

Supply Chain Management, Labor Audit and World-wide Location Strategy

Case Study on Sports Shoes and Apparel Businesses : ASICS Corporation

Takayuki SAWADA

1. Beginning for global change on apparel & shoes businesses
2. ASICS: business history and global supply chain management
3. Critics and response to sweat shop
4. ASICS SCM and labor audit
5. Conclusion

Abstract

Global SCM on apparel and sports shoes businesses was progressing under the first stage of textile and apparel trade liberalization during 1995-2004. But Japan hadn't joined the agreement of import quotas to developing countries since 1974. As the result, those difference between US and Japan on trade policies made their apparel and sports shoes businesses get the different location strategy.

The difference of ASICS and NIKE is typical case. ASICS and First Retailing (UNI QLO) were making use of Chinese contract factories as product line overseas without worrying import quotas. On the other hand, NIKE must have adjusted geographical allocation for contract factories to import quotas. Japanese companies depended on the contract factories in China too much compared to US and European companies.

It needs to do dispersion on geographical location for contract factories to avoid several risks for companies like ASICS. At the same time, they need to turn the labor audit system as the part of CSR into branding. It means that ASICS and similar companies in Japan may be possible to get appeal power to consumers than before.

1. Beginning for global change on apparel & shoes businesses

In a way, the year of 2005 would be the memorial year for apparel and shoes businesses in advanced countries, because the import quotas including shoes to developing countries, so called MFA (Multi-fiber Agreement) had maintained in US and Euro since 1974 was completely abolished. Some countries like China and India expected trade liberalization as business chance, other small countries like Bangladesh worried about global tough competition at then.

These industries are so labor intensive that they play the important role in the early stage of

economic growth in developing countries. At the same time, developed countries have also to do with the vested interest concerning those old industries. As the result, import quotas to developing countries had been continuing by the end of 2004, and that trade policy had strongly influenced on business model for several companies in advanced countries.

As many researchers surveyed before MFA (Multi-fiber Agreement) abolition, China had already got Lion's share (see Hiebert and others (2004)).¹ But other emerging countries haven't become loser. In fact, order companies in developed countries need to rethink about world-wide location of the suppliers. In addition to such the business strategy, apparel and sports shoes businesses and big retailers have needed labor audit system because of facing boycott and critics from NGO since late 1990s.

Import quotas influenced almost American company's location strategy, and they tried to relocate the contract factories globally. On the contrary, Free trade policy influenced Japanese company's location strategy, and they tried to depend on China so much. Today there are a few Japanese companies which have the world-wide location strategy like NIKE or Adidas in Japan. But there are exceptional cases. If it has a famous logo, brand and innovation like them, it will try to have same strategy. The typical one is ASICS as follows.

2. ASICS : business history and global supply chain management

ASICS originally known as Onitsuka Tiger was founded by Kihachiro Onitsuka (1918-2007) at Kobe in 1949. There were only 4 employees when he started up the business. Then President Onitsuka was thinking about the development for high quality sports shoes, finally succeeded to develop the original shoes, so called Onitsuka type shoes with the sole like a sucker of octopus for basketball. He was consulting with Kobe high school basketball team director Yukio Matsumoto at then. It became famous for his shoes soon after Kobe high school basketball team had won the victory on basketball championship.

In 1950s, It got the trade mark & logo Onitsuka Tiger, developed and sold the remarkable marathon shoes with the structure being able to exchange in and out of air. In addition to development of new product, that business way was like NIKE, Adidas and Puma.² They gave the top athletes or sport team their shoes. Onitsuka become supplier to the national team in Melbourne Olympic in 1956, Tokyo Olympic 1961, and then listing of stock was done in 1964.

In 1960s, There was remarkable alliance on shoes & sport wear business history. It was the contract between ASICS and NIKE. University of Oregon track athlete Phil Knight and his coach Bill Bowerman founded Blue Ribbon Sports (NIKE) in 1962, and they started up the business as the distributor for Onitsuka's shoes. USA was a huge and growing market for sport shoes all over the world in early 1960s, therefore, this contract and collaboration was so attractive and profitable for Onitsuka. NIKE succeeded to developed self-designed based Bowerman's waffle design after this contract, started to make use of Onitsuka's product line in Japan. Even if someone says that it

was the origin of outsourcing globally on shoes & apparel, that won't be exaggerated.

