Shifting Relations Between Retailing and Manufacturing in the U.S. Apparel Industry

by

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ABSTRACT

Over the past several years, the United States has been losing its national and global competitive position in the apparel industry. Changes in the textile industry, government policies, foreign competition and manufacturing have all been argued as reasons for the apparel industry's decline. Yet another and very important part of the problem, which has not received much attention, is the shifting relations between retailers and manufacturers within apparel retailing. Retailing is the link between manufacturers and consumers; their role is critical in the distribution of goods from production to the point-of-sale. Therefore, it is crucial that these shifting relations be examined to understand its impact on the U.S. apparel industry.

This study attempts to analyze these shifting relations by examining the changes in retailing with respect to the retailer, the manufacturer, the interaction between these players and the avenues of distribution. From completing a comprehensive literature search and from interviewing personnel actively working in the industry, this paper argues that the changes in retailing have had a significant impact on the U.S. apparel industry. In fact, closer examination of the role retailing has played in this industry reveals that many of the often-cited ills of the industry were instigated by these shifting relations in retailing. This study is important because it shows how one must look at the entire value chain, not just single elements of it. It also shows, ironically, that even though many marketing and distribution innovations were pioneered by the U.S. during the "modern era", this country's integration of these ideas throughout the value chain is very weak in our system.

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Chapter 1. Introduction

This is an essay about the shifting relations between retailers and manufacturers. In contrast to other arguments which focus solely on international competition or problems in U.S. manufacturing, I argue that the changes in retailing have an important impact on the U.S. apparel industry. In fact, closer examination of the role retailing has played in this industry reveals that many of the often-cited ills of the industry were instigated by these shifting relations in retailing. This study is important because it shows how one must look at the entire value chain, not just single elements of it. It also shows, ironically, that even though many marketing and distribution innovations were pioneered by the U.S. during the "modern era", this country's integration of these ideas throughout the value chain is very weak in our system.

This chapter highlights this thesis by considering the alternative explanations for the decline of the apparel industry. Though each part has contributed to the problem, retailing has been a significant part of the problem as well. The chapter is divided into four parts describing changes in: the textile industry, government policies, foreign competition and manufacturing. Each section briefly identifies the impact it makes on the decline of the industry. The chapter concludes with highlights of the changes in retailing, which are discussed in more detail later in this paper.

Over the past several years, the United States has been losing its competitive position in the apparel industry, both on a national and global basis. "Imports have captured more than half of the market for apparel in the United States." In the early 1980s, employment in the apparel industry decreased by 11 percent.[1] Several critical factors have been identified as the reasons for this decline:

- changes in the textile industry
- changes in government policies
- changes in foreign competition
- changes in manufacturing

The problems associated with each are described below.

Changes in the Textile Industry

Any changes in the textile industry directly affect the apparel industry, since fibers are used to make the fabric which clothing is then made from. Each segment of the textile industry has shown a decline. Due to increased competition from Japan and other industrialized countries, the U.S. fiber industry has seen a decrease of total world production from 32.5% in 1970 to 24.9% in 1989. Due to increased competition from textile mills abroad, the U.S. trade balance for textile mill products went from a surplus of $43 million to a deficit of $2.49 billion dollars. Since more textile

[1]Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, Made in America: Regaining the Productive Edge (The MIT Press, 1990), p. 288.

mills are producing abroad, more apparel is also being produced abroad. Because of this direct affect which the textile industry has on apparel, the U.S. apparel industry is threatened by imports as well: the percentage of apparel imports had doubled since 1975 to 1985, reaching a peak of 48%. And within the associated industries in the U.S., due to the developmental patterns in the industry, they have decreased their overall share of the market from 93% in 1963 to 55 percent in 1989.[2]

The changes in the textile industry is only part of the answer for the decline of the apparel industry. Changes in government policies have also been a factor.

Changes in Government Policies

Changes in quotas, tariff and import laws have affected the U.S. apparel industry. Some feel that the U.S. had become soft in trade matters, taking a slow-footed and legalistic approach to the Multi-Fiber Arrangement (MFA) and the various bilateral quota agreements arrived at under it, relative to other countries. For example, during the 1980's, over a six year period, Europe's import growth was 10% while the United States' import growth

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[2]Commission Working Group on the Textile Industry, "The US Textile Industry: Challenges and Opportunities," in The Working Papers of the MIT Commission on Industrial Productivity (The MIT Press, 1989) pp. 3-7.

was over 120%.[3] There is divided opinion on whether the U.S. should allow for the apparel imports to whither or should put trade barriers in place.[4] There is concern that the tariff and quota systems themselves are very much outdated. The General Agreement on Tariffs and Trade (GATT), requires tariffs and customs regulations to be applied uniformly. If garments being imported are sold well, there is no provision for increasing output in response to demand.[5] In addition, if quotas from countries are restricted, garments cannot enter the country.

This has directly affected the retailer, manufacturer and also the consumer. Retailers have had merchandise delivered years after originally scheduled due to laws changing. Manufacturers have not been able to compete with the lower wage rates in developing countries to justify producing in the States. Consumers have had their fashion altered and manipulated by designers to bypass quota requirements.

An additional threat will be the manufacturing potential in Mexico once the free trade laws are in place. Mexico may be the next great manufacturing area, similar to the turn of events which struck Hong Kong 15 years ago. Since Mexico is close to the States

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[3]James Lardner, "Annals of Business: The Sweater Trade - I," New Yorker, 18 January 1988, p. 22.

[4]Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, Made in America: Regaining the Productive Edge (The MIT Press, 1990), pp. 288-9.

[5]James Lardner, "Annals of Business: The Sweater Trade - I," New Yorker, 11 January 1988, p. 67.

and has plenty of labor, they have clear access to the American market. With free trade being established, a shift may occur in production: with no quotas or tariffs to deal with, the Asian firms such as Hong Kong, Taiwan and Korea, may move management and equipment to Mexico and use their labor force. The quality standard may not be equal to that of Hong Kong's, due to cultural adaptation, but the cost of labor will be sweet.[6]

The import scare had a positive affect on the textile industry. In the early 80's, a 100% increase in textile imports put enormous pressure on the domestic industry. Textile manufacturers responded by modernizing facilities. Vast capital expenditures resulted in productivity increases that doubled the average for manufacturing in general. New research began under way in an attempt to automate the most labor-intensive areas of apparel manufacturing.[7] These types of improvements seen in the textile industry have started to transfer to the apparel industry.

Not only have the number of imports increased in the U.S., but the part in which foreign competition plays in the apparel industry has increased.

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[6]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.
[7]Jerry Bowles, "Weaving and Bobbing," World, March/April 1986, pp. 8-13.

Changes in Foreign Competition

The foreign apparel industry has posed a large threat to the United States. Europeans are taking advantage of the weaknesses of the U.S. and aggressively entering the U.S. market. European retailers, such as Benetton, are changing the face of American retailing.[8] Through the use of information systems, Benetton has been able to constantly react to its competition and to external factors affecting its business, and as a result, has successfully penetrated the American market. In the U.S., Benetton stores have increased from 2 to 750 stores in the 1980's alone.[9]

Other competitors are benefiting from the lack of flexibility, responsiveness, lack of vertical integration and obsolete human resource policies in U.S. apparel. Gruppo Finaziario Tessile has established a successful subcontracting operation among small shops in Italy, with a niche in higher quality, higher priced garments. Ferla, also in Italy, has undergone internal transformation in collaborating with local textile manufacturers, and is actively establishing itself in the international fashion industry. In Japan, Melbo has unique production capabilities allowing flexibility, abandoning mass production over a decade ago. Also in Japan, Toyoba has implemented management policies to benefit from the lessons learned from its own employees,

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[8]Norman M. Miller, "The New Immigrants: Europeans Are Changing the Face of American Retailing," Chain Store Age Executive, February 1986, pp. 16-18.
[9]Amy Dunkin, "Why Some Benetton Shopkeepers are Losing Their Shirts," Business Week, 14 March 1988, pp. 78-79.

providing for immediate feedback and production improvements.[10]

Such progressiveness on the part of foreign competitors, and the lack of in the U.S. with regards to retailing practices and manufacturing processes has put the U.S. back farther than ever in this industry. Without the flexibility, responsiveness, vertical integration (due to lack of cooperation), and out-dated human resource policies in the U.S., foreign competition has more than a fair chance of dominating the apparel industry.

In addition to the threat of foreign competition, as mentioned, the U.S. has many problems it must deal with as well.

Changes in Manufacturing

Within the manufacturing realm, other problems exist. Manufacturers focused on mass production, not allowing for specialization or flexibility to adapt to consumer's changing needs.[11] U.S. firms focused on lowering wages instead of training and educating their workers to be more flexible and quality-

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[10]Commission Working Group on the Textile Industry, "The US Textile Industry: Challenges and Opportunities," in The Working Papers of the MIT Commission on Industrial Productivity (The MIT Press, 1989) pp. 52-3, 58.

