CUSTOMER SATISFACTION:
A COMPETITIVE EDGE IN THE APPAREL INDUSTRY

by

Laurent Bossard

and

Anne-Claire Monod

Submitted to the Alfred P. Sloan School of Management
in partial fulfillment of
the requirements for the Degree of
Master of Science of Management

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ABSTRACT

Today's economic slump has affected many industries. However, its affect on the apparel industry stands out because of this industry's impressive growth during the 80's. This shift in trends has led to major restructuring in the industry. Distributors are gaining increasing power over manufacturers. Manufacturers are still extremely fragmented but are horizontally integrating to face the powerful retailers. Together, manufacturers and retailers are founding essential partnerships in order to minimize risk and maximize profits; and overcome this unfavorable economic situation.

In this paper, we will first show that customer satisfaction programs are essential for apparel makers and distributors and determine which of the many concepts behind the notion of customer satisfaction are relevant to the industry. To back this statement, we will then look at the policies enacted by the best apparel manufacturing and retail performers. Finally, we will suggest a methodology for measuring satisfaction and implementing customer satisfaction programs successfully in the apparel industry.

Thesis Supervisor: William Qualls
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SUMMARY

1. APPAREL INDUSTRY ANALYSIS

"American fashion is very big business indeed"[1]. In 1992, according to the Department of Commerce, consumer expenditures on clothes totaled $179.4 billion and are expected to reach $189.6 billion in 1993.

1.1 Apparel is a Cyclical Business

The sales of fashion-related products is a direct function of the state of the economy. When the economy is growing, fashion sales increase and when the economy is in a slump, fashion sales fall. In fact, economists estimate the long-term income elasticity of demand for apparel to be between 0.51 and 1[2]. Houthakker and Taylor describe clothing as a "consumer durable"[3], for which purchases depend on the existing stock. As in the case of automobiles, they find a high short-run elasticity (1.14) because purchases can be put off during bad years and accelerated during good ones.

The strong growth of the economy in the 1980's triggered high sales of apparel. Consumers took great interest in their appearance and personal consumption expenditures on clothes practically doubled, from $90 billion in 1980 to $170.3 billion in 1989 (average annual growth rate of 7.3%). Since the beginning of the recession, expenditures in apparel products grew at a much lesser rate: 3.1% in 1990, 1.3% in 1991 and 5.6% in 1992[4]. The prospects for 1993 are increasingly disappointing. The Clinton effect that

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[1] James Brady, "The fashion world is never, ever dull", Advertising Age, August 1993.
[2] William R. Cline, "The future of World trade in textiles and apparel", 1990.
[3] H.S. Houthakker and Lester D. Taylor. "Consumer Demand in the United States: Analysis and Projections", Harvard University Press, 1970.
[4] Standard and Poors Industry Surveys, November 26, 1992.

boosted sales during the last holiday season seems to have faded. The concerns about the Health Care Plan will also contribute to a weak season during 1993's winter.

Long term prospects for apparel are not very good either. It is estimated that the output should grow by an average of 0.7%[5] annually until the year 2000.

1.2. The Industry is Characterized by Fragmented Producers

The "fashion biz" directly employs one million Americans, which is more than in the auto assembly or basic steel industries. Yet, as vast as the industry is, it remains essentially an industry driven by medium-sized and small companies. There are 18,000 separate apparel factories and design and marketing businesses in the US with an average workforce of only 52 people. If we look at the ten largest apparel makers, only 4 of them have sales over $1 billion, each representing between 2 and 3% of total US apparel sales:

Company	**Sales** (Mil.$)	**Company**	**Sales** (Mil.$)
1. VF Corp.	2,952.4	6. Phillips-Van Heusen	904.1
2. Liz Clairborne	2,007.1	7. Leslie Fay	836.5
3. Fruit of the Loom	1,628.1	8. Crystal Brands	826.8
4. Hartmarx	1,215.3	9. Russel Corp.	804.5
5. Kellwood	914.9	10. Gitano	780.4

Source: S&P Industry Survey, Nov 26, 1992

In the last eight years, the market share of the ten largest apparel manufacturers increased by 3.9% to 20.5%. Two phenomena apparently

[5]cf footnote 2.

explain this fact: first, consumption trends these past years favored the products offered by such companies. Second, the industry is undergoing consolidation resulting in stronger market shares.

The consolidation of the apparel manufacturers is driven by distribution related factors: the growing concentration in the retail industry and the emergence of mass-merchandisers.

1.3. Larger Volume Distributors are Gaining Share

The major apparel distribution channels can be classified into 4 categories:

• Traditional:	Specialty and department stores
• Emerging channels:	Mass merchandisers, discounters and off-priced stores (i.e. K Mart, Marshalls, T.J. Maxx)
• Networks:	Franchises and licenses (i.e. Gap Inc., The Limited Inc., Ann Taylor)
• Mail order catalogues:	(i.e. L.L.Bean, Talbot's, Land's End)

Mass merchandisers and discounters gain share:

The preceding figures on apparel consumption show that consumers are extremely sensitive to the economic situation. The latter influences not only the volume of consumption of clothes but also consumer behavior in terms of their choice of distribution networks. In the past 2 years, consumers have become more value-conscious -and here value is taken in its barest sense, the monetary one. They have begun to buy less expensive clothes at less expensive places. As a result, more expensive department stores have lost share to mass merchandisers. This trend has obviously led to major changes in distribution.

Distributors demand more from their suppliers:

The size of distributors such as Wal Mart or Sears is largely responsible for the changes that have taken place. The supplier-manufacturer relationship has changed from one where both players had an adversarial relationship based mainly on pricing, to one in which the supplier has a greater power and demands more. Such demands are described hereafter.

Since inventory carrying costs are retailers' highest costs, retailers increasingly demand that the manufacturer carry inventory for them and make deliveries when the retailer's stocks are low. In order for this to work, especially when dealing with large quantities, both parties find it necessary to forge partnerships. A key aspect of such partnerships is what the industry calls "quick response". Quick response systems, in short, allow for orders to be replenished automatically via computer links, or, electronic data interchange (EDI).

Retailers also want to receive a continuous flow of fresh new merchandise, thereby replacing the industry's traditional seasonal batches. In addition, they are demanding more services and marketing support. Companies like Liz

Claiborne and Fruit of the Loom have responded to this by creating in-store fixtures and by advertising their products nationally.

Outlet stores are growing slower than in the 80's but are still on the fast track compared with other types of retailing:

A number of apparel companies have developed outlet stores which constitute a way to discount without tarnishing company brand names, a risk that occurs when too much merchandise is sold through discounters and there is loss of control. This risk is also avoided by locating outlet stores far from the selling areas of conventional department and specialty stores, although they are no longer concentrated in a few long-established areas.

The growing appeal of outlets can be attributed to the value-conscious shopper. The primary motivation of outlet shoppers is finding lower-priced products. Apparel can generally be purchased for up to half the cost charged by conventional retailers. Furthermore, the merchandise no longer exclusively consists of irregulars, overruns, or odd lots. It is often first-quality and comes from current inventory, although many apparel manufacturers also use their outlet stores to dispense of extra or second-quality merchandise.

Mail order companies are starting to play the micro-marketing game:

According to demographers, middle-aged baby boomers are staying home these days, thereby creating a good potential for mail order companies. However, mail-order companies have been deeply affected by the unfavorable economic situation. They have responded to a downturn in sales and an upturn in mailing costs by cutting back on mailings. Today, they are limiting risks -and costs- by concentrating on known customers instead of reaching out for new ones.

When catalogers narrow the market, they reduce mailing costs, raise percentage of sales and make higher profits. That knowledge has spawned a very high number of clothing catalogs aimed at very specific audiences. In order to determine what kind of catalogs to produce and which households to send them to, they now rely on computerized inventory-control systems. "Companies that print catalogs say it's possible to tailor one so that you and your neighbor, who both receive a clothing booklet from Clifford & Wills, say, find entirely different merchandise between covers. Hers might feature dresses; yours, sportswear"[6]. Although this is pushed to an extreme and that no company manages to go quite that far yet, this type of micro-marketing is starting. For instance, many catalog companies publish special editions that play that precise role.

1.4. Evolution of Distribution Forces Manufacturers into Horizontal Integration

Distributing the clothes that consumers want through the right channels is key to an apparel manufacturer's success. In order to achieve economies of scale, apparel manufacturers started to sell almost identical goods to department stores and mass-merchandisers during the strong emergence of the latter.

[6]Consumers' Union of US Inc., Consumer Reports, "Mail-Order Companies", October 1991.

Department Stores which typically seek the exclusivity of the products they carry reacted strongly to this and forced the manufacturers to diversify the brands they offered.

Manufacturers responded to this by horizontally integrating, thereby multiplying their brands in order to penetrate as many channels as possible. These consolidation moves are still in progress. The acquired firms are not completely integrated yet into the parent companies, resulting in fragmented groups that can sometimes be difficult to coordinate.

1.5. Consumer Trends and Buying Behaviors Shift in the Nineties

According to Menswear Retailers of America, the beginning of the nineties is marked by a significant shift in consumer trends. Basic apparel (T-shirts, denims, and fleecewear) and moderately priced brand-name apparel are currently the best selling items. Three factors tend to justify this shift:

- Consumers are more value-oriented (seek low prices)
- The population is aging, increasing the demand for casual wear
- White-collar work force has decreased and the trend is toward more relaxed office attire.

A 1991 study[7] shows that a majority of people (46%) do not pay much attention to fashion trends (46%); 37% generally like current changes in style while 15% dislike current trends.

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[7] "So long as it's comfortable", The Public Pulse, January 1991.

According to this study, the wardrobe is increasingly casual. "Fewer men than at any time since 1974 now report owning a suit" (where conservative suits represent 58% and modern, 33%). Meanwhile, blue jeans are worn by 81% of men and 74% of women, up from 55%.
Both women and men seem to go along with this trend. Women, however, would still prefer dresses to jeans to look their best, whereas men choose jeans to look good.

Furthermore, another study sponsored by the International Mass Retailers Association (IMRA)[8] unveiled completely new shopping groups. The traditional female homemaker accounts for only 10% of a retailer's primary customer base. The six groups are as follows:

Working mother with children (26%)
Retirees (12%)
Homemakers (10%)
Working men with children (8%)
Working mother without children
Working men without children

According to the study, the profile of the overall primary shopper has changed. There is still a majority of women (73%) however, now, 70% are employed (43% as professionals or managers); 59% are married; 54% are baby boomers, aged 25 to 44; 61% are high school graduates or attended some college; 58% have no children under age 18 at home.
In addition to identifying the demographic changes, this study shows that the needs and stimuli among these shopping groups are very different. The five

[8]"Stop, look and buy...where and why", prepared and researched by Deloitte & Touche / Trade Retail and Distribtion Services Group, 1992.

key shopping motivators do not have equal importance among all buyer groups:

- Low price
- Selection (important to working shoppers, regardless of gender)
- Location (important for retirees)
- Quality (especially important for homemakers)
- In stock position (very important for working men).

The 90's is an era where appearance -the key characteristic of the 80's- is replaced by internal well-being. Consumers are adapting both their life-style and their purchases in order to achieve this new balance.

1.6. Competition

The apparel industry competes primarily on low cost. It is however a very inefficient industry and is estimated to waste over $25 billion per year[9]. This is explained by the fact that, on the whole, the industry is very labor-intensive and has been reluctant to make large capital investments in technology or process innovation. Low barriers to entry have resulted in a profusion of small manufacturers who must compete fiercely for their share.
The low inflation rate in the US as well as the value-minded consumer described above have put considerable downward pressures on apparel prices. At the same time, retailers who want to increase their margins, also wish to pay less for the products.

The pressure on prices has implied two different competitive strategies:

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[9]Robert M. Frazier, "Quick Response in Soft Lines", Discount Merchandiser, January 1986.

- Basic apparel producers, who typically manufacture their simply designed garments in the US have benefited from automation and high volumes. These companies are acquiring high-tech production systems that dramatically reduce production costs.

- Producers of fashion-oriented apparel, which tends to be more complex and labor intensive, are continuing to move operations from the Far-East and the US to the Caribbean where labor costs are cheaper than in the US and lead times are shorter than in the Far-East. The US apparel industry has lost a lot of ground in recent years to foreign-made goods. In an industry that competes largely on costs, the overwhelming advantage of foreign-made products over US-made goods has been devastating to the latter.

Low growth prospects and changes in consumer tastes toward more casual and basic apparel considerably reduce the development possibilities of apparel manufacturers for years to come. As a result, some manufacturers have chosen to expand abroad and try to enter foreign markets.

Expanding abroad can be especially attractive for basic apparel manufacturers (Jeans, T-shirts) because their products appeal to customers all over the world. For more fashionable apparel manufacturers however, this solution seems to be extremely risky because their potential markets are reduced to developed industrial countries. Furthermore, in these industrial countries, local tastes vary enormously. The cost of adapting fashionable products to local tastes is very high and might even be dissuasive. Therefore, manufacturers today must find other ways to increase their sales in a saturated market.

1.7. Concluding on the Industry Characteristics

The apparel industry is clearly affected by the economy. When the economy is booming, so are the sales of fashion products, and vice-versa. Sales are also affected by consumer behavior (which is influenced by the state of the economy). After knowing extraordinary growth rates in the eighties with consumers caring a great deal about their appearance, the apparel industry has again followed the trend set by the general economy in the nineties and consumers have become more value-conscious.