Onituka assumed its current name through a merger in 1977. ASICS means that Anima Sana in Corpore Sano (you should pray for a sound mind in a sound body) by Roman poet Juvenal. Their vision is the world no. 1 creator of sports -, health-and comfort-oriented lifestyles, their businesses have grown and evolved word-wide. It has over 50 researchers at Institute of Sport Science, consistently endeavors in R&D. Foreign sales are increasing year after year, they accounted for 61% of total sales in 2005 (midterm) from 41.3% in 2002. It announced ACP (ASICS Challenge Plan), made a target 300 billion yen sales by 2011, therefore, it just strengthen business strategy in subsidiaries overseas (ASICS, Newsletter, 2006, 53rd, 52nd Term. Annual Report 2006. Website.).

According to annual report 2007, net sales of ASICS is 194,515 million (135,640 in 2003), main product and sales are sports shoes which account for 69.5% of net sales, other products are sports wear 21.6%, sports equipment 8.6%. In net sales by geographic area, domestic market is 43.5%, other markets are US 21.4%, Europe 30.5%. Major consolidated subsidiaries and affiliates overseas are totally 19 such as America Corporation, Europe B. V, Deutschland GmbH, and France S. A. S and so on.

Sports shoes manufacture and business are not simply labor intensive industry, always need the product innovation as we can know the examples from NIKE and Adidas. Needless to say, ASICS has also international logo and brand, joined the third party FLA (Fare Labor Association). FLA is the organization for labor audit, we can know the number of factories, the location and other data from annual report published by FLA.

Table 1 apparently shows that ASICS depends on contract factories in China much more than NIKE and Puma (Germany-based), and the NIKE are more global on locations of contract factories than ASICS. ASICS is late comer on world-wide SCM, just trying to build more globally SCM. Today those MNC don't only to seek the location for labor cost reduction, but also need to build the labor audit system. Although they certainly tend to make the locations concentrate on China after abolition of MFA, they keep their locations word-wide range including developed countries. That's why they need to keep market access for world-wide sales.

MNCs with the famous logo and brand as invisible asset are very near consumers, therefore, they always need to be conscious of CSR and stake holders by the wide meaning. Business strategy on ASICS is effective as role model for the similar companies in Japan.

President and Representative Director, Kiyomi Wada was interviewed for Annual Report 2007, he was explaining the business strategy as follows.

(Q) What measures do you plan to take for achieving the goals ?

(President Wada)

Moreover, overseas operations have been expanding at a strong pace, but footwear

Table 1 Labor audit applicable facilities and location

ASICS (Japan) Total applicable facilities 257	NIKE (USA) Total applicable facilities 677	Puma AG (Germany) Total applicable facilities 376	Adidas Group (Germany) Total applicable facilities 815
China 147 (57.2%)	China 139 (20.5%)	China 126 (33.5%)	China 175 (21.5%)
Australia 14	Thailand 64	Vietnam 27	USA 106
USA 14	USA 52	India 19	Korea 67
Taiwan 10	Indonesia 39	South Korea 18	Japan 49
Thailand 9	Vietnam 35	Thailand 16	Indonesia 43
Turkey 8	Malaysia 34	Malaysia 14	Thailand 40
Italy 7	Korea 30	Turkey 12	Turkey 35
Vietnam 7	Japan 29	Indonesia 10	Brazil 32
Japan 6	Brazil 25	Argentina 9	Taiwan 31
Indonesia 4	Taiwan, Turkey, 23	Cambodia, South Africa, 8	Vietnam 25
Malaysia 3	India 22	Bangladesh, Egypt, Pakistan, Portugal, Taiwan, 7	Argentina 21
Pakistan 3	Mexico 19	Brazil, Bulgaria, Romania, 6	Philippines 20
Cambodia 2	Sri Lanka 18	Mexico 5	Canada 16
Germany 2	Hong Kong 13	El Salvador, Italy, 4	India, Mexico 14
Greece 2	Portugal 11	Australia, Greece, Spain, Tunisia, Ukraine, 3	Australia 12
Mauritius 2	Honduras 9	Chile, Guatemala, Israel, Japan, Mauritius, Morocco, Poland, Slovakia, 2	Malaysia 11
Mexico 2	Argentina 8	(Other areas, abbreviation)	El Salvador 8
Tunisia 2	Canada 7		Honduras, Italy, Tunisia, 7
Bangladesh, El Salvador, France, Hungary, Kenya, Korea, Laos, Netherlands, New Zealand, Poland, Portugal, Slovakia, Spain 1	Bangladesh, Italy, 6		New Zealand 6
	Australia, Israel, Macau, South Africa, 5		Cambodia, Macau, Pakistan, 5
	Spain, Tunisia, 4		Bulgaria, Germany, Hong Kong, Peru, Singapore, Sri Lanka 4
	Egypt, Jordan, Morocco, Philippines, Singapore, 3		(Other areas, abbreviation)
	(Other areas, abbreviation)		

