BEYOND DESIGN

4th Edition

The Synergy of Apparel Product Development

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BLOOMSBURY

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PREFACE

Beyond Design: The Synergy of Apparel Product Development takes students step-by-step through the decision making involved in the pre-production processes of apparel product development—planning, forecasting, fabricating, line development, technical design, quality assurance, sourcing, and pricing. It demonstrates how these processes must be coordinated to get the right product to market, when consumers want it, and at a price they are willing to pay. The fourth edition continues to build on the themes of sustainability, business ethics, and the impact of fast fashion and social media while seeking to address opportunities for small businesses and entrepreneurs. The text advances its discussion of how new technologies continue to shorten the product development calendar. Chapters have been edited to be more accessible to students and to include current examples, updated charts and graphs, and more case studies.

The concept of fashion change has always been a driving force in the apparel business. As we move further into the twenty-first century, new technological developments, growing globalization of the industry, and a changing consumer marketplace are changing the entire face of the apparel product development business. These include:

- Increasing demands to compress the turnaround time required to complete the product development cycle
- Increasingly sophisticated computer applications in the design and production of products
- Increased consumer participation in the evolution of trends and viral marketing
- Enhanced real-time communications
- Increasing complexity of global markets
- Growing market for local, sustainable, and ethical products

This new business environment has increased the demands on product developers to proactively adapt their processes to meet the needs of a very vocal and evolving customer.

ORGANIZATION OF THE TEXT

Beyond Design provides an overview of the processes involved in the creation of an apparel line and develops a framework for the creative and technical tasks required, within the reality of the current business environment. It is divided into four parts: business, creative, technical, and production planning. Each part is discussed in relation to the role it plays in product development.

Part 1 focuses on the business infrastructure that supports and directs apparel product development processes. Chapter 1 describes the apparel supply chain that facilitates product development. The focus of Chapter 2 is on the business planning that provides the foundation for decisions affecting the development of apparel products. Chapter 3 explores the new dynamics of an articulate and demanding consumer market.

Part 2 explores concepts within the creative design process. Chapter 4 discusses how trend forecasting stimulates design ideas in terms of color, fabric, silhouette, and details. Chapter 5 builds on the concept of color science and how it must be managed during the product development process. Chapter 6 presents textile choices, organized by properties such as luster and drape, to facilitate decision making. Chapter 7 is concerned with silhouette development and the process of designing individual garment styles. This chapter concludes with a visual appendix of apparel silhouettes and details, updated with new drawings. Chapter 8 explains the criteria and methods for developing a product developer's seasonal line.

Part 3 focuses on the product development process. A tech pack based on a single product is provided, page by page, as each stage is explained. Chapter 9 reviews traditional methods for creating first patterns and samples as well as three-dimensional draping. Chapter 10 discusses garment sizing and fit with a focus on the role of technology in mapping the shape and size of a highly diverse customer base and in producing garments that fit. Chapter 11 explores production methods and standards in relation to various product categories, providing choices that impact cost and quality.

Part 4 discusses sourcing, pricing, and costing. Chapter 12 provides a set of criteria to use when considering vendors and then uses this list to review the top trading partners in apparel imports, balancing production demands with ethics. Chapter 13 defines the elements of cost at retail and wholesale, considering strategies for managing cost variables, including the triple bottom line.

PEDAGOGICAL FEATURES

The text is targeted to sophomore- and junior-year college and university students. It may be used in its entirety to provide a one-semester overview of the apparel product development cycle or, alternately, in a more project-oriented mode over two semesters, where the first semester emphasizes the creative design processes and the second semester focuses on the technical design aspects of product development. It provides enough flexibility to accommodate students with varying learning styles. The process of product development is presented as a series of choices to prepare students for an industry that is constantly evolving.

Suggested prerequisites include an introductory textile course, a basic illustration course, a technical drawing course, and, for design majors, garment construction and patternmaking courses. A basic understanding of business—accounting, marketing, and management—will provide a foundation for merchandise management majors utilizing the text.

A number of pedagogical features have been designed to enhance both the overview and the project-oriented approach to courses adopting this text. Each chapter begins with a set of objectives and concludes with a summary, a list of key terms, discussion questions, activities, a list of references, and additional resources, if applicable. New case studies have been added within chapters to amplify the chapter topic. Additional resources have been included in the *STUDIO* content developed to supplement the text.

To ensure an accurate and current presentation, the authors have relied on industry contacts, many of whom provided images as well as information about their practices and procedures. The text aims to prepare career-minded students of apparel product development to enter the job market with a realistic, up-to-date understanding of this evolving, dynamic industry.

INSTRUCTOR AND STUDENT RESOURCES

Student Resources

Beyond Design STUDIO™

We are pleased to offer an online multimedia resource to support this text—*Beyond Design STUDIO*. The online *STUDIO* is specially developed to complement this book with rich media ancillaries that students can adapt to their visual learning styles to better master concepts and improve grades. Within the *STUDIO*, students will be able to:

- Study smarter with self-quizzes featuring scored results and personalized study tips
- Review concepts with flashcards of essential vocabulary

STUDIO access cards are offered free with new book purchases and also sold separately through Bloomsbury Fashion Central (www.BloomsburyFashionCentral.com).

Instructor Resources

- Instructor's Guide provides suggestions for planning the course and using the text in the classroom, including supplemental assignments and lecture notes
- Test Bank includes sample test questions for each chapter
- PowerPoint® presentations include images from the book and provide a framework for lecture and discussion

Instructor's Resources may be accessed through Bloomsbury Fashion Central (www.BloomsburyFashionCentral.com).

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The writing of the fourth edition represents a *passage* in the evolution of this text. Myrna Garner, the co-author for the first three editions, has retired from writing to spend more time with family; Sandi Keiser would like to express her thanks to Myrna for her collaboration and friendship on the first three editions. Deborah Vandermar has very ably stepped in as the new co-author of *Beyond Design*. The fourth edition benefits from the wisdom and experience of both of these accomplished professionals.

We are grateful to our families, friends, and colleagues who have supported us through this experience, especially Bob Poor, Deborah's patient and encouraging husband, and their daughters, who helped provide the student perspective. Thanks to Bo Choi for helping with the drawings.

We are particularly indebted to the many industry professionals, colleagues, and alumnae who generously shared their time and expertise for not only the original book but also our follow-up editions. Their efforts have contributed significantly to ensuring that the processes identified were up to date and based on accurate industry practices. These individuals represent some of the best in their field at all levels of the product development process.

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We are grateful to all those faculty members who use this text and so generously provided feedback for the newest revision of *Beyond Design*. Their insights into how product development is taught in their curricula informed the direction taken for this fourth edition. We appreciate and relied on the research of our colleagues who are advancing our understanding of complex issues and developments in technology, global trade, and ethics.

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PART 1

BUSINESS PLANNING


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CHAPTER 1

THE ROLE OF PRODUCT DEVELOPMENT IN THE APPAREL SUPPLY CHAIN

"As a fashion designer, I was always aware that I was not an artist, because I was creating something that was made to be sold, marketed, used, and ultimately discarded."—Tom Ford

OBJECTIVES

- To define the product development process
- To understand the product development process as more comprehensive than apparel design
- To understand the dimensions of product development
- To examine how the changing dynamics of apparel distribution impact product development
- To understand how a global apparel supply chain has evolved to meet the needs of the product development process and ultimately the consumer
- To understand growth strategies employed within the apparel supply chain

Engineer/inventor Charles Kettering once said, "The world hates change, yet it is the only thing that has brought progress." Change is an essential component of fashion and the apparel business. At an ever-increasing pace, changing consumer preferences drive product development. To compete, businesses must integrate available and emerging technologies in an evolving global marketplace. To succeed, they must be prepared to respond to unexpected shifts in consumer expectations, business conditions, and geo-economic events.

UNDERSTANDING PRODUCT DEVELOPMENT

Product development is the strategic, creative, technical, production, and distribution planning of goods. Such goods should have a perceived value for a well-defined consumer group, and must be made to reach market when consumers are ready to buy. This requires coordinating an increasingly complex product development process across a global supply chain whose participants may vary from product to product.

In the apparel industry, tasks once performed by in-house engineers and production managers are now the responsibility of creative and technical designers working with merchandisers, quality assurance specialists, and sourcing teams. Together, they define each product they create through **technical specifications**, sometimes called a **tech pack**. The tech pack is a set of visual and written instructions that evolve throughout the development process and are finalized before a product goes into mass production. They clearly define expectations for the final product and the methods used to achieve it. Thus, the process that was once called design is now more inclusive:

- It is consumer-driven.
- It seeks to eliminate non-value-adding steps, such as warehousing.
- It defines the desired product through detailed standards and specifications.
- It requires partners within the value chain to share the responsibility and risk for producing a quality product.
- It is dependent on each partner's ability to meet schedules in order to deliver a product that reaches the marketplace when consumers are ready to buy.
- It must lend itself to distribution through multiple channels (e.g., stores, Internet, and catalog).

Apparel product developers constantly reevaluate what products they will offer, how those products will be produced, and how they will be marketed and distributed to customers—hopefully translating change into opportunity and profitability.

This chapter provides a context for understanding the role product development plays in the apparel supply chain. It describes the global partnerships and organizational dynamics that connect human, material, and intellectual resources to produce consumer-centric goods and services. It introduces the importance of the product development calendar and the need to become more sustainable and socially just; it also looks at how entrepreneurs can adapt the product development process to their specific markets. These themes will be further developed in subsequent chapters.