[11]Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, Made in America: Regaining the Productive Edge (The MIT Press, 1990), pp. 297-8.

aware.[12] In addition, they did not change their human resource policies to adapt to new labor structures and to keep quality workers.[13] Technological advances had practically been ignored; automation was mostly non-existent, due to the complexity and ornamentation requiring human labor.[14] Strong linkages were lacking between manufacturers and their suppliers, providing little information flow between parties.[15] This encouraged manufacturers to search for suppliers abroad.

For example, Seattle Pacific Industries (SPI) is a wholesaler which manufactures 85% of their merchandise in the Far East. They would prefer to use U.S. manufacturers, but found that U.S. suppliers haven't been able to handle complex styles at the price and quality available overseas. The blame is divided equally between the attitude of the workers and the age of the machinery. The lack of quality, flexibility and equipment discourage SPI from increasing any level of domestic production. Only basic styles, such as t-shirts, are given to domestic producers.

SPI also found significant benefits from dealing with Honk Kong, in particular. The main advantage of dealing with Hong Kong is

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[12]Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, Made in America: Regaining the Productive Edge (The MIT Press, 1990), p. 300.
[13]"A Strategy for Innovation," National Clothing Labor Management Committee, March 1991 (draft paper).
[14]James Lardner, "Annals of Business: The Sweater Trade - I," New Yorker, 11 January 1988, p. 67.
[15]Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, Made in America: Regaining the Productive Edge (The MIT Press, 1990), p. 301.

their established "buying agent infrastructure", a concept non-existent in the States. SPI simply shows the agent the details of what is required, from the product (eg the shirt), to the fabric, to the packaging cardboard, to the plastic outer-wrapping. From that point on, the Hong Kong agent is responsible for pulling together the deliverable. (in the U.S., SPI would have to buy the fabric, cardboard, etc., and pull it together themselves). Hong Kong agents take upon themselves the risk of owning fabric, or anything else. Plus Hong Kong offers the finished good at a lower price than that offered in the States -- this includes the 40% markup on goods due to tariffs. SPI gladly pays a premium for the management and risk Hong Kong offers; this allows SPI to get out of the fabric and accessory business, operate with low overhead and no risk, and concentrate on designing, selling and marketing their products. SPI's key function becomes keeping the pulse on the market.

The problems with manufacturing in the States, from the labor issues to its production, combined with the benefits from producing overseas has given less and less reasons for apparel to be produced in the States. The combination of this factor, along with the changes in the textile industry, government policies, and foreign competition, have added to the decline of the apparel U.S. industry. A factor which has been ignored, and which has contributed its part to the problem is the issue of retailing changes.

Highlights of Retailing Changes

The reasons given above in explaining the decline of the U.S. apparel industry are only part of the story. The influence of the changes in the retailing industry, as well as the shifting power relations between retailers and manufacturers, have strongly impacted the apparel industry by altering the ways that retailers and manufacturers have traditionally acted in distributing goods from production to the point of sale. The changes that have disturbed the relations have exacerbated the problems already existing, but at the same time have created new possibilities for revitalization of the industry. The following dynamics in retailing have been taking place:

- The avenues of distribution have started to merge, setting a state of uneasiness among distributors of their position in the industry.
- Unconventional modes of distribution have been introduced, offering additional methods for consumers to purchase goods but threatening the traditional avenues of distribution.
- Skyrocketing real estate costs have impacted bottom-line profits, shifting ways which retailers display their goods.
- The perceived lack of talent in the buyers' and salespersons' abilities has disturbed manufacturers, driving them to establishing their own distribution channels.
- Capital investment strategies have unstabilized the industry, forcing only the strong and conservative retailers and manufacturers to stay in business.

Due to these factors, manufacturers have become disillusioned with retailers; as a result, strained relations have developed between these parties. Manufacturers have since become more

aggressive and independent. They have taken the distribution aspects of the business into their own hands, shifting the power relations between them and retailers.

Though the critical factors identified earlier are significant in explaining the decline in the apparel industry, it is important to include retailing as a key factor as well. Retailing is the link between the manufacturer and the consumer. It is a major force in influencing distribution, pricing, and fashion in apparel. It cannot be ignored when analyzing the apparel industry and and especially cannot be ignored when remedies are being sought to re-establish the strength of this industry in the U.S. It is essential for managers to be aware of the changes in retailing when making strategic decisions in this industry.

Chapter 2. The Apparel Industry in the Past

One must understand how apparel retailing functioned in the past to realize the essence of the problems which it is facing today. This chapter provides background information for the reader to use as a base when reading Chapter 3 on the retailing changes. This chapter is divided into four sections: the retailer, the manufacturer, the interaction of these players, and the different avenues of distribution. The traditional roles of these player and of these distribution avenues is defined below.

The Retailer

The retailer has traditionally been responsible for providing the right type of goods at the right location at the right price, with the right timing. In other words, the prime responsibility of the retailer was to get the correct merchandise to the customer.[16] Also, the retailer was to distribute this merchandise at a desirable location for the customer, display the goods at a reasonable cost, and deliver the fashions for the appropriate seasons. This involved integration with the manufacturers, but also strongly emphasized the critical task of defining the format of the point of purchase (POP). POP included various communications vehicles,

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[16]Sergio A. Paiz, An Analysis of the Retailing Industry: Future Trends and Perspectives (M.I.T. Sloan School of Management Thesis, February 1986), p. 20.

such as packaging, sales promotions, in-store advertising, and salespeople.[17]

The retailers in the past held strong control over the point of purchase, limiting the manufacturer from partaking in this function. This insured that retailers could provide a distinctive position in the apparel industry. It was to the retailer's advantage to control store layouts, space allocations, POP merchandising, and their response time to the manufacturers.

Retailers did not see any advantage in allowing manufacturers to take part in their operations. Retailers felt that they knew their customer best. They understood the consumer's taste in fashion. They also knew when their demands for goods were higher, with respect to holidays and sales. They responded to manufacturers on their own schedule, not on the demands of the manufacturers. If necessary, they could turn around re-orders in a week, should items be selling well; if not, they would place re-orders at their own pace.[18]

Providing information directly to manufacturers was seen as a disadvantage rather than an advantage. Retailers maintained control over the numbers presented to manufacturers. They did not trust manufacturers with price quotes, methods of

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[17]Kristina Cannon-Bonventre and John A. Quelch, "Better Marketing at the Point of Purchase," Harvard Business Review, November-December 1983, p. 162.

[18]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

negotiations, or their costs for fear that the information would be provided to their competitors. Since different stores could negotiate better deals, they had a competitive advantage over the others. For example, a year ago, an Emporium buyer learned from a manufacturing representative that Broadway was receiving a better discount on junior clothing than they were. As a result, the manufacturer was forced to offer Emporium the same discount on that merchandise, eliminating the price advantage which Broadway had achieved on that particular line of clothing.[19] This type of information leakage discouraged retailers from revealing any information that was not essential to manufacturers.

Moreover, a small subset of retailers were involved even more closely with manufacturing issues. Some retailers developed private-labels, selling goods manufactured by their suppliers under their own brand names. Others developed their own manufacturing capabilities, to completely avoid dealing with the manufacturer. Having their own merchandise produced allowed for the retailers to have full control over margins, offering lower prices to their customers, and at the same time eliminating any discounting issues. This also allowed retailers to avoid the problems of trust they faced with manufacturers.

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[19]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

The Manufacturer

Manufacturers have traditionally been responsible for making the product, by interfacing with the designers and suppliers. They would not concern themselves with the selling of the product, merely providing the product to the retailer in a timely fashion. They were responsible for delivering salable merchandise that would generate profitable margins, handling reorders of the best selling items, give markdown allowances when goods weren't selling, provide cooperative advertising money, allow for easy returns, and give retailers the right to cancel orders.[20]

Retailers had a varying level of power over manufacturers. With small manufacturers, retailers had a grip-lock on them. For example, they demanded a standard 8% discount, and negotiated other discounts on top of that. Because retailers did volume purchases, small firms had no choice but to put up with it. Retailers provided the customer for the manufacturers; they were at the retailer's mercy if they wanted to stay in business.[21] This type of policy between retailers and small manufacturers resulted in worsening the long-term competitiveness of the industry. The retailer's level of control over smaller manufacturers drove them to strongly desire and later

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[20]"Retailing: The Changing Game," Bobbin, January 1989, pp. 56-57, 62.
[21]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

successfully establish their own position in the industry, independent of retailers.

Large manufacturers had more of a partnership with the retailers. Both parties needed each other. Retailers needed the manufacturing capabilities as well as the fashion image; manufacturers could not afford to be without the retailers' distribution and customer base. When a merchandise wouldn't sell, both would work together to come up with an adequate markdown split, to ensure a long-term relationship between the two.[22]

Manufacturers were concerned with production aspects of the industry. Their ability to provide goods to the retailers efficiently was critical, due to the nature of the business. Due to the sharp market orientation of the business, it was essential for manufacturers to provide quick inventory turnaround for the retailers.[23] In addition to dealing with the retailers, manufacturers had to concern themselves with changes in the textile industry (eg with the quality of fabrics provided), in tariff and import laws (eg with goods being delivered late by foreign producers), and with concerns of inventory pileup (allowing for large retailers to have adequate inventories to replenish individual stores as needed).

