ORGANIZATION OF THE APPAREL BUSINESS

ADM 4307 Apparel Manufacturing

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APPAREL

- The concepts of mass production and customization
- Related to Merchandising, marketing, producing and distributing apparel.
- Apparel manufacturing remains labor intensive.
The apparel industry follow the North American Industry Classification (NAICS) System

NAICS uses a 6 digit code for defining industries
- See Table 1-1 example of NAICS hierarchy (p.4)
- Example: 315212 apparel manufacturing+ cut and sew+ contractors+ women’s.
FASHION BUSINESS

- Timing of product change
- Fashion change: Relates to changes in color, styling, fabrication, silhouette, and performance to reflect fashion trends.
- Seasonal change: Results in modification of products due to time of the year.
- Factors: the weather, holidays, beginning and ending of the school year, etc.
QUALITY

- Quality - it means:
  - Distinguishing property, excellence or a perceived level of value.
  - Interpretations vary by consumer.
  - Quality characteristics: Customers desire (are they willing to pay for which will also be cost effective for the company.)
QUALITY

- **Perceived quality**: a composite of intrinsic and extrinsic cues to quality
  - **Intrinsic** cues: Relates to the innate and essential parts of a garment.
    - Examples: fit, styling, materials, fabrics, fibers, finishes, garment assembly processes.
  - **Extrinsic** cues: comes from outside the product.
    - Examples: Prices, brand names, reputations of retailers, advertising.
    - Price: one of the primary extrinsic cues relative to quality.
Price classifications:

- Low-end/Budget: Price is the primary point of competition
  - Better price controlled by using inexpensive fabric
  - Control production costs by combining or elimination steps in manufacturing
  - Less rigid quality standards
  - Seeking lowest labor rates.

- Moderate
  - It has own core but customer also comes from budget and better price ranges
  - Regional malls, department, specialty stores (Examples: Dillard’s, Macy’s, etc.)
  - Designed to meet the fashion performance, quality, and needs.

- Better
  - It has a comparatively smaller proportion of the U.S. population
  - Main stream department, specialty stores (Examples: Neiman-Marcus)
  - Focus more on styling and fit
  - Selection of more expensive and unique fabrics and materials
  - Use of more complex construction techniques.

- Bridge/ Designer (high fashion, upscale brand name, styling, and quality)
THE STRUCTURE OF APPAREL INDUSTRY

- The structure of the apparel industry
  - Level 1: Textiles & finding manufacturers (Mill Level)
  - Level 2: Apparel manufacturers, contractors, retail product development (Apparel Manufacturing Level)
  - Level 3: Manufacturer-owned retailers, outlets, catalog retailers, warehouse
  - Level 4: Consumers
    - (see Figure 1-2 organization of the current U.S. apparel industry p.8)
THE FASHION PIPELINE
(CHANNEL OF DISTRIBUTION)

- Advertising
- Publications
- Merchandising
- Trade associations

Agricultural / chemical (raw material suppliers)

Fiber/ Yarn manufactures

Knitting / Weaving mills

Converters (Finished fabrics)

Apparel Manufactures

Retailers

Wholesale Jobbers

Selling Agents

Consumers

Finishers

Contractors
STRUCTURE OF THE APPAREL INDUSTRY

LEVEL 1: MILL LEVEL

- Textiles & finding manufacturers: Fabrics, zippers, threads, trims, and buttons
  - A few apparel manufacturers are vertically integrated with textile production. Some apparel manufactures buy from vendor’s open stocks.

- Trade association: ATMI (=American Textile Manufacturers Institute)
LEVEL 2: APPAREL MANUFACTURING LEVEL

- **Apparel Manufacturers**: Marketing, Merchandising, Production
  - Perform manufacturing within own facilities and employees.
  - Contact some or all of the manufacturing functions to other firms.
  - Trade association: AAFA (=American Apparel & Footwear Association)
    - [https://www.wewear.org/](https://www.wewear.org/)

- **Contractors** (three types):
  - Cut-make-trim (CMT) contractors: supply operators, machines, and thread and make garments.
  - Full package program (FPP): source materials and develop patterns as well as make garments. Greater financial responsibility. FPP might higher CMT contractors.
  - Specialty contractors: provide services such as pattern grading, cutting, embroidering, belt making, fabric pleating, or screen printing.
    - Trade association: AAPN (=American Apparel Producers Network)
    - [http://www.aapnetwork.net/](http://www.aapnetwork.net/)
events

What’s on Your Customers’ Shelf?
The Latest on Compliance and Restricted Chemicals
1/24/2017 | Long Beach Marriott

news

AAFA ANNOUNCES EXECUTIVE SUMMIT KEYNOTES AND SPECIAL GUEST SPEAKER GOVERNOR MITT ROMNEY

about aafa

Representing more than 1,000 world famous name brands, the American Apparel & Footwear Association (AAFA) is the trusted public policy and political voice of the appare
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Sourcing From the Americas: Our Position
LEVEL 3: RETAIL LEVEL

- Apparel manufacturers may be forward vertically integrated into the retail sector through owning their own stores.