The Dynamics of Product Development

Product development processes vary, depending on:

- *Who* is doing the developing—wholesalers or retailers
- *What* kind of products they are developing—basic, seasonal, or fashion forward; whether they are products that require high skill or high technology as opposed to those that are low skill, low tech
- *Where* the products will be distributed—regionally, nationally, or globally

a

b

c

figure 1.1a
Seven for All Mankind is an example of a wholesale brand.

figure 1.1b
The store brand Victoria's Secret is widely recognized in part due to the brand's televised runway shows.

figure 1.1c
Simply Vera, Vera Wang is a private label for Kohl's department stores.

- *How* the products will be distributed—in stores, catalogs, television, and/or online
- *When* the products need to be delivered

Wholesale Brands vs. Private Brands (Private Labels and Store Brands)

Wholesale brand product developers design, produce, and market products under a proprietary label and distribute those products to retailers or third parties, who sell them to the final consumer. Mass merchants, department stores, specialty stores, chain stores, and boutiques frequently carry wholesale brands. Their assortments may consist of wholesale brands only or of wholesale brands that compete with the store's own private brands. Wholesale brand product developers may also distribute their products online or through their own signature or outlet stores, but typically, these sales do not constitute the bulk of their business. For example, Macy's sells a mix of wholesale brands (Free People, Michael Kors) and private brands (INC, Alfani, Bar III, Charter Club).

Private brand products are developed and merchandised for exclusive distribution by a particular retailer. Private brands sold by mass merchants and department stores typically compete with wholesale brand products also carried by the retailer. Chain stores such as The Gap and Forever 21 sell only private brands. To distinguish between these two approaches, in this textbook brands developed for stores that sell only private brands will be identified as **store brands**; private brands developed to compete with wholesale brands will be referred to as **private label brands** (Figure 1.1a–c).

Private brand (both private label and store brand) products may be developed in any one of the following ways:

- Product may be developed by the retailer's in-house product development team.
- Buyers may purchase a portion of their private brand merchandise from a wholesale product developer. These products are adaptations from the wholesaler's brand line that are customized in color or fabric to make them exclusive. The wholesale brand supplier adapts the styles purchased to the private brand's sizing specifications and ships the goods with the private brand's label.
- A large retailer may buy or license the rights to a wholesale brand, transforming it from a wholesale to an exclusive private brand. Candie's was once a wholesale brand but is now one of Kohl's private brands through a licensing agreement.

The Limited introduced private labels in the 1970s; department stores such as Sears and JCPenney followed suit in the mid-1980s because many wholesale brands did not want to tarnish their brand image by selling to mid-tier department stores. Private label merchandise began as cheap knockoffs of the previous season's fashion trends, receiving little advertising support and less-than-prime floor space. Today's private brands are trend-right and value-priced, backed by savvy marketing, celebrity spokespeople, and a fashion forward image. Private brands offer the following advantages:

- Prices for private brands are usually lower than competing wholesale brands.
- Private brands provide retailers with control over quality and marketing.
- Private brands generally yield higher profit margins.
- Private brands provide retailers with the opportunity to enhance their brand image and differentiate themselves from the competition.
- Private brands are an excellent means to cultivate consumer loyalty.

The merchandise mix for retailers that pursue a private label strategy is typically made up of 15 to 50 percent private label brands and 50 to 85 percent wholesale brands. In spite of the sophistication of many of today's private label brands, some retailers have found that once the percentage of private label goes beyond 50 percent of their merchandise mix, a change in strategy may be required. In December of 2014, Keven Mansell, the CEO of Kohl's Corporation, announced that Kohl's would realign its brand mix, going after new wholesale brands to drive more customer traffic. Business analysts suggested that the move came as a result of Kohl's private label mix going over the 50 percent mark (Kenneally 2013).

Chain stores such as American Eagle Outfitters, H&M, and The Gap often pursue a store brand strategy offering a complete assortment of privately developed products under their own labels. A **store brand strategy** attempts to cater to a particular market niche as opposed to mass merchant and department stores that serve a wide range of consumer ages, lifestyles, and price points. This specialization makes store-brand retailers vulnerable to shifts in consumer loyalty, particularly among younger customers.

figure 1.2
The Topshop ambassador, Ciara, poses for a selfie with fans at a Topshop at Nordstrom promotion. Topshop operates "concessions" in some Nordstrom stores.

As one generation grows out of a particular retailer's brands, there is no guarantee that the next generation will consider that same brand desirable.

Consumer pressure for expanded product selection and the fleeting popularity of brand names with younger customers has caused some store brand retailers to add wholesale brands to their mix. For example, J. Crew, a long-standing store brand retailer, began to augment its store brand strategy with its "In Good Company" initiative, whereby they partner with heritage brands known for select products, thus offering a new capsule collection of curated products both in their stores and on their website.

Likewise, store brands are beginning to show up in big box and department stores either as part of a **concession strategy**, a licensing agreement, or as a temporary pop-up store. The concession strategy involves large big box or department stores leasing out designated space to a brand that operates somewhat autonomously with its own signage and displays. The brand provides its own staff and does its own buying. Sephora stores within JCPenney stores, and both Lenscrafter and Sunglass Hut stores in Macy's, are examples. Topshop operates a concession store in Nordstrom to expand its American distribution (Figure 1.2).

Similarly, Nordstrom has entered into licensing agreements with the Madewell and J. Crew brands (Wahba 2016). In these agreements, the Nordstrom buyers will curate the merchandise in Nordstrom stores. To test out these collaborations, some department stores and big box stores are utilizing the pop-up store concept, entering into agreements for a limited time in order to discern whether or not the partnership is a good match.

These developments are blurring the lines between wholesale brands and private brands. They are a result of many wholesale brands shuttering their doors as a result of the growth in private brands over the past 30 years. Now that retailers are seeking to differentiate themselves with innovative fashion forward product, partnerships with store brands are an appealing opportunity. Store brands find these partnerships appealing as a means of growing their market without investing in new freestanding stores. Table 1.1 summarizes the differences between wholesale brands, private label brands, and store brands.

Fashion Level

Consumers have a range of demands for the apparel products they purchase. Their needs vary from basics to fashion. The apparel supply chain that a product developer puts together for any given product is dependent on the product's fashion level.

- **Basic product** is produced in high volume, with predictable demand, and is very price sensitive, since the consumer can purchase it from a variety of competitors. Since these products change minimally from season to season, design

Table 1.1 Brand Types

	Definition	Customer	Examples
Wholesale Brands	Brands that are designed, produced, and marketed under a proprietary label and distributed to retailers or third parties who sell them to the final consumer	• Mass merchants • Department stores • Some chain stores • Boutiques • Small quantities may be sold in the brand's own signature stores	• Levi • BCBG • Free People
Private Brands	Brands developed and merchandised for exclusive distribution by a particular retailer		
• Private Label	Brands that are sold by retailers and websites that sell a mix of private and wholesale brands	• Mass merchants • Department stores	• LC Lauren Conrad (for Kohl's) • Bar III (for Macy's) • Mossimo (for Target)
• Store Brand	Brands that are sold by retailers and websites that sell only private brands	• Chain stores	• Gap • Forever 21 • Zara

decisions can be made early, providing a longer production lead time; this in combination with their high volume means they can be produced at relatively low unit cost.

- **Seasonal product** differentiates a brand and establishes its fashion aesthetic. These items are produced in moderate quantities. Product developers prefer to put off decision making until the last minute to better predict demand. Prices must be competitive, but consumers will pay more for this product's on-trend aesthetic. These products must be in-store when the consumer is ready to buy, so reliable delivery is critical.
- **Fashion forward product** may only be distributed online and in prime store locations. Geared to the store's leading edge customers, it helps a product developer test the market for upcoming seasons. Made in relatively small quantities and often more complex in design, these items are the most expensive to produce and carry the highest risk. Yet having some fashion forward product in each seasonal delivery is one way of gauging customer sentiments. Fashion forward product may gain its edge through fabrication (organic cotton, leather, or high-tech performance fabrics), through styling (a short-term designer collaboration), or through customizable features.

Most product developers include a combination of all three categories of merchandise in their seasonal lines, so they must have supply chains that support each type of product. Figure 1.3 summarizes the implications of fashion level on a product's apparel supply chain.

The type of product produced will impact the decision of where it will be produced. Fashion forward product and tailored goods may require a higher skill level on the part of the worker or a factory with more sophisticated technology; these factories will most likely be more expensive. Basic product may require less skill and technology; therefore, labor costs tend to be lower. Although more expensive, net margins on fashion forward products may be lower than those for basic products. Hopefully, total sales volumes will average out to the desired net margin.

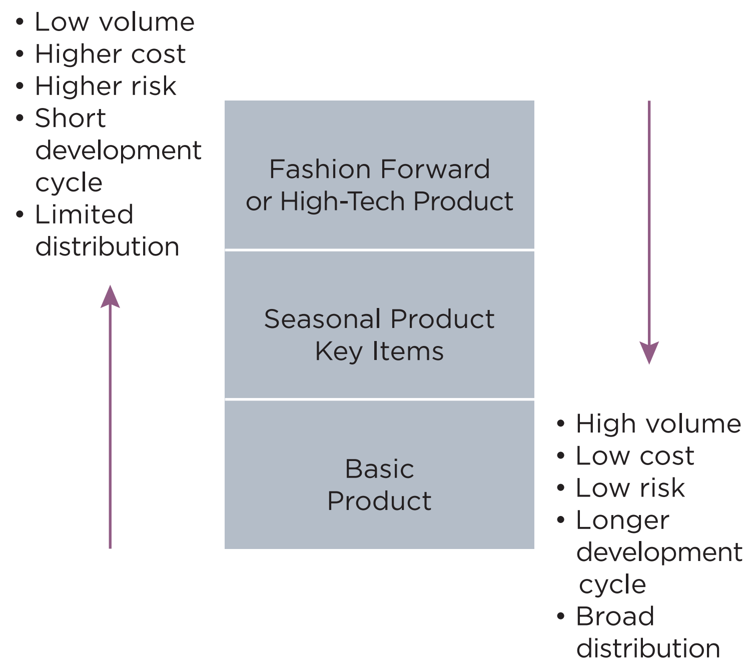

figure 1.3
A brand's merchandise mix is generally made up of basics: seasonal goods that define the brand and fashion forward, co-branded, or specialty items. Each type of product varies in terms of volume, costs, associated risks, development cycle, and distribution.

