This way he can ensure payment and it solves the difficulties in hiring, training and monitoring staff. Nonetheless, wholesaling may come later, and in the future it might open its own stores.

"We've had to build the market (in China)", Schallenberger says. "We organise activities by teaching basic skills in mountaineering and ice climbing; we sponsor expeditions by Chinese teams into the Himalayas, and helped establish a mountaineering school in Tibet. In Shanghai we built an indoor climbing wall.

"We were well received by the Chinese Mountaineering Association, and still co-operate very closely with them, sponsoring their main activities with equipment."

What matters is that the business is profitable and, most importantly, it is growing, largely due to the fact that more Chinese, especially among the young, are turning to outdoor activities. Many Chinese universities now have climbing and mountaineering schools, for example.

## *Further options*

And the future? Well, it's hard to predict for the outdoor wear sector in general. Barring a major breakthrough in fabric technology, or a new brand establishing itself, there is no obvious new trend on the horizon. One area that Liwaco will be looking at is in the field of lightweight outdoor wear - a field it has not explored fully as yet.

In the meantime it continues to develop in a market that it entered very much by accident. Its success probably lies much in the fact that it has known just when to exploit that good fortune.