Despite the global reduction in the growth of the demand for apparel in the nineties, basic apparel is gaining market share. The weight of basic apparel is reinforcing price competition. This type of competition has led to the restructuring of a traditionally fragmented industry. Mass-retailers are gaining share and partnerships between them and manufacturers are becoming essential both for cost purposes and to better respond to customer needs. In this context, there is a growing interest in customer satisfaction.

2. CUSTOMER SATISFACTION: DEFINITION OF CONCEPTS AND APPLICABILITY TO THE APPAREL INDUSTRY

Customer satisfaction is on everyone's lips. Yet, you won't find two people who agree on what it means. Before questioning the applicability of a customer satisfaction model or program to the apparel industry, it is therefore necessary to start by defining the different concepts linked to Customer Satisfaction.

2.1. Definition of Customer Satisfaction

In the current literature on Customer Satisfaction, we can find two types of definitions. The first kind is a very practical definition that is provided by industry leaders and industry writers. The second kind is much more theoretical and its purpose is to allow the creation of customer satisfaction models. This second type of definition is provided by marketing researchers and by psychologists. We will present both practical and theoretical definitions hereunder.

John Goodman, President of Technical Assistance Research Program in Washington D.C. defines Customer Satisfaction as:

"the state in which customer needs, wants, and expectations are met or exceeded, resulting in repurchase and continuing loyalty"[10].

[10]John Goodman, "Quality: Beyond Customer Satisfaction", Quality Progress, February 1989.

<u>Colby H. Chandler</u>, Chairman and CEO at Eastman Kodak defines "Customer Delight" as:

"(...) the delivery of products and services that exceed expectations. Customer delight represents excellence in every respect. It could include faster delivery, longer life, lower cost, clearly perceived value, consistent performance, or higher resale value."

<u>Hanan and Karp</u> define the "satisfied customer" and the "satisfactory supplier"[11]*:*

"A satisfied customer is one who receives significant added value from a supplier, not simply added products, services, or systems."
"A satisfactory supplier is one who gives significant added value to a customer, not simply added goods or services".

<u>Michael R. Pearce</u>, Professor at the Western Business School makes a distinction between "services" and "customer care" in the retail customer relationship[12]. Services, he says, "are part of the overall package of benefits the retailer provides to customers and the costs are either built into overhead or shared partially (such as fee for alterations) with customers". Professor Pearce is more vague in his definition of Customer Care, but he seems to relate it to the management of the personal relationship that can be provided during the shopping experience. Customer care would then be the ability to provide the customer with an overall positive emotional experience that would go beyond the customer's expectations.

[11] Mack Hanan, Peter Karp, "Customer Satisfaction", 1989.
[12] Michael R. Pearce, "Managing the Retail Customer Relationship", Business Quarterly, Spring 1990.

This is more formally defined by <u>*Saul Klein*</u> *of Northeastern University and* <u>*Victor J. Roth*</u> *of University of Guelph*[13]*:*

"Satisfaction is seen by marketers as a general psychological phenomenon describing the emotional state resulting from an evaluation of one's experiences in connection with an object, action, or condition (Westbrook and Reilly 1983). Satisfaction has been regarded as a kind of stepping away from an experience and evaluating it. Satisfaction is not simply the pleasurableness of an experience: it is the evaluation rendered that the experience was at least as good as it was supposed to be (Hunt 1977)".

In most of the above statements, it appears that Customer Satisfaction is dependent upon the **comparison** of a certain **expectation** and the **delivery** of a particular good or service. Jochen Wirtz and John E.G. Bateson have conceptualized this relation as follows[14]:

"Customer satisfaction is generally defined as an evaluative response concerning the perceived outcome of a particular consumption experience.[...] All models used to conceptualize consumer satisfaction are based on a comparison process of one sort or another. The majority of these models are based on a comparison between performance and a pre-consumption comparison standard, such as expectations [...], ideal performance and experience based standards. The "disconfirmation of expectations" model, which uses expectations as a comparison standard, seems to be the best available conceptualization of the satisfaction process.[...] Theorists generally agree that satisfaction can be seen as the consumer's response to the evaluation of the difference between expectations and perceived performance."

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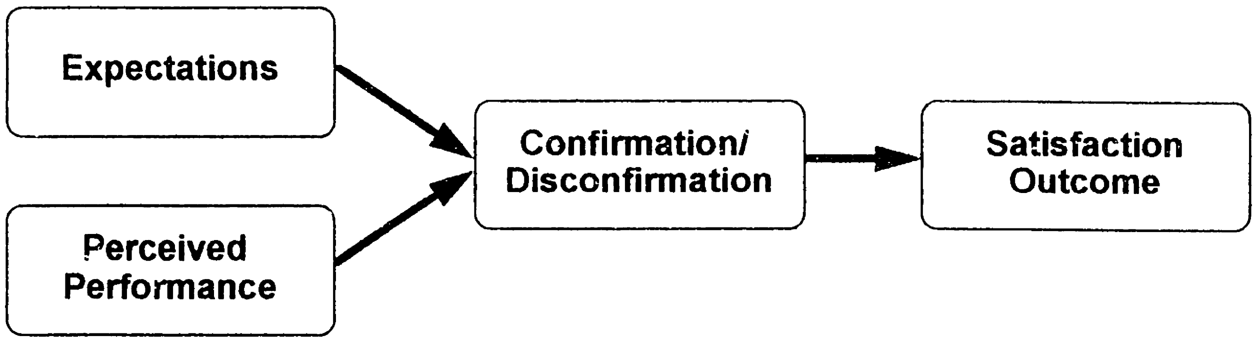
[13]Salu Klein and Victor J. Roth, "Satisfaction with International Marketing Channels", JAMS, Winter 1993.

[14]Jochen Wirtz and John E.G. Bateson, "Including Heterogeneous Performance Expectations in Satisfaction Models with Services", Marketing Science Conference, July 1992.

The Disconfirmation-of-Expectations Model

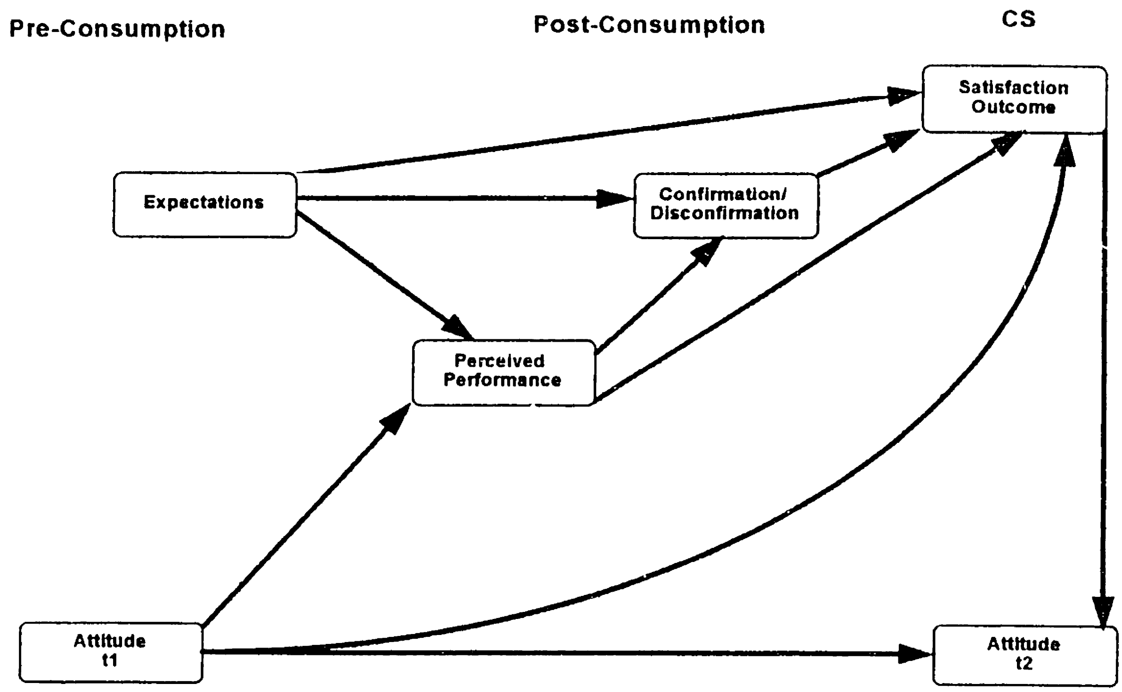


Source:Wirtz and Bateson, 1992

Although this model correctly captures the basic cognitive process that is followed by the customer, it is not complete. Indeed, as the authors point out, the model does not take into account the affective state in which the customer is at the time of consumption. This basic model applies to many consumer goods fairly well since in the sale of goods, typically, companies have no control over the consumption process. Satisfaction is really the simple difference between expectations and perception after consumption.

In contrast, in the service area, the company does have control over the process. Therefore, another dimension plays an important role: the attitude of the customer at the time of purchase. This fact has been widely recognized and more complex models have incorporated both this new attitude variable and temporality. One of these models is shown below:

Process of Customer Satisfaction (CS)



Source: Youjae Yi, 1990

Since our goal is to apply customer satisfaction to the apparel industry, we have tried to determine which model applies best to the industry.

Many factors (described in part I) have led to a situation where powers are reversed in the apparel industry. We have shown that in many cases the retailer has a greater influence over the product than does its manufacturer. In addition, the retailer is the person that has contacts with the customer and therefore participates in the customer satisfaction effort. Apparel retailers are service providers and must therefore take the emotional aspects of the purchase into account. Furthermore, the product, clothing, is a very sensitive one since it deals with the way individuals project their image. Therefore we believe that these more complex models encompassing temporality and an attitude variable accurately depict end-user satisfaction in the apparel industry.

The main element that we will retain from this model is that it introduces new ways of thinking about how to increase customer satisfaction. The first and traditional way is to increase the performance perception. This performance perception is composed of different attributes that will be studied hereafter. Some authors argue however that it is difficult to increase customer satisfaction by increasing performance perceptions, simply because consumers adjust their expectations to the higher performance levels. However, the model also provides an additional variable with which to play in order to reach customer satisfaction objectives.

2.2. Definition of Customer Satisfaction Related Concepts

From all the definitions in 2.1, several words appear to be key. Indeed, consumers' perceptions of price, quality and value seem to constitute the more practical definition of Customer Satisfaction. However, each element of this list is often used in different ways meaning different things. Consumers often refer to quality, price and value, interchangeably.

In the more formal definitions, concepts like expectations, perceived performance and disconfirmation seem to be key. These concepts are often mentioned in the different models, however their meanings differ. Temporality is one of the major source of these differences. However, authors do not always clearly define the concepts they use.

How do these concepts differ in their meanings? For this part, our goal is to define the key concepts and to do so from the consumer's perspective (the consumer here indicates the end user).

2.2.1. Quality from the Consumer's View Point

The perceived quality of a product or service can be defined as the consumer's judgment about a product's superiority. It is therefore different from the producer's perception of quality which in some ways is more objective and is closer to reality. Here we can draw a parallel with the distinction made by Holbrook and Corfman: "[...] mechanistic [quality] involves an objective aspect or feature of a thing or an event; humanistic [quality] involves the subjective response of people to objects and is therefore a highly relativistic phenomenon that differs between judges"[15].

In simpler terms, there exists an objective ("mechanistic") quality which is measurable and comparable to predetermined standards. This is very close to the producer' s definition, although some subjectivity enters at this level as well. However, it clearly differs from the consumer's perception that relies more on abstract, subjective elements. Furthermore, the consumer's definition of quality is more general; it does not make reference to specific attributes of the product but constitutes an overall evaluation of the product.

In addition to the difference between the consumer's perception of quality and other perceptions, the consumer does not always judge quality the same way at different points in time. At the point of consumption of the product, the

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[15]Holbrook and Corfman : "Quality and Value in the Consumption Experience: Phaedus Rides Again", 1985

intrinsic attributes of the product are accessible and are used to determine overall quality. On the contrary, at point of purchase, the consumer bases his/her perception mostly on the extrinsic attributes such as price, brand name, and advertising. This is due to two major facts: the evaluation of intrinsic attributes may require too much time and effort and quality may be difficult to evaluate.

2.2.2. The Consumer's Perception of Price and its Relation to Quality

Price is what is given up by the consumer to obtain the product. Therefore, this definition comprises the monetary cost, the time cost, and the psychological cost. Valerie Zeithaml has concluded from her data[16] that price is used as an indication of quality only if other indicators are not accessible, if there are great price variations within the class of products, or of important quality variations are expected. This occurs only in certain product categories, mainly in durable goods.

2.2.3. Quality and Price are Both Included in Definitions of Value

Of the three concepts, value is probably the most difficult to define because it is used by many people in many different ways.

According to Valerie Zeithaml, "value is the consumer's overall assessment of the product's utility based on perceptions of what is received and what is given"[17]. Because of this notion of exchange, it comprises the two elements described above: quality and price. However, value has a unique meaning. It

[16]Valerie Zeithaml, Journal of Marketing, July 1988
[17]cf previous footnote

is more individualistic and personal than quality and encompasses more attributes than quality. Within these attributes, it includes price in its broad sense. Furthermore, value introduces the notion of a tradeoff between something given and something taken.