Product Distribution

Product developers may be local, regional, national, or global. The scope of their distribution will impact their product design as well as their delivery calendar. Entrepreneurs who produce locally for a local market don't need to factor in shipping. Nationally, some parts of the United States don't require cold weather coats and boots but do need warm weather apparel year-round. Product developers that compete globally must deal with differences in weather patterns, holidays, and sizing needs. These may require modifications to both the time and action calendar and the product itself. Product produced for the United States may be manufactured in one plant and product for Asia or Europe in another in order to best respond to distribution specifications and to minimize transportation costs.

Nowadays, product ranges in apparel are broader, produced in smaller lot sizes, and made available for shorter periods than ever before. Mass-market stores, department stores, chain stores, and specialty stores all stock their stores somewhat differently. Inventory levels are based on sales and profit goals, as well as promotional plans.

Most stores deliver merchandise through multiple distribution channels including bricks and mortar stores, the Internet, catalogs, and television. Companies known for their fast fashion product development processes deliver product directly to their stores rather than warehousing it. Catalog, online, and TV sales require sophisticated distribution centers to respond to orders quickly and efficiently. When distribution centers are out of stock, they may have systems in place to ship directly from a store in order to sell as much merchandise as possible at first price.

The Product Development Calendar

A key element of product development is getting the product to consumers when they are ready to buy. The goal is to get customers to pay first price rather than wait until a product is marked down. (This will be discussed further in Chapter 13.) Product development calendars are developed to ensure that the line is ready to be shown at key trade fairs and that stock delivery arrives when retailers have specified. Delivery dates are coordinated with advertising and marketing plans; there is no room for error. All deadlines in the product development process are counted back from these dates. Multiple delivery dates for different parts of the country or different parts of the world further complicate this process. The steps in the product development calendar will be identified and discussed further throughout the rest of this text.

Customer groups are defined and marketed to with increasing accuracy because of direct customer input; however, customer preferences change quickly and can't be predicted too far out. The dynamics of product development described earlier require great agility in putting together an apparel supply chain for each product that ultimately delivers the right product to the right place, when the consumer is ready to buy.

Competitive Advantage in a Mature Industry

Businesses are frequently classified as being part of either a *growth industry* or a *mature industry*. Industries for products such as hybrid cars, mirrorless cameras, and 3-D scanners can be described as **growth industries** because they produce products that have not yet saturated the marketplace. When growth industry products are introduced, the emerging technology they utilize commands a relatively high price, placing them out of reach for some consumers. As the technology drops in price, these products have the potential to grow through increased **market saturation** (new customers or markets) or **market penetration** (increased market share in a given market).

The apparel business is classified as a mature industry. **Mature industries** produce products that are characterized by relatively stable sales from year to year and by a high level of competition. Given a relatively stable population rate, the domestic apparel market is saturated with suppliers who must compete by maintaining a differential advantage (Figure 1.4a–c). **Differential advantage** refers to a competitive edge such as lower price (Walmart), superior quality (Wolford), unique product features or aesthetic (Burberry), minimal carbon footprint (Patagonia), unique fit (Wacoal), or speed-to-market (Zara).

Differential advantage along with volume, market share, profit margins, capital investment, and inventory levels all contribute to the ability of a business in a mature industry to turn a profit. Competitive advantage is challenging to maintain; the ever-changing business climate, fickle consumer preferences, impact of the press and social media, and brand management can impact the fate of any given brand. Occasionally, product developers have been successful in transforming a stagnating brand that has lost its competitive advantage into a dynamic brand with new appeal. For example, Burberry gave a stodgy designer brand new life when it hired Tom Ford and then Christopher Baily to reimagine the brand.

In their book *Agile Competitors and Virtual Organizations* (1995), Goldman, Nagel, and Preiss coined the term **sneakerization** to describe the process of transforming an inexpensive commodity product into a cutting-edge specialty product. Sneakers used to mean an inexpensive canvas shoe with a rubber sole; now there are shoes specifically designed for tennis, basketball, walking, hiking, running, aerobics, and bicycling, to name but a few. Keds took its dated and inexpensive tennis shoe and transformed it into a fashion product, while companies like Nike and Adidas concentrated on the athletic

a

b

c

figure 1.4a
This Iris Van Herpen shoe was made using a 3-D printer for her fall 2015/16 runway show. 3-D printers are a growth industry with manufacturing applications to products in a variety of businesses.

figure 1.4b
This 3-D printed dress by Iris Van Herpen illustrates how new technology has the potential to energize a mature industry such as apparel.

figure 1.4c
Most consumers have plenty of tee shirts in their wardrobes, which makes the tee shirt category a low-priced commodity industry. Mature product categories need to differentiate themselves through price, quality, or aesthetics to maintain market share

shoe category, developing expensive, high-tech, function-specific products dependent on extensive research and development.

Sneakerization is a means of differentiating brands and products to appeal to increasingly specific markets, creating vast choice configured to individual needs. Sometimes that choice is superficial, but often it fulfills real consumer needs. Sneakerization is made possible by flexible production technologies and cutting edge managerial practices. It provides an option to mass production by offering mass individualization; an increasing variety of goods can be made in smaller quantities, while still being cost effective. For example, sunglasses have greatly enhanced their assortments by appealing to niche markets. Ultimately, sneakerization shrinks product life cycles in order to keep product fresh and maintain profit margins (Figure 1.5a–b) (Goldman, Nagel, and Preiss, Viewpoints).

a

b

figure 1.5a
Keds has utilized a sneakerization strategy by partnering with Alice + Olivia to create a sequined version of its slip-on tennis shoe.

figure 1.5b
Nike uses the same sneakerization strategy but focuses on performance to add value to its products. Kobe Bryant Hyperdunk basketball shoes are an example.

SUPPLY CHAINS THAT MEET PRODUCT DEVELOPMENT NEEDS

To maximize efficiency and maintain a competitive edge, product developers must identify their **core competencies**—the things they do best—and partner with specialists to develop and distribute the goods and services offered under their brand name. The core competencies of businesses in developed countries such as the United States tend to focus on product development processes that add the most value—trend research, design, marketing, and distribution. They outsource apparel manufacturing to partners in developing countries where labor is much cheaper.

In order to deliver the broad product ranges, produced in small lot sizes made available for only short periods of time, product developers must put together a unique product supply chain from a network of suppliers. Each of these supply chains operates to produce a specific product for as long as it is in demand. The best product supply chains work collaboratively with all members of the chain, contributing their expertise to make the given product as efficiently as possible. They share the risks and the rewards.

What Is a Supply Chain?

Product development is a defining step in the complex network of suppliers and service providers involved directly or indirectly in fulfilling customer demand for apparel; we refer to this network as the **apparel supply chain**. It includes all of the companies directly involved in designing, supplying material components, manufacturing, and distributing apparel as well as **auxiliary businesses**, such as design bureaus, software providers, sourcing agents, factors (credit agents), patternmaking services, testing labs, consultants, and advertising agencies that play indirect roles. According to the American Apparel and Footwear Association, 97.5 percent of apparel purchased in the United States is made offshore. In today's business environment, the identification of appropriate sourcing partners requires ongoing analysis and assessment of capabilities to develop and manage effective, sustainable supply chains.

Sourcing is the continuous review of the need for goods and services against the purchasing opportunities that meet quantity, quality, price, sustainability, and delivery parameters, in order to leverage purchasing power for the best value. Any goods that a brand can't produce or functions that a brand can't perform cost-effectively are sourced out to other vendors. With proper oversight and communication, the expertise of each supply chain participant or sourcing partner contributes to the efficiency of the entire chain and increases the value of the resulting products.

For each product developed, a unique product supply chain is assembled from a network of suppliers or vendors that can meet the requirements for the order. Individual product supply chains are determined by the specifications for that product (i.e., styling, fabric, construction, and quality requirements), as well as considerations such as the size of the order and the required delivery date. The best supply chain for an order with a delivery date four months in the future may be very different from a supply chain for the same order that is due in four weeks.

Whether a company is developing high fashion or basic apparel, whether its product development cycle is four weeks or nine months, companies are all under pressure to shorten cycle times, drive down costs, and avoid excess inventory. This must be accomplished in an environment of volatile energy costs, increasing expectations for quality and sustainability, and an ever-increasing mix of products with ever-decreasing life cycles (Cooper 2010, 1).

Supply Chain Structure and Organization

Push vs. Pull Systems

Today's most efficient apparel supply chains are *pull* driven rather than *push* driven. Historically, designers and product developers anticipated consumer demand based on last season's data as to what consumers had already purchased; they produced the products they thought consumers would want and *pushed* them into the marketplace. However, when the forecast is wrong in a push system, retailers are forced to get rid of excess inventory, take unplanned markdowns, and settle for lower profit margins. Nevertheless, push systems have their advantages. Orders can be placed earlier, in bigger quantities, often for a lower price. On the other hand, placing orders early may mean missing a late-developing trend. Push systems continue to work for basic product, but they have limitations when it comes to seasonal and fashion products. Push systems work on a 4- to 12-month product development calendar.

