

Analysis of the Premium Denim Market

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Abstract

The majority of apparel companies utilize global resources in order to stay competitive by lowering costs and targeting new markets. The United States premium denim market still utilizes the domestic market. As the premium denim market in the United States becomes more crowded, these companies are forced to look outside the borders in order to stay competitive. This paper will analyze the current supply chain strategy of apparel companies, such as technology, streamlining the supply chain, and the use of multiple channels in order to create an efficient process. Then an analysis of the premium denim market's strategies will be conducted. The paper will be concluded by looking at how the United States' premium denim companies can adopt some of the strategies currently being used by other apparel companies in order to stay competitive in the global marketplace.

1. Introduction

For decades, apparel companies have been supplying their customers with innovative and functional products. Over the years, the way these products are designed, manufactured, and distributed to the customer has changed dramatically. The use of technology, transportation, and the global market has transformed the apparel supply chain. Today's companies don't just rely on domestic and internal processes; instead, they work globally by utilizing all resources available.

The apparel industry is a huge market in the United States. According to the Office of Textiles and Apparel, the United States is the largest importer of apparel, importing \$71 billion in 2006 (OTEXA, 2007). Out of this apparel, the premium denim market in the United States flourished over the past several years. Citizens of Humanity stated profits in the range of \$35 million on sales of around \$80 million in 2005 (Young, 2006). Despite the profits of recent years, there has been a recent decline due to over crowding in the market. It is now important for the United States' premium denim market to examine their target markets and supply chains in order to stay competitive in the ever-changing global environment.

2. A Closer Look

The supply chain itself is a very dynamic and complex process and its goal is to be efficient and seamless. It is comprised of several different functions that can be spread across the globe. J. Lam and R. Postle (2006) uncovered several explanations of the apparel supply chain in their journal, *Textile and Apparel Supply Chain Management in Hong Kong*. They summarize the definition of the apparel supply chain as:

All the activities involved in delivering a product from raw material through to the customer including sourcing raw materials and parts, manufacturing and assembly,

warehousing and inventory tracking, order entry and order management, distribution across all channels, delivery to customer and the information systems necessary to monitor all of these activities (267).

As you can see, the apparel supply chain is a complex and intricate process with several different areas. One mistake in the supply chain causes a kink throughout the whole process. Therefore, it is important for supply chain managers to create a seamless and efficient process.

In the past, the apparel supply chain was more limited, as illustrated in Figure 1.1, but over the years, the supply chain has become more complex, as seen in Figure 1.2.

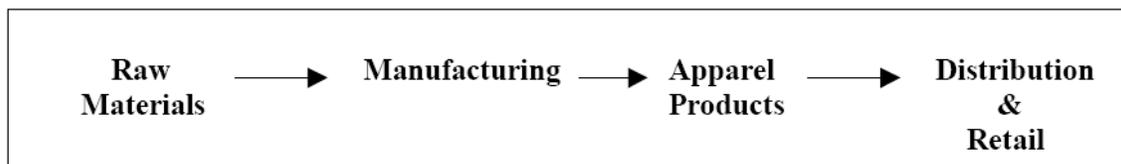


Figure 1.1: Apparel Supply Chain

Source: Thoney, K. Supply Chain Management Lecture, August 2007.

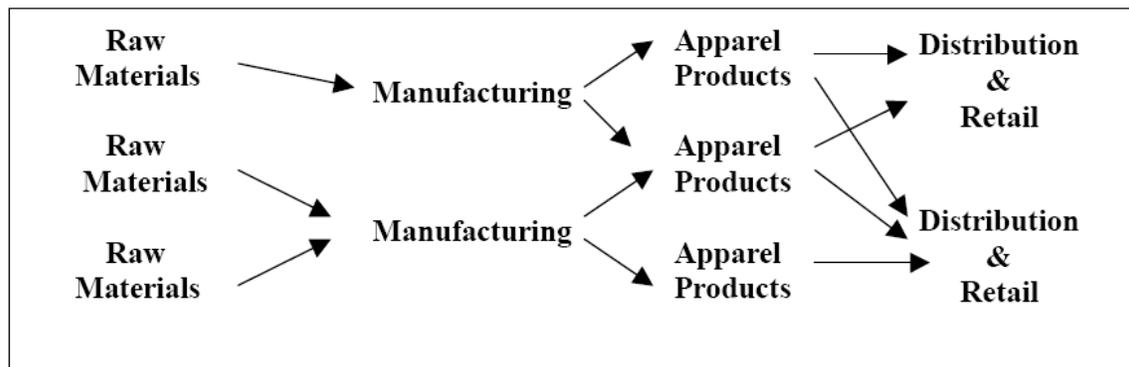


Figure 1.2: More Complex Apparel Supply Chain

With technological and transportation advances, companies have the ability to use several different companies to achieve a more efficient supply chain. Companies now use different suppliers, distributors, and manufacturers, based on cost and location. One company may get its raw material from both a company in Japan and a company in the United States. This material