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[22]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.
[23]Bertrand Frank, "Merchandising Management: Turnaround Revisited," Bobbin, January 1988, pp. 98-102.

Their most important function was developing their relationships with their suppliers. Within the United States, the mood was more of mistrust rather than trust. Vertical linkages were weak, due to issues such as proprietary and mutual suspicion. Instead of working with the suppliers, manufacturers worked the suppliers against each other.[24] Manufacturers had the same hesitation to provide any information to suppliers as retailers had with them.

On very few occasions, manufacturers integrated into retailing. Mostly, they provided factory outlets several miles from the retailers' points of sale.

Interaction Between Retailers and Manufacturers

The interaction between the retailers and manufacturers was dependent on the distribution process. The effectiveness of this process determined the efficiency taking place in channeling the goods from production to the actual sale. The key to its success was the logistics involved. Logistics included all aspects of planning, implementation, integration and control of the flow of merchandise. The process included merchandising planning (determining sales and inventory requirements), inventory management (anticipating total needs and determining best approaches for profit and sales maximization), and distribution

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[24] Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, Made in America: Regaining the Productive Edge (The MIT Press, 1990), p. 299.

(networking all parties, from vendors to store displays). In addition, logistics included all store operations, electronic systems and organizational issues.[25]

Well-run logistics were essential and critical in making the system work. Without an adequate system in place, the products would not be available to the consumer. The system had to provide a continuity of product delivery from the suppliers to the POP, including tracking of safety stocks to prevent stockouts and handling of small and erratic orders.[26]

The interaction between the retailers and the manufacturers was limited to the minimum of what was required to get the job done. Thoughts of improving relations or improving procedures was not on the agenda. Traditionally, computer systems were independent of each other. Retailers and manufacturers were responsible for their respective electronic systems support, with regards to upgrading and repair. They were equally responsible for distribution aspects, from tracking orders to completing deliveries. Retailers were responsible for merchandise planning, inventory management and store operations. The organizational decisions were dependent upon the relationships established between the particular retailers and their small or large manufacturers.

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[25]William L. Clarke, "Integrating the Logistics of Merchandise Management," Retail Control, June/July 1987, pp. 21-30.

[26]Roy D. Shapiro, "Get leverage from Logistics," Harvard Business Review, May-June 1984, p. 120.

The relationship between retailers and manufacturers has been altered through the years due to the emergence of different avenues of distribution.

The Avenues of Distribution

The main avenues of distribution have been the department, specialty, discount, and off-price retailer store. A brief description of their functions is provided below:

Department Stores

The department stores were the most established avenue of distribution. Department stores tended to have more assortment variety in their products, focusing on soft-line goods. They targeted the consumer that wanted to be close to the trends. They maintained fashion leadership and locational dominance, mostly through sheer size. Large volume purchases allowed them to have very narrowly defined and highly specialized buying staffs that allowed them to get adequate supplies of the most demanded items at very competitive prices. The perceived drawbacks were that they provided no specialized expertise or specialized help to the consumer.[27] In addition, department stores were seen as

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[27]Allan L. Pennington, "The Department Store Versus the Specialty Store", in Competitive Structure in Retail Markets: The Department Store Perspective, ed. Elizabeth Hirshman and Ronald Stampfl (American Marketing Association Proceedings, 1980) pp. 132-138.

potentially difficult customers, by having the power to cancel orders and adding price premiums on merchandise at their whim.[28]

Specialty Chain Stores

Specialty stores provided less variety, but specialized in a particular style or on a particular line of goods. Due to their smaller size, they had a heavier burden of promoting their image. In addition, they had much less leverage with their manufacturers. But, consumers were excited by this distribution avenue due to the specialization, expertise and service that was provided to them. There were also specialty stores which were one to two "mom-and-pop" stores. This paper will address the specialty chains rather than the very small specialty operations.

Discount Stores

Discount stores provided similar goods to the consumer, but at better prices, focusing on hard-line goods (eg televisions). They competed with department and specialty stores by reducing the emphasis on fashion, increasing advertising and promotion, reducing service provided to the customer, and reducing overhead costs by decreasing the amount of decor and choosing less

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[28]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.

expensive locations.[29] They tended to buy season close-outs and later fashions for the consumers that sacrificed seasonable fashions for lower prices.[30]

Due to their volume of purchases, they had good relations with their manufacturers, which, in turn, created friction between these manufacturers and their department and specialty stores. This was due to potential image loss being affiliated with the discounters and due to the prices being offered to consumers for the same goods.

Off-price Retailer Stores

Off-price retailing had become the latest and most successful addition to distribution avenues in apparel retailing. It posed quite a threat to the department, specialty and discount stores' operations. "Occupying the gray area between full-service stores and discounters, off-price retailers carry nationally recognized brand names (mostly soft-line goods, eg clothing) in no-frills, pipe-rack style stores....Off-price retailers often bought goods at below-wholesale prices (even below those paid by discounters). Unlike department stores, they rarely ask for such perks as promotional allowances, markdown money, return privileges, and

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[29]Sergio A. Paiz, An Analysis of the Retailing Industry: Future Trends and Perspectives (M.I.T. Sloan School of Management Thesis, February 1986), p. 28.
[30]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

extended payment terms. As a result, they have had little difficulty obtaining merchandise." [31]

Changing Relations Between Retailers and Manufacturers

The needs of each distribution avenue were different and matched the needs of their customers. There was a distinction between how much was demanded by each of these avenues of distribution from the manufacturers. Though the goods being manufactured were the same, the department stores demanded premiums on their goods, the discounters and specialty stores asked for less premiums, and the off-pricers demanded none. The critical timing of purchase was also different between the avenues of distribution. The department stores and specialty stores bought their goods while the fashions were in style and in the seasons that they would be worn; the discount and off-pricers bought their goods later in the season, and tended to purchase more "basics" rather than fashion.

Traditionally, the retailers, mainly the department stores, had power over the manufacturers. But not so today. With the emergence of the discount, specialty and off-price stores, these relations have altered the way traditional retailers handle the business.

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[31] Jack G. Kaikati, "Don't discount off-price retailers," Harvard Business Review, May-June 1985 p. 86.

Summary

This chapter discussed the traditional roles of the retailer and the manufacturer. It showed the strong control which retailers held over the smaller manufacturers and the partnerships that developed with the larger manufacturers. This chapter also described the main avenues of distribution and the customers they attracted: department stores offering variety and fashion, specialty stores offering fashion and service, discount stores offering lower prices on popular goods, and off-price retailers offering the lowest yet prices. The chapter also touched on the changing relations between retailers and manufacturers, due to the emergence of the discount and off-price retailers.

In turn, these relations impact the industry as a whole. Retailers are a step away from the consumer; there is a cost to having them in the distribution channel. There is also the benefit of their existence, depending on the service which they provide to the manufacturer and to the consumer. If their cost is higher than the return which is received from their services offered, then they become a detriment to the apparel industry, and substitutes must be found. This, in fact, has been occuring in the apparel industry.

With the current changes occuring in retailing (described in the next chapter), new demands being placed on retailers by manufacturers (due to their frustrations with the power-holds which retailers have put on them), emerging avenues of

distribution (offering more shopping choices to the consumer), the power has shifted away from the retailers to the manufacturers.

Chapter 3. The Changes in Retailing

Retail structures have often played a major role in the apparel industry: it is just as important how the product is sold as how it is produced. Currently, there is a major crisis in retailing. Due to retailing becoming a mature business, the retailing structures have begun to change dramatically.[32] This chapter explains these changes and illustrates how they are both exacerbating current problems and creating new possibilities for revitalization of this industry. This chapter is divided into three sections: the avenues of distribution, the manufacturer's disillusions, and new interactions between retailers and manufacturers. Utilizing case examples when appropriate, each section discusses the changing aspects which, in turn, affects the apparel industry.

As an overview, the role of the retailer has changed from only concentrating on merchandising the product to changing their corporate structures, strategies, marketing approaches, and the roles they play in the soft goods chain.[33] Their effectiveness as traditional retailers has been questioned, due to their lack of responsiveness to manufacturers. Their role has been affected by the changes in the traditional avenues of retailing distribution, as a result of merging of these avenues. In addition, the cost of real estate has affected the ways that merchants sell their products,

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[32]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.

[33]"Retailing: The Changing Game," Bobbin, January 1989, pp. 56-57, 62.

forcing less cost-demanding forms of retailing to emerge. And other vehicles of sale have been introduced, such as mail order shopping, threatening to claim the retailers' customer base. These factors have altered the way that retailers function in their business today.

Due to all of these dynamics, manufacturers have changed the way they view retailers. Manufacturers have changed their role as well and become more active in marketing their garments, resulting in decreased interaction with retailers. In addition, the mergers and acquisitions in retailing have disturbed the financial balance, also affecting the relationship between retailers and manufacturers. Each of the factors touched on above are discussed in more length in this chapter.