In a *pull* system, designers and product developers wait to commit to product until the last possible minute so that they can collect timely and accurate data about consumer wants and needs. They place smaller, more frequent orders, adapting to consumer buying behavior within the season. This may mean paying higher prices for small orders and may necessitate shipping by air rather than boat in order to reach stores on time. Orders are in response to what consumers say they will buy, resulting in less excess inventory and higher profit margins. In order to be successful, pull systems must have agile supply chain partners capable of responding quickly to new orders. Pull systems typically work on a 4- to 12-week product development calendar.

A product developer need not commit to one or the other system. Many product developers use a combination of push and pull supply chains—a push system for basic goods, and a demand-driven pull system for seasonal and fashion goods. See Table 1.2 for an outline of the advantages and disadvantages of the push and pull systems.

Table 1.2 Push and Pull Systems: Pros and Cons

	Advantages	Disadvantages/Challenges
Push System	• Early orders in large quantities may mean lower prices	• Large orders early in the season may result in excess inventory, necessitating unplanned markdowns • May miss late developing trends • Lower profit margins due to markdowns taken to clear excess inventory
Pull System	• Based on accurate data regarding consumer behavior throughout the season • Smaller, more frequent, and more accurate orders result in less excess inventory and fewer markdowns • Higher profit margins	• Requires agile supply chain partners with business savvy and manufacturing sophistication • Higher shipping costs for smaller orders; may require shipping by air rather than boat

Supply Chain Ownership: Vertical vs. Horizontal Supply Chains

Another aspect of supply chain organization is ownership. The degree to which a company owns its supply chain partners is referred as **vertical integration**. Vertical integration is a strategy that seeks to consolidate a supply chain by acquiring companies at other stages in the supply chain. A fully vertical manufacturer seeks to control the processes previously handled by specialized firms so that one conglomerate can perform all the steps of production or distribution, or both. Vertical integration rarely affects market penetration, but it can have an impact on a firm's competitive advantage in getting the right product to market at the right time and the right price.

To understand vertical integration in today's global market, it is important to understand which activities within the supply chain add the most value. Research and development and design add value in terms of their innovation impact. At the other end of the value chain, marketing and distribution add value due to their unique relationship to the final consumer. Processes in the middle, including production and logistics, can be viewed as commodities—where they are performed or by which factory makes little difference in the ultimate value of the resulting product except as it affects overall cost and timely delivery. Processes such as warehousing add no value and should be eliminated to the extent possible.

In the United States, chain stores such as J. Crew and The Gap, and department stores and mass merchants such as Kohl's, Target, Macy's, and Nordstrom, have developed strong product development teams but have little interest in having their own production capacity. Spanish retailer Zara is an exception; its ability to deliver fashion-right merchandise in a matter of weeks is due in part to ownership or control of 50 percent of its production facilities (Case Study 1.1).

Another example of vertical integration in developed countries occurs when wholesale brand product developers such as Nike and Levi Strauss open their own stores, adding capacity in the high-value operations of marketing and distribution. Some

case study 1.1
Zara: A Fast Fashion Supply Chain

"QUICK RESPONSE," "SPEED-TO-MARKET," and "fast fashion" are some of the catch phrases used to describe a not-so-new concept. Fine-tuning the supply chain to produce the right product at breakneck speed has been a hot-button topic for almost 20 years. Today, the supply chain has become increasingly complicated, and attempts to speed it up have often resulted in unwanted bottlenecks. Ken Watson, director of the London-based Industry Forum, has studied the successful Zara model and has come to some enlightening conclusions that might help with this daunting task.

No doubt, Zara has a very successful business model, but ironically, nothing is revolutionary. Through a clear focus and vision, it has streamlined the cumbersome old supply chain response time of 40 to 50 weeks down to 8 to 10 weeks, and its customers are eagerly awaiting next week's—take note, not next season's—new fashion. Zara has tapped into the power of fashion. Small and frequent shipments keep product inventories fresh and scarce—compelling customers to frequent the store in search of what's new and to buy now . . . because it will be gone tomorrow.

Under the Zara model, the retail store is the eyes and ears of the company. Instead of relying solely on electronically collected data, Zara utilizes word-of-mouth information to understand more about its customers. Empowered store managers report to headquarters what real customers are saying. Products that are not selling well are quickly pulled and hot items quickly replenished. Zara's quick turnaround on merchandise helps generate cash, which eliminates the possibility of incurring significant debt.

Zara doesn't invest in traditional advertising but does manage to get great visibility. The stores' ambience is consistent and appealing from the interior design and window displays to lighting and music.

Controlling notorious trouble spots along the supply chain is key to speed. Potential bottlenecks can be thwarted because Zara is a vertically integrated structure. Dyeing and cutting are critical processes within the supply chain. Zara is a large investor in a dye and finishing plant, allowing it to oversee the color-management process—a notorious bottleneck. Although Zara uses subcontractors for sewing, it does the vast majority of cutting—a crucial process that determines fit. For quick turnaround, 60 percent of the manufacturing processes are outsourced in countries close to the Zara headquarters in Spain. Zara maintains a strong relationship with its contractors and suppliers, viewing them as part of the company.

To react successfully to consumers' demands, design decisions are delayed as long as possible. Typically, Zara commits to 50 to 60 percent of its production in advance of the season, whereas other apparel retailers commit to 80 percent.

Zara practices "pre-commitment," meaning it reserves capacity to ensure production facilities are available when needed.

Traditionally, design and development precedes fabric procurement. Zara has turned this practice upside down—Zara is fabric-driven. Designs are developed with available fabrics and trims. This eliminates waiting for the long and laborious process of fabric formation.

Poor communication is often the culprit in bottlenecks. Zara invested in information technology (IT) early on. Its in-house IT is simple and effective. Vendors and suppliers report that people are accessible and answers can be obtained quickly. Internal communication is maximized by housing the designers, patternmakers, and merchandisers, as well as everyone else involved in getting the product completed, on one floor.

Zara hires young designers and trains them to make quick decisions. Decision making is encouraged, and bad decisions are not severely punished. Designers are trained to limit the number of reviews and changes, speeding up the development process and minimizing the number of samples made.

Some say Zara's real strength is its well-developed culture, and that isn't something that can be easily knocked off. Not everyone can be Zara, nor does everyone want to be. The stages of the supply chain will not change, but to obtain quicker speeds the sequence and focus have to be flexible.

Source: The information on Zara was collected from the Fast Fashion workshops conducted by Ken Watson, director of the London-based Industry Forum, and produced by the Industry Forum and [TC]2. Written by Kim Anderson, Ph.D., writer/reporter for [TC]2, and Jim Lovejoy, Director, Industry Programs, [TC]2.

a

b

figure 1.6a
The Ralph Lauren Rhinelander mansion store on Madison Avenue in New York City is a signature store for men.

figure 1.6b
Polo Ralph Lauren outlet stores are located in outlet malls across the country.

manufacturer-owned stores are run as off-price outlets and others as full-price specialty stores or **signature stores**. Signature stores give manufacturers a direct line to their ultimate consumer; **outlet stores** provide a means of controlling the distribution of excess goods (Figure 1.6a–b).

To streamline their supply chain globally, most product developers, both wholesale and retail, prefer to work with fewer, larger, and more capable suppliers strategically located around the world. These developers have encouraged their offshore partners to develop more vertical capacity. Throughout the supply chain, each company that plays a role must schedule its task, charge for its services, and make a profit. With fewer links in the supply chain, cycle times are reduced and profit centers can be eliminated. All of this helps to get the right clothes to the market at the right price and the right time.

The benefits of verticalization are not limited to companies that own the various steps in the supply chain; benefits can also be achieved by "acting vertical." **Acting vertical** refers to internal collaboration that breaks down the barriers between functions, external collaboration with manufacturers and suppliers without owning them, and ongoing collaboration with consumers in order to reap the rewards of a continuous conversation. Such collaborative manufacturing strategies offer the advantages of a vertical supply chain without needing to actually own other companies within the supply chain (Kurt Salmon Associates 2009).

However, while lead firms continue to encourage their downstream value chain partners to act or grow vertically, many product developers in developed countries that pursued vertical growth in past decades now see it as restricting agility. These companies have been seeking to divest or sell off assets that perform processes that other companies may perform better in order to become more flexible and better able to adapt to rapidly changing consumer demands.

Vertical growth is appropriate when a partner cannot guarantee sufficient capacity for vital processes on a regular basis. However, the same company that pursues vertical growth within certain segments of its business may need to divest itself of other business segments that are no longer efficient or required regularly. Vertical growth or acting vertical is more prevalent in developing countries that seek to increase their competitive advantage by offering the full range of services that western product developers seek. Vertical integration also prepares businesses in developing countries to better serve their own consumer markets, but even some offshore suppliers find it more cost-effective to act vertical by partnering with other regional businesses rather than owning all of the supply chain functions.

Horizontal integration is an alternative strategy. **Horizontal integration** prioritizes the acquisition or licensing of companies or brands that make or sell similar products to expand market penetration and reduce competition. It may be used to acquire brands at the same price point level or to penetrate multiple price points. Often a company will purchase a competing brand and reposition it at another price point. Mass merchants and department stores have been using horizontal integration to expand their portfolios of exclusive brands. Kohl's entered into a licensing agreement to exclusively distribute the Dana Buchman label when Liz Claiborne put that brand on the market. Dana Buchman had been distributed as a bridge brand; Kohl's repositioned it as a moderate brand. This strategy can give new life to a brand, making it accessible to customers who previously felt that it was too expensive.