may then be shipped to different manufacturing plants based on the end use of the product. More companies are diversifying their options in order to minimize the number of vendors, to reduce cost, or to shorten lead times. They are achieving this by using several different supply chain strategies.

2. Areas of concern

Some typical problems facing the apparel supply chain are short product cycles for fashion articles, long production lead-time, and forecasting errors for fashion items. Gap estimates that more than 30% of their customers walk away when they learn the garment they wanted to buy is out of stock, according to Frontline Solutions (2003). In order to improve these areas of concern, companies are trying to create transparent supply chains so they can have clear visibility of their product from manufacturing to retail. If an apparel company can locate its product from production to shipment, it would help to eliminate out of stock items and prevent loss of inventory.

Another area of concern, especially for trendier apparel items, is short product life cycle. The apparel industry deals mainly with two types of products; innovative and functional. The functional or core products are easier to forecast as people buy them more frequently and they are not affected by trends. The innovative products are the areas where apparel companies have more of a problem. Forecasting is only 60-70% accurate according to Keith Bolton, vice president for marketing at Blue Agave (The Final Fifty, 2003). Since these products are very trendy, they have a shorter life cycle and are much harder to forecast and plan for production.

3. Competitive Strategies

Apparel companies have used several strategies in order to keep their supply chains working efficiently and tackle problem areas. An efficient and cohesive supply chain allows

companies to keep a competitive advantage by supplying superior service to their customers and by keeping loss of inventory at a minimum. Apparel companies now use multiple channels, new advances in technology, and streamlining in order to create a very efficient supply chain.

3.1 Use of Multiple Channels

With a global environment, apparel companies today have the ability to utilize several different resources and channels to source and sell their products. Apparel companies, such as Jos. A. Bank Clothiers, rely on multiple retail channels in order to reach their customer more effectively. According to Gary Merry, senior vice president and CIO of Jos. A Bank, the company's Internet sales have grown from \$2 million to \$50 million in just a few years (DesMarteau, 2005). He also stated that customers who shop all three of their channels (catalog, stores, and Internet) are worth 500% more than customers who only shop one channel. By supplying their customer with more than one avenue to access their product, they are not only providing customer service, but they are also aiding their supply chain. Internet sales eliminate a section of the supply chain process by shipping directly to the customer. They also allow the company to reach consumers across the globe without the expense of a brick and mortar store.

With

Internet sales, retailers still have to worry about out of stock items and the problem of proper fit.

Another way apparel companies are using multiple channels is through their sourcing and vendor choices. Kellwood Co. Services Group has reduced the product cycle for their junior's brand by narrowing its vendor base. This has enabled the brand to introduce trendy fashions along with their core fashions several times per year. Kellwood relies on suppliers in Asia to ship most of their core fashions, which have a longer lead-time. The company then uses suppliers in Central America for their trendier products. Suppliers in the United States are only used for their

hot items. (DesMarteau, 2005). Sarah Williams, assistant buyer, (personal communication, October 2, 2007) acknowledges that Belk Inc. is another company that takes advantage of multiple vendors. Apparel companies do pay more for shorter lead times, so it is essential for these companies to evaluate what items to source where and whether or not they will get a return on the investment. By narrowing down their vendor options and sourcing to different areas based on the products life cycle, apparel companies can create a quicker and more responsive supply chain.

3.2 Technological Advances

New advances in technology have allowed companies to reach new heights in communication and collaboration within their company and with business partners. This collaboration between downstream and upstream companies is an area that companies are trying to improve. In order to achieve this, companies are looking to their IT departments. Some companies are working on their own web-based systems in order to have clear visibility of their product, but most companies are looking to a third party to implement a web-based supply chain solution. Unifi Inc. based in Greensboro, NC, hired BizLink to create a flexible web-based system that would allow them to communicate with suppliers, customers, and associates. By directly communicating with suppliers, Unifi cuts out the middleman. Customers can supply their forecasted needs and production costs while Unifi shares its inventory and warehouse costs. The sharing of this information has allowed the company to shorten its lead-time. (Coia, 2003) This is just one example of how an upstream company can collaborate with downstream companies in order to make a more efficient and speedy supply chain.

