Chapter Objectives

- Examine changing dynamics of apparel supply chain
- Understand growth strategies employed within apparel supply chain
- Understand impact of globalization on apparel product development, manufacturing, and distribution

Chapter Objectives

- Define product development process and differentiate it from design process
- Identify various types of product development
- Understand how information technology systems speed up processes and enhance decision-making within apparel supply chain

Managing Perpetual Change

- Businesses today must manage perpetual change
  - In technology, business climate, world order
  - In consumer demands and expectations
- To remain competitive
  - Choose among variety of information and telecommunication technologies
  - Integrate them with emerging product technologies, knowledge of customer preferences, and global marketplace resources
Managing Perpetual Change

• **Product development**
  – Strategic, creative, technical, production, and distribution planning of goods
  – Having a perceived value for a well-defined consumer group
  – Designed to reach the marketplace when that group is ready to buy

Apparel Supply Chain

• Network of suppliers, apparel product developers, manufacturers and contractors and all the channels of apparel distribution that work together to bring apparel product to the ultimate users
• Also includes **auxiliary businesses** which improve the efficiency of the entire chain

History

• Roles of each industry segment were distinct, each with its own product and customer
Today’s Virtual Supply Chain

- New competitive global environment
- Members function as integrated units, not independent businesses
- Companies must compete with products geared to niche markets defined by customer preferences and delivered through multiple distribution channels (stores, catalogs, Internet)

Today’s Virtual Supply Chain

- Broader product ranges, produced in smaller lot sizes, available for shorter time
- Must respond quickly to constantly changing consumer preferences

Today’s Virtual Supply Chain

- Agile Manufacturing Environment
  - “Comprehensive response to the business challenges of profiting from rapidly changing, continually fragmenting, global markets for high-quality, high-performance, customer-configured goods and services”
  - Companies identify core competencies and partner with other specialists to meet consumer wants
Today’s Virtual Supply Chain

- Virtual Supply Chain
  - Interactive network of manufacturing specialists that integrate complimentary resources to make a product
  - Synergy of computer networking and telecommunication technologies deliver products at Internet speed
  - Achieve powerful competitive advantages

Growth vs. Mature Industries

- **Growth industries** – produce products that have not yet saturated the marketplace
  - Emerging technology commands relatively high price
  - Potential to grow through increased market saturation or penetration as technology comes down in price
Growth vs. Mature Industries

- **Mature industries** – produce products with relatively stable sales year to year
  - Businesses that make up the domestic apparel supply chain are classified as mature industries

Brand Growth

- **Differential advantage** – competitive edge (lower price, superior quality, unique features)
  - **Sneakerization** – transforming inexpensive commodity product into cutting edge specialty product (Nike Burberry)

Measuring Success in a Mature Business

- Volume
- Market share
- Profit margins
- Capital investment
- Capacity utilization
- Inventory levels
Corporate Growth Strategies

- **Acquisitions** and **mergers**—purchasing another company or brand to increase market share or competitive advantage

Vertical Integration

- Strategy that consolidates supply chain by acquiring a company at another stage in the supply chain
  - Retailers developing private brands
  - Zara’s fast fashion model
  - Full package sourcing (contractors supply design, fabric, patterns, and manufacturing)

Deverticalization

- Counter trend to vertical integration
- Companies divest themselves of processes that other companies may perform better
Horizontal Integration

- Acquisition of companies that make or sell similar products to expand market penetration and reduce competition
- Acquire brands at same price point or penetrate multiple price points

Diversification

- A firm expands its product mix to capitalize on brand recognition, increase sales, and enhance efficiencies for greater profit
- Achieved through licensing or by acquisition of related or unrelated companies
- Capitalize on widespread name and quality recognition in the apparel industry (Ralph Lauren)

Globalization

- Enabled by digital technology
- 90% or more of apparel sold in US is produced offshore
- Product may be:
  - Developed here, production contracted offshore
  - Purchased directly from foreign producers or foreign sourcing agents
  - Produced in U.S.-owned/operated plants in foreign countries
Product Development in An Agile Manufacturing Environment

- Companies vary in size, managing a single brand or many
- Value lies in developing and promoting brands rather than manufacturing
- Supply chain partnerships vary by:
  - Brand
  - Fabric
  - Style pricepoint

Product Development in An Agile Manufacturing Environment

- If not a match to its core competencies, company contracts out to:
  - Trend services
  - Design bureaus and patternmaking services
  - Factors
  - Agents
  - Testing labs

The Role of Product Development

- Consumer driven
- Eliminates steps that do not add value to the end product
- Defines desired product through detailed standards and specifications
- Partners share responsibility and risk for producing a quality product
The Role of Product Development

- Dependent on each partner’s ability to meet schedules
- Must lend itself to distribution through multiple channels (e.g., stores, Internet, and catalog)

Product Development Variations

- Wholesale Brands – proprietary label, sold at wholesale to retailers that also carry other wholesale brands
  - Carried by department stores, specialty stores, chain stores, and discount stores
  - Distribute products online, signature or outlet stores

Wholesale Brands

- Wholesale Brands
  - May own manufacturing facilities or use contractors
  - Increasing focus on development, sales, and marketing, relying on sourcing partners for manufacturing
Private Label and Store Brands

- **Private brand** products – developed and merchandised for exclusive distribution by particular retailer
  - **Store brands** – developed for stores that sell only private brands (the Gap, Limited)
  - **Private label** – private brands developed to compete with wholesale brands; most developed by retailer’s own product development team

Private Label and Store Brands

- May buy exclusive merchandise from wholesale brand companies and replace the brand label with their own private label
- Buy the right to a brand (Sears/Land’s End)
- **Licensing agreement** – exclusive rights to a brand for an agreed-upon time

Licensed Products

- **Brand Extensions** – Brands or designers expand their reach by contracting with companies that can add new products to their well-known brand (jewelry, shoes)
- **Character licensing** – e.g., Sponge Bob Squarepants, college mascots
- **Co-branded products** – feel of designer, but modified for price point – e.g., “BCBG Exclusively for Nordstrom”
- **International Licensing** – Protects brand trademark abroad and facilitates products modification for global distribution
Customized Products

- **Mass customization** – mass production technology to create products and services for individuals
- Gives customers limited options in finished length, fabric, or styling details

Supply Chain Management Tools

- **Quick Response (QR)**
  - Getting the right product to the right place at the right time at the right price
  - Identifies tools to help domestic manufacturers capitalize on knowledge and proximity to shorten lead times

Supply Chain Management Tools

- **Just-in-time (JIT) inventory** – prioritizes to eliminate warehousing
- **Specification ordering**
- **Bar Coding**
- **Electronic date interchange (EDI)**
- **Computer-aided design (CAD)**
- **Automatic replenishment systems** – eliminate stockouts
Technology Investments

• The best technology investments:
  – Offer open architecture facilitating communication between various systems
  – Adaptable as web-based exchanges
  – Require minimal customization
  – Offer excellent training and online support
  – Are kept current with frequent updates and option to add capacity