Retailers have also been found guilty of neglecting and not responding to the ever-changing needs of the consumer. Consumers of the 90's have transitioning from a want-all attitude to an already-have-it one. Consumers want more quality, more self-service, more quality of service. Working people tend to shop less, so want an efficient shopping medium. With the economy on a down-turn, consumers are more conservative in their spending. Consumers are varying their focus on low prices, quality goods, self-service or better-taylored service. There is a growing trend whereby consumers are showing they prefer self-service in the forms of speed and convenience. Some consumers are tending to choose shops which provide good service with a wide selection,

with less emphasis on the latest fashions and low price.[34] Other consumers have lost their appetite for shopping, and have focused on saving for the future by being aware of what they are paying for their goods.[35] Retailers have not been aware of the subsets of consumers shopping in their stores, and have not maintained a flexible and adaptable environment to accommodate the varying needs of these consumers.

To demonstrate the problems in retailing, with respect to retailers' relations among themselves, among their manufacturers, and inevitably among their consumers, the changes in the avenues of distribution have become critical.

The Avenues of Distribution

To understand better the dynamics of retailing, it is important to see the state that each avenue of distribution is in, and to see the transition which is taking place in their respective roles. Department store problems are the most dramatic of these avenues.

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[34]Adam Finn and Jordan Louviers, "Shopping-Center Patronage Models: Fashioning a Consideration Set Segmentation Solution," Journal of Business Research, November 1990, pp. 259-275.

[35]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.

Department Stores

Traditional department stores are in a decline. In 1986, they were ranked last in a study showing how all retailing categories performed during 1981-1985. The major department stores are in trouble because of their large investments in downtown sites, overcapacity, increasing consumer interest in discount prices, their tendency to cut the salesforce in hard times, and their preference for decentralized buying and merchandising. The big stores' major problem, however, is the marketing ability of the nation's specialty stores.[36]

The department stores have become vulnerable. They have lost touch with their customers by maintaining the same form of retailing for the past 25 years. The stores have become boring and too similar.[37] Consumers are fed up with department stores because of high prices, poor service, and a lack of distinctive merchandise. Department stores have been in the business of promoting the products, and now consumers can benefit from their advertisement efforts and go to the discounters to get the special deals.[38] Consumers are preferring stores highly focused on merchandise in specific groups. Because of the greater acceptance

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[36]Arthur Bragg, "Will the Department Store Survive?," Sales and Marketing Management, April 1986, pp. 60-64.
[37]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.
[38]Jack G. Kaikati, "Don't discount off-price retailers," Harvard Business Review, May-June 1985 p. 88.

of discount and off-price stores, department stores are losing their customer base. In addition, they have been hurt by their own suppliers that have gone out on their own.[39]

To counter these changes and threats, stores, such as May Company, are re-examining expenses, cost structures and profitability. Some have developed their own strategies from concentrating on career clothes to shop-by-appointment services (Nordstrom's) to new advertising images (J.C. Penney) to entering specialty stores (Broadway). They are stressing more private-label merchandise to add more variety of goods to their stores. Chazen of Liz Claiborne commented that "an increasing volume of private-label merchandise and centralized buying are the expected results of the merging of many stores into fewer monolithic store groupings. We do business with virtually all the major department stores and they're going toward a narrowing of resources, putting more and more money into fewer resources."[40] Department stores are ridding themselves of unprofitable aspects of their business, such as selling furniture. They are narrowing their assortments and customer identification, and attempting to maintain customer service higher than that of discounters.[41]

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[39]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.
[40]Anne-Marie Schiro, "Stores Plan Fall Strategy to Woo Buyers," New York Times, 20 July 1988, sec. 3, p. 1:1.
[41]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

For example, private label programs have evolved into custom manufacturing items or groups specifically geared to the retailers' customers. Retailers, in many cases, have created their own brand name and have merchandised and marketed it to build a recognizable brand identity and loyalty with their customers.[42] Private-label merchandise is increasingly being used because consumers have understood the designer hype, designers have worn their names down by extending past apparel, and, since private labels are usually cheaper, stores can stem down the markdowns.[43] There is no negative relationship between the private labels and the specialty stores: specialty stores do not see them as a threat, since the basic rather than fashion items are being private-labelled. Since consumers are becoming more conservative shoppers, the private-labels match their needs as well.[44]

With respect to foreign sourcing, many fashion retailers are looking for US sourcing for private labels due to poor deliveries from offshore sourcing and worries about embargoes, quotas, and devaluation of the dollar.[45] The drawbacks which department stores are weighing are that developing and marketing can be

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[42]Rayo Rudio, "Packages of Propriety and Profits," Bobbin, August 1988, pp. 130-136.

[43]Teri Agins, "Clothing Retailers Stress Private Labels: Designer Lines' Fading Appeal Fuels Strategy," Wall Street Journal, 9 June 1988, sec. A, p. 33:3.

[44]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

[45]Rayo Rudio, "Packages of Propriety and Profits," Bobbin, August 1988, pp. 130-136.

expensive and difficult, and sometimes designs are seen as uninspired. Bernard Wolford of Kurt and Salomon commented that any store would be foolish to go too far into private labels in seasons when lower-priced designer brands are selling well. Also, he says, customers won't accept store brands on the most expensive items.[46] Therefore, it is critical that department stores not view private-labels as a solution to all means, but as a partial answer to a very complex set of problems that they have to deal with.

Internally, department stores have opened their doors to help them in changing their perception as being dull and in lowering their costs of operations. The squeeze on the department stores has allowed for small retailers to step in and take over key responsibilities, from remodeling their stores to providing quicker delivery times in selling garments. Since the department stores have become out-of-touch with its consumers, they have relatively no choice but to allow the small retailers to handle these issues.

The changes facing department stores have downgraded their effectiveness in the apparel industry. Being perceived as out-dated, having strong competition mainly from specialty stores, and losing touch with the customer dramatically hurt department stores. Actively responding to the problems by taking steps, such

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[46]Teri Agins, "Clothing Retailers Stress Private Labels: Designer Lines' Fading Appeal Fuels Strategy," Wall Street Journal, 9 June 1988, sec. A, p. 33:3.

as changing their image and improving their operations, will give department stores an opportunity to revitalize their position in the apparel industry.

Discount Stores

Discount stores are in a much healthier position than department stores. Overall, discounting has become a major force in retailing today. The current industry has developed into a sophisticated retail world comprised of 7 major classifications: full-line discount stores, discount specialty stores, combination drugstores, wholesale clubs, combination supermarkets, catalog showrooms, and deep-discount drugstores.[47] An increasing number of families are shopping at discount stores. From a survey conducted in 1989, discount stores were the top choice for all age groups, all income levels, and every household size. Virtually every demographic group measured more trips to discount stores, made fewer to catalog showrooms, and even less to apparel specialty stores.[48]

Discounters are using similar tactics to department stores to attract their consumers. Discounters are relying on the brand-value concept to market their product. Many stores use in-house brands to provide quality and value. In addition, wholesalers feel that discounters are actually more particular about the quality of

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[47]"The True Look," Discount Merchandiser, June 1988, pp. 24-60.
[48]Rick Gallaghar, "Where America Shops," Chain Store Age Executive, July 1989, pp. 17-19.

the product than department stores.[49] Discounters are looking at display and presentation of products in reaching their target audience. Discounters have gone to a department store type of presentation, as well.[50] A new philosophy of presentation has taken over in the apparel departments of discount merchandisers. Display and fixturing are stressed as selling tools, adding a kind of identity to show the labels they are presenting.[51]

Discounters hold a strong position in the apparel industry. Due to the added competitiveness of searching for new ways to offer lower prices, discounters have been more progressive and responsive with regards to the changes in retailing, but they constantly feel the threat from the success of the specialty stores and off-pricers.

Specialty Stores

Specialty stores are being threatened by discount stores, but are more strongly threatening the department stores. Due to their flexibility in a niche marketing strategy, they have outperformed department stores in both sales growth and profitability.[52] "In the

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[49]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.

[50]"Merchandising the Major Departments: Girls' and Infants' Wear/Women's Wear/Men's and Boy's Wear," Discount Merchandiser, June 1986, pp. 84-89.

[51]Pat Corwin, "Fashion-Forward Presentation." Discount Merchandiser, March 1990, pp. 58-62.

[52]Audra Uzpurvis, Marketing Strategy - Apparel Specialty Retailer Busaka Designs. M.I.T. Sloan School of Management Thesis, June 1989, p. 6.

$108 billion women's apparel market alone, specialty retailers now have about 15 percent market share, compared with the department stores' 28 percent. The Limited is perhaps the biggest success story of the group, which includes such national chains as the Gap, Laura Ashley, and Ann Taylor. The Limited operates 754 apparel stores for women in their 20's to 40's. Its sales have grown largely at the expense of department stores to more than $4 billion, up from $238 million in 1979.[53] The major factor that specialty stores have over department stores is the level of service that they provide to their customers.