The perception of value depends on the frame of reference in which the consumer is making an evaluation. This explains in part the reason for the diversity of definitions of value. Not all customers want to buy the highest quality. Some, for instance, may not have the money. Their value will be created by a lower quality good that they can afford. Others may be extremely busy professionals for whom economies of time create value. And yet other consumers may value their appearance more than time or money.

2.2.4. Consumer Perceptions and Expectations and the Disconfirmation Model

Expectations and perceptions are at the center of the Disconfirmation model. Disconfirmation is based on the comparison between certain expectations and an objective or subjective performance.

If we look back at the Disconfirmation Model (part 2.1), we can analyze its functioning as follows[18]:

Expectations: Expectations reflect the anticipated performance. Here, expectations concern multiple axes: "the nature of the product, or service, [...], the costs and efforts in obtaining benefits, and [...] the social benefits or

[18] Gilbert A. Churchill and Carol Surprenant, "An Investigation into the Determinants of Customer Satisfaction", Journal of Marketing Research, November 1982.

costs". Miller (1977) identified 4 types of expectations: ideal, expected, minimum tolerable, and desirable. Furthermore, it can be generally said that expectations come prior to the point of purchase.

Disconfirmation and Perceived Performance: Youjae Yi[19] defines three types of disconfirmation that can be found: objective disconfirmation, perceived (subjective) disconfirmation and inferred (subjective) disconfirmation . The distinction comes basically from the method with which the performance of the product is measured.

If the product's performance is evaluated "objectively", that is, with a certain number of scientific manipulations, then the "disconfirmation" is also said to be objective. Objective disconfirmation seems to be less effective as a predictor of customer satisfaction because the performance evaluation or perception is never objective.

The difference between inferred and perceived disconfirmation comes mainly from the way performance is measured as well as the timing of the measurement. If disconfirmation is measured as the difference between the pre-consumption rating (expectation) and the post-consumption rating (performance) of the product, then the disconfirmation is said to be inferred. If the disconfirmation just represents a subjective evaluation of the discrepancy between product performance and expectations directly perceived by the customer, then the disconfirmation is said to be "perceived".

Research suggests that "perceived disconfirmation" methodologies are more accurate in providing unbiased measures of Customer Satisfaction.

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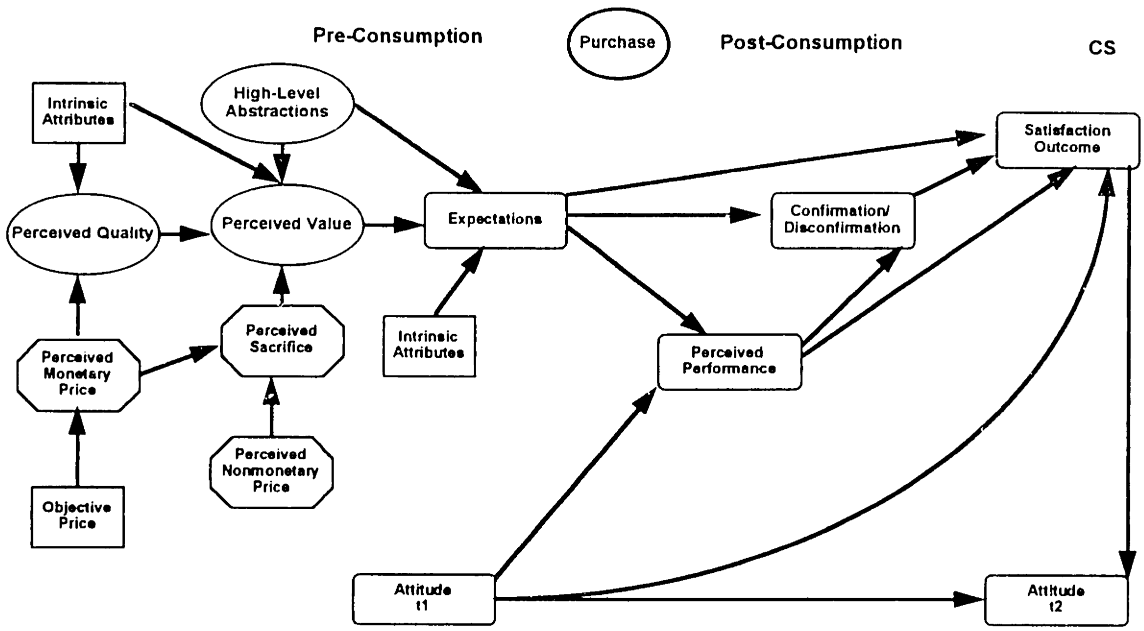
[19]Youjae Yi, "A Critical Review of Consumer Satisfaction", Review of Marketing 1990.

Based on the specificities pertaining to the apparel industry, the model below captures the interactions between the numerous concepts defined above:

Disconfirmation Model relating Price, Quality and Value



2.3. The Customer Satisfaction Alternative: a Prospect for Future Growth in the Apparel Industry

The increasingly competitive apparel industry is giving de facto a greater importance to strategies aimed at retaining current customers. We will now question the suitability of customer satisfaction in attaining this goal.

An overall business strategy is always composed of two parts: the offense and the defense. Typically, firms employ an offensive strategy in order to acquire new customers and a defensive strategy in order to protect the current customer base. A lot more effort (time and money) has historically been devoted to attracting more customers. Indeed, in the 70's the pursuit of market share became a key part of management strategy. However, this strategy has proved to be an extremely expensive and risky one, especially under current economic constraints.

2.3.1. Defensive Strategies Are Critical in Today's Competitive Apparel Industry

In the face of today's slow growth in the increasingly competitive apparel industry, a good defensive strategy is critical. When tremendous competitive pressures arise and the market size is essentially fixed, increasing business can only be done by taking it from someone else. Under these circumstances, firms with weak defenses are the first to suffer. Such a warning was sounded by Lester Thurow: "If we live in a world where customers have falling real incomes, some of you [retailers] will be successful, but many of you will be failures"[20].

A defensive strategy is therefore essential for survival in this industry. It involves reducing both customer exit and switching. In other words, the objective of the defensive strategy is to maximize customer retention given certain cost constraints. In order to set up this type of strategy, a large share of the firm's resources must therefore be devoted to the present customer base which is also more cost efficient.

2.3.2. The Repeat Buyer is More Cost Effective

Research tends to show that it makes sense to invest time and effort to retain customers. It costs a lot more to find a new customer than to keep an old one. In the retail business, it is commonly accepted that the ratio of the cost of finding a new customer over that of keeping a current customer is 5 to 1[21]. "Each time a customer is lost, the company forfeits the substantial investment it made to attract him or her in the first place. Major investments in product development, advertising and promotion, distribution network development, and multiple sales calls are frequently required to get the initial trial purchase from a new buyer"[22].

[20]Lester C. Thurow, National Retail Federation's annual convention, 1993.
[21]Maritz Inc., "CustomerCare®", 1991.
[22]William A. Band, "Creating Value for Customers", 1991.

The positive aspects of keeping a customer were first highlighted by Robert Buzzel and Bradley Gale[23]. Their database (PIMS) showed that businesses that delivered superior quality and had loyal customers earned an average Return on Investment (ROI) of 32% and Return on Sales (ROS) of 13%. Businesses that delivered inferior quality and had a lower level of customer loyalty, had an average ROI of only 12% and an ROS of 5%.

Mack Hanan and Peter Karp speak of the repeat buyer in the following terms:

"He will buy once more. He will buy in volume over time. He will buy at a high margin. He will buy across several lines of your business. He will form the foundation of your demand base, the repeat purchaser who will be one of the 20 percent or so from whom you derive up to 80 percent of your profitable sales volume. He will be a core customer, a major account that will be one of the cornerstones of your market that both provides you with profit and ensures its continuation"[24].

In short, maintaining the customer's interest is not an altruistic position to take. A well-treated customer will ensure a long term stream of cash flows and of profits for the company accruing from future purchases.

We have shown that in order to face today's competitive pressures in a cost-effective manner, apparel companies must resort to reinforcing their existing customer base and enticing repeat buys. This, nevertheless, brings up a few questions:

How can these apparel manufacturers maintain their customer base? How can this base be protected from competition?

[23]Robert Buzzell, Bradley Gale, "The PIMS Principles"

[24]Mack Hanan, Peter Karp, "Customer Satisfaction", 1989.

2.3.3. Customer Satisfaction is the Only Feasible Way for Apparel Manufacturers to Maintain their Customer Base and Face Today's Challenges

The apparel industry's cost structure is such that price is not the most effective competitive weapon and does not constitute in itself a means of retaining customers. Means of competition that reduce price elasticities are therefore becoming increasingly important. A high level of customer satisfaction constitutes such a means. We must now question the effectiveness of this mean in the currently turmoiled apparel industry.

As described earlier, apparel manufacturers have had to face an extremely challenging economic situation recently. The fall in consumption of apparel was worsened by the increasing demands of retailers thereby setting high price pressure. Apparel manufacturers have adapted to the changes in the retail system by horizontally integrating. Does this recent restructuring allow for the implementation of customer satisfaction ?

Customer satisfaction should theoretically produce favorable word of mouth. By having satisfied customers tell about their positive purchasing experiences, new people become customers, thereby leading to increases in the customer base and eventually in market share. Apparently, implementing customer satisfaction is the ideal strategy for large apparel companies that are integrating their operations in order to serve a broader base of customers. But are increased customer base and customer satisfaction compatible?

As the customer base increases, the heterogeneity of the customers increases thereby making it a lot more difficult for the company to satisfy customers.

Indeed, low customer satisfaction is not only a result of high prices and low quality (as is often the case in monopolistic situations). Low customer satisfaction can also be a reflection of the difficulty to serve a heterogeneous market.

It is therefore more difficult for a firm with a large market share to also have a high average level of customer satisfaction. This is especially the case when customer tastes are different and the supply, standardized. It can be shown that "the relationship between market share and customer satisfaction can be negative", a paradox demonstrated by Claes Fornell[25].

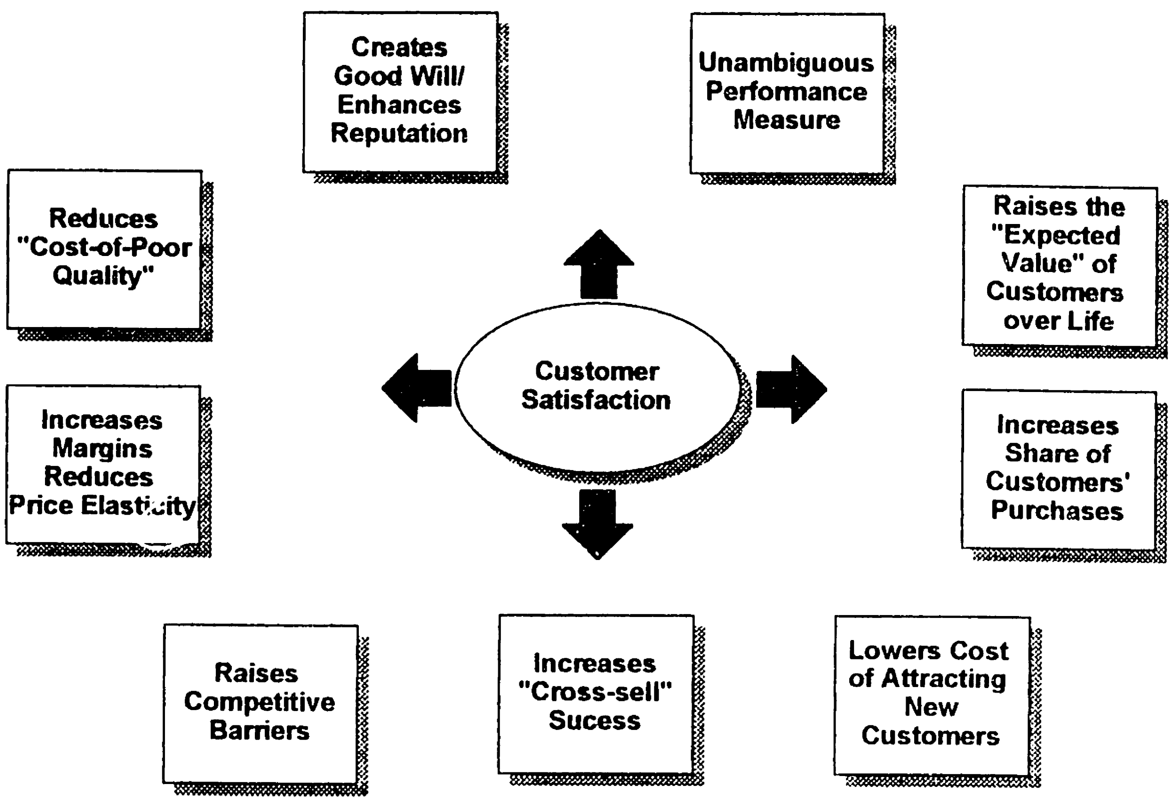
Relating these findings to the apparel industry, we can easily observe that the paradox does not hold. Indeed, this industry is characterized by its fragmentation. Despite the recent wave of concentration that took place to counter the negative effects of the economy, the industry remains fragmented. The major apparel companies seek to serve a large number of customers but do so through many different brands having unique characteristics and serving a specific niche in the market. Therefore, despite the number of customers and their differences in tastes, customer satisfaction programs can and must be implemented.