(Source) Reproduced from FLA 2007 Annual Report.

(Note) According to Annual Report back number, the share of China location were going up in the case of NIKE after MFA abolition.

accounts for nearly 90% of sales. Consequently, enlarging apparel businesses abroad is now key strategy. Because apparel business development has been through licensing contracts with overseas subsidiaries, cohesive brand development has been relatively difficult in overseas markets. Looking ahead, the Company will form global teams, establish production bases, and develop the foundations for apparel businesses abroad under the guidance of the head office in Japan. (website, IR Information, Interview with The President.)

From this interview, we can know that ASICS needs world-wide relocation to enlarge apparel businesses in near future.

3. Critics and response to sweat shop

Some NGO, mass media and university students in US started to strengthen the criticism to the big companies like NIKE, other apparel & sport-goods businesses and big retailers in late 1990s. Because they had lost the labor audit capability to contract factories abroad with more outsourcing production globally. Some researchers also took severe attitude to such MNCs (cf. Klein (2000)). There are a lot of contract factories in garment industries in USA except for abroad, and they are using Chinese workers or immigrant workers from the Caribbean Basin in New York and Los Angeles (Sassen (1988)).

As smile curve indices, those businesses not having their own factories could get the fruits as cost reduction and the advantage for marketing and R&D. But the movement against low wages, bad labor circumstance, no human rights and the employment of child workers at contract factories in Southeast Asia and other developing countries has possibility to give those businesses fatal injury. Actually, NIKE couldn't help avoiding drastic sales reduction in the end of the 1990s. Both US Government and those businesses needed quick correspondence after President Bill Clinton had recognized the need for supervision over those companies.

In this way, non-profit organization FLA officially incorporated with a collaboration of companies, NGO, colleges and universities in 1999. Basically, FLA is the third party which engages in monitoring and review to contract factories with compliance and their standards. They have 18 member companies such as NIKE, Adidas group, Liz Claiborne, Nordstrom, Outdoor Cap Company, Patagonia, Eddie Bauer Holdings in 2007. It's common by the members being so big corporation and having the brand. In addition to these common features, they are almost US or Euro based companies. NIKE joined FLA at the time of Association establishment in 1999 after the boycott to NIKE had risen. ASICS joined FLA in 2005, it is rather new member.

ASICS is only Japanese member company. There are several reasons about their late joining. One is there was nothing boycott in late 1990s in Japan, their management wasn't influenced much more than US-or Euro-based companies. Other one is the different from US-or Euro-based location strategy on the progress for their location of contract factories overseas. Therefore, next we need to see this company's profile and SCM concerning labor audit.

