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Grabbing a toehold in hosiery market

the entrepreneurs. Richelieu Legwear survived the garment industry's downturn by restructuring its operations

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By January 1, 2005, the last of the import quotas protecting Canadian apparel manufacturers had been lifted.

Long-standing clothing producers found themselves going head to head with low-wage behemoths.

Some died a quick death. Others survived by carving out specialized niches, doing private label work or coming up with innovative designs.

With roots going back to 1934, Richelieu Legwear was one company that was forced to radically change its business model or risk going under.

By 2001, it was clear Richelieu could no longer produce its socks and tights domestically. The company pulled the plug on its plants here and shifted production overseas, reinventing itself as a "sourcer," distributor and marketer.

"We had no choice," company president Michael Penner said. "If we hadn't done it, everyone else remaining would have been unemployed."

Originally owned by the Simard family of Marine Industries fame, Richelieu used to make socks and tights at two Quebec plants.

Harvey Penner, Michael's father, joined the company as sales manager in the 1960s and worked his way up to become a partner, then owner in 1997.

The senior Penner also started two related companies, a T-shirt and sweatshirt producer and a yarn business making Lycra and nylon.

As recently as 2002, the three companies had over 600 people on the payroll.

Michael Penner, who bought Richelieu from his father in 2006, now runs the business from offices in downtown Montreal, home to eight employees.

The company employs another 25 at a warehouse in Cornwall, Ont.

On a recent winter day as workers struggled through snowbanks to work, Michael was neatly turned out in blue socks underneath his suit pants, thick-framed glasses and monogrammed cuffs.

Penner came back to help his father in 1999 after working as a mergers and acquisitions lawyer in New York City.

A flood of cheap imports from China and elsewhere was only one of the company's problems.

"There was management malaise, quality problems and cost of production issues," he said. "There were labour difficulties and strikes, a fire (at the yarn company). Then there were global trade and currency issues."

The Penners got some temporary help in 2002 when the Quebec Federation of Labour's Solidarity Fund, a labour movement-sponsored investment fund, lent the family's holding company \$1 million and made an equity investment of \$2 million.

That injection wasn't enough. Michael said his wake-up call came when a major client, Wal-Mart, gave him an ultimatum.

"They said we (Richelieu) had six weeks to get our act together or we would lose the account."

As he took a bigger role in management, Michael began implementing a turnaround plan. Manufacturing employees were let go. The management team was rebuilt and old inventory was liquidated.

Although today a shadow of its former self in terms of employees, Richelieu has returned to profitability. (Penner would not reveal revenue figures.)

Instead of factory workers, the company now employs design, artwork, technical and quality assurance specialists, website managers and customer service agents.

The company works with contractors in China, Turkey, Korea, Taiwan, Cambodia and the United Arab Emirates to produce

baby, kid's, women's, men's and medical socks, as well as leggings and tights it then brings back to North America.

Richelieu's Canadian retail accounts include Wal-Mart, Zellers and The Bay. In the U.S., it produces private label leg wear for companies like Nautica and Polo Ralph Lauren.

Richelieu also licenses brands to market and distribute in Canada, including Peds, Gold Bug and Wonderbra.

"When I took over, it was all private label," Penner said. "I saw the vulnerability of that; a new buyer could change suppliers. And we have better margins with our brands."

Penner says those who tout moving to higher-value goods as a way to save apparel manufacturing jobs in Canada are misguided.

"You are still maintaining high fixed costs," he said.

Will Gold, president of Gold Bug of Denver, Colo., agrees. Aside from doing business with Richelieu, he has been a mentor to Penner during the company's transformation.

Even with easy access to the huge U.S. market, moving to higher-end products was not a solution for Gold Bug, which makes baby socks, clothing and accessories.

"Higher end is too cost prohibitive," he said. The company moved all its production overseas some time ago.

Elliot Lifson thinks there are still ways Canadian companies can compete on value. Vice-chairman of Peerless Clothing, a men's suit manufacturer headquartered in Montreal, Lifson is also president of the Canadian Apparel Association.

"There has to be a price-value relationship," Lifson said. "Value is style, brand, fit, niche market, differentiation, service.

"Or you can compete on innovation and creativity. On this we're very good in this city." he said, referring to Montreal, home to about 35,000 clothing industry jobs in 2005, down from about 55,000 in 2002.

But Lifson agrees that improving productivity with the newest machinery is not enough.

"Even if you are highly mechanized, you still need human hands."

Les Tricots Duval & Raymond Ltée. is an example of a sock company that has hung on by sticking to a specialized niche.

The third generation business makes all its work and outdoor socks in tiny Princeville, between Drummondville and Quebec City. It has kept the 100 employees it had a decade ago.

"Companies that had a lot of volume and could sell to big stores like Zellers were vulnerable, because those stores were the first to buy in China and other cheap sources," said Yan Raymond, whose grandfather started the company. "We sell to stores that buy Canadian or look for quality."

Sandy Kay, president and CEO of The Hosiery Association, an international trade group based in Charlotte, N. C., says global trade and industry consolidation have led to dramatic job losses in her industry in North America, but lifestyle changes are also a factor.

Southern regions are warmer, discouraging sock wearing. Flip-flops are the rage for young people. Women are abandoning pantyhose.

For North American sock companies to stay afloat, Kay sees three competitive advantages they must exploit.

"You can have quick turnaround time (by being closer to your market), be very specialized or work at a higher price point," she said.

According to Kay, specialized socks that show promise include eco-friendly products, wellness socks (for comfortable travel or medical conditions), high performance sport socks for activities like snowboarding or rock climbing, plus-size socks and junior products.

Back at home, Michael Penner has been looking at a shrinking apparel sector in Montreal and found it sobering.

"A lot of good people lost a lot of good companies," he said.

The carnage has reinforced his view that becoming a completely different kind of company was painful, but essential.

"It was the lesser of two evils," he said.

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