It seems that much of 1992's optimism has evaporated. Customer confidence has only temporarily come back and consumption has not picked up yet. Because of these economic considerations, cost-conscious consumers will not stand for price hikes that could lead to higher profitability. Therefore, the only

[25]Claes Fornell, A National Customer Satisfaction Barometer: The Swedish Experience, 1992

way out of this situation is for manufacturers to try and increase sales by offering better service and by increasing the efficiency of current operations. This goes down to better serving the customer and requires a smarter and better trained work force as well as the implementation of technology-based increases in efficiency. In other words, launching satisfaction programs is the essential next step.

Why is Customer Satisfaction Receiving So Much Attention?



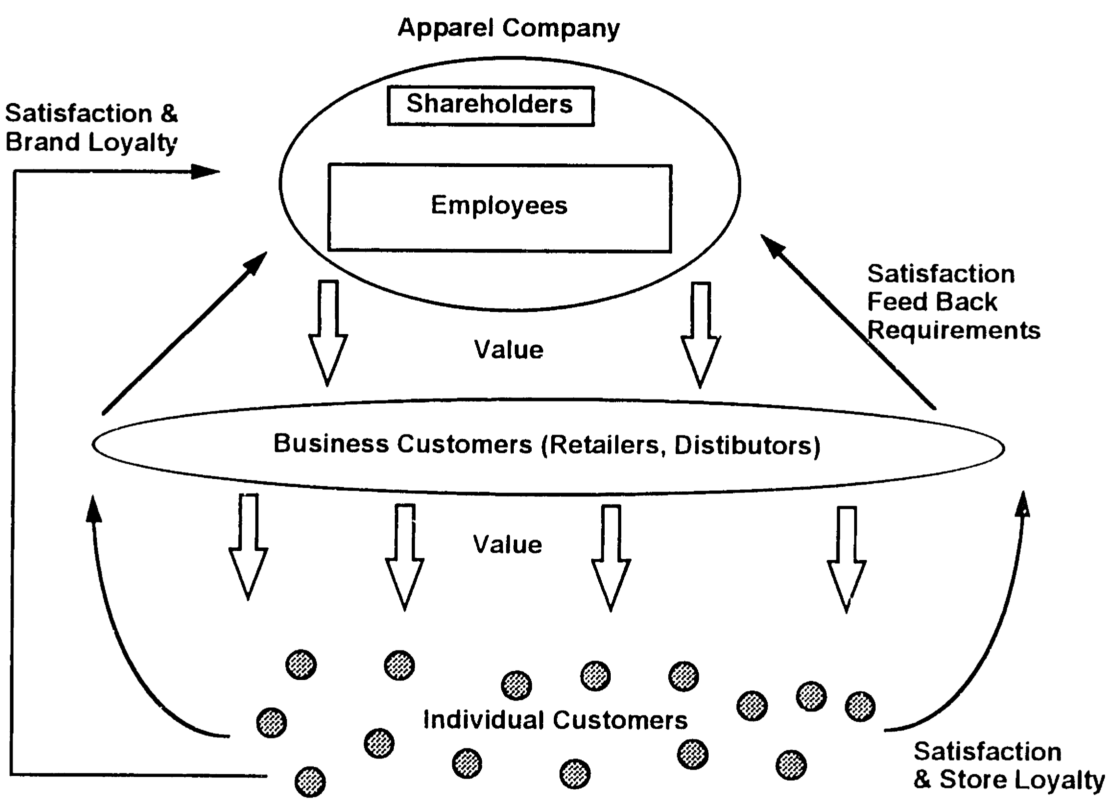
Source: Decision Research, 1993

2.4. Who Needs to be Satisfied in the Apparel Industry?

After determining that the implementation of customer satisfaction programs is key in today's apparel industry, we will now try to clearly identify the different groups of customers that an apparel manufacturer must satisfy as well as their specific requirements. These customers are very different both in nature and in behavior. It is therefore a different task to satisfy them because they perceive value very differently.

For the purpose of this study, we will identify three main groups of customers:

- Institutional (business) customers, sophisticated agents in the industry with low to high negotiating power (retailers)
- Individual customers with low or no negotiating power (end-users, small retailers or specialty stores)
- Internal customers (employees, shareholders).



The first group of customers is what generally constitutes the core of the sales of apparel manufacturers. Due to the high purchasing power of some of these distributors (mass-merchandisers, department stores, networks, mail-order companies), satisfaction will come from the manufacturer's ability to provide them with added value. Ultimately, this means helping them achieve profitability objectives for their businesses.

In this regard, the satisfaction process is at the same time easier and more difficult to implement than for the end-user. It is easier because these customers have precise requirements that are to be satisfied. However, the sophistication of such customers also means that they participate in the decision process. This quite understandably complicates the process since many people having diverging cultures and final goals are involved.

Business customers evolve in a bipolar world. Every function of their business is either a contributor to costs or a contributor to revenues. Therefore, in a cost center, satisfaction comes from the reduction of negative contribution and in a profit center, satisfaction comes from the increase of revenues or of the ratio of profits to revenues.

Current examples of how apparel manufacturers achieve this type of satisfaction are the implementation of automatic replenishment systems and the generalized use of information technology which links up the manufacturer, the retailer and the consumer.

The second type of customer we will describe hereafter is also the most commonly studied one. The so-called end-user which is in fact the consumer

of the product is the one that attracts the most attention and constitutes the subject of most literature on customer satisfaction. In industries such as the apparel industry, the consumer's attitudes and behaviors are difficult to comprehend.
As is the case for most manufacturers, the apparel manufacturer is almost never in contact with the end-user. It is the retailer who has direct contact with the consumer. Therefore, should the manufacturer be responsible for ensuring the satisfaction of the end-user beyond and above providing him or her with expected quality?

There is no straightforward answer to this question. In short, when the manufacturer is dealing with small retailers, he must play a large part in implementing customer satisfaction tools and systems. Successful manufacturers manage to leverage their dominant negotiating position to help small distributors satisfy the end-user. At the same time, they are able to help small, unsophisticated distributors overcome the recession and defend their shares when threatened by major chains or organized specialty stores. The latter, more powerful retailers, are the major players in achieving their customers' satisfaction. They are of course indirectly assisted by the manufacturer whose role as a provider of the goods is key.

The last type of customer is the internal customer or the employee or shareholder of the firm. Some authors and consultants[26] consider that in order to achieve external customer satisfaction, you must first obtain satisfied

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[26] Asian Marketing Communication Research, Belmont CA; Beta Research West, La Mirada CA; The Customer Center Inc. Winston-Salem NC; Hispanic Marketing Communication Research, Belmont CA; Market Probe Inc. Milwaukee WI.

internal customers. Although we will not develop extensively the consequences of these assertions, we will consider the main concepts.

The whole idea of the internal customer comes from the acknowledgment that everyone in a company provides a service or a good to another person (or group). If everyone were to make sure that the next person in the value chain is satisfied with the product or service the previous agent provides, it is argued that quality and satisfaction would improve greatly. It is clearly each company's duty to ensure that its employees are satisfied.

2.5 Concluding on the Meaning of Customer Satisfaction and its Applicability

Bringing value to the customer in accordance to, or in excess of, his or her expectations is thus the essence of customer satisfaction. The clear understanding of these terms (value, customer, performance, expectations, satisfaction) as well as the understanding of their interactions is a complex matter.

Customer Satisfaction is all the more complex in the context of its concrete implementation as a management system ultimately aimed at enabling apparel firms to face the current economic downfall. Reorganizing internal activities in order to provide the necessary steps towards customer satisfaction is a slow process, ultimately justified by competitive pressure. However, in the short-run, this process takes place only if management understands the economic value of customer retention as well as the factors that constitute satisfaction. Management must be ready to extend its role beyond the basic buyer-seller relationship.

In part 3, through the examples we present, we will highlight companies that have understood the importance of customer satisfaction and have materialized it through an internal management system.

3. Taking a Look at the Best Performers

The apparel industry chain is composed of five different segments: fiber producers, textile mills, apparel manufacturers, retailers and consumers. The focus of this study being on apparel manufacturing and retail, we consider that there are two main recipients of service and satisfaction: the retailer and the end-user. Although it can be argued that in the end, it is the consumer's satisfaction that is the real objective and that all the parties in the chain participate in achieving it, two major types of satisfaction programs can be found in the industry.

On the one hand, the manufacturer, through its alliances with its suppliers, aims at improving its relationship with its immediate client, the retailer, thereby serving the end user. On the other hand, the retailer implements customer satisfaction plans in order to entice loyalty and repeat purchases in their stores.

We have found that within each type, many companies have launched customer-oriented programs but that one company is exemplary in both the methods it uses and the vigor with which it implements the new policies. This part therefore focuses on describing the best in class manufacturing and retail companies: VF and Nordstrom as well as other companies successful in some particular aspect.

3.1 Satisfying the Manufacturer's Customer

In the past few years, large apparel manufacturers have decided to change the way they do business by adopting a new philosophy of achieving satisfaction throughout the chain. The latter is based on the belief that alliances with suppliers and retailers are crucial and non threatening since their mutual interests do not compete. Due to the impulsive buying behavior of customers, merchandise must be well assorted or the sale is not made. In other words, all parties must work together in order to satisfy the end customer.

The goal of what is widely known as "quick response" (QR) is to link up all key players through existing technology in order "to provide the flexibility needed to quickly respond to shifting markets"[27]. In this process, the manufacturer's role is key because of its central position in the process of designing, producing and distributing a garment.
The manufacturer's motivation to implement such systems is purely economic. Indeed, it is the manufacturer who directly faces the problem of the length of the apparel chain and the resulting costs due to forced markdowns, stockouts and inventory carrying costs. The total of these inefficiencies in addition to the difficulty of having loyal customers has clearly pushed manufacturers into initiating quick response systems.

The benefits of QR for the manufacturer are obvious. Such systems are intended to reduce overall inventory levels, increase inventory turns, and avoid forced markdowns and stockouts. By establishing production schedules closer to the selling season and basing replenishment on actual sales data, manufacturers ensure that retailers have the right product available to the consumer in the right place at the right time. Forecast errors are reduced by planning assortments much closer to the selling season and performing consumer preference tests as well as limited introductions to pre-test and fine-

[27]"Quick Response in the Apparel Industry", Harvard Business School, Case 9-690-038, April 1991

tune specific style, color and size options. Inventory risk is reduced by producing smaller initial orders and re-ordering more frequently throughout the season.

Clearly, a leader in the implementation of such a system is VF Corporation, the top apparel manufacturer in the US. VF started looking at such systems a few years ago but has been implementing them and improving them ever since.

The company started with a merchandise key replenishment system that has been a key element in gathering sales information and responding to it quickly as well as managing inventory more efficiently. Through this system, merchandise is automatically replenished without having to wait for approval of orders. Furthermore, the system also provides weekly analysis of sales, inventory and product availability.

A second step for the company has been the launch of a new MRIS/view system, a multimedia communication system using IBM computer and video conferencing technology. This system supports Quick Response and, according to L. Pugh, provides " instant information on everything from sell-through rates to stock reports"[28]. The aim of the program is to enable VF and its retail accounts to analyze consumer activity at the store level. It sets up all of the information received by VF and a retailer on what has been sold, what is in stock and what needs replenishing in a graphic format. It also allows retailers to communicate and analyze data; review sales trends; analyze

[28]Lawrence R. Pugh, Pdt & Chairman of VF CORP., WWD, February 18, 1993

individual store transactions by stock keeping unit; view computerized merchandise images, and conduct geographic and demographic analyses.

The success of Quick Response relies on its mutual adoption: the retailer must fully endorse it. Target, one of VF's top 2 customers (in sales) clearly demonstrates the importance and scope of the retailer's commitment as well as of the understanding of the issues: "Target's definition of QR is a change in the process of how we do business. Business as usual is a push process. We push merchandise up to the customer, then the customer votes on making a purchase. Each member of the chain is separate. We want to change to a pull process so that the consumer is pulling merchandise through the system. We want to ensure that there is a continuous flow of product"[29].

Target's implementation of QR describes the complexity of manufacturer-retailer partnerships as well as how they function.

Target starts by achieving top to top upper level agreements so that both parties share the same vision and degree of commitment. The company identifies key players on both sides, ensuring that both sides have a multifunctional team. Then, it launches mutual education so that both parties understand what the other does and why. Finally, Target ensures that the process is unique for each partnership and is innovative and comprises measurable goals.

The partnership leads to the many benefits expressed above in terms of product availability and the reduction of inventory costs leading to higher sales and profits. Some concrete examples of parallel benefits are the joint product development and new product testing. Thanks to the Target-VF

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[29]Jane Lucas, Manager of QR for Target Stores, Discount Store News, June 17, 1991

partnership, VF's Bassett Walker division became aware of the need to change the weight of its products through communication with Target. Another example is VF's Lee division's 67% decrease in lead time through flow manufacturing.

The existence of Quick Response systems only emphasizes the current belief that to ensure survival of retailers and manufacturers while achieving end-user satisfaction, technology, communication and responsiveness to each other and the consumer is essential and must be refined on a continuous basis.

We will now address the specifics of retailers' strategies in achieving end-user satisfaction.

3.2 Satisfying the Retailer's Customer

Despite the stagnant economy, the giant retailers have still been able to grow. However, price is no longer the only thing that makes them successful. They must now respond to increasing demands of better service and store ambiance while preserving the perception of good value. In order to continue growing, retailers have had to launch huge renovation projects, improve merchandise flow and fine-tune customer service.

These past two years, a key element for the mass retailer has been to make the environment customer-friendly. In general terms, these actions have led to merging some of the department store concepts into the mass merchants' space.