Specialty stores have not only established themselves as stand-alone outlets, but also have a part of the responsibility-taking from the department stores. They are also beginning to take over similar responsibilities at discount stores with their specialized merchandise. There is a place for this relationship to exist when dealing with more expensive, coordinated merchandise (eg Liz Claiborne), but few wholesalers can claim that kind of space in a store.[54]

Specialty stores hold promise in the apparel industry due to their established niche and due to the positive response from consumers to their distribution methods and their service. In

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[53]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.

[54]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.

addition, their aggressive stand with department and discount stores has given them a new and very important role in retailing.

Off-Pricing Retailers

Off-price retailers threaten the department, discount and specialty stores. In 1985, their phenomenal growth was explained by "...the demise of fair-trade laws, adverse economic conditions, strong demand for widely recognized brands, and continuing consumer disenchantment with traditional retailers."[55] Their success can be seen by the reaction of consumers to the concept of what they offer: low prices on quality goods. A survey conducted in 1986 showed that off-price stores offered prices at 40% lower than department stores. [56] In 1987, off-price retailing accounted for only about 5% of all sales in clothing, accessories and footwear, but by 1990 the volume increased to about 9.2%. Its market share has not taken off as dramatically as the specialty retailers, but with changes in consumer attitude in the 90's, it will threaten the other avenues of distribution even more.

Off-pricers may take away the discounters' advantage due to their lower prices, but cannot take away the fashion-image that department and specialty stores offer. The acceptance by

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[55]Jack G. Kaikati, "Don't discount off-price retailers," Harvard Business Review, May-June 1985 p. 88.
[56]Rachel Dardis and Gail Kirby, "Research Note: A Pricing Study of Women's Apparel in Off-Price and Department Stores," Journal of Retailing, Fall 1986, pp. 321-330.

consumers of their appearance as a distribution avenue aids in moving apparel through to the consumer.

Merging of the Avenues of Distribution

The role of the department, discount, specialty and off-price retailer stores has changed in the past few years. This phenomena has been studied in the past, and is not new to retailing. "...the "wheel of retailing" hypothesis [was] originated by Malcolm P. McNair in a 1958 article that became a classic in the marketing literature.[57] The theory states that institutional change in the industry takes the shape of a 'more or less definite cycle'. Each cycle has three phases, entry, trading up, and vulnerability. ... the small, specialty retailer was displaced by the department store, which subsequently became vulnerable to the discount retailer, then to the off-price retailers."[58] Every revolution of the wheel brings about a new series of competitors and eliminates some of the older formats.[59]

> "According to this concept, a new type of retail institution generally appears as a low-price, low-margin, low-status operation in order to take advantage of the competitive weaknesses of established institutions. As the new form gains market acceptance, emulators become attracted and enter the market. To differentiate itself from emulators, the original institution begins to trade up by increasing

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[57]Malcolm P. McNair, "Significant Trends and Developments in the Postwar Period," in Competitive Distribution in a Free, High-Level Economy and Its Implications for the University, ed. A.B. Smith (Pittsburgh, Penn.: University of Pittsburgh Press, 1958), p. 1.

[58]Jack G. Kaikati, "Don't discount off-price retailers," Harvard Business Review, May-June 1985 p. 89.

[59]Sergio A. Paiz, An Analysis of the Retailing Industry: Future Trends and Perspectives (M.I.T. Sloan School of Management Thesis, February 1986), p. 36.

> services, acquiring elaborate facilities, and widening its margins. Eventually the original institution matures as a high-cost, high-margin, high-status operation, and by so doing, becomes vulnerable to newer types of competition. Each successive retailing iteration in turn, goes through a similar cycle of growth and decline."[60]

What is interesting is that a merging or combined form of the existing retailing avenues is emerging. Each avenue is competing with the other to attract consumers. Each is imitating the strategies of the other to look more like the same. For example, strategies between department stores and discount stores are not as distinguishable as before; they are merging due to competitive pressures. Discount stores are upgrading to be more stylish, department stores are downgrading to be more price-competitive. They are not as distinguishable with respect to their goods: department stores focused on soft-line and discount stores focused on hard-line goods, but now discount stores are offering both to consumer; department stores cannot compete with this strategy on price.

More specifically, the different avenues of distribution are reacting to this merging in different ways. Department stores and specialty stores are reacting to off-price retailers. Department stores are responding to specialty and discount stores. Discount stores are challenging department and specialty stores.

Due to the pressures that off-pricers put on the others by offering such low prices to consumers, private-labels have become very

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[60]H. Takeuchi, "A Note on Retail Institutions," Harvard Business School, Note #9-580-042.

popular, especially among department stores. Department stores have threatened to cease orders from designers who sell to off-pricers under the pretense that their image is being tarnished. Some retailers have entered the off-price business themselves to compete.[61] Department stores have also fluctuated from going to the high-end to down-grading their merchandise. The Broadway tried to upgrade its merchandise as an initial competitive position, but after no success in retaining their customer base, had to downgrade to compete with the discounters.[62] In response to the discounter's success, they are increasing customer services and upgrading their product lines, by providing more design options and variations in their designs.[63] Simultaneously, they have cut their prices on goods that are carried at the discount stores.

In response to the success of the specialty stores, department stores have adopted ways to emulate them by copying their strategies. They are providing niche marketing, responding as rapidly as possible to consumer needs and trends, focusing on a retail identity by providing a stronger presentation, and becoming more vertically integrated.[64] "Some of the advantages of [moving into smaller markets] to niche positioning are apparent in lower

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[61] Jack G. Kaikati, "Don't discount off-price retailers," Harvard Business Review, May-June 1985 p. 90.
[62] Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.
[63] Sherri Nelson, "Bobbin Show Review: Closing In on an Upscale Trend," Bobbin, December 1988, pp. 100-101.
[64] "Department Stores 'Specialize' in Competitive Maneuvers," Marketing News, 15 February 1988, p. 14.

advertising costs per customer, more effective and efficient distribution systems, better customer identification and more customer loyalty, more effective store supervision and lower overhead."[65]

The discounters, feeling the squeeze of the department store price cutting and the specialty store advantage of having a niche, have begun to upgrade their stores by providing more pleasant shopping environments to the consumer. They are providing easier shopping by showcasing items in ads and improving customer service. By offering credit cards, they are trying to earn customer loyalty.[66] In response to the specialty stores, discount stores have been looking for their own niche to compete against them.[67]

It is interesting to note that everyone is worried about the threat that everyone else poses on them. No one in the apparel industry is feeling stable or secure about their position, their niche, or their image in the industry. It is a time of unsteadiness, with no obvious end.

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[65]Sergio A. Paiz, An Analysis of the Retailing Industry: Future Trends and Perspectives (M.I.T. Sloan School of Management Thesis, February 1986), p. 57.
[66]Teri Agins, "Discount Clothing Stores, Facing Squeeze, Aim to Fashion a More Rounded Image," Wall Street Journal, 15 March 1990, sec. B p. 1:3.
[67]Joseph Pereira, "Discount Department Stores Struggle Against Rivals That Strike Aisle by Aisle," Wall Street Journal, 19 June 1990, sec B, p. 1.

Unconventional Avenues of Distribution

Other methods of sales have become more popular in the past few years, threatening the already existing avenues of distribution. Mail order and catalogue shopping are an ever increasing form of revenue for distributors. The introduction of information technology has enabled these distributors to run very efficient operations. These methods of sale are in direct competition with the department, discount, specialty and off-price retailer stores.

Direct marketers across the nation are using people's names, addresses and phone numbers with increasing intensity to sell their products and services. The mail order apparel market generally has been independent of the overall trends affecting the apparel industry, such as reliance on brand names. Marketing intensive retailing has characterized the development cycle of mail order apparel retailing. Sales in the industry have grown in such categories as low-end apparel, career clothing, classic men's apparel, odd-size apparel and lingerie specialization.[68] In the 1990's, the number of buyers is expected to decline by 15.5%, but catalogers are still a prime target for apparel in the 90's due to number of households with children and 2 incomes.[69]

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[68]Arnold Fishman, "The Apparel Mail Order Marketplace," Direct Marketing, June 1986, pp. 46-50.
[69]Doris Walsh, "A Market Evolution," Catalog Age, May 1990, pp. 101-102.

Along with the success of mail order shopping, electronic home shopping has increasingly become a popular vehicle of merchandise buying. One of the brightest spots in retailing in the past 5 years has been the phenomenal growth of electronic direct marketing, or home shopping. In 1989, home-shopping television generated $1.5 billion in retail sales.[70] Home shopping, primarily selling low-priced goods, is expected to move into higher-priced merchandise. Shoppers can also buy products using their personal computers through such services as Prodigy, marketed by Sears and IBM.[71]

Some of the mail-order shopping establishments have been so successful that they have expanded to include their own stores, to capture the consumers that still want to "feel" the merchandise before buying. "Catalogers have an edge when it comes to finding the right retail location because they have catalog sales data that will tell them where customers have a propensity to buy."[72] "For instance, Talbot's, a women's retailer based in Hingham, MA, whose catalogue circulation is 70 million, is opening stores at the rate of 20 to 25 a year. Talbot's has grown from five stores in 1973 to 137 today."[73]

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[70]Alan G. Millstein, "TV Home Shopping: A Tourniquet for a Bloodied but Unbowed Industry," Bobbin, March 1990, pp. 22-30.