As with vertical growth, sometimes a horizontal acquisition that meets strategic goals at one point in time may later no longer suit a company's core competencies. Talbots won a bidding war with Liz Claiborne to purchase J. Jill in 2006 only to sell the J. Jill brand assets in June 2009. The initial purchase was based on expected business synergies for the two brands that cater to a similar customer. Talbots said that the divestiture was part of its effort to focus on its core business (Just-style.com 2009b).

Diversification is a strategy in which a firm expands its product mix to capitalize on brand recognition, increase sales, and thus enhance efficiencies for greater profit. Like horizontal integration, diversification may be achieved through licensing or by the acquisition of related or unrelated companies. An apparel company might purchase a jewelry company or a shoe company to increase the company's product mix and facilitate brand extension. For example, Parfums Givenchy Inc., the North American unit of LVMH Fragrance and Cosmetics Group, holds the license for Michael Kors fragrance. Schwartz and Benjamin holds the Michael Kors license for shoes; Le Tannem & Cie holds the license for small leather goods, and The Charmat Group holds the license for eyewear.

Collaborative Supply Chains

Whether a supply chain is dependent on a push or pull system—and regardless of whether the acquisition strategy focuses on vertical integration, horizontal integration, or diversification—collaboration is key. A **collaborative supply chain** is an interactive network of manufacturing specialists who join forces operationally to integrate complementary resources to respond to a market opportunity through the creation of a particular product. Today's digital technologies make it possible for companies, regardless of geographic location, to coordinate their core competencies into a single effort to achieve competitive advantage. Each product supply chain lasts only as long as that product is produced, but the individual links of the chain may become part of numerous supply chain variations within a given design season, depending on how many diverse styles they have the core competencies to produce.

Collaborative supply chains enhance a product developer's ability to compete—in terms of product innovation, cost, speed to market, manufacturing expertise, sustainability, and access to technology and resources—to be more flexible in response to changing market needs. New sourcing partners can be added to a product developer's portfolio of vendors and service providers within the overall supply chain, and old members can be removed or have roles reassigned as product needs evolve. To be competitive in today's marketplace requires effectively managing the most reliable, efficient, and skilled array of supply chain partners.

Digital technology facilitates the model for multiple product supply chains, but it is the quality of the communication that digital technology supports that sets successful product developers apart from those who fail. The knowledge, experience, and skills of all team members contribute to the development of a product. This means that product developers must:

- Consider supplier input as to how a product or process can be improved
- Pay a fair price rather than haggle for a price that necessitates that vendors cut corners
- Require vendors to use processes that do not jeopardize the health and safety of workers
- Help suppliers to do no harm to the planet in the course of supplying their service

Collaborative supply chains are better able to respond with flexibility to planned or anticipated external circumstances and with agility when unexpected changes present unforeseen opportunities, sharing not only the risks but also the rewards. Collaboration positively affects innovation, quality, time to market, and product costs, but it is also fraught with risk. Partnerships must be grounded in strategy and planning and be managed effectively to maximize the supply chain's potential. The globalization of the apparel business means dealing with communication issues, time zones, language barriers, technology, logistics, and infrastructure complications, as well as the less predictable external forces of natural disasters, terrorism, wars, politics, and outbreaks of disease. Changes in any of these conditions may require alternative planning.

The Tools of Supply Chain Management

Changes in technology have facilitated changes in business scope. **Supply chain management** refers to the management philosophy that integrates all of the business functions within a flexible supply chain. Supply chain management software helps companies coordinate the flow of materials, information, and finances as the product moves through the chain.

The need to integrate the product development process with the management of multiple supply chains has led to the development of product life cycle management (PLM) applications. PLM software captures, manages, visualizes, and disseminates product-related information from initial concept to a product's retirement throughout a company and its supply chain (Just-style.com 2009a). Footwear and apparel industry solutions must address the following areas:

- Seasonal concept: marketing and sales plans, concepts/mood, color palette, and materials/trim/silhouettes
- Line development: line plans, assortment plans, material usage, market calendars, and product tracking
- Definition: initial specification, adopted specification, production specification, special size specification, and multichannel specification
- Sourcing/costing: vendor collaboration, vendor allocation, multisourcing, estimate costing, and quality

To accomplish these objectives, PLM systems must have strategic decision-making capabilities, design capabilities, product data management capabilities, and supply chain management capabilities (Antall and Young 2008). PLM fills a void in what is often lacking in multi-industry SCM systems and expands upon old product data management (PDM) systems that have been used to develop spec packages.

Product developers who implement PLM have found that they are able to increase their speed to market. A single version of product data is maintained. Work redundancies are reduced and risk is better managed. Collaboration throughout the supply chain is enhanced. Product quality is maintained and costs are reduced. Companies who have implemented PLM have enjoyed the following benefits (Product Life Cycle Management 2016):

- Faster time to market and higher inventory turns
- Improved cycle times
- Fewer errors
- Less scrap and rework
- Greater design efficiency
- Better product quality
- Decreased cost of new product introductions
- Insights into critical processes
- Better reporting and analytics
- Standards and regulatory compliance
- Improved design review and approval processes
- Improved communication
- Reduced product costs and greater net margin profitability
- Better resource utilization
- Improved integration and communication
- Reduced markdowns

There are numerous other software solutions in the marketplace—some developed exclusively for the apparel supply chain and others that can be customized for any industry group. (Definitions for commonly used terms and acronyms are included in STUDIO.)

SUMMARY

Change is an essential component of fashion and the apparel business. Product development must respond to rapidly evolving consumer preferences by leveraging a complex global supply chain. Product development processes vary depending on the type of product produced—whether it's a wholesale or private brand—and its fashion level, the channels and scope in which the product will be distributed, and the fashion calendar determining the lead time required to get product to market. As a mature industry, apparel companies must differentiate themselves to remain competitive. They may do this through having the lowest prices, the best quality, and the quickest time to market, or by providing unique product features.

Product developers assemble supply chains to meet their product needs. These chains may be based on a push system based on historic data or a pull system that seeks to respond to real-time consumer data. Supply chain ownership may be vertical or horizontal depending on a company's core competencies.

Whether a supply chain is push or pull, horizontal or vertical, an effective supply chain must be collaborative, sharing information and risk in order to maximize efficiencies and profits. PLM software systems have been developed to optimize collaboration.

KEY TERMS

acting vertical
apparel supply chain
auxiliary businesses
basic product
collaborative supply chain
concession strategy
core competencies
differential advantage
diversification
fashion forward product
growth industries
horizontal integration
market penetration
market saturation
mature industries
outlet stores
private brand
private label brands
product development
seasonal product
signature stores
sneakerization
sourcing
store brands
store brand strategy
supply chain management
tech package
technical specifications
vertical integration
wholesale brand

DISCUSSION QUESTIONS

1. What are the core competencies of companies such as Ralph Lauren, Zara, Walmart, and Nike?

2. Which apparel product developers have successfully "sneakerized" their product lines to revitalize their brands or products?
3. Discuss some of your favorite product brands. What differentiates them from their competition in the marketplace?

ACTIVITIES

1. Look at the country of origin on labels from a variety of items of a single brand. How many different countries of origin can you identify? Discuss how the country of origin might have an impact on the product development process for this brand relative to cost, lead time, and quality.
2. Scan news sources such as *Women's Wear Daily* and Just-Style.com for examples of mergers and acquisitions in the apparel supply chain. Identify the growth strategy that led to the acquisition or merger, that is, vertical integration, horizontal integration, or diversification.
3. Select a department store or mass merchandiser and identify its portfolio of private label brands and the wholesale brands it carries.

STUDIO™ RESOURCES

- Take the chapter quiz with scored results and personalized study tips.
- Review glossary flashcards to build your vocabulary.

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CHAPTER 2

PLANNING FOR SUCCESS

"Without strategy, execution is aimless. Without execution, strategy is useless."—MORRIS CHANG

OBJECTIVES

- To understand the role of a business plan and how it impacts the functionality and organizational structure of the firm
- To understand the importance of strategic planning in guiding a firm's processes and day-to-day decision making
- To explore means of differentiating a business to achieve competitive advantage
- To introduce the planning levels and tools of the merchandising function
- To understand how the time and action calendar drives the apparel product development process

BUSINESS PLANNING

A **business** is an enterprise engaged in commercial, industrial, or professional activities to achieve goals. Businesses may be for-profit or nonprofit; they may be organized as sole proprietorships, partnerships, or corporations. Whether launching a new business or operating an established firm, planning is integral to product development.

Sound business activities are based on a **business plan** that assesses market and operational feasibility by defining the framework and structure for a new business or business division. A business plan identifies the products and/or services that will be offered, analyzes the intended target market and competition, identifies required resources, and defines goals for the new business. It sets out a budget that identifies the operating capital required for the first few years of business and projects sales goals. This information provides a rationale for whether or not to move forward with a new business venture or a business expansion. It is the basis on which investors and/or bankers make their investment decisions. It also suggests the business functions and structure that will be required to meet goals.

Once a business is established, ongoing planning helps a company navigate changes in consumer preferences and grow or maintain its business in relation to new technology, the economy, and company resources. Emphasis on the components within the plan depends heavily on whether the basic core business of the firm is primarily product development, manufacturing, or retailing; whether the business will be marketing itself as a wholesaler, a retailer, or a combination of the two; and whether a firm's business is regional, domestic, or global. The remainder of this chapter will discuss the ongoing planning that takes place at all levels of the business and ultimately guides the product development process.

Basic Business Functions

For a business organization to work efficiently and profitably, it must identify the jobs or tasks that need to be done. These tasks are grouped into the firm's **basic business functions**. Once the basic business functions are identified, an organizational structure can follow. Though the functional requirements of every business vary, the functions of textile and apparel firms generally include (but are not limited to) marketing and sales, merchandising, supply chain management, information technology, and finance. Depending on a company's size, product, manufacturing capacity, and distribution, other functional areas may include human resources, research and development, operations, production, omni-channel distribution, and/or global operations.