Another company that has had success with a web-based interface is Novelty

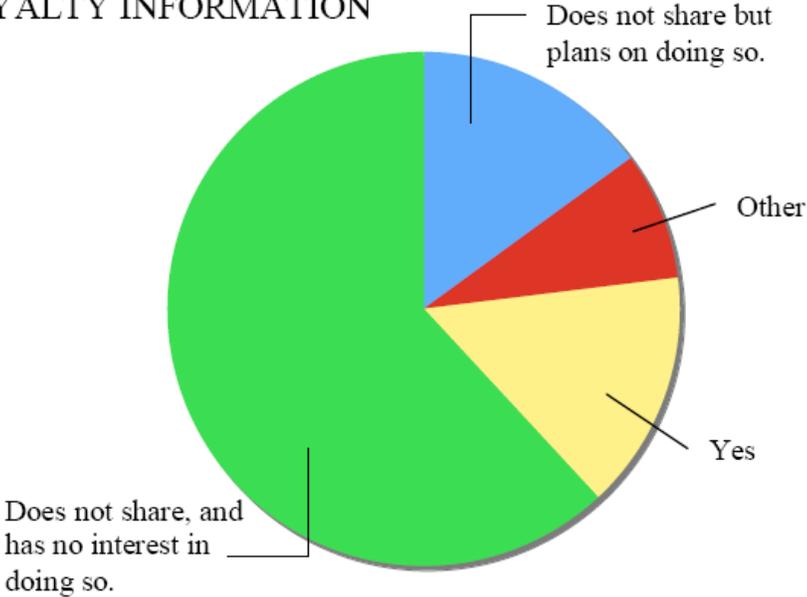
Plus, a wholesaler of woman's apparel based in Brooklyn, NY, whose customers include Saks Inc., Nordstrom, and Macy's. The company was having problems with slow and inaccurate orders. Their new web-based systems allow customers to place their orders online and send them directly to the wholesaler, eliminating errors. The system also pulls data every fifteen minutes, which speeds up the order process (Coia, 2003).

Wing Tai Apparel is another company that wanted visibility in their supply chain. Wing Tai's customers demanded a "stitch by stitch" update on their products (Travis, 2007, p.168), so the company created MSC Limited. This company was created to specifically address the issues of Wing Tai Apparel, but according to Travis (2007), it is now used by some of the world's most recognized brands. MSC's supply chain monitoring system is unique because it recognizes that the supply chain is no longer a vertical entity but has become increasingly horizontal. End products emanate from a "core enterprise," which would be a manufacturer or trading company that has a relationship with both upstream and downstream companies (Travis, 2007). The MSC system also allows transparency at all stages of the manufacturing process by using new technology such as Radio Frequency Identification (RFID). RFID is an automatic identification method that relies on storing and remotely retrieving data using tags embedded with circuits. MSC Limited combined several areas of technology, such as a web-interfaced system and inventory tracking, in order to create a fully transparent supply chain.

It is obvious through the steps taken by both downstream and upstream companies that collaboration and transparency through the manufacturing process is becoming an important part of the global marketplace. Some companies do have issues with this collaboration and sharing of information. One the most common reasons for lack of collaboration is a lack of trust between

companies. As illustrated in Figure 2, few companies share information. Another reason for this lack of collaboration is incompatible software. Companies have to work together to create a fluid system that will allow all users to gain access to information that will help them become more efficient and reduce costs. Tom Cole of Federated Department stores stated that companies should focus on meeting the customer's needs instead of competing for that customer. (Collaboration, 2006) The companies that do learn to collaborate and create a visibility system will in turn have a more efficient and cost reducing supply chain, which will in turn create advantages for their customers. These companies will not have to worry about competition, as the customers will return due to their level of service and cost effectiveness.

Figure 2: PERCENTAGE OF RETAILERS THAT SHARE LOYALTY INFORMATION WITH SUPPLIERS



Source: Spiegel, Rob. (2007). How Technology is improving the retail supply chain. Supply Chain Management Review. Reed Business Information.