For instance, efforts have been made to change current supermarket-like cashiers into larger scattered pay stations throughout the stores. Other improvements have been made concerning lighting, fixtures and floors. Along these lines, brightness has become key as well as the implementation of store concepts aiming at presenting products in an appropriate environment. All these actions seek a general opening-up of otherwise cramped stores.

In the case of apparel, presentation is particularly important and has led to softer, more pastel environments with adequate fixturing and display. KMart's Richard Brunner explains how the trademark bold accents are being replaced by softer details and fixturing: "In the fashion area, we are changing the bright red and blue cornices to a blended look of softer pastels. We've taken away a lot of the chrome fixtures and replaced them with metal in neutral or pastel shades with a powdery finish. In the women's apparel area, they're beige; they're gray in men's, and in children's, there is a speckled pattern. The softer colors allow the merchandise to speak for itself"[30].

For some retailers such as Sears this has led to simple modifications and reorganizations like making more appropriate adjacencies. As an extreme example, bench-saws will no longer be visible from the lingerie department.

Another key element is also better servicing the customer through greater assortment of items, high in-stock levels of inventory and genuine value. As Sears CEO Arthur Martinez puts it: "The day of the national solution of one-

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[30]Richard Brunner, Divisional Vice President for the Store Planning at KMart. WWD, April 21, 1993

size-fits-all retailing is gone forever. We must respond to individual markets"[31].

Undeniably, Nordstrom, the Seattle-based specialty retailer is number one in terms of implementing such customer-oriented policies.

In Frequency Marketing's Retail Satisfaction Index detailed in part 4, Nordstrom ranked number one in many categories. The RSI index is based on the consumer ranking of 38 store-specific attributes such as price, service and environment. In addition to its overall number one ranking, the retail chain ranks above its competitors for friendly service and professional sales people. In FMI's terms, Nordstrom led each of the following categories: "friendly employees"; "professional salespeople"; "accepts returned items without question"; "pleasant shopping experience"; and "fun place to shop"[32].We will now turn to the specifics of such a success.

In addition to liberal return policies, and personalized attention, Nordstrom employees have adopted an attitude that customers have come to expect. The sales people approach the customer, just like most sales clerks, but then they take it one step further. They check back in dressing rooms, go to other floors to pick up accessories or matching garments. They take slightly damaged goods to a sewing room for speedy repairs and they wrap gifts right at the cashier.

Many heroic stories have contributed to making the retail chain famous. It is said that it is common practice for sales clerks to drive to another store to retrieve a desired item for a customer in out of stock color or size. Along

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[31]Arthur C. Martinez, WWD, April 21, 1993

[32]Frequency Marketing, Retail Satisfaction Index, 1992

those lines, sales clerks drive to customers' homes to deliver goods, call them to alert them of newly arriving items and write thank you notes to customers for their purchases. Among some of the more extraordinary services, one can note, "changing a customer's flat tire in the store parking lot; paying a customer's parking ticket if his or her shopping time outlasted the parking meter; lending a few dollars to a customer short of cash in order to consummate a purchase; and taking a customer to lunch"[33].

This purposefully long list immediately raises the question of how a company obtains such involvement on the part of its employees outside scheduled work hours. It is clear that the existing training, employee incentive programs and commission sales programs are in part responsible for such an extraordinary level of customer service.

As mentioned previously, customers are not sent to different departments for check cashing, gift wrapping or returns. The salesclerk is trained to handle all these different tasks. Furthermore, in order to judge the clerks' performance, the company implemented a commission selling system. The company evaluates its salespeople by their sales per hour ratio. If the actual ratio is greater than the target ratio, the clerk is given a percentage on the sales going from 6.75% to 10%. Meeting or surpassing the target leads to working more hours leading to working at the better hours and eventually becoming a manager. Finally, access to ratio information for everyone creates peer pressure that is regarded as a strong motivator.

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[33]"Nordstrom: Dissension in the Ranks", Harvard Business School, Case 9-191-002, September 1991

These policies, however, are clearly not sufficient to motivate such employee devotion to customer satisfaction. Nordstrom really owes its strong growth to its ability to put the customer first and it is successful in doing so largely because of the level of responsibility it gives to its salespeople. In other words, the success of Nordstrom's untraditional approach to retailing relies in its ability to have front line workers share management's commitment to service, something many call "employee empowerment".

Among Nordstrom's closer competitors in the mass retail industry, many have reacted to the threat of this successful participant. But retailers are reacting in different ways. Some are turning completely away from customer service. Others are implementing programs to upgrade customer service such as Macy's that has adopted a sales commission system. Finally, some department stores are still not ready to spend the money to train and support their staff and offer merchandise that fits.

In addition to giant retailers like Nordstrom, smaller retailers also have implemented original methods to retain their customer base. Hereafter, we describe two strategies that seem most interesting to us.

In order to counter the recession, James Baum's small department store in Illinois underwent major change. "I knew that we had to redefine ourselves as a store if we wanted to compete"[34], says James Baum. The redefining of the store's strategy consisted in eliminating lagging departments and adopting a niche approach that services women seeking larger sizes and offering frequent buyer discounts.

[34]James Baum, "Survival Tactics for Retailers", Nation's Business, June 1993

At the same time, Baum has kept costs down by including more part-time help thereby lowering benefits costs but refuses to cut down fixed capital improvements because of the effect of such cuts on customers. In terms of original services to the customer, the store now assembles ready to wear clothing into collections constituting high appeal to customers. Through personalized service (including direct mail), specialized merchandise and product-value, the store has been able to survive.

Barbara Rackes is another example of a small retail owner who has made those special efforts and changes to stay in business. She operates two upscale women's apparel stores in the Carolinas. The stores offer personalized service for customers who need assistance in putting together a complete ensemble. Her highly trained "sales counselors'" help women create a complete wardrobe.
Furthermore, Barbara Rackes is open to customer suggestions. Every year, she conducts a written survey of her customers asking them to tell her what they would like to see in the stores. One year, she discovered that because her customers spent a long time in her store, they often got thirsty and would enjoy something to drink. She responded by offering drinks and she also supplied comfortable chairs and toys for accompanying family members. The payoff of these efforts has shown through the repeat buys of current customers as well as the increase of the customer base through strong word-of-mouth.

In order to face the current economic situation, retailers of all sizes have worked on improving consumer satisfaction.

3.3 Concluding on the Best Performers

Throughout the previous discussion, we have given several examples of the efforts made by manufacturers and retailers to improve customer satisfaction. What also comes forth is the apparently strong trend and necessity of implementing satisfaction policies through service or the supply of assorted products that create value to the consumer. In more general terms, doing something in excess of customer expectations has become essential. The successful adoption of these policies demonstrates our previous point: that satisfaction is key at all levels in the apparel industry.

4. Developing Formal Methods Of Measuring Customer Satisfaction in the Apparel Industry

The apparel manufacturer's objective is to improve its customers' value. Successful companies have a common denominator: they set high standards for the dimensions of their businesses that create the most value in the minds of their customers. In developing a customer satisfaction measurement program, a company has to follow two main steps:

1. Measurement of current customer satisfaction.
2. Benchmarking against competitors.

In the following pages, we will detail these steps and continue to make a distinction between business customers and end-users as there will be variations in both the measurement and improvement of their respective satisfactions.

4.1. Customer Satisfaction Measurement Tools

Many managers are reluctant to measure their customers' satisfaction. Since satisfaction is a perception held by buyers, it seems too subjective a notion to be measured. For this reason, measurements of customer attitudes are often disparaged as yielding only "soft numbers".

As a consequence, managers tend to prefer "activity measurements" like sales figures and number of complaints to get an "objective" measure of the current satisfaction of the customer base. We will therefore first study these two indicators and will introduce a more sophisticated activity measurement ratio applying specifically to retailers. Then we will examine formal approaches to satisfaction measurements as recommended by academics and consultants.

4.1.1. Activity Measurements of Customer Satisfaction: Benefits and Limits

Sales: an incomplete customer satisfaction measurement tool

Many managers seem to agree that as long as customers buy their products, they must be satisfied with them. Yet, buying and being satisfied can be two very different things. The accuracy of sales as a measure of customer satisfaction will depend on the customer's purchasing cycle as well as on the availability of alternatives.

If the customer has relatively short and iterative purchase cycles and is sensitive to advertising and price manipulation, then the manufacturer can be comfortable with an activity measurement of customer satisfaction such as sales. In the apparel industry, such behaviors concern a very limited part of the end-user base. This category comprises the portion of customers that buy basic apparel products repeatedly (T-shirts, jeans...).

For the major portion of apparel end-users however, as well as for the totality of business clients (retailers, distributors), the purchase cycle is much longer. "Estimates of the average length of time it takes for a new style of garment to make its way through the traditional apparel pipeline, from fiber production to retail presentation of a finished piece, range from 56 to 66 weeks"[35].

For this reason, apparel manufacturers should be more cautious about their interpretation of the relationship between sales and satisfaction. The time lag between purchases can imply a "sleeper effect"[36] of dissatisfaction on their sales. Therefore, it is essential that they have the ability to identify as early as possible any change in their hold of customers. For their business-to-business relationships in particular, apparel manufacturers must turn toward other satisfaction measurement systems. The loss of a major retailer or distributor who has sought satisfaction elsewhere could take years to be recovered.

The complaining customer: a tricky satisfaction measurement device

Another major source of satisfaction measures is clearly the rate of customer complaints. Although customer complaints should be considered very seriously, they often show only the tip of the iceberg.

A 1989 survey highlights these facts[37]. In general, 50% of customers with a problem will never complain to anyone, 45% will complain to some front-line person for example a sales representative or the retailer. In most cases, it will be handled or mishandled in one way or another, but the manufacturer never knows there is a problem. Less than 5% of the people will ever go to the manufacturer or even to anyone in management. It means that for each

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[35]Professor Janice H. Hammond, "Quick Response in the Apparel Industry", Harvard Business School, Case 9-690-038, 1991.
[36]Hannan and Karp, "Customer Satisfaction", 1989.
[37]American Society for Quality Control (ASQC) Gallup survey "What Customers Want", 1989.

problem that comes back to the ears of the manufacturer's management, there are 19 other that ought to be looked into.

Three major reasons have been identified as to why people don't complain:

1. It is too much trouble and hassle.
2. "No one cares. Why bother complaining?"[38]. People's expectations are getting lower and lower and they do not expect to have their problem fixed.
3. There is usually no convenient structure ready to receive complaints. The front line person usually does not have the authority to do anything about the problem and management is seldom willing to get involved in these situations involving conflicts.

Furthermore, the survey shows that such a behavior has a great impact on loyalty. In a cross-section survey[39], it has been found that the non complainants are by far the least brand loyal. People who complain are usually more brand loyal by a 10% difference. Getting people to complain is an excellent way to improve customer loyalty, and it explains the recent proliferation of toll free ("800") numbers.

Finally, the survey also shows that proper handling of customer complaints has a positive impact on word-of-mouth. "If someone has a small problem and is satisfied they will tell five people good things about your product. If

[38]cf previous footnote.
[39]U.S. Office of Consumer Affairs.

they are left dissatisfied, they will tell 10 people what schlock products you make"[40].

As we showed for sales, customer complaints can be very misleading in their interpretation of customer satisfaction. Although proper handling of customer complaints must be an important part of the apparel manufacturer's "customer satisfaction strategy" , it is not enough in itself to really get a feel for what customers think.

A retailer-specific activity measurement ratio: the conversion rate

We will now focus on the measurement of satisfaction at the place of sale. Today, the expanding proportion of retailers in the discount segment (the mass-merchandisers) focus exclusively on sales per store and sales per square foot. We have shown the limits of such measurements earlier. Hence, it seems that currently the issue should be more one of measuring the number of shoppers that come in the store in order to determine the number actually converted into customers. Once the conversion rate and its effect on sales can be measured, taking action to expand that conversion rate via customer satisfaction should be a lot more efficient in enhancing sales.

Clearly, there are some measurement issues that we must now address. Store traffic is not easy to measure but recent technology called "Shoppertrack Measuring and Reporting Tool" does provide accurate counts of shopper

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[40]American Society for Quality Control (ASQC) Gallup survey "What Customers Want", 1989.

traffic[41]. It can be positioned either at the store entrance/ exit or at cashiers and excludes children from the count (takes into account the height). This count, added to point of sales transaction information -principally, the number of transactions- allows for the simple computation of the conversion ratio (transactions divided by total number of people in the store).

Once the conversion ratio has been determined, it can be used in a multitude of ways that greatly affect the implementation of adequate customer satisfaction policies. Store traffic is really out of the control of any store manager. Instead, a report measuring conversion rates can be used to compare with other stores' rates in the same or different geographical perimeter, or with different time periods. These comparisons, and the analysis of the variances will demonstrate areas of improvement . Eventually, by using shopper counts by hour and by day of the week, it becomes possible to maximize the utilization and number of sales clerks necessary.

In order to improve the conversion rates of the less efficient locations there are a multitude of things that can be implemented and tested until the optimum mix is identified. Most of these elements we have already mentioned in the previous depiction of exemplary retailers.