Marketing and Sales

The **marketing and sales** function is responsible for market research, sales forecasts, customer support, and creating and scheduling the marketing plan. The marketing and sales and merchandising functions enjoy an important synergy: market research shapes the breadth and depth of the product line. The **marketing plan** is used by the merchandising function to develop the line plan and time and action calendar. It identifies line release dates that correspond to market weeks and trade shows as well as planned seasonal promotions and dates at which stock levels must be optimized.

The sales team is part of the marketing function. It is their responsibility to gather data relative to target customers as well as to sell the product. They work closely with the other functional areas of the business to ensure that the right product is developed, at the right price, when customers want it, in the quantities required to support all distribution channels.

Merchandising

The **merchandising function** encompasses the planning, development, and presentation of product lines for identified target markets with regard to price, assortment, styling, and timing (Glock and Kunz 2005, 27). **Product line** refers to the assortment of product categories that a business offers for sale. The merchandising area determines the content and diversity of the line, fabrications, styling, pricing, and timing of the product development cycle. The merchandising area is responsible for the line plan, assortment plan, and time and action calendar. The merchandising function is often distributed among three sub-tracks, identified as merchandising, creative design, and technical design. Their planning is tied closely to marketing and sales plans as well as to the production calendar.

Supply Chain Management

With most apparel manufacturing being done abroad rather than domestically, supply chain management, or sourcing, has replaced the tasks once carried out as part of the production or operations functions in many organizations. The **supply chain management function** typically vets potential supply chain partners to make sure they are capable of adhering to the company's code of conduct, negotiates costs for supplies and production, and manages quality. They are integrally involved in making sure that the product is received on schedule, at the quality level specified, and at the best possible price.

Information Technology

The complexity of a global supply chain and its dependence on digital systems to capture, process, generate, store, retrieve, and communicate data necessitates an information technology function. The **information technology (IT) function** manages the company's technology infrastructure and assets in accordance with the firm's needs and priorities. Businesses rely on information systems to manage and re-engineer processes in ways that enhance speed, consistency, accuracy, and reliability in real time. IT systems must be chosen to meet a business's unique needs and provide effective system integration, enhancement, and support. IT is responsible for managing the configuration, implementation, administration, integration, and access of all IT systems to enhance the synergy between internal and external stakeholders; in so doing it plays a vital role in value creation.

Finance

The **finance function** is responsible for all of the accounting activities of the firm, including expenditures for materials, equipment, and technology systems; salaries of employees; and the overall business budget. Often what may appear as a capricious decision to a manager in another functional area is driven by the simple reality that it will cost the firm more to approve the activity than the activity will contribute to the overall budgetary goals of the business. **Budgets** are the written plans for anticipated monetary income and expenditures of the firm. Among other things, the budget will dictate the percentages of projected sales that will be assigned to developing, producing, marketing, and distributing the goods. A budget must also cover all administrative costs and overhead. Profit and loss statements summarize and assess the reality of a firm's business for a given fiscal year, comparing its budgetary goals to actual sales, costs, and achieved margins.

In current practice these basic functions may overlap; the purpose of this text is to explore the synergy among these complex and diverse processes. Figure 2.1 summarizes the responsibilities of the basic business functions.

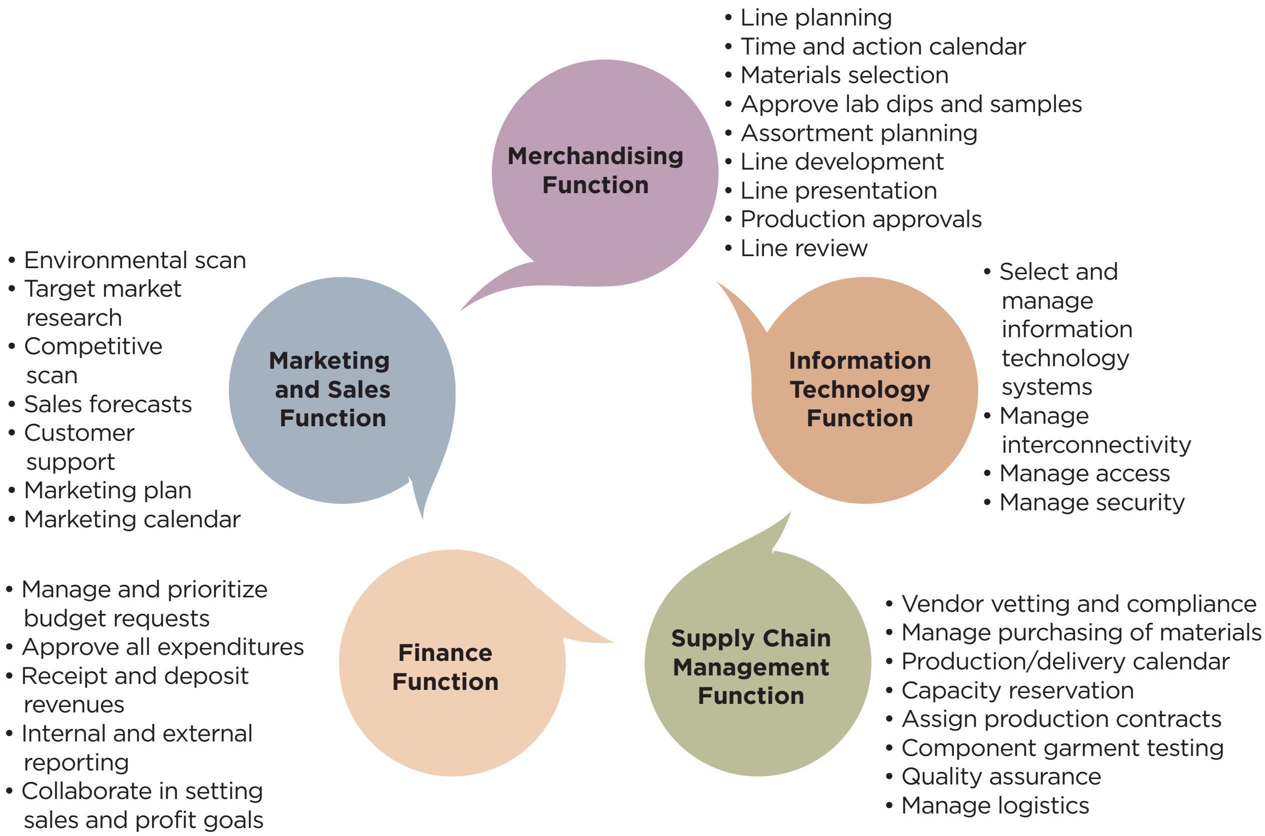

figure 2.1
This graphic outlines the operational areas of responsibility for the basic business functions in apparel product development firms.

Business Structure

Once the tasks of a business organization are clearly understood, an organizational structure can be established. The business structure establishes decision-making authority and responsibility. In small entrepreneurial businesses, participants necessarily wear many hats. A larger corporation can be organized by the function of the business units or by business division. A division may be identified by product (men's, women's, or children's wear); by brand; by market (private brand/wholesale brand); or region (domestic or global). In a functional structure, the same marketing and sales or merchandise function manages each division. In a divisional structure, each division executive may have his or her own operational function heads reporting to him or her.

The monolithic character of a functional structure across divisions may fail to optimize a given division's potential; the various divisions of a business begin to look the same when they all fall under a single marketing or merchandising function. Conversely, a divisional structure lacks the economy of scale of a functional structure; it can be very expensive to support separate functionality for each division. Start-up or entrepreneurial business structures will not be able to afford separate departments or personnel for each function; still, responsibility for these business tasks must be assigned. No matter the organizational structure chosen, it is increasingly important that it be based on collaboration, flexibility, and agility to navigate the rapidly changing business climate.

STRATEGIC PLANNING

Strategic planning is the top level of planning for established companies, developed by the firm's executive team. The **strategic plan** envisions a desired future and translates that vision into an action plan that informs decision making and asset allocation. It links concepts related to the target market and product line to the financial goals of the business. The strategic plan must be realistic and achievable, taking into consideration the firm's own core competencies as well as those of its supply chain partners.

Mission, Vision, and Values

A firm's mission, vision, and values are the compass of strategic planning. A **mission statement** is part of the DNA of a successful company; it reflects the company's heritage by articulating why it is in business, the customer it serves, and what makes it special. The mission statement becomes part of the company's corporate story that can be conveyed to all stakeholders—employees, investors, customers, those in the communities in which it does business, and supply chain partners. A good mission statement sets the tone for corporate culture, supply chain relationships, and the establishment of the company's values. Table 2.1 provides examples of the mission statements of familiar brands.

A **vision statement** outlines the organization's goals for the future and how it wants the world to see its brand. Some companies combine their mission and vision statements, but while a mission statement generally remains constant, reflecting the core values of the founder(s), a vision statement may need to be reviewed when goals have been reached or market conditions change.

Table 2.1 Selected Mission Statements

Patagonia: "Our reason for being: To build the best product, to cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."
Kohl's: "To be the leading value-oriented specialty department store offering quality exclusive and national brand merchandise to the customer in an environment that is convenient, friendly and exciting."
The Gap: "We create emotional connections with customers around the world through inspiring product design, unique store experiences, and compelling marketing."
Tory Burch: "Tory Burch is a luxury lifestyle brand defined by classic American sportswear with an eclectic sensibility and attainable price point."
Michael Kors: "Michael Kors is the leading American fashion designer for luxury accessories and sportswear."
Coach: "Coach seeks to be the leading brand of quality lifestyle accessories offering classic modern American styling."
Zara: "Give customers what they want and get it to them faster than anyone else."
H&M: "Fashion and quality at the best price."
Target: "To make Target the preferred shopping destination for our guests by delivering outstanding value, continuous innovation and an exceptional guest experience by consistently fulfilling our *Expect More Pay Less®* brand promise."