FLA and accredited monitors play the important role of conducting Independent External Monitoring (IEMs) when the member companies do labor audit. Almost member companies have three steps system on labor audit seeing by the case of ASICS later, Especially, the actual monitoring by FLA is core steps for them. For example, by element within FLA Workplace Code of Conduct, of total number of noncompliances 2,511, the largest number of reported noncompliances referred to the Health and Safety (1,151 noncompliances, 46%) in 2006, followed by Wages and Benefits (419 noncompliances, 17%), Code Awareness (230 noncompliances, 9%), Hours of Work (210 noncompliances, 8%). (FLA (2007) 11)³

Figure 1 displays the breakdown in the percentages of IEMs by geographic region. Over 75%

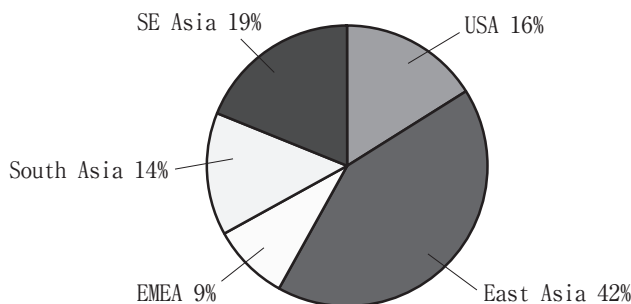


Figure 1 Total IEMs in 2006

(Source) FLA (2007) 10.

(Notes) Estimated number of workers, 3.76 million.

Estimated number of workers in factories that received IEMs.

EMEA stand for Emerging Europe, Middle East and Africa.

of IEMs were conducted in Asia, especially East Asia was the largest block. On the other hand, we also need to notice 16% in USA. Although 5,716 factories was recorded by FLA factory list, the accredited monitors visited only 147 (2.6%) of them.

As we know from FLA's data, those audit system isn't enough from the viewpoint of number of monitoring and limit of association's scale. The monitoring system isn't perfect one as other NGO criticize, but it seems that FLA and member companies are starting to contribute the remediation to contract factories and worker's circumstance at least.

4. ASICS SCM and labor audit

ASICS has probably one of the most excellent and advanced companies building SCM with labor audit overseas in Japan. Japanese manufactures generally tend to respect the facilities, lead-time, and quality control as a screening standard when they select the contract factories overseas. There are a few cases as like they can build audit system in Japan. Even UNI QLO hasn't such a system although they've covenanted with excellent factories in China. ASICS has basically 3 steps system on labor audit and after follow system.⁴

They has also specialized team to supervise, and company union is so cooperative to labor audit overseas. Table 2 shows number of audit of consignment production factory. Figure 2 shows the process on labor audit. Actually, total factories conducted by this three step system are a few, they account for 12% of total applicable factories.

Table 2 Number of audit of consignment production factory in ASICS (April, 1 2006–March, 31 2007)

	Footwear	Apparel	Equipment	Subtotal
Internal audit	9 factories	11 factories	—	20 factories
Internal audit Requested by Asics	6 factories	—	—	6 factories
External audit by third party (FLA)	2 factories	2 factories	1 factories	5 factories
Subtotal	17 factories	13 factories	1 factories	
Total				31

(Source) ASICS, Website, Responsibility, Supply Chain Management (2).