- Retailing (7 types):
  - Catalog retailers
  - Department store retailers
  - Internet retailers
  - Mass retailers: (e.g. Walmart, Target, and J.C. Penney).
  - Specialty retailers: offer a large selection of a limited line of consumer goods with narrow target customers (e.g. Victoria’s Secret, Nordstrom).
  - Warehouse/wholesale clubs (e.g. Costco, Sam’s Club, BJ’s).
  - Retailer outlets

- Retailers use multiple channels of distribution and channel integration.
  - Example: Department store + Web sites + Catalog distribution.
    - Trade association: NRF (=National Retail Federation) and IMRA (=International Mass Retailing Association)

- Level 4: Consumers
  - Decisions at all levels are based on forecasts of customer demand.
BASIC BUSINESS CONCEPTS

- **Apparel firms vs. plants:**
  - Firms are refer to a business organization. Primary purpose is merchandising, marketing, producing, and distributing apparel for a profit.
  - Plants are establishments that produce, package, or distribute items or services.

- **Legal organization of apparel firms (5 types)**
  - Proprietorship: a business owned by one person.
  - Partnership: a contractual agreement between two or more people to share.
  - Corporation (w/ stockholders)
  - Cooperative: A business enterprise jointly owned by a group of persons and operated without profit of the benefit of the owners.
  - Franchise (A growing form of business organization in the apparel industry. Franchising is a contractual agreement between franchiser and franchisee).

- **Ownership (2 types)**
  - Publicly owned firms: have stock traded on a stock exchange.
  - Privately owned firms: have the assets or stock in the company owned by a few individuals who control the firm. (example: Levi Strauss)
**Basic Business Concepts**

- **Growth and profits**
  - Growth: measured by trends in sales, market share, productivity, profits, number of employees, and size or value of facilities.
  - Profits: the vehicle of growth.

- **A Market, market share, and market power.**
  - A market is the sales potential for a particular type of good.
  - Market share is a firm’s percentage of the total sales in a market. (one measure of a firm’s success)
  - Market power is the ability of a firm to control price and quantity of products in the market. (relates to the level of competition.)
  - Apparel industry is a highly competitive industry.
How firms grow:

- **Internal growth**
  - increasing sales of product lines

- **Vertical integration**
  - When there is a merge between suppliers and users in the distribution.
  - Examples: Target + AMC (sourcing organization), Pendleton Woolen Mills (Textile mills ~ Retailers).
  - Limitation: Less flexibility in production and distribution of the product line.

- **Horizontal integration**
  - A merger with a competitor
  - Increases market power, larger market share.

- **Conglomerate merger**
  - A takeover of a firm that is neither a supplier nor user in the chain of production nor a competitor in the market.
  - Unrelated markets join under common ownership.
GLOBALIZATION

- Globalization favors both large and small firms:
  - Large firms:
    - Capitalization requirements
    - Economies of scale
    - Breadth of product lines
    - Sophistication of technology and communication system
  - Small firms:
    - Flexibility
    - Ability to serve niche markets
    - Offering unique products and higher margin products.

- International trade regulation
  - International trade:
    - The exchange of goods by firms located in different nations.
  - Trade regulation (2 types)
    - A Tariff (Duty): is a tax on goods that are exported/imported.
    - A Quota: is a quantitative limit on exports-imports. An embargo stops trade altogether.
TRADE REGULATION

- Trade balance (= Exports - Imports)
  - Trade deficit if trade balance is minus. The U.S. has trade deficit in 1980s.
  - The U.S. Customs service regulates under the HTS (Harmonized Tariff Schedule of the United States) with the Harmonized Commodity Code (classification system for imports/exports).
  - OST (The US. Office of Strategic Trade) tracks trade data. (See. p. 15.)

- International trade paradox and politically controversial.
  - Free trade promotes the most efficient allocation of resources. However, to export good, countries must protect their domestic manufacturers from outside competition by imports.
  - Apparel trade policy and related issues (See. p.17).

  - For promotion of free trade and equalization of trade among countries.

- M-FA: (Multi-Fiber arrangement)
  - To restrict trade. M-FA, under WTO. is being phased out.