3.3 Streamlining

Some apparel companies are streamlining their supply chain by using what the industry calls “one-stop-shopping.” Manufacturers that offer one-stop-shopping cover aspects such as raw materials to assembling the garment. John Adams, the president of American Textile Manufacturers Institute, states, “There is a clear trend toward textile companies becoming more involved in apparel operations, either directly or indirectly (Bonner, 1997, 82). Textile manufacturers insist that they are not in competition with the apparel manufacturers, but instead want to save their customers time and money by being a full service provider (Bonner, 1997). “Textile firms that make apparel to sell directly to retail benefit by controlling the whole process,” says Nancy Young, director of corporate affairs for Sara Lee Knit Products, in Winston-Salem, NC. “It gives you tremendous control over quality and scheduling, so you are able to react internally to customer needs more effectively,” she explains (Bonner, 1997, 82). If a problem occurs within the supply chain, it would be necessary to contact only one supplier, rather than two.

Vertical textiles, a textile manufacturer, has a partnership with Caribbean Apparel Manufacturing (CAMSA) in order to offer their customers a one-stop-shop. The knitting and dyeing of the fabric is completed in Florida by Vertical Textiles and the assembly is completed in Haiti by CAMSA (Vertical, 2007). Li & Fung is another manufacturer who offers a “full package.” Li & Fung offers its customers product development, raw material sourcing, production planning, quality assurance, export documentation, and shipping consolidation. In order to produce the garment, they may purchase the yarn from Korea; it will be woven and dyed in Taiwan, and then shipped to Thailand for final assembly. Their goal is to customize the supply chain to meet their customers’ individual and financial needs (Lam & Postle, 2006).

Streamlining does simplify the supply chain by reducing the number of vendors, therefore improving the efficiency of the supply chain.

4. The Premium Denim Market

The premium denim market in the United States has been a thriving niche since 2000, as Figure 3 illustrates, but sales recently have been declining due to an overcrowded market. This niche, which has so far been concentrated in Southern California, was pioneered by Jerome Dahan, Peter Koral, and Michael Glasser. These three designers founded Seven for all Mankind in 2000. Since then, Dahan and Glasser left in 2003 to start Citizens of Humanity. Glasser now heads his own premium denim label called Rich & Skinny (Tran, 2007). After these three designers saw the profitability and market for premium denim, they left the original company and branched out on their own. Since then, several premium denim companies have joined the evolution of the denim market.

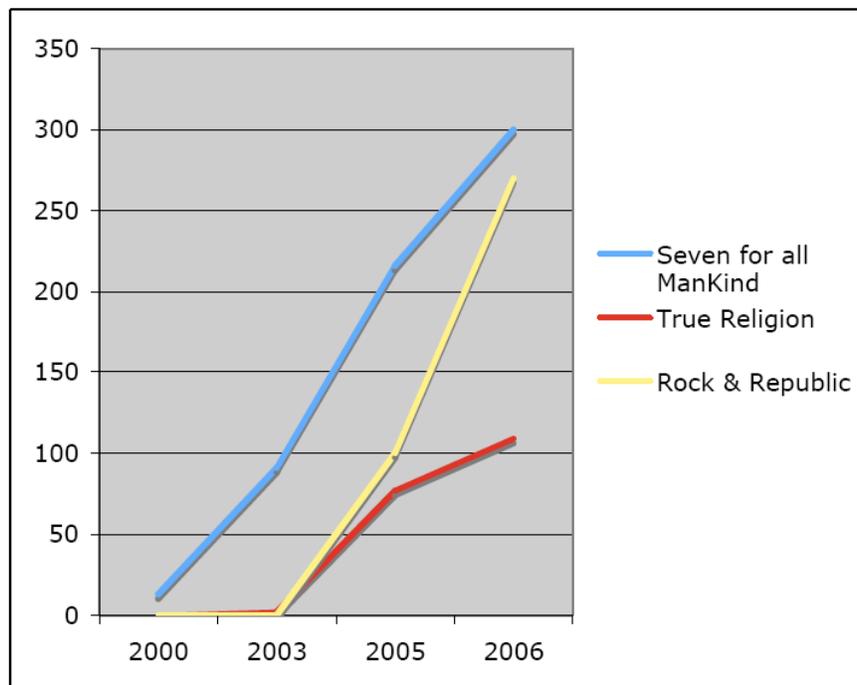


Figure 3: Overview of Increasing Profits of Premium Denim
(Figures are based \$1 million U.S. dollars)

Sources: Tucker, R. (2007). Red Flags for a Blue Market. *WWD: Women's Wear Daily*, 193(138),12. Retrieved from Business Source Premiere database.