[71]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.

[72]Holly Klokis, "Opening Up to In-Store Sales: Established Catalogers Seek the Customer Who Shuns Mail Order," Chain Store Age Executive, April 1986, pp. 18-20.

[73]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.

Retailers have not responded to this up-and-coming threat; they have not increased their own use of customer mailings. A 1988 survey of 200 retail stores showed that though customer mailing lists are considered vital to apparel retailers' survival, direct-response advertising is underutilized by most retailers.[74] Retailers do not feel threatened by home shoppers. They haven't affected the apparel industry that much because people still want to hold the product before buying.[75] In addition, clothing measurement standards for sizes can not be set up accurately for catalogues, because clothes fit differently on every person; to feel fitted, people prefer to try on merchandise with different sizes available. Also, there are alot of consumers in the U.S. that "just plain like to shop".[76]

An example of a retailer who has taken action is Brady's Apparel in California:

> Brady's Apparel, located in San Diego, is a menswear retail store using databases to market customers directly. This database provides information about inventory, markdowns, demographics, inventory control, and customers. The custom marketing menu contains the names, addresses, telephone numbers, and dates of birth of customers. With this information, Brady's can target its mailings to a customer of a particular size or to customers who prefer a certain article of clothing.[77]

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[74]"The Local Database: What's In Store," Direct Marketing, March 1988, pp. 46-48.
[75]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.
[76]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.
[77]Gary W. Wojtas, "Dressed for Success," Direct Marketing, December 1989, pp. 34-36.

This type of information usage, combined with direct, individual, personalized service, to lure the customers out of the household and into the stores is critical in keeping the consumers' interest in the current channels of distribution.

For the apparel industry, unconventional methods of distribution offer more methods for consumers to purchase goods. Though they directly compete with the traditional avenues, they don't provide a negative impact on the industry, as a whole.

A New Avenue for Distribution

It is important to include the emergence of a new avenue of distribution, namely the hypermarket. This market impacts the way that the traditional distributors must react as well as the way that consumers view shopping.

Hypermarkets, or supercenters, which offer food as well as non-food items are being opened by large discount merchants. K-Mart opened a 12,000 square foot grocery department attached to its traditional discount store. Wal-Mart opened a 128,000 square foot supercenter, which within weeks sold more apparel than any of its single units in the Wal-Mart chain.[78] These hypermarkets have the potential to change the way consumers shop. Their main attraction is bargain-priced items. Operators of these markets are

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[78]"A Supercenter Comes to Town," Chain Store Age Executive, December 1989, pp. 23-44.

cashing in on the polarization of retail stores into small, niche-oriented stores on one side and larger, but fewer outlets for basic apparel on the other side.[79]

Hypermarkets pose a threat to all avenues of distribution described above. Depending on whether consumers prefer service over price will determine their acceptance of this method of distribution. The question remains whether all avenues will continue to exist or whether the merging will eliminate the distinction between each.

Real Estate, Malls and Methods of Display

A factor which affects every avenue of distribution, and which affects the bottom line on operating expenses is the cost of real estate. On the other side, the amount of mall expansion in the 70's has left malls with more capacity than needed. Due to the imbalance of costs versus needs, methods of displaying merchandise have changed in the past years as well. To combat the problem, retailers have begun to remodel at greater rates than ever before. In addition, push-carts and trunk shows have begun to emerge once again.

Costs have made it extremely expensive to consider starting an operation from scratch. "According to a recent census, new stores

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[79]Bill Saporito, "Retailers Fly into Hyperspace," Fortune, 24 October 1988, pp. 148-152.

are bigger and dramatically more expensive than their counterparts of a few years ago. Compared to 1988 figures, the price of building an apparel specialty shell has jumped 20% to $31.90 and the cost of a discount store shell has increased by 12% to $25.00. Drug, home center, supermarket and department stores are recording similar price hikes."[80] At the same time, there is more space than is needed. The massive overbuilding of shopping complexes during the 1970's has left America "over-malled".[81] The retail space expansion exceeded the consumer's growth in income.[82] Retail space increased at a faster rate than sales revenues.[83]

Within the shopping malls, a changing attitude towards the anchor stores is occuring. Some feel that malls need the anchor stores to attract the customers, and that it not adequate just having specialty stores. These people worry about the anchors closing because of the debt-ridden retailers.[84] Others feel that anchors have become obsolete:

> "Conventional wisdom once held that crowds at malls were attracted by the department store anchors. But the Gap and other trend-setting specialty stores have grabbed such a big share of the market that they

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[80]Mary Lee Shalvey, "Physical Supports Census: Stores Get Bigger, More Expensive," Chain Store Age Executive, July 1989, pp. 58-64, 71-72.
[81]Leslie Wayne, "Rewriting the Rules of Retailing," New York Times, 15 October 1989, sec. 3, p. 1:2.
[82]Isadore Barmash, "The Harsh Lessons of Retailing," New York Times, 7 October 1989, sec I, p. 31:3.
[83]Louis Uchitelle, "Retailing Trouble is Fundamental," New York Times, 26 February 1990, sec. D, p. 2:1.
[84]Jeffrey Trachtenberg, "When a Mall's Biggest Retailers Fall, Surviving Shops Get an Unpleasant Jolt," Wall Street Journal, 25 October 1990, sec. B, p. 1:3.

are telling developers they no longer need anchors." Donald G. Fisher, chairman of the Gap, says it is time to get into anchorless malls.[85]

Regardless of type of store, whether anchor or anchorless, retailers have begun to upgrade the look of their existing stores by going strong into remodeling to give a fresh appearance to the customer. Remodeling is seen as an economical way to improve the store image, especially at a time when sales growth is declining.[86] Stores are creating spaces that tempt shoppers to spend more freely. "Almost by definition, retailers that chase the latest trends in merchandise or fashion, such as the Limited clothing stores, have the most frequent makeovers.[87]

Other methods to distribute retailing wares have become more popular. Because real estate developers fear up-and-coming small retailers without track records, these retailers have trouble getting prime mall locations. To gain credibility in showing freshness and demonstrating financial stability, these retailers have been using pushcarts: this enables them to try out their concepts without investing alot.[88]

Another transportable method of selling products, used by manufacturers has been the increased use of scheduling trunk

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[85]Francine Schwadel, "Going Without: Gap Drops Anchors in Its Plan to Develop Upscale Malls," Wall Street Journal, 25 October 1990, sec. B, p. 1:4.
[86]Sergio A. Paiz, An Analysis of the Retailing Industry: Future Trends and Perspectives (M.I.T. Sloan School of Management Thesis, February 1986), p. 53.
[87]Mark McCain, "Seducing Customers in Highly Competitive Markets," New York Times, 26 March 1989, sec. 10, p. 17:1.
[88]Eugene Carlson, "New Retailers Face Struggle Getting in Malls," Wall Street Journal, 24 July 1990, sec B p. 1:3.

shows, offering a range of price points from a variety of manufacturers."Trunk shows are a way for department stores to win back some of the business share from specialty stores - and a way to give customers the latest fashions, without having to go deeply into inventory. They offer manufacturers a chance to educate the consumers about their entire lines and to obtain direct feedback from the consumer market. To the retailer, a trunk show offers a special event, a way to attract and stimulate customers, and usually, to ring up extra sales. Trunk shows also afford customers a unique opportunity for individual wardrobing attention."[89]

With the changing role of the avenues of distribution, the costs of real estate increasing, and the increased emphasis on remodeling, the responsibility for sharing these costs involved is shifting as well. Traditionally, the "storekeeper" was responsible for these issues, but the trend is to involve the others benefiting from the "storekeeper's" efforts to become a more active part as well, from the manufacturer to the large or small retailer.

The Manufacturer's Disillusions

Manufacturers have steadily become frustrated with retailers for a variety of reasons. They have not been satisfied with issues such

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[89]Susan Smarr, "QR/EDI Technology Gaining Momentum," Bobbin, December 1989, pp. 130-134.

as the quality of salespeople or the efficiency of the distribution process which retailers were offering to them. They have been disappointed in the unimaginative displays which their goods are displayed in. They have been exhausted by the slew of bankruptcies being announced by retailers, financially impacting them. As a result, manufacturers have taken things in their own hands and have become their own retailers. As their own distributors, issues such as mistrust and competitive advantages which retailers traditionally had to deal with have been eliminated. Manufacturers have surpassed the middleman, have taken control of their business, and made themselves vertically integrated. And they have done so successfully.