Customer Satisfaction at the retail level can effectively be measured by the rate at which a potential buyer (a person walking through the store) turns into a customer. The relationship between conversion and sales can then be analyzed thereby uncovering areas for improvement. It is then the manager's duty to know his/her customers and to implement appropriate satisfaction

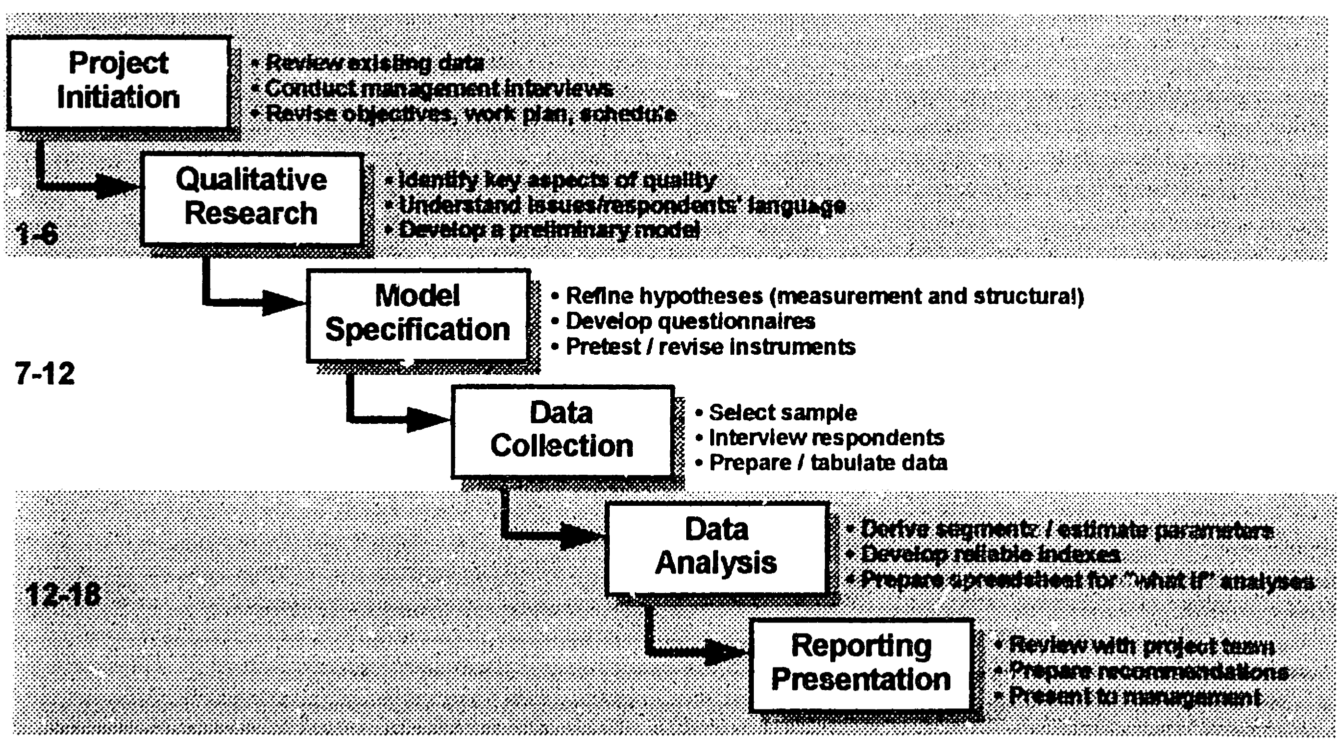
[41] Discount Store News, September 23, 1991

policies in order to enhance sales and profit. The conversion rate measurement is particularly useful due to its management applications. A store manager's performance can be based on controllable elements -his or her ability to sell to a shopper- rather than on variables less controllable by the manager such as the traffic in the store.

4.1.2. Formal Approaches to Satisfaction Measurements

Academics and consultants have highlighted the limits of both sales and customer complaints as a measure of customer satisfaction. According to the "disconfirmation-of-expectations" model, they have developed formal ways of quantifying customer satisfaction.

The consulting firm Decision Research, which specializes in customer satisfaction measurement describes its process as follows:



Source: Decision Research

In this part, we will focus on three main areas:

- What are we trying to measure?
- Whose satisfaction do we need to measure?
- When do we measure it?
- How do we measure it?

What to measure

The whole process of measuring customer satisfaction must be designed to listen to what customers have to say. This is why the research has to focus on customer expectations and on customer perceptions, not on what the company thinks it is delivering. The company must therefore quantify the level of problems that its customers are encountering. In addition, it must make an evaluation of the market damage created by these problems in order to prioritize the necessary actions.

Decision Research recommends that the company first diagnose the areas in which it is most meaningful to improve quality. The company should also identify the areas that will be most predictive of customers' behavior. The question to be asked then is "what is valued by my customers that I can improve?". The main idea being that it is useless to measure customer satisfaction concerning a specific characteristic of a product or service that the company cannot improve cost-effectively.

Once the main objectives have been defined, we must go back to the "disconfirmation-of-expectations" model (part 2.1) to know what to measure. From the model, we can infer the factors influencing customer perceptions and expectations, also referred to as "the management problem"[42].

- Needs: what is the need that the customer tries to fulfill when buying our products? If this need is great, so will be the expectation of performance.
- Previous experiences: did the customer have any past experience with the company's products and with those of competitors and what kind of experience was it?
- Word-of-mouth: what was the experience of the customer's peers?
- Advertising, marketing: has the company been consistent with its promises?

From the factors, narrower research objectives can be determined, for instance:

- How satisfied, overall, are our customers with our products and services?
- What are the specific needs and expectations of our customers?
- How well does our company meet customer expectations?
- How do we compare to competition?
- What are the biggest complaints that customers have with our company?

Based on these research objectives, the population to survey must be chosen.

[42]Band, "Creating Value for Customers", 1991.

Who to survey

At this stage, the distinction between end-user and business customer becomes critical. The segmentation of each of these two groups, the format of the survey, the information sought and the people conducting the surveys will be completely different. The main difference is that the business customers' satisfaction does not result from an individual's experience but rather from the accumulation of collective decisions and experience. Consequently, satisfaction of a business customer is a much more complicated and lengthy task.

Both target groups can be subdivided into:

- current customers (both long-term and new)
- prospective customers
- former customers
- customers of competitors

The Burke Institute of Cincinnati[43] has identified the different types of information that can be obtained from each of these groups. Current customers are the principal population of interest and the final judge of quality; former customers are sources of information on dissatisfaction and on competitive intelligence; prospective customers can define image-driven expectations; and customers of competitors can provide multiple brand or vendor usage patterns and benchmarking information.

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[43] "Customer Satisfaction Research", Seminar, March 1989, p 1.13.

The business customer group can be further divided into:

- central executive group (decision makers such as CEO, CFO, COO, Division managers or group managers)
- functional work groups (both general -accounting, finance...- and technical)

The executives will give more of a strategic or big picture view whereas the functional group will emphasize operational issues.

When to survey

Consulting firms[44] recommend that formal surveys be done every 60 to 90 days and that they be supplemented by informal monthly surveys and annual image surveys executed by a third party. We do not believe, however, that such a frequency would be effectively implemented in an apparel manufacturing company because the latter could not assimilate the results and respond to them quickly enough. Current delivery times for apparel manufacturing do not allow for managerial actions to have an immediate impact on customer satisfaction measures. Therefore, the frequency of data collection in the apparel industry should be lower but still at least twice a year due to the highly cyclical component of this industry.

[44] NCS Minneapolis MN; Data Development Corp. New-York NY.

How to survey

The usual plan at this stage of the research is to develop questionnaires, select population samples, give them the questionnaires and then analyze the statistical results of the questionnaires in a more or less advanced manner. The distinction between business customers and end-users leads us toward a two-step strategy in data collection and analysis.

a) Collecting data from end-users

The end-user survey should, in our opinion essentially take the form of those used in constituting industry indices. In that regard, we will examine the methodology used by a consulting firm specialized in customer satisfaction indices.

Frequency Marketing Inc. is the consulting firm that has developed the Retail Satisfaction Index. Although the tool in itself is developed to rate retailers (Nordstrom, Wal-Mart, Woodward & Lothrop etc...) and not specifically apparel retailers or manufacturers, its focus and methodology are relevant to the apparel industry as a whole.

"From questionnaires distributed to a qualified panel of consumers, Frequency Marketing, Inc. has developed a complete analysis of 54 department store chains. The Retail Satisfaction Index includes an evaluation of each chain on a variety of features, characteristics and departments, as well as a consumer profile based on demographics, shopping behavior, media habits, and psychographic data"[45].

The index is based on sophisticated statistical evaluations such as factor and cluster analyses. RSI identifies attributes that are important to consumers. These attributes are presented to the qualified panel who ranks them. The attributes are then grouped into 6 factors that have been generated by factor analysis. The retail chains are then rated according to their average performance on each factor.

In addition to the ratings, the index provides a detailed description and analysis of segmented consumer groups, including demographics, shopping behavior, media consumption habits and psychographic data. Cluster analysis can therefore be generated and compared to the factor analysis coming from the department stores.

The advertised methodology used by RSI is provided in Appendix 1.

b) Collecting data from business customers

The business customer has to be surveyed in a different way because of the multi-person decision process occurring in their organizations. We will look into a different approach adapted to this situation.

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[45]Retail Satisfaction Index, Advertising brochure, 1993.

When trying to measure the satisfaction of business-customers, the company has to consider the fact that satisfaction becomes a multiple person process. The best way to recreate that process is to conduct focus groups with the clients' key people. This group might be a little more difficult to set because of time constraints of each participant but in the end will allow the manufacturer to tackle most of the issues involved with its specific relationship to the client.

4.2. Benchmarking against Competitors

One of the main purposes of measuring customer satisfaction is to be able to position the company against its competitors. Benchmarking must be an ongoing management process linked to customer satisfaction improvement. It requires constant updating. The collection of competitors' best practices and performance must be inserted into the decision making and communications functions at all levels of the business.

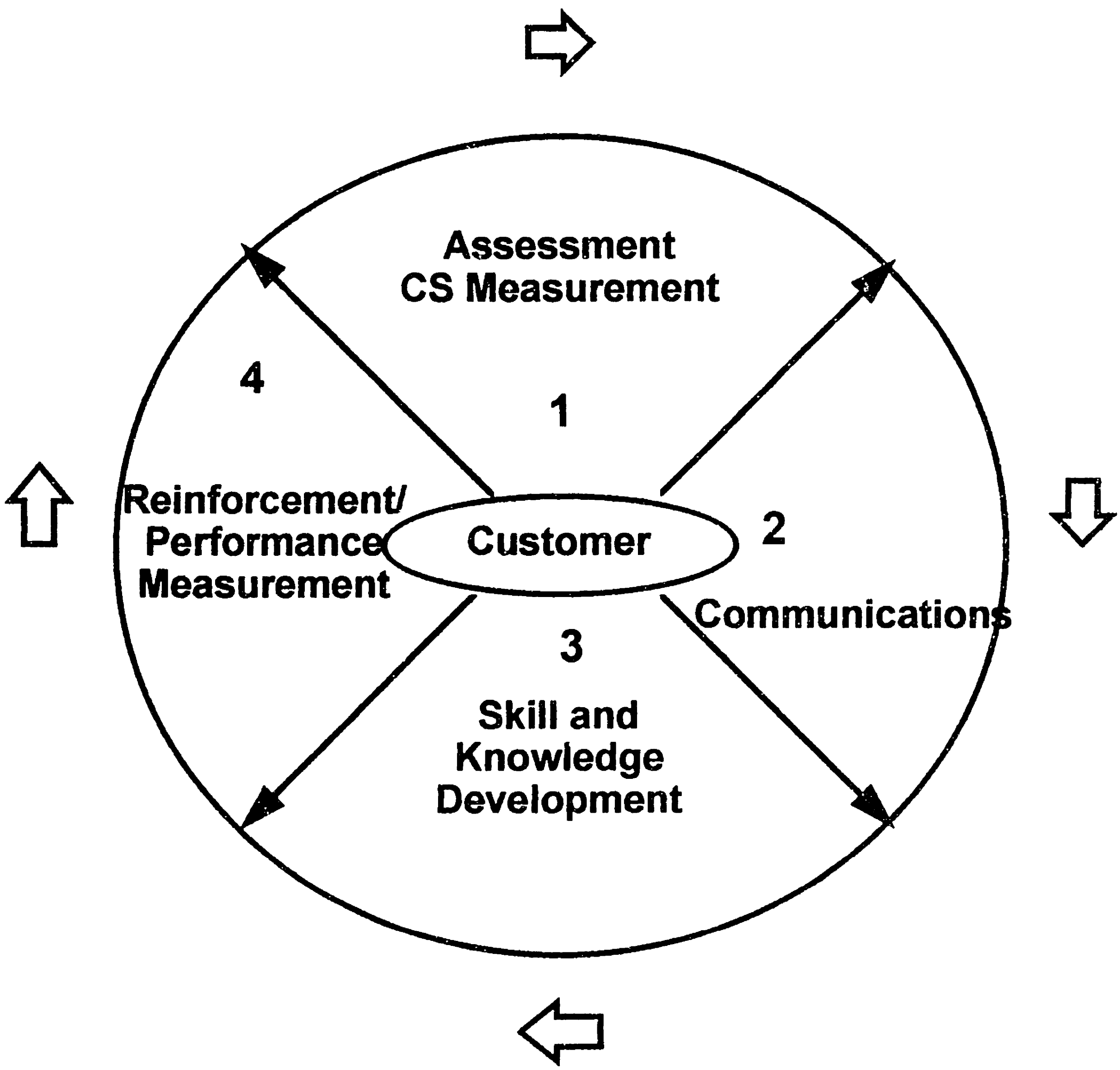
All of the elements considered in the measurement of customer satisfaction must also be used to benchmark. Performance must be compared against producers of similar items or direct competitors. It is essential to collect data from competitors' clients, something that is typically done during the information gathering part of the study as explained previously. The analysis of the collected data should then provide the company with performance gaps. The gaps represent an objective basis on which to act. Gaps, however, are a projection of performance and therefore evolve as industry practices change.