The new premium denim companies saw an opportunity and tried to capture part of the profits in this expanding market. Today, it takes more than fashionable denim to succeed in the overcrowded denim market, which counts over 300 U.S. brands of denim (Tran, 2006). The department store Nordstrom alone sells 30 different brands of denim. The United States now leads the globe in jeans ownership (see Figure 4), with Americans owning an average of nine pairs of jeans (Tucker, 2007). In the past year, 71% of Americans purchased jeans, which is down from 74% last year. *Women's Wear Daily* (June, 2007) reports that Americans have more denim in their closets than they know what to do with and women are now devoting their paychecks to dress, footwear, and handbags.. This could be one of the reasons that more premium denim companies are looking for ways to expand their market. Some companies are using product expansion and mergers while others are looking to markets outside of the United States.

United States	Germany	United Kingdom	China	Italy	Columbia	Brazil
9	7	8	7	7	8	7

Figure 4: Average Pairs of Jeans per Consumer

Source: Tucker, R. (2007). Red Flags for a Blue Market. *WWD: Women's Wear Daily*, 193(138), 12. Retrieved from Business Source Premier Database.

Some companies are reaching beyond their signature product, denim, and compensating for waning revenues by adopting new product lines. Many premium denim companies are trying to launch up-market lifestyle brands by expanding clothing lines, accessories, and outerwear, in hopes of boosting customer loyalty and establishing their company as multi-category brands

(Jana, 2007). True Religion now sells shoes and shirts and 7 For All Mankind sells purses.

Loretta Soffe, head of women's apparel for Nordstrom, says the designers have yet to prove they can make the transition. "I'm not going to lie to you," she says. "Their expertise is in denim"

(Palmeri, 2007). Marshal Cohen states that adding accessories and clothing to build a lifestyle brand will work for those jeans companies with a strong customer following (Jana, 2007). Rock and Republic has made clear its intentions on becoming a global lifestyle brand by launching an accessories line, cosmetics, and announcing plans to open a Rock and Republic boutique hotel.

Paper Denim + Cloth, another premium denim company, decided to take their company in the opposite direction. Instead of creating an up market lifestyle brand, they began focusing on the mass market as a retail channel. Their jeans are now at a different price point, the \$80 to \$90 range, which takes it out of the premium category (Jana, 2007). The company still offers the same premium cotton as were used in their premium brand, but can now offer them at a lower price-point by shifting manufacturing from Kentucky to the Dominican Republic. This move also broadens their consumer base, as they have distribution deals with Federated Department Stores. Some might say that lowering their price-points and mass distribution is brand dilution, but it is a way to increase revenues and stay competitive (Jana, 2007). According to NPD Group, these lower price-points generate more overall revenue than the higher-end rivals, due to the larger consumer base.

Other companies such as Citizens of Humanity and Seven for all Mankind considered mergers as a method to stay competitive in an over crowded market. Citizens of Humanity acquired Adriano Goldschmied's company, Goldsign. The two brands will remain separate, but hold the belief that the power of two companies will help them better compete in the U.S. market and boost their international presence (Tran, 2006). The most prominent example of an

acquisition in the premium denim was VF Corporation's decision to acquire Seven for All Mankind for \$775 million. Since VF Corp acquired the company, Seven for All Mankind has opened its first retail store in California and plans to open 100 more in the U.S., with hopes of opening stores overseas as well (Brown, 2007). True Religion is another premium denim company that has announced that it is searching for a buyer. The company announced in May 2007 that it is considering a sale of the company. These acquisitions and sales of premium denim companies could be a sign of what is in store for this market. It is definitely a way for premium denim companies to combine talent and assets in order to stay competitive.