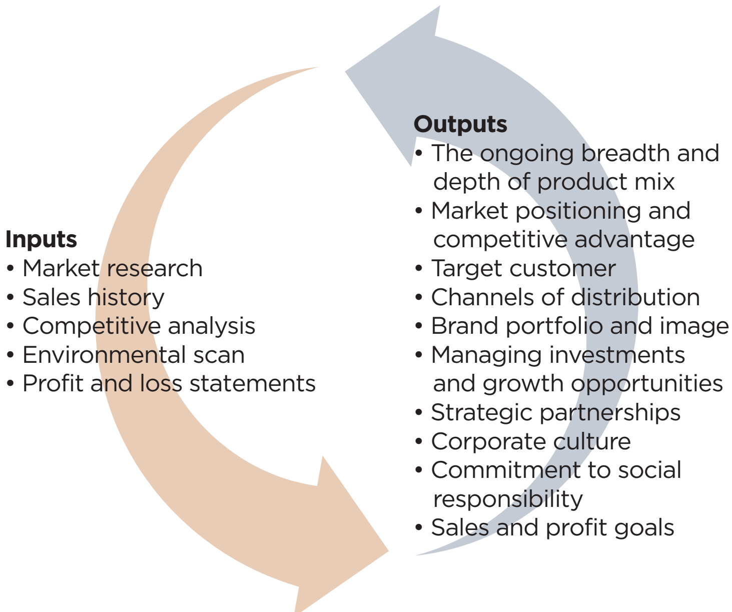

figure 2.2
The inputs and outputs of strategic planning.

A company's mission and vision statements reflect its **core values**—what it holds to be important as a business. Whether these values are spelled out or merely implied in the mission and vision statements, they must be authentic. A company's story must be congruent with its message, its actions, and how the company manages its resources in order to make an emotional connection with the stakeholders. Mission, vision, and values form the foundation of a company's strategic plan.

Inputs and Outputs

The strategic plan guides a company's ability to navigate changes in the business climate and in its selection of supply chain partners. The inputs and outputs of strategic planning are a reciprocal process (Figure 2.2). The functional arms of the business provide inputs in the form of research and performance indicators. These may include:

- Market research
- Sales history
- Competitive analysis
- Environmental scan
- Profit and loss statements

The executives of the company assess these inputs to make decisions regarding:

- The ongoing breadth and depth of product mix
- Market positioning and competitive advantage
- Target customer
- Channels of distribution
- Brand portfolio and image
- Managing investments and growth opportunities
- Strategic partnerships
- Corporate culture
- Commitment to social responsibility
- Sales and profit goals

They translate their decisions into priorities and goals that a business considers necessary to achieve its vision and ensure success in a competitive business climate. Business measures such as market share, maintaining or increasing sales, lowering returns, and maintaining or increasing profit margins will be used to demonstrate whether a company is effectively achieving its goals.

This part of the strategic plan should be dynamic, evolving as situations change and new information becomes available. As goals are reached, new goals can be set. The strategic plan provides structure and direction to subsequent levels of planning and all other company activities.

Market Positioning Strategy

As noted earlier, a firm's strategic plan defines the breadth and depth of the products offered for sale, and it positions those products in the marketplace. **Positioning** refers to how the garment relates to others like it in the marketplace in terms of style, complexity of design, fabric, quality, and price (Shields 2011, xxiii). If a brand defines itself as fashion forward, then it must include garments that show fashion leadership and fewer basics. Brands position their products by identifying elements such as functional use, quality level, size range, rate and type of product change, product characteristics, and price (Kunz 2010, 152). It is important to understand apparel price points as they significantly constrain what a designer can and can't do. Garments must be designed at a price point that the brand's target customer can afford.

Product Positioning by Price Point

Before designing apparel and textile products, a firm must determine the price point at which it wants to compete. The target **price point** is determined by understanding the price range that the intended target customer is willing to pay. Target price categories help to identify competitors and appropriately position the product in the marketplace.

Some companies produce products at a single price point; others produce more than one price level and vary the materials and construction techniques they use to distinguish between the price points. There is an implied relationship between cost and quality that may or may not be true; however, customers tend to have higher expectations for more expensive products. Many manufacturers produce similar product types for several price point categories. They use different brand identification to differentiate the positioning of these products in the overall market. Women's wear can be found in the following price categories: couture; designer ready-to-wear (also known as *prêt-à-porter*); contemporary designer and bridge; and mass market. Mass market price points include better, moderate, fast fashion or low-end contemporary, and budget or category killers. (Refer to Table 2.2 for price point categories in women's wear.) The mass market price classification makes up the majority of the apparel merchandise sold in the United States, while the bridge, contemporary designer, and designer ready-to-wear price categories represent a relatively small proportion of total U.S. sales. Private brand merchandise may be found in all price point categories from bridge through mass market. These products may be priced lower than the same item in that category with a wholesale brand label.

Haute couture is a legally protected designation in Paris that can only be used by houses registered with the French Ministry of Industry. Haute couture designers must adhere to a strict set of standards administered by the Chambre Syndicale de la Haute Couture. Current rules, revised in 2002, require each house to employ at least twenty people in a Paris atelier and present two collections, showing a minimum of fifty new designs in a year. They use the highest quality fabrics, employ some handwork, and

Table 2.2 Women's Price Point Categories from Most to Least Expensive

Price Point	Description	Examples
Couture	Made to order; client goes to the designer's salon for custom fittings.	Chanel Couture, Dior Couture, Alexis Mabille, Frank Sorbier, Jean Paul Gaultier
Designer	Designer brands available off the rack in a range of sizes.	Prada, Dolce & Gabbana, Ralph Lauren, Armani, Marc Jacobs, MICHAEL Michael Kors, The Row, Alexander Wang, Burberry Prosum, Herve Leger, Marchesa
Contemporary designer	A price point similar to that of bridge or a bit higher; this category includes many new designers who target a younger, fashion-savvy customer.	Tracy Reese, Nanette Lepore, Catherine Malandrino, Tory Burch, Anna Sui, Derek Lam 10 Crosby, Isabel Marant, McQ Alexander McQueen, Thakoon
Bridge	A price point between better and designer, with a focus on career wear and weekend wear.	Lafayette 148, Elie Tahari, Eileen Fisher
Better	Products with wide market appeal; often the highest price point available in department stores.	CK Calvin Klein; Lauren Ralph Lauren; Kenneth Cole; MICHAEL Michael Kors
Moderate	Large, price-conscious market; styling appeals to more mature customers.	Chaus, Sag Harbor, Norton McNaughton
Low-end contemporary/ fast fashion	A relatively new category that offers fast fashion at a moderate to better price point.	Zara, H&M, Forever 21, BCBGMAXAZRIA
Junior/tweens	Apparel with styling and fit geared to teenagers.	Rampage, Hot Topic, Aéropostale, American Eagle Outfitters, Old Navy, PacSun, dELiA*s
Mass market	A variety of brands that appeal to many different market segments, all at low, affordable prices.	Sonoma, Jaclyn Smith, Merona, Apt. 9, George, Faded Glory, XOXO

must offer made-to-order garments requiring one or more fittings. At present there are thirteen official members of the haute couture.

Invited guest members and international correspondent members of the Chambre Syndicale may also show during couture week but can only use the term *couture*, not haute couture. After two years of showing as a guest member, design houses may apply for permanent status. Correspondent design houses such as Giorgio Armani, Valentino, Versace, and Elie Saab show regularly during couture week but do not qualify as haute couture members as their ateliers are not in Paris. Elsewhere in the world the term *couture* may be appropriated to denote garments that are custom-made with luxury fabrics, often with hand detailing or finishing; however, without a controlling body, the term is open to broad interpretation.

Haute couture garments are truly works of art. A wedding dress in the Chanel spring/summer 2010 couture collection took 1,340 hours of work. The cape took 200 meters of tulle and silk crèpeline and 800 hours of work; the dress, made of satin and chiffon, required 190 hours of work; it was embroidered by the House of Lesage, adding another 350 hours of work (Figure 2.3).

Prices start at $10,000 for a simple dress and climb to $350,000 or more for an elaborate evening gown. In spite of their exorbitant price tags, most are sold below cost. Couture houses claim they make no money on the creations—the House of Chanel and Elie Saab may be the rare exception. They do it for the prestige that sells lesser priced ready-to-wear collections, perfumes, and handbags.

In 1997 Karl Lagerfeld and the House of Chanel began buying couture specialty ateliers, including Lesage (embroidery), Lemarie (feathers), Maison Michel (milliners),

figure 2.3
This bridal dress, designed by Karl Lagerfeld for Chanel Haute Couture, required 1,340 hours of work.

and Guillet (fabric flowers). These ateliers are held under an umbrella company called Paraffection to ensure that the artisanal skills they provide are preserved.

Estimates are that there are only 2,000 occasional customers of couture worldwide; 300 to 400 of them purchase couture garments regularly. The majority come from China, Russia, and the Middle East. American customers have increasingly disappeared as younger socialites discover their more casual social needs can be found in designer ready-to-wear collections off the rack without the four- to five-month lead time for the personal fittings and construction required for couture garments.

The couture is often criticized for existing in a world that is more fantasy than reality. Supporters claim that this no-rules environment allows designers to show clothes that explore the limits of creative expression and fantasy, without the constraints of practicality, function, or profit motives. Some believe that this exhibition of craftsmanship and imagination is essential to building a luxury brand image that gives cachet to the ready-to-wear, accessories, and fragrances of the same house.