4.3 Concluding on Customer Satisfaction Measurement

When measuring customer satisfaction, what is needed is not only an understanding of today's practices but also a view of what level of performance will be required in the future. It is important that customer satisfaction measurements and benchmarking be a continuing process so that performance is constantly recalibrated to ensure superiority.

Customer Satisfaction measurements and benchmarking findings have to be integrated to set operational targets for change. This involves careful planning to incorporate new practices into current the operations and to ensure that all findings are integrated into formal planning processes.

In presenting its methodology to implement customer satisfaction programs in the service industry, Maritz introduces the CustomerCare® model that describes the whole process as follows:



CustomerCare
Maritz Inc.

5. Planning and Implementing Customer Satisfaction Policies in the Apparel Industry

5.1. Planning Change

Today, demand for apparel is no longer growing rapidly and the challenge is therefore to get a larger piece of a smaller cake. Previously, we have shown that customer satisfaction is a unique means of improving profitability. However, customer satisfaction can and must occur at several levels. The customer must identify value prior to purchase as well as at the purchasing time and after, when consumption takes place. Customer Satisfaction policies must be decided upon, adopted by all, and communicated to all parties for them to be effective. We will now describe this lengthy process in a practical manner.

5.1.1. Expressing the New Ideas and Gaining Support

The first step is to gain operational and management acceptance of the findings from the research described in part 4. To achieve this goal, the collected data has to be carefully analyzed using sophisticated statistical techniques and translated into objective information supported by several sources. The findings must be communicated to all levels of the organization to obtain support, commitment and ownership of the new ideas. This essential step can usually be accomplished through a variety of communication approaches. The key to the process will be the conversion of findings into a statement having a concrete meaning and operational applications to which the organization can relate. These principles inform the organization of the rules by which it should improve and better meet customer needs.

In order to ease the implementation of findings into organizations, many consulting firms and professors[46] recommend the use of the Gap method that is fully integrated into Maritz's CustomerCare process. The model, developed by Valerie Zeithaml of Duke University and Leonard Berry and A. Parasuraman of Texas A&M University serves as a conceptual framework to help materialize change in the organization. This model is essentially used in the service industry but can be adapted to the apparel industry especially for the improvement of customer service at the retail level.

"The CustomerCare process provides a systematic method to identify the factors contributing to the gaps and to develop performance improvement strategies to address them, ultimately assuring that customer expectations are met"[47]:

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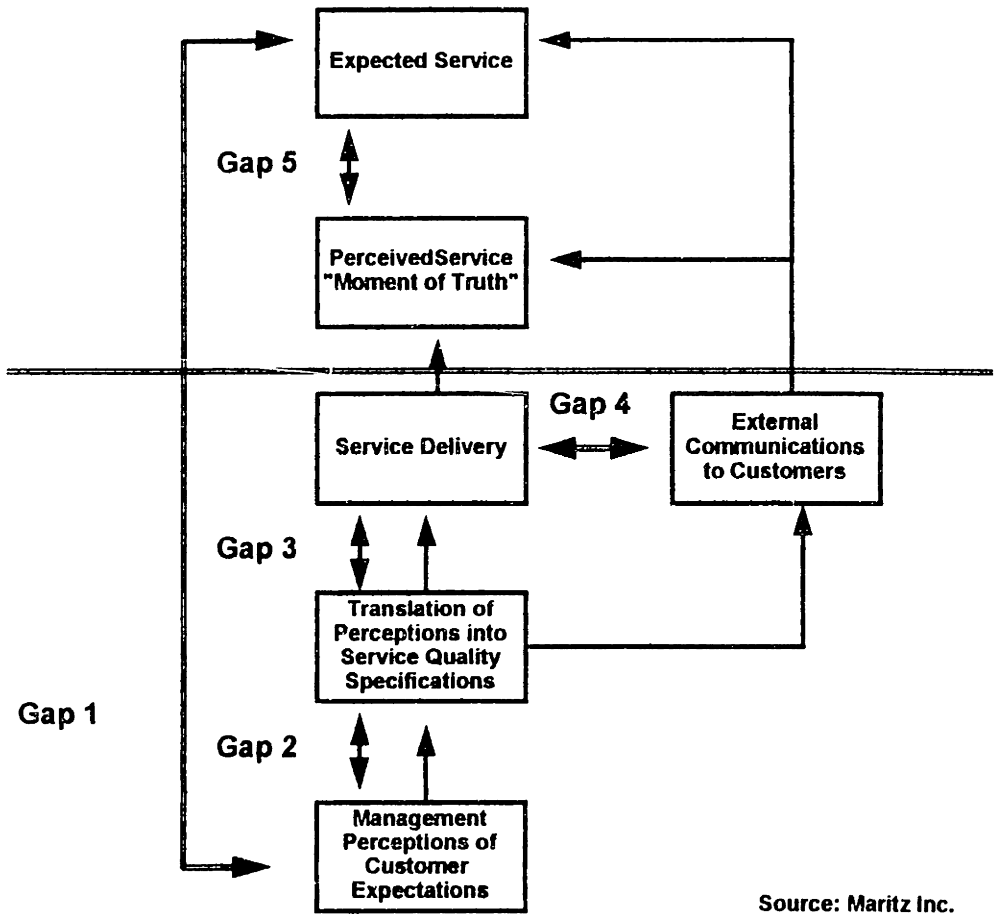
[46]Chamberlain Research Consultants, Madison WI; Direction Data Research, Knoxville TN; Bret Goodman Marketing, Milwaukee WI; Market Opinion Research, Farmington Hills, MI; Strategic Alternative Inc. Norwalk CT.

[47]Maritz Inc., CustomerCare, An Integrated Service Quality Process, 1991.

The Service Quality Model



"Gap 1 refers to the difference between customer expectations and what management believes these expectations to be.

The second gap relates to management's perception of customer expectations and the service quality specifications established by management.

The third gap is the difference between the levels of service specified by management and the actual performance.

Gap four refers to an organization that advertises one thing and delivers another.

Gap Five is the difference between customer's expectations of what they will receive and what they perceive they have received"[48].

As it can be inferred from these definitions, the Gap model is an extremely powerful tool to communicate the identified problems in the survey findings and to translate them into action plans that can be understood and integrated into the organization.

5.1.2. Communicating the Will to Change

The company's will to improve satisfaction is one thing but its communication to the internal and external worlds and their respective adoption of the new plan are another. As described above, the Gap model can help clarify the various areas of improvement and enhance comprehension in the organization. However, a *guarantee* of future improvement of satisfaction must be communicated.

The communication process must start with the company's mission statement which must be summarized in a short but compelling promise. Some of the more famous and successful ones are Avis Rent-a-Car's "We try harder" or Federal Express's "Absolutely Positively Overnight". This guarantee statement should become very visible to both the external and internal customer. It should serve as the basis for the communication of the company's will to commit to change.

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[48]Maritz Inc., CustomerCare. An Integrated Service Quality Process. 1991.

The implementation of satisfaction plans must be communicated to the people they are aimed at: the company's customers, especially its core customers. At every step of the company-client relationship, the client must feel that the company's primary concern is to find the best way to maximize its clients' satisfaction. The advertisement of the guarantee is essential but the statement must be bundled with the presentation of proof that the company really implements change to better satisfy its customers.

One such proof is the creation and declaration of norms that can be compared to the industry in each identified key area of customer needs. The ultimate objective being that the company's norms become the industry norm. Obviously, this is extremely difficult in the apparel industry because the variety and diversity of products prevent the creation of norms.
The business customer will be interested in norms such as delivery time, billing accuracy and consistency, proper handling of requests and intrinsic quality of the products such as washability and resistance. Business customers will also be very interested in a system that allows for the comparison of financial performance: the cost differential between different sourcing , the savings in handling or warehouse costs incurred, sales per square foot figures, and in general any information or help provided by their supplier that improves their bottom line.
The use of norms, especially with business customers can be an excellent way of identifying sources of improvement that may not have been perceived before. It allows the company to present competitive advantages that are not otherwise obvious.

The communication to end users should tend to be less technical and theoretical and more practical, closer to the daily circumstances end-users experience. For this reason, guarantee statements of customer satisfaction enhancement programs should be backed up by peer testimonials. A successful example is the recent advertising campaign of IBM that presents customers having greatly benefited from both the product and service provided. By presenting their individual experiences, customers testify on the company's behalf. They make the company credible in ways that the company could not achieve by itself. They also provide other customers with role models they can identify with. It is therefore essential to try to stimulate customers to provide credible references.

Also, the communication of customer satisfaction programs can take the form of proposals. What is it the company proposes to do that could improve the client 's satisfaction? By providing clear steps of what the process is going to be and why, and prompting clients to use a new service or ask questions, the company gets them involved and proactive in the process.

In order for a company to successfully fulfill customer needs, satisfaction programs must also be communicated to employees. However, communication alone is not sufficient. The plans must also be fully endorsed by them. Employees are the vehicles of satisfaction. Changing their state of mind towards a more satisfaction-oriented one contains several steps.

First, the promise to customers expressed as a phrase should become a company rallying cry. In order to maximize its impact, it should be simple, significant, unconditional and memorable and should be adopted for the long term. As a driving force, it must be included on all forms of advertising or visible tools such as letter heads. It can also be successfully reduced to an acronym in order to gradually become part of the employees' lives.

Satisfaction must become the core of the corporate culture. However, giving employees responsibility without giving them authority is not sufficient. Under such a system, customers are compensated after a lengthy procedure, complaints are not easily tracked down and the origins of the problems are rarely uncovered. Although the communication of actions to both the external and internal customers is essential, it is only one of the steps involved in the successful achievement of customer satisfaction.

5.2. Implementing Policies

In order to achieve customer satisfaction, all the players in the apparel industry must commit to quality and customer service and this commitment needs to be publicized and endorsed by them. An accurate management of inventory levels and the implementation of innovative approaches to out-of-stock items is also required.

The manufacturer of apparel heavily relies on its employees to make its "partnerships" with its major retailers function well. Employees are key in the communication process at all levels and in spite of the heavy use of information technology used to back up Quick Response Systems. Such systems have enhanced the manufacturer's role as an advisor to its retail partners both in terms of merchandising and inventory management.

We will now address two very important areas: how to manage employees in order for them to successfully bring about the company's satisfaction programs and how to manage the essential manufacturer-distributor relationships.

5.2.1. Empowering and Recruiting Employees

From the previous discussions, it appears that the role of the human factor is essential at all levels in order to achieve satisfaction. Although the manufacturer's role in achieving satisfaction is important, the extent of the role of employees at the retail level has a more perceivable effect on satisfaction due to their proximity to the consumer.

It appears clearly that retailers should really give their employees the authority -or empower them- to service customers as well as they should back their employees' best judgment decisions. Giving employees the authority to do anything to keep the customer happy within given guidelines seems the ideal solution. However, the necessary change in employees' mind sets does not occur overnight.

At this stage, the rallying guarantee statement described in 5.1.2, plays an important role in helping employees overcome their initial skepticism. Gradually, they get used to their power and customers get accustomed to complaining because of the immediate compensation they receive. However, solving the inherent problems to decrease the rate of complaints is yet another step.

Empowering employees should not only include giving them the authority to compensate customers for any mistakes done. It should also involve the essential unveiling of the original root of the problem. Obtaining these answers means starting another change of mind sets where the organization is no longer looking for a culprit but rather for how to correct for the system's failure. The system is analyzed and its flaws are corrected rather than blaming individuals whose actions often depend on yet other individuals.

All of these changes are highly dependent on human ability. Employees must fully use their power to meet and exceed customer expectations. Consequently, the question that comes immediately to mind is: how can one be assured of an individual's essential strong commitment to serving its customer?

Traditional hiring methods make it difficult to determine a job candidate's service orientation and motivation to go beyond conventional requirements. Unless the job interviewer is specifically trained in techniques that are designed to elicit truthful responses, the interview alone is unreliable as a measure of an applicant's suitability for a particular position. Reference checks alone do not solve this issue either as organizations have become more and more concerned with legal actions and are now reluctant to provide negative information about former employees. A possible alternative, however, is the use of psychological tests.

Some tests have been designed with built-in measures of the applicant's truthfulness in answering to questions. In order to be of value to the retailer, such tests have to verify a prospective employee's attitude toward customer relations, work value, responsiveness to supervision and generally acceptable behavior. Research indicates that such tests can accurately predict an applicant's on-the-job behavior. However, testing is not sufficient in and of itself. There must be a set of accompanying interviewing and reference checking as well.

Once on the job, the employee's commitment is dependent on the quality of training , the power and credibility of the corporate motto as well as on rewards and gratification. Training is very important and should be complemented by clear job descriptions and guidelines. For example, a retailer can have a set of customer service tips to be implemented at the store floor level:

- Greet each customer promptly and like a guest (not a prey that the retailer wants to see spend money).