4.1 Premium Denim Supply Chain

The supply chain within the U.S. premium denim market has been mostly concentrated within Southern California. California is where the companies were developed and it is where their laundering and manufacturing facilities are located. The product is targeted toward the high-end market, so the high cost of manufacturing in the United States is factored into the consumer's price. By manufacturing in their core market, it allowed companies to be very responsive to the demand by allowing short lead times and control over the manufacturing process. With all the acquisitions, product expansions, and market expansions within the premium denim market, the dynamics of their supply chain will change. Before, when this market was sustained by its U.S. sales, it made sense to manufacture in the United States, but now that these companies are looking to markets outside of the United States and expanding their brands, the manufacturing process and supply chain will have to be adjusted accordingly. Apparel companies today, in general, use several different supply chain strategies, and the premium denim market may have to adopt some of these strategies in order to stay competitive. Some companies, like Paige Denim Company, have already adopted some of these strategies by

moving to mass marketing and shifting manufacturing overseas. Seven for All Mankind is also taking advantage of the multi-channel strategy by utilizing distribution to boutiques and department stores along with a new retail chain of their own.

Most premium denim companies' supply chains have been using "streamlining," or utilizing a vertical supply chain. Before these companies were forced to reconsider their business strategies, they completed all manufacturing process in Southern California and then distributed their product to retailers. These companies controlled all aspects of manufacturing. The only communication necessary was with their retailers, whether it was a department store or boutique. Some companies even had their own retail stores, so they really were "one-stop shopping," since they controlled every aspect of the supply chain. These companies did not have to worry about collaboration and sharing information with other companies as they completed everything in house.

5.0 Recommendation

Premium denim has been a thriving market until recently, when the market became flooded with new companies. The new competition has forced companies to review their business strategies. Some companies have chosen to merge with others while some expanded their product lines and markets. After reviewing the dynamics, all the changes in this market have had a direct affect on the supply chain. In order to sustain a competitive advantage, it will be important for some companies to be more creative in their strategies.

Companies that have a strong consumer base, like Seven for all Mankind, can extend their product lines to create a lifestyle brand. Diesel, an Italian premium denim company, is a great example. Diesel successfully provides their consumers with jeans, clothes, shoes, and handbags. Companies who have a strong and loyal customer base will have people buying their

products because of the company's quality and logo. When expanding their brand, the supply chain dynamics will change. All raw materials will be consistent, mostly cotton with a few other yarns, and all the manufacturing and laundering will be in Southern California. Now these companies will be handling various raw materials, depending on the product. A good strategy for new products would be to use specialty manufacturers to produce all accessory lines to ensure top quality. Consumers will expect all of their products to be of the same quality as their denim, so it will be imperative for the quality of their other products to meet or exceed the premium quality of their denim. Since the companies' specialty is not in leather manufacturing, in order to achieve the same quality, sourcing of manufacturing to a specialty leather company would ensure top quality handbags, for example. It would also be advisable to keep the existing vendors and use vertical vendors when possible. It will eliminate the number of people to contact in a supply chain emergency. I would also recommend using several different channels to distribute their products. In order to successfully launch a lifestyle brand, the consumer needs to recognize the brand and not just associate it with premium denim. The brand would need to be repositioned in the consumers' mind, such that the consumer thinks of them when shopping for a handbag and not just when shopping for jeans. Retail stores and on-line shopping will help the consumer realize the new depth of the brand by seeing all of their products offered in one place.

For the premium denim companies with a not so loyal consumer base, a strategy that can be adopted to stay competitive would be market expansion. Instead of focusing on just the United States' market, the companies should take a more global stance, distributing their products in Europe, China, Japan, South America, and Canada. Canada is one of the leading exporters of American denim. With today's technology, premium denim companies can distribute their products globally while still tracking inventory levels and sales. Premium denim

companies will have to analyze the markets before entering certain countries. Due to social and cultural preferences in other countries, certain aspects of their product may have to be adjusted, such as size, labeling, and promotions. As for the supply chain, I recommend the companies to continue manufacturing in Southern California. They have already honed their expertise and have all the machines and laundering facilities. Cutting manufacturing cost is not an issue with this high end product, so it would be best to keep manufacturing where they can control the quality. Quality and design is what makes premium denim marketable. These aspects should be retained throughout their global market. New advances in technology and software will assist these companies in tracking inventory and sales. Since the target market will no longer be so close to the manufacturing facilities, it will be essential to properly track inventory.

Overall, the premium denim market is currently seeing a decline in sales, but that does not mean it is not a profitable market. This market is still a thriving niche, but more mergers and acquisitions will be seen as the market becomes crowded. Companies will not be able to rely on fashionable jeans with their names on the pockets anymore. In order for companies to stay profitable and keep a competitive advantage, it will be imperative for them to re-consider their business strategy.

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