Lack of Talent in Retailing

As early as 1983, manufacturers were becoming frustrated with the quality of workers in the stores, both with the salespeople and the buyers. Manufacturers have lost confidence in relying on salespeople to push their products. Since the status of the saleperson has declined, the quality of the salesperson declined as well. The turnover rate is extremely high: often more than 100% per year. Consumers view them as less attentive and knowledgeable; salespeople actually have more consumers and product lines to be knowledgeable about. To save on costs, retailers have shifted to inexperienced and part-time salespeople, and have provided less training on the products. This combination

of factors has discouraged manufacturers from feeling that their products are well-represented in the stores.[90]

Having access to any help, let alone qualified help, has remained an issue. From a survey conducted by Touche Ross in 1988, some 96% of total respondents indicated that obtaining experienced, reliable sales personnel is a problem. To overcome the shortage of young people available for retail jobs, some retailers are turning to retired persons.[91] The service that they offer has also been unsatisfactory. To increase sales and upgrade service, major retail chains have been converting thousands of hourly sales employees to commission pay. The retailers are using commissions - and their promise of higher pay - to motivate their current staff and to attract better salespeople.[92] But, even with the commission in place, the service has not increased to the level which stores require.[93]

Buyers are not viewed in any more of a positive light. In 1989, William Dillard Sr, chairman of Dillard Department Stores commented, "There's not much talent around anymore. There are too many young, inexperienced buyers today, and they are

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[90]Kristina Cannon-Bonventre and John A. Quelch, "Better Marketing at the Point of Purchase," Harvard Business Review, November-December 1983, p. 164.
[91]"Retailer Poll: Labor Concerns Rising," Chain Store Age Executive, October 1988, pp. 18-22.
[92]Amy Dunkin, "New Salespeople Really Must Sell for Their Supper," Business Week, 31 July 1989 pp. 50,52.
[93]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

making lots of mistakes."[94] In a 1990 article from the New York Times, Woody Hochswender wrote that "designers and apparel executives have for some time been lamenting the disappearance of old-time fashion buyers with an eye for quality, consumer tastes and, more important, newness...Cautious and uninspired merchants can even affect the creative process of the designers themselves, who can't cut what they can't persuade buyers to order."[95]

From the buyer's point of view, it is felt that the talent pool is more than adequate, and that there are more potential buyers then they have space for. But the job required from these buyers has changed. The job has become very technical, numbers oriented, in analyzing the profit margins for the company. It is more important for stores to hire the more quantitative buyer rather than the fashion buyer, to maintain profit levels. In addition, stores have been buying more basic items because people are not demanding fashion: consumers are buying a plainer item at lower cost that will last longer. But the designers are under the impression that buyers are less talented rather than the consumer trend changing.[96]

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[94]Isadore Barmash, "The Harsh Lessons of Retailing," New York Times, 7 October 1989, sec I, p. 31:3.
[95]Woody Hochswender, "Fashion School Rolls Dip," New York Times, 10 July 1990, sec. B, p. 6:1.
[96]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.

What manufacturers accurately complain about is the lack of continuity with buyers within stores. Buyers change positions in stores very often to receive pay increases. The stores do not view this as a negative trend: they view it as adding "freshness" to the stores. Manufacturers, on the other hand, are frustrated with having to deal with different people per order. The stores do not set up any stability for the manufacturers, forcing them to re-establish relationships with the stores more than necessary.[97]

Failures in Leverage Buy-Outs

In the 1980's, a wave of buy-outs took place, dramatically affecting the health of retailing. "Large companies engaged in a frenzy of mergers and acquisitions, which placed diverse stores under the control of a few huge corporations and put thousands of executives out of work."[98] Their assumptions of the pay-offs in the apparel industry fell short, placing stores in a position of negative cash flows. They grossly miscalculated their future earnings. Retailers were forced to reduce the number of stores and provide less service to customers to reduce their overhead.[99] In addition, there has been a real squeeze on senior merchandising talent; buyers were let go due to the cuts in payroll forced by the buyouts, and inexperienced new buyers, brought in

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[97]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.
[98]Ann-Marie Schiro, "Stores Plan Fall Strategy to Woo Buyers," New York Times, 20 July 1988, sec. 3, p. 1:1.
[99]Jeffrey Trachtenberg, "Retailers Face Cutbacks, Uncertain Future," Wall Street Journal, 29 September 1989, sec B, p. 1:3.

at lower salaries were left in place to re-establish relations with manufacturers.[100]

Due to the actions of takeover failures of Campeau and others, future borrowing has become very difficult, straining the balance sheets of large and small retailers. Much of their debt was in high-interest "junk bonds", which have lost credibility. Since stores have not been able to keep up with their interest and principal payments, additional borrowing has become more difficult and expensive.[101]

Due to the instability and increasing filing of failed takeovers, small retailers have been forced by their bankers to assume more risk in shipping factors, suppliers are bearing more risk in shipping new goods. Manufacturers face not getting paid due to the bankruptcies being filed. Small businesses are affected most, since they are paid last, after wholesalers and retailers first.[102]

Larger and healthier suppliers have tried to alleviate some of the problems of payment. For example, Liz Claiborne increased discounts to retailers who paid by ten days. They raised the discount from 8% to 10%, absorbing the cost internally. Their competitive advantage for doing so was for stores to purchase

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[100]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.
[101]Isadore Barmash, "The Harsh Lessons of Retailing," New York Times, 7 October 1989, sec I, p. 31:3.
[102]Jeffrey Trachtenberg, "Macy's Smaller Suppliers Forced Into Riskier Position," Wall Street Journal, 2 November 1990, sec. B, p. 2:3.

more of their goods.[103] If this trend continues, only the strongest and largest suppliers will remain in the business.

Other manufacturers were forced to shift away from the unstable clients, to ensure success in their own business. For example, Seattle Pacific Industries (SPI) supplied clothing (eg Union Bay jeans) to department stores, including Federated and Allied. But they abandoned some of the department stores because of the problems with the bankruptcies. SPI could not afford to take the risk of dealing with the department stores in trouble. They've stayed with the strong players (eg Nordstrom's, May Co., Dillard's), which still consists of 60% of their business. Since the relationship between SPI and department stores began to erode, SPI began relations with specialty chain stores (eg Miller's Outpost, Mervyn's, Chess King). To expand distribution, they approached discounters (eg K-Mart, Wal-Mart) and have developed exclusive labels for the mass merchandisers.[104] They were fortunate enough to have the credibility in the industry to transfer away from the troubled stores.

Though some manufacturers are strong enough to bail out the stores, or are able to diversify in their client base, this still does not provide an air of confidence that the relations between the retailers and manufacturers are stabilized. It further increases the

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[103]Teri Agins, "Liz Claiborne to Lift Standard Discount to Stores to 10% on Women's Apparel," Wall Street Journal, 30 July 1990, sec. B, p. 5:1.

[104]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.

manufacturer's desires to become independent and create their own problems at their own risk. Or, rather, learn from the mistakes being made and streamline their business at the same time.

Manufacturers as Marketers

Manufacturers have turned away from the traditional avenues of distribution in three ways: they have actively revamped department stores, they have increased their factory outlets, and they have begun their own distribution chains. Due to the poor performance of the retailers, manufacturers have taken on their role: they have become a part of the selling side as well as the supplying side. In doing so, they have become more profitable and have achieved higher growth than their competition.[105]

Under various financial arrangements, manufacturers are designing their own department stores to show their goods, helping to train the salespeople, and providing their own personnel. They are achieving better efficiency and quality of service in doing so. "Some manufacturers have opened retail outlets, providing not only additional retail channels but also opportunities to audition new styles before they're rolled out to big retail chains." Some are doing business with shops once considered too small for their business. Manufacturers are getting

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[105]Teri Agins, "Apparel Makers Increasingly Market Their Clothes Directly to Consumers," Wall Street Journal, 9 February 1990, sec. A, p. 5:2.

closer to the customer by also addressing the fashion issues. They are using certain stores to test styles, colors and prices before mass-producing the goods. They regularly visit department stores, teaching salesperson and designing the displays.[106]

Manufacturers producing designer clothing who cannot penetrate department stores or open stores due to contract restrictions are increasing their demands to open more factory outlets. They are usually forced to place their outlets in smaller communities at least 20 miles from major retail hubs. But they are still of benefit to the manufacturers, since they can control distribution of their valued label.[107] Factory outlets allow manufacturers to offer consumers savings of about 35% on their merchandise. The current trend is to create more fashion-oriented, upscale outlets that emphasize service. These outlets are important to manufacturers by helping to move merchandise and adding profits to the bottom line.[108] It is a valuable means of liquidating seconds, overruns and previous season's merchandise. The main drawback of demanding more stores is alienating their retail accounts.[109]

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[106]Teri Agins, "Apparel Makers Increasingly Market Their Clothes Directly to Consumers," Wall Street Journal, 9 February 1990, sec. A, p. 5:2.
[107]Irene Daria, "Where It's Chic to Shop," Money, February 1990, pp. 119-125.
[108]Susan Black, "Factory Outlets: Room to Grow," Bobbin, September 1990, pp. 14-22.
[109]Susan Black, "Factory Outlets Gaining Speed," Bobbin, May 1990, pp. 70-74.