- Item 807/Chapter 98:
  - Allows products to be partially made in the U.S. then exported for further manufacturing processes. Operations are in the Caribbean basin, Mexico, and Latin America.
TRADE AND SOCIAL RESPONSIBILITY

- Illegal trade activities (3 types):
  - Dumping:
    - selling goods in a foreign country below the domestic price.
    - The importing country can impose a countervailing duty.
  - Transshipment
    - Involves changing the country of origin of the goods to avoid tariffs or quota limitation.
  - Government subsidies
    - Payments by the government to manufacturers. (Example: Cotton farmers in Africa)

- Social Responsibility
  - Sweatshop condition
    - the lowest of the lowest labor costs
    - Not registered as legitimate business.
    - Poor working condition, safety violations, and inhuman treatment, child labor.
  - WRAP (=Worldwide Responsible Accredited Production) principles designed by an AAFA (=AAMA) take force (See p.22. Figure 1-4)
    - Go to: http://www.wrapcompliance.org/
ORGANIZATION OF APPAREL FIRMS

- Organization of apparel firms according to areas of specialization.
  - Teamwork environments with interactive organization structures.
    - Each area of specialization in a firm has its own objectives and responsibility. At the same time, areas must interact to achieve their common goals. (see Figure 1-5, p.23)

- Apparel firms require expertise in:
  - Executive leadership
  - Quick response
  - Marketing
  - Merchandizing
  - Production
  - Operations
  - Finance
EXECUTIVE LEADERSHIP

- This consists of heads of divisions, owner/managers, and CEO.

- The responsibilities of executives
  - Responsibilities: Set goals for organization and make decisions. (see figure 1-6, p.24)
  - The business plan (Strategic planning):
    - Strategic planning- understanding the target customer, its product, and competitions.
    - Short run (6 month or 1 year) or the long run (5-10 year).
    - Defining a firm’s purpose includes:
      - Mission statement
      - Description of the target customer
      - Description of the product line
        - Example: Assortment strategies, Price range, and size ranges.
      - Fashion innovation and creativity in styling may be reflected.
  - Budgets
    - Financial plans that allocation of resources for achieving the goals of firm.
QUICK RESPONSE (QR)/QR STRATEGIES

- QR strategies:
  - Shortening the time between conceptualizing a new product and delivering the finished product to consumer.
    - Example: Reduce product development times with investment in technology and changes in processes
    - Successful QR strategies result in increased turnover and reduced investment in inventory.
  - SCM (=Supply Chain Management)
    - Partnering with suppliers and customers.
    - Suppliers <- Apparel manufacturers -> Customers
    - Workshops and training programs helped apparel executives better understand issues, processes, and limitations.
    - Collaborative planning and improved communication.
  - CPFR (=Collaborative Planning, Forecasting, and Replenishment)
    - www.cpfr.com
    - To change the adversarial relationship among suppliers and customers to create and communicate more accurate information to make the trade matrix more profitable.
- CPFR (Collaborative Planning, Forecasting, and Replenishment)
- Reference [www.cpfr.com](http://www.cpfr.com)
QUICK RESPONSE (QR)

- **RFSM (=Retail Floor-Space Management)**
  - Sales per square foot is used by retailers to evaluate the success of stores, retail floor fixtures, and product lines.
  - Important for effective display of merchandises.
  - Example: JDA Intactix Space Management that supports RFSM. Go to www.jda.com

- **EDI (=Electronic Data Interchange)**
  - Purchase orders placed electronically can be filled.
  - Retailers provide to their suppliers point of sales (POS) information based on scanning bar codes.
  - Internet is replacing EDI for data handling.

- **Floor-ready**
  - Garments can go directly from the truck to the retail sales floor.

- **Responsibilities of Quick Response and Supply chain management personnel** (see Figure 1-7, p. 27)
MARKETING AND MERCHANDISING

- A marketing division
  - Develop marketing strategies
    - Conduct and report customer research to describe target customers
    - Position the firm relative to target markets and to the competition
    - Develop the image of the company and its product line.
    - Propose marketing programs
    - Propose advertising/promotion strategies
    - Forecast sales.

- A merchandising division
  - Merchandising is the planning, development, presentation of product lines for identified target markets with regard to prices, assortments, styling, and timing.
  - Responsibilities of merchandisers (see. Figure 1-9, p. 28)
PRODUCTION, OPERATIONS, AND FINANCE

- **Production divisions**
  - Responsibility for the procedures and processes required in actually making products.
  - Production schedules are based on the delivery deadlines determined by merchandising and marketing.

- **Operations**
  - Responsibility for the procedures and processes required to manage people and physical property.
  - Operations often oversees MIS personnel who implement and support computer technology and communication systems.

- **Finance**
  - Responsibility for evaluating the profitability of past business and set goals for future business.
NEXT CLASS

- Read Chapter 2 and 3.

- Abstract
  - References should be related to “apparel manufacturing” or/and the cotton industry:
    - Trade association: AAPN (American Apparel Producers Network) http://www.aapnetwork.net/