- Smile and break the ice with a compliment or a comment other than "May I help you?" or "What are you looking for today?"

- Give explanations as needed (display knowledge of the product).

- Provide the service faster than promised, or do anything else that exceeds what the customer expects.

- Try to create a relation with the customer by sending her/him information on new products and inquiring about satisfaction with previous purchases.

These simple service schemes can be easily implemented and are nonetheless extremely valuable to all customers. Employees should be expected to transcend guidelines and, based on their own initiative, go out of their way to satisfy customers. Good thinking and positive action deserve monetary rewards but also praise, limelight and encouragement. It is also important for the company to display its progress in a clear and understandable manner -yet another way to publicize the corporate efforts.

5.2.2. Managing Major Customers

As we explained in part 1, the concentration of distribution networks and the strong emergence of mass-retailers make it essential for the apparel manufacturer to take good care of its major buyers. We described previously how the satisfaction of these customers can be evaluated. We will now focus on techniques that can be useful to the apparel manufacturer to implement customer and distributor alliances in order to ensure a continuous flow of business from a strong core customer base.

Indeed, a manufacturer's partnership with its distributors and the ability of the distributors to remain competitive can be more important than internal cost considerations within the manufacturing company, distributors being essential in the apparel market accessibility. With distributors and big retailers, the sale is no longer simply based on price and product performance considerations.

Customers demand products according to their schedules and their specifications.

Acquiring the competitive advantage that is supposed to come with the adoption of systems like Quick Response which are based on new information technology requires the painful integration of those technologies within the organization. Apparel business customers are expecting their burden to be eased by manufacturers, hence solutions are not always product-related. Manufacturers find themselves serving their customers as consultants, engineers, trainers, regulatory specialists and warehouses. Today, pressure is typically on the manufacturer to do more. The intensity of foreign competition in the apparel industry and the lack of loyalty on the part of the retailer make it necessary for the manufacturer to try and develop a "symbiotic supplier-customer relationship"[49], one which is mutually beneficial. A good example of such partnerships is the one based on the sharing of inventory risks[50].

As we saw earlier, the buying and selling of apparel involve risk because product concepts change from one year to another and because most manufacturers of apparel launch two or more multiple-item product lines each year that ideally shape or at least reflect the latest style and color preferences of consumers. We also saw that the production and delivery lead times could be very lengthy.

As a consequence, manufacturers have to rely as much on their judgment as on orders placed by their customers. The considerable uncertainty in accurately forecasting consumer demand raises the risk of excess inventory in

[49]Joseph M. DeVittorio, "The Supplier-Customer Relationship", 1990.

[50]Associate Professor John A. Quelch, "Note on Inventory Risk and Soft Goods Merchandising", Harvard Business School Case 9-589-022, 1988.

the distribution channel, with resulting potential for large markdowns to be absorbed if the merchandise is not sold through.

In his note, John A. Quelch presents some of the methods manufacturers use to reduce and control inventory risks. Some of them involve a close relationship between the manufacturer and the retailer. For example, manufacturers offer retailers merchandising programs designed to encourage retailers to commit to more inventory. Under such programs, retailers are persuaded to place orders and take deliveries early.

Inventory risk is also addressed by so-called back-end protection programs such as stock balancing and returns allowances. "Stock balancing permits a retailer to exchange some of its merchandise for another product line or size from the same manufacturer, with the aim of making it less risky for the retailer to order earlier and in greater quantities"[51].
Another example of shared-risk programs is obviously the implementation of Quick Response systems that require close coordination and information exchange on a continuous basis between the retailer and the manufacturer.

The intensity of competition, however, affects the traditional cooperation between apparel manufacturers and retailers. Retailers are increasingly demanding additional price promotions and merchandising support or temporary adjustments to discount schedules and terms of sale, over and above those negotiated at the start of each season.

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[51] cf footnote 45.

Here again, the manufacturers' answer is to develop additional and innovative value-added services, custom-tailored to the needs of their major accounts. In order to succeed in these renewed relationships, Joseph DeVittorio[52] identified six key variables that affect relationship-building from the supplier's point of view:

1. **Management Philosophy**: As explained in previous paragraphs, management has to promote customer focus and to develop business and strategic plans with customer interests in mind.

2. **Culture**: Communication of management philosophy changes the company's culture. This must be completed with appropriate training and incentive programs.

3. **Knowledge of the business environment**: Looking at the world through the eye of the customer facilitates the supplier's fulfillment of customer needs. The supplier can anticipate what the customer expects and plan accordingly. Here again, we want to raise the cost for the customer to switch to other suppliers.

4. **Image**: The customer's perception of the supplier's people, products and performance forms the real environment within which the supplier must operate.

[52] cf footnote 44.

5. **Commitment to the plan**: Matching accomplishable goals to work-force accountabilities, effectively communicating the plan and verifying its comprehension by personnel.

6. **Product**: All of the above are meaningless if the basic product delivered does not meet the customer specifications and expectations.

In dealing with big accounts, the manufacturer must keep in mind that its ultimate goal is to improve its clients' bottom line because it will provide the latter with the ultimate satisfaction. By improving value-adding services or by achieving cost leadership positions, partnership innovators build into each other's cost structure the superior economics of low costs and high quality. The result is a satisfied and profitable buyer and a satisfied and profitable seller.

5.3. Tracking Effectiveness

In order to get long term commitment from the whole organization and to generate customer confidence, it is essential to quantify the payback of customer satisfaction initiatives and be able to trace back each initiative to the individual source whether it be a product or a service. In doing so, the company obtains individual accountability for satisfaction which is what is needed. Progress reward and failure punishment are management processes that need to be incorporated into customer satisfaction programs.

Measuring the company's performance should be a continuous process. The consumer index, norms, satisfaction measures etc. previously described must be used to continuously benchmark the company against competitors and against client expectations. The continuity of the process ensures its viability as well as it enhances customer confidence.

A 1989 study[53] has identified different ways companies use to measure and track performance in satisfying customers:

- Customer perceptions (57%): Analysis of customer surveys, customer feedback, focus groups reports, customer complaint statistics.

- Profitability (42%): Evaluation of cost of poor quality, profit margin improvements, cash flows.

- Productivity (42%): Variation in yields, volume, efficiency, inventory turnover ...

- Employee Morale (38%): Analysis of surveys, focus groups, absenteeism, turnover.

- Market Position (24%): Comparison of norms and performance with industry standards.

[53]Frank A.J. Gonzalves "Achieving Customer Satisfaction through Effective Linkages between Measures of Performance", The Conference Board, 1989.

Although the use of these measures may vary from one company to another, the main element to retain is that the company must use both a form of internal measurement and external measurement to monitor improvements in the company.

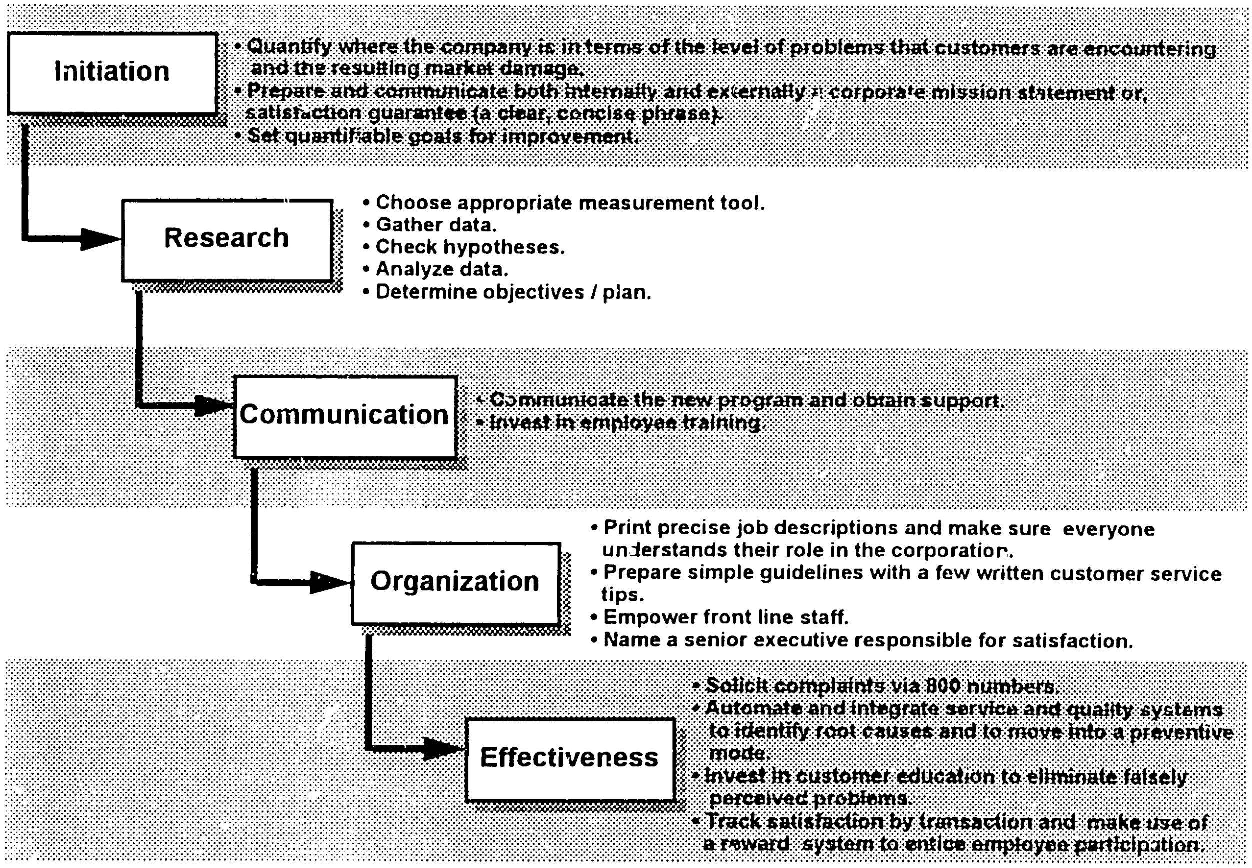
6. CONCLUSION

Today's economic slump has affected many industries. However, its affect on the apparel industry stands out because of this industry's impressive growth during the 80's. This shift in trends has led to major restructuring in the industry. Distributors are gaining increasing power over manufacturers. Manufacturers are still extremely fragmented but are horizontally integrating to face the powerful retailers. Together, manufacturers and retailers are founding essential partnerships in order to minimize risk and maximize profits; and overcome this unfavorable economic situation.

To summarize, in order for an apparel company to successfully implement a customer satisfaction program, we recommend that it follow the steps described in the following page:

Customer Satisfaction Process

in the Apparel Industry



APPENDIX

Retail Satisfaction Index™:

METHODOLOGY

This study of department store shopping preferences and behavior was conducted by mail among member households of the Home Testing Institute's Consumer Household Panel. Home Testing Institute (HTI) maintains a consumer panel of over 300,000 households, demographically representative of the total US. population. Panel households were randomly selected from the 30 most populous ADI's in the continental United States. In order to obtain a qualified sample of households, only households with an annual household income in excess of $15,000 were included in the selection process. A complete demographic profile of the respondents is provided in the appendix to this report.

Selected households received an eight-page booklet consisting of a cover letter, a list of eligible stores for their region, and a six-page questionnaire. The cover letter requested that the questionnaire be completed by the "primary department store shopper" in the household. Respondents qualified for a sweepstakes drawing by completing and returning the questionnaire.

A total of 4,000 questionnaires was distributed. From this, 2,855 questionnaires were returned, representing a 71% gross response rate. Questionnaires were screened for completeness and qualification of respondents, resulting in a net usable number of 2,783.

Selection of Department Store Chains:

Department store chains were selected from lists published by Chain Store Guide and Stores Magazine. Every attempt was made to include significant national and regional chains that operated within the boundaries of the 30 ADI's selected. Given the ambitious scope of this project and the ever-fluctuating retail environment, we have undoubtedly made some errors of omission.

Consumers rated 54 department store chains on the basis of 39 features, characteristics, and specific department offerings. Each respondent selected up to four chains for evaluation. The listing of stores was pared-down from 70 in the Fall 1992 report. Chains that received very few consumer ratings in the previous report were not offered as a choice for consumers to rate in this most recent edition.

Consumers rated store performance on the basis of the same 11 store departments that appeared in the Fall 1992 report. Some slight modifications were made in the list of store attributes. Four attributes that received low importance ratings from consumers were deleted. They were replaced by five new attributes. (Please refer to the Technical Description of Methodology in the Appendix of the Retail Satisfaction Index for a complete discussion of the methodological implications.)

Consumer performance ratings for each chain are compared with the average for all stores rated and the average importance rating assigned by respondents for each variable. Section VI of The Retail Satisfaction Index, Detailed Store Profiles, contains complete comparative tables for the chains that received a minimum of 40 consumer ratings (The Data Tables section of the Appendix of the Retail Satisfaction Index lists information for each of the 54 chains rated by consumers).

Consumer Segments:

Consumers were clustered into 8 shopper categories based on answers to lifestyle and shopping behavior questions and consumer demographics. The clusters were plotted in factor space according to the average factor score for each cluster. This enhances the analysis of store performance by indicating which stores appeal to which groups of consumers, and thestrength of the associations.

Clusters are compared to overall respondent averages to produce indices for media habits, store patronage, department importance, and by-department expenditure. An index score of 1.00 indicates that a cluster score is equal to the combined average score for all respondents.

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