Due to the new aggressiveness and success of these manufacturers, retailers have gradually lost their power over them in the apparel industry. They have been forced to re-evaluate their relationship with them, and either lose the manufacturers who have gone beyond frustration, or try to work with them to improve relations.

New Interactions Between Retailers and Manufacturers

There are some signs that interaction between retailers and manufacturers is starting to improve. At least, they are attempting to make a change. These parties are beginning to work together to try to become more competitive as a team. The retail restructuring, in combination with the increasing global competitive threat and with technology improvements, has forced retailers and manufacturers to repair their relations.

Some retailers and manufacturers still need each other, due to the volume that the avenues of distribution deal with. For example, department stores are working on established good relationships with their specialty manufacturers by providing good space to display their goods. They have served as a liaison between the specialty manufacturers and their customer, and encourage this relationship to continue. The specialty manufacturers keep the pulse on the customer needs; the department stores provide the volume and customer identification for the manufacturers. These

are the key reasons why specialty stores and manufacturers continue to work with the department stores. Consumers who want variety with emphasis on fashion will still shop at the department store.[110]

These retailers and manufacturers are beginning to defining what their needs are. Since a number of retailers are closer to the consumer, they still have significant clout. Retailers are demanding more service-oriented manufacturers, such as those who can do private label, provide design capabilities, turn quickly on reorders, provide preticketing, and offer a source of exciting, new fabrications. For example, Joe Tomaselli of Mervyn's department stores says his company looks for medium to large manufacturers that are vertically integrated and flexible. Mervyn's demands consistent good quality with on-time deliveries. Noel Davidson of US Women's Specialty Retailing also looks for a manufacturer that can deliver a quality product on time for a reasonable price.[111] Manufacturers are also making demands on retailers, which include longer lead times, more honesty in preplanning, and a more equitable partnership in fabric purchase.[112]

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[110]Interview with Barbara Heil, Assistant Buyer, Broadway Department Stores, Los Angeles, California, 10 May 1991.
[111]Anne Colgate, and Susan Smarr, "Two Retailers Talk: Check Your Check List," Bobbin, August 1989, pp. 66-72.
[112]Susan Smarr, "Straight Talk from Retailers and Manufacturers," Bobbin, January 1989, pp. 64, 70-72.

Retailers and manufacturers are working together to improve the clothing slump by improving value and workmanship, improving marketing and operations methods.[113] Previously, salespeople were the ones who knew the problems in the industry, not the manufacturers or the retailers; this information was not being passed on to the parties who could make the changes.[114] Today, the retailers and manufacturers are talking about the problems together.

In addition, technology has been implemented which allows for products to get through the system at a faster rate and at a lower cost to the consumer. By using bar coding, Quick Response, electronic data interchange, continual consumer research, including testing of CAD-generated styles, and real-time merchandising procedures, closer working partnerships are being formed between retailers and manufacturers.[115] The retailers and manufacturers who have invested in the technology needed for this information exchange will be able to operate with lower expenses while increasing sales and improving merchandise availability.[116]

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[113] Isadore Barmash, "New Styles End Slump in Women's Fashions," New York Times, 29 June 1989, sec 4, p. 12:3.

[114] Commission Working Group on the Textile Industry, "The US Textile Industry: Challenges and Opportunities," in The Working Papers of the MIT Commission on Industrial Productivity (the MIT Press, 1989) pp. 66-67.

[115] "Making the Revolution Work," American Apparel Manufacturing Association, 1989 Report, p. 31.

[116] Sergio A. Paiz, An Analysis of the Retailing Industry: Future Trends and Perspectives (M.I.T. Sloan School of Management Thesis, February 1986), p. 55.

Unfortunately, it is not clear that the technology will help the apparel industry all that much. Information systems have possibly been overrated for this industry. Basically, the idea behind using information systems is:

- product is bar-coded once the customer purchases it
- re-order is automatically sent by the department store
- wholesaler instantly receives order
- factory automatically gets fabric, produces and delivers the order

The problem arises in the nature of the apparel industry. With products that are re-orderable, (eg nylons, socks, underwear, 501 jeans), the technology is very appropriate. But for fashion items, the technology becomes less useful. Fashions change: it's the nature of the apparel business, and both designers and consumers like this change.[117]

Therefore, it is not the technology that will pull the retailers and manufacturers together. It will be the need for one another that forces them to work together. Today, the avenues of distribution still offer volume purchases and customer identification. Today, department stores have the customer base to offer to the manufacturers and specialty stores. If shifts occur in the buying patterns of the consumer (eg trends showing towards specialty stores and discount/off-pricers), then the advantages of working with department stores will slowly disappear. If these factors

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[117]Interview with Michael Egeck, Director of Merchandising Operations, Seattle Pacific Industries Inc., Seattle, Washington, 7 May 1991.

change with no additional services being created and offered by the avenues of distribution, then the needs of the manufacturers will decrease and they will channel their efforts towards their own distribution methods. Several manufacturers are already surviving well without interfacing with retailers.

Though there are glimmers of hope that the retailers and manufacturers want to and are trying to pull together, there is a big concern that it may be too late.

Summary

This chapter discussed the changes occuring in the avenues of distribution. It explained the downgraded effectiveness of the out-dated department stores, and showed signs of their revival. It discussed the responsiveness of discount retailers, and their use of similar tactics in upgrading to attract more customers. It described the established niche and quality service of the specialty stores, and their entrance into department store remodeling and their own retail outlets. It addressed the real threat of the off-price retailers in beating everyone's prices, and possibly replacing the discounter. This chapter then addressed the apparent merging of these distribution channels, due to the overlap in services and appearances, creating a state of unstableness in the distribution of apparel.

In addition, this chapter touched on unconventional avenues of distribution, such as mail-order, allowing for more options to shop for the consumer. It briefly mentioned the emergence of yet another form of distribution, the hypermarket, which effects on the industry are yet unknown. It also discussed the escalating costs of real estate which have turned some retailers and manufacturers away from the traditional methods of displaying their wares.

This chapter then looked into the frustrations which manufacturers have had with retailers, from the power-grip they have held over them to the lack of talent in retailing with respect to sales people and buyers to the threat of no payment due to leverage buy-out failures. It then discussed the successful trend of manufacturers becoming their own marketers, in providing their own outlets for their stores, eliminating the need for the traditional retailers.

This chapter then finished with relations between retailers and manufacturers starting to show improvement due to the need for each other. Communications are becoming more open and technology, such as information systems, are being utilized to improve efficiency.

This chapter has summarized a set of key problems which retailing is facing. Though some aspects are bringing down retailing, such as department store failures, most aspects are

adding new possibilities for revitalization of the apparel industry. Merging avenues of distribution may eliminate inefficiencies in stagnant companies. Entrance of new methods as well as avenues of distribution may change the way retailing is approached in the future. Addition of manufacturers into the retailing business may add an element of competition which will change the dynamics of the relationships. Improved communications between retailers and manufacturers may bring more long-term planning in the apparel industry.

With the realm of problems this industry is already knowingly facing, it is critical that this issue -- retailing -- not be ignored. One must be aware of these issues and consider them when planning for the future in the apparel industry.

Chapter 4. Conclusion

The purpose of this essay has been to analyze how the changes in apparel retailing have contributed to the decline of the U.S. apparel industry. The changes in the textile industry, government policies, foreign competition and manufacturing continue to threaten the industry and cannot be ignored. The textile industry's decline directly affects the health of apparel. Government policies directly affect retailers, manufacturers and consumers by interfering with established relations, lowering competitive advantages and altering designs. Foreign competition benefits from the weaknesses in flexibility, responsiveness, vertical integration, human resources and manufacturability of U.S. apparel, threatening to dominate the industry. These manufacturing weaknesses are driving domestic producers abroad.

But the changes in retailing and its shifting relations with manufacturers must be recognized as an equal threat to the industry. Retailing cannot be ignored when analyzing the U.S. apparel industry; it especially cannot be ignored when remedies are being sought to re-establish the industry's strength. Retailing is the link between manufacturing and consumers, and is a powerful force in the apparel industry. Understanding its dynamics is critical when considering strategies for the future in this industry.

The changes which retailing is facing are not insignificant. The changing roles of the avenues of distribution have challenged retailers to re-define their position in the industry. The merging of these avenues have removed some of their distinctive features, and have allowed for new opportunities to be sought. The addition of other distribution avenues and methods of displaying goods is allowing for retailing to be viewed differently and possibly serve consumers more effectively.

Manufacturers have challenged the retailers' presence in the apparel industry. From the frustrations with retailers' failures in all aspects of their distribution responsibilities, manufacturers have struck out on their own, and have been successful at it. Though some signs show that the interaction between manufacturers and retailers is improving, it is not clear that they can overcome the other obstacles, such as the advantages of manufacturing abroad or the threat of foreign competitors, which have added to the industry's decline. But having improved communications between the players may bring forth more long-term planning.

In recognizing the importance of retailing in the apparel industry, one can make wiser decisions when planning for the future. In recognizing the importance of looking at the entire value chain, not only a single element of it, one can avoid reaching such a weak state in our system in the future.

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