The most expensive garments that can be bought off the rack are known as **designer ready-to-wear (RTW)** or *prêt-à-porter*. These brands are more profit-oriented than haute couture and may be produced in quantities that vary from 100 garments to several thousand; they are beautifully designed, impeccably made, and use high-quality fabrics. Designer RTW labels include Armani, Gucci, Marc Jacobs, Prada, Chanel, and many others. The accessibility of these garments appeals to the busy lifestyles of today's luxury customer. Trend forecasters look to designer RTW to identify the right shade of the next hot color, new fabric developments, and the newest silhouette, detail, or accessory.

A newer subset of designer goods is referred to as **contemporary designer**. These designers/brands offer clothes with a younger vibe and somewhat lower price point than found at designer RTW. Brands include Tori Burch, Alexander Wang, Theory, and M Missoni (Figure 2.4a–b).

Similar in price to contemporary designers is the **bridge market**, a term coined to refer to a price point between designer and better. Well-known bridge brands include Elie Tahari, Lafayette 148, and Eileen Fisher. Some stores, including Bloomingdales, discontinued using the term "bridge" when key bridge labels, such as Ellen Tracy and Dana Buchman, dropped down to price point categories found in the mass market, creating confusion as to the image of the bridge market.

The **better market** is priced under contemporary designer and bridge brands. It is targeted to working women who desire well-made, classic, fashion apparel. MICHAEL Michael Kors; Lauren; Talbots; bebe—all could be categorized as better brands.

Moderate apparel is priced below the better price point. The moderate market appeals to women who are price conscious and prioritize functional, easy-to-care-for apparel over fashion extremes. Examples of moderate brands include Sag Harbor and Norton McNaughton. Many of the private brands developed by mass merchants such as Target and Kohl's would also be considered moderate, including Dana Buchman, Daisy Fuentes, and Merona.

a

b

figure 2.4a–b
Missoni offers a signature line (a) and M Missoni (b), a diffusion line.

Contemporary fast fashion ranges in price between moderate to better but is defined by much trendier styling and often a more junior fit. H&M, Forever 21, BCBG, and Zara are all examples of retailers/brands that define the contemporary fast fashion market.

As contemporary fast fashion evolved to appeal to a junior, young adult customer with its edgy and sometimes sexy overtones, parents of younger teens sought out a niche where younger teens could find age-appropriate apparel. This led to the development of the **tween market**. Stores such as Justice and dELiA*s and brands such as Miss Behave have helped to fill this market void; however, it's a tough market because customers are in that age bracket for such a short time (Figure 2.5).

The lowest price point today is labeled by some as **budget market** and others as category killer because the apparel not only represents the lowest possible pricing levels but also tends to be available in volume quantities. Walmart, Kmart, and Meijer compete at this level, as do other regional superstores or big-box stores that divide their attention between groceries, sundries, and the lowest-priced apparel and accessories.

The majority of customers make their fashion selections from mass-market brands available at department stores, chain stores, and mass merchants (discount stores). A variety of terms are used to label these stores or departments in order to signal to the customer the price point and fashion point of view of the goods they offer. Department stores tend to present merchandise selections from several price categories across their product range. Some, such as Nordstroms, start at the higher end in designer RTW level and move down through contemporary designer or bridge to better. Others focus on the better to moderate level. Mass merchants such as Target and JCPenney typically begin with moderate and move down through budget. Specialty stores and fast fashion stores, which once were quite focused on a single price level, have begun to expand their range through seasonal designer collaborations or lines that offer specialty fabrics such as organic cotton or high tech fabrications. H&M offers both seasonal designer collaborations and an organic cotton line, which are priced over their everyday price point.

Price points for children's wear and menswear are similar but less nuanced than women's wear. Price points are extremely important in positioning a brand's product offerings. That said, many brands are exploring techniques designed to bring the customer along to the next price point level. H&M's designer collaborations are significantly more expensive than its regular merchandise, yet consumers wait in line to access these coveted pieces (Figure 2.6a–b).

Branding and Licensing

Competition for consumer dollars is fierce. Brands are a tool that product developers and retailers use to communicate with the customer and drive repeat business. A **brand** is the cumulative image of a business, product, or service communicated to consumers through a distinctive name, sign, symbol, or slogan. Consumers associate with a particular brand because it offers an overall experience or value that is unique, special, and identifiable. Brand names, logos, symbols, and slogans are

figure 2.5
Justice is popular with the tween market.

generally proprietary and legally protected through intellectual property laws, including copyrights.

Branding is a competitive strategy used to distinguish and market the brand through the development of product, advertising, and promotions. This strategy should be organized around a coherent and consistent message that encourages purchase and repurchase of products or services from the same company. This can be achieved through packaging; advertising; store environment; promotion; customer service; word of mouth; or association with a lifestyle, celebrity, popular cause, or event. Whether a brand is applied to the entire corporate identity or to a particular range of products, services, or concepts, it drives the creative process and hopefully creates an emotional connection with the consumer.

Licensing is integral to branding. **Licensing agreements** grant a business partner exclusive rights to produce or sell products under a proprietary brand name. Licensing agreements may be used to:

- Expand a brand's product mix
- Expand distribution into a global market
- Capitalize on the popularity of a proprietary character
- Partner with another brand to maximize the value of the combined brands
- Extend the lifecycle of a brand
- Provide exclusive product to a particular retailer

a

b

figure 2.6a–b
H&M is known for its designer collaborations. In November of 2015 they launched a collaboration with Balmain; the model Eliyea was photographed on the streets of Manhattan wearing a sequined dress and wool coat from this collection.

Licensing partners must be chosen carefully so that the products, service, and value they provide is consistent with that of the brand.

A **brand image** is defined by the consumer's set of assumptions and feelings about products and/or services provided under the brand name. Building a brand's image is more challenging than ever before. Traditional forms of advertising are less effective in cultivating a brand's image as consumers look to the Internet rather than newspapers and magazines for their news and fashion direction. A misstep in living up to any of the attributes associated with a brand's image can cause long-term damage, particularly in this era of viral marketing. A brand's image is, in essence, its promise of authenticity, customer satisfaction, and quality.

Brand extensions refer to the practice of expanding a brand's reach. This can be achieved by expanding a brand's assortment—launching a women's brand into menswear or children's wear or vice versa. Another variation of a brand extension is to launch a new product category or service under an existing brand label. In many cases, launching a brand into a new category is achieved through licensing with a product developer who has expertise in the category.

Some of the most successful brands of the 2000s have evolved into lifestyle brands. **Lifestyle brands** go beyond their origins in a single product category to include additional apparel and accessory categories, perfumes, cosmetics, or home goods such as bed linens. Ralph Lauren has developed one of the most successful lifestyle brands, offering products that range from clothes and accessories to a full array of products for the home.

Brands need to stay relevant in a dynamic market. **Brand equity** refers to the value that accrues to a brand for customers, who may be willing to spend more for the promise of a brand-name product, and as a corporate asset that can be leveraged in launching new product categories, influencing mergers and acquisitions, maximizing revenue streams, and justifying capital investment.

A successful high-profile brand can launch variations of its product at price points that appeal to different target customers. Michael Kors offers his collection line and, in addition, MICHAEL Michael Kors at a considerably lower price point. Brand variations and the revenue streams they provide are made possible by the equity of the namesake brand heritage.

Brands often experience a decrease in brand equity, in the form of market shrinkage, at the end of their life cycle. At this stage a brand may enter into a licensing agreement with a mass-market store, agreeing to continue to develop the brand to the store's quality, size, and price specifications for exclusive distribution. Better brand Liz Claiborne was licensed and then sold to JCPenney; likewise, Dana Buchman, formerly a bridge brand, was licensed and then sold to Kohl's as an exclusive brand.

In a global market, brands must protect their equity internationally. Since marketing and distributing a brand in a global market is fraught with challenges, especially counterfeiting, brand owners often use licensing arrangements to protect their brand while capitalizing on the brand's value in a foreign market.

Many apparel manufacturers are focused on brand expansion to create product and process synergies and to diversify their product offerings. The management of multiple brands by a single company is referred to as a company's **brand portfolio**. Expanding a company's brand portfolio can be a successful strategy when a brand manager suspects that the market is saturated for its existing brands. In most cases consumers are unaware that a single corporation owns the diversity of brands in its portfolio. See Table 2.3 for the brand portfolios of Kellwood and PVH Corp. Figure 2.7a–b illustrates two of PVH's diverse brands.

There are other instances in which brand owners want to make obvious to the consumer that their multiple brands offer the same level of quality and value. Brand portfolios that are transparent or obvious to the final consumer are sometimes referred to as **brand umbrellas**. Most consumers recognize that Gap's divisions include Gap, Old

Table 2.3 Brand Portfolios for Kellwood and PVH Corp.

Kellwood Brand Portfolio	PVH Corp. Brand Portfolio
Rebecca Taylor Parker XOXO Devlin Democracy JAX Sangria Briggs New York Mymichelle Jolt rewind	Calvin Klein Tommy Hilfiger Van Heusen Izod Arrow Speedo Warner's Olga Numerous licensed brands

a

b

Navy, Banana Republic, and Athleta, each with their own set of in-store brands. Each store within Gap's portfolio is directed to a specific consumer segment or lifestyle. Mass-market stores such as Kohl's have large brand umbrellas that consist of private label brands that they develop themselves and licensed brands that are exclusive to their stores (Table 2.4).

figure 2.7a–b
Tommy Hilfiger and Speedo are two brands in the PVH portfolio.