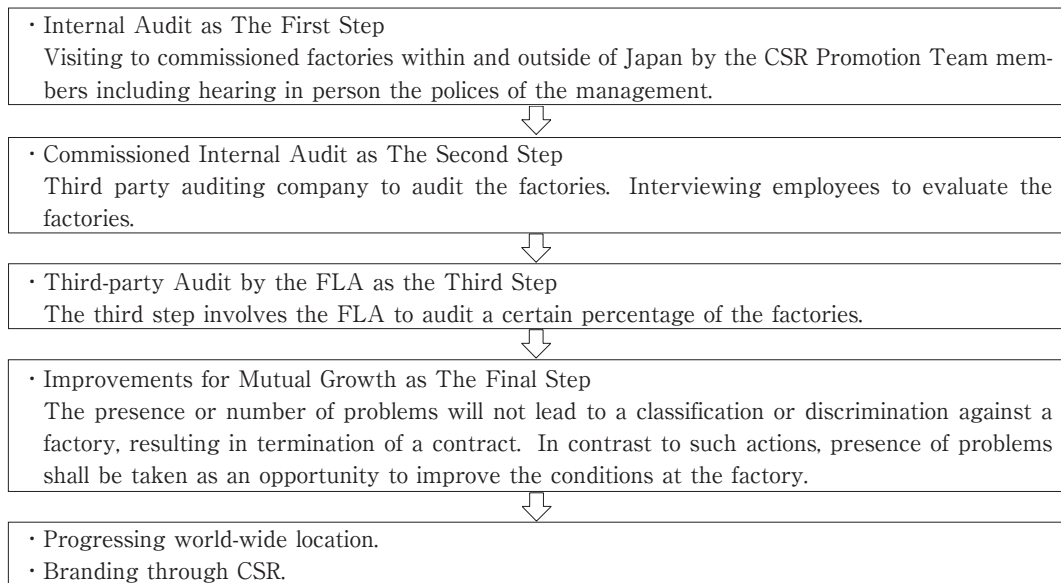


Figure 2 Labor audit system in ASICS

(source) Reproduced from ASICS, Web-site, Supply Chain Management (2).

5. Conclusion

As a part of CSR, it was so late for ASICS to start with the labor audit compared to NIKE or European businesses. That difference was caused principally by the difference of the trade policies. As the result, Chinese apparel share in Japanese market had already gone up 80% under the sacrifice of Japanese local apparel industries during 1980s–1990s. Japanese successful companies didn't hesitate to give the contract manufacturing to Chinese factories. The typical case was First Retailing (UNI QLO) which just now try to sale their wears in England and US, but they are on the way building the world brand.

Several innovating companies have strengthened the linkage with Chinese factories for cost reduction, and many managers say there are no choices instead of China as location strategy. It

means that they are seeing only domestic market (Japan) without endeavor for building appeal power and marketing overseas.

Therefore, they didn't have incentive to making the location strategy all over the world. If they continue to depend on factories in China so much, they would have risk facing legal system change and new regulation. Even so called China plus one strategy is not enough for world-wide location strategy. In this sense, The case of ASICS will become role model for Japanese sports shoes, sports wear and apparel businesses.

Notes

- 1 There were a lot of previous studies or reports about the influence on textile and apparel trade before MFA abolition. For instance, see Hiebert and others (2004), Kathuria and others (2003), Sawada (2005).
- 2 Puma and Adidas are known for German-based MNC, they was originally one company managed by Rudolf Dassler and his younger brother Adolf. Dassler brothers founded Dassler brothers Shoe Factory, then they started to become sponsor of Olympic game or top athletes in 1930s. What's that the origin of business model on today's NIKE, ASICS or other companies. They split their business in 1948, Adolf named his company Adidas after his nickname, Rudolf named his new company Ruda (Puma). (from wikipedia)
- 3 Especially, the United Students Against Sweatshops (USAS) has critical attitude to the code of FLA.
- 4 As the definition to CSR from the viewpoint of business strategy, it means not only social justice and ethics, but also building company's brand up.

References

- ASICS (2001) (2002) (2003) (2004) (2005) (2006) (2007), *Annual Report*.
- ASICS (2006), Newsletter (Japanese).
- ASICS website (asics.com).
- FLA (2007), *Annual Report*. Washington, DC.
- FLA (2002), *Fair Labor Association First Public Report : Towards Improving Workers'lives*, Washington, DC.
- FLA (2004), *Fair Labor Association Year Two Annual Public Report*, Washington, DC.
- Frisch Aaron (2004), *The Story of NIKE*, Smart Apple Media, Minnesota.
- Hiebert Murray and others (2004), "One Big Winner, Many Small Losers," *Far Eastern Economic Review*, September 9.
- IMF, M. Mlachila and Y. Yang (2004), "The End of Textile Quotas : A Case Study of the Impact on Bangladesh," IMF Working Paper, WP/04/108, Washington, DC.
- Klein Naomi (2000), *No Logo : Taking Aim at the Brand Bullies*, A. A. Canada.
- NIKE (2007), *Annual Report*.
- Sassen Saskia (1988), *The Mobility of Labor and Capital : A Study in International Investment and Labor Flow*, Cambridge University Press.
- Takayuki Sawada (2005), "Apparel Suppliers in Developing Countries, 1995-2005 : Global Competition and Less Developing Countries," The Society of Economics and Business Management, Meijo University, *The Meijo Ronso*, Vol. 6, No. 1 (Japanese).
- Wikipedia, ASICS (Japanese), NIKE, Puma, Adidas (from website April 2008).
- WTO, H. K. Nordas (2004), "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing," Geneve.