



TEACHING NOTE

Liz Claiborne: The US Apparel Retailer's "Three-M's" Strategy

Prerequisite Conceptual Understanding

- Value chain of apparel retailers
- Trends in the US apparel industry

Synopsis of the Case Study

This case is particularly helpful for students pursuing specialised courses on retailing, value chain management and supply chain management. It is set at a time when apparel retailers in US are bugged by the changing industry dynamics and consolidations of major departmental stores. Broader issues – like the critical success factors and the changing trends in the apparel industry – are also dealt. The case, while highlighting Liz Claiborne's challenges, also discusses its Three-M's strategy.

Teaching Objectives

The case study can be used to:

- Analyse the value chain of the apparel companies
- Understand the impact of trade regulations on the textile and clothing industry
- Discuss the changing dynamics in the apparel industry
- Examine the affect of changing consumer preferences on the apparel companies
- Discuss Liz Claiborne's challenges and strategies to overcome them.

Assignment Questions

- I. Discuss the value chain of apparel industry. Critically evaluate the components of value chain and discuss which of the components a company can outsource.
- II. Discuss in detail the trends affecting the US apparel industry.
- III. How did the changing dynamics in the retail industry affect the sales of Liz Claiborne? Discuss the various strategies adopted by the company to overcome these challenges.

This teaching note was written by Vineetha Ravipati, under the direction of Rajendar Singh Rathore, IBSCDC. It is only an illustrative orchestration of the case study 'Liz Claiborne: The US Apparel Retailer's "Three-M's" Strategy'. It is never meant to limit the learning outcomes.

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Teaching Plan

The Structured Assignment and the Teaching Note follow the Teaching Plan given in **Annexure (TN)-I**.

I suggest students be given the case a day in advance, so that they come prepared with their analysis. I began the session with a general question like what are the preferred apparel brands; if so, why do they like those brands? Gradually, the participants are led towards an in-depth analysis of the trends affecting the global apparel industry and the changing dynamics of the US apparel industry. Then the discussion focused on the strategies adopted by Liz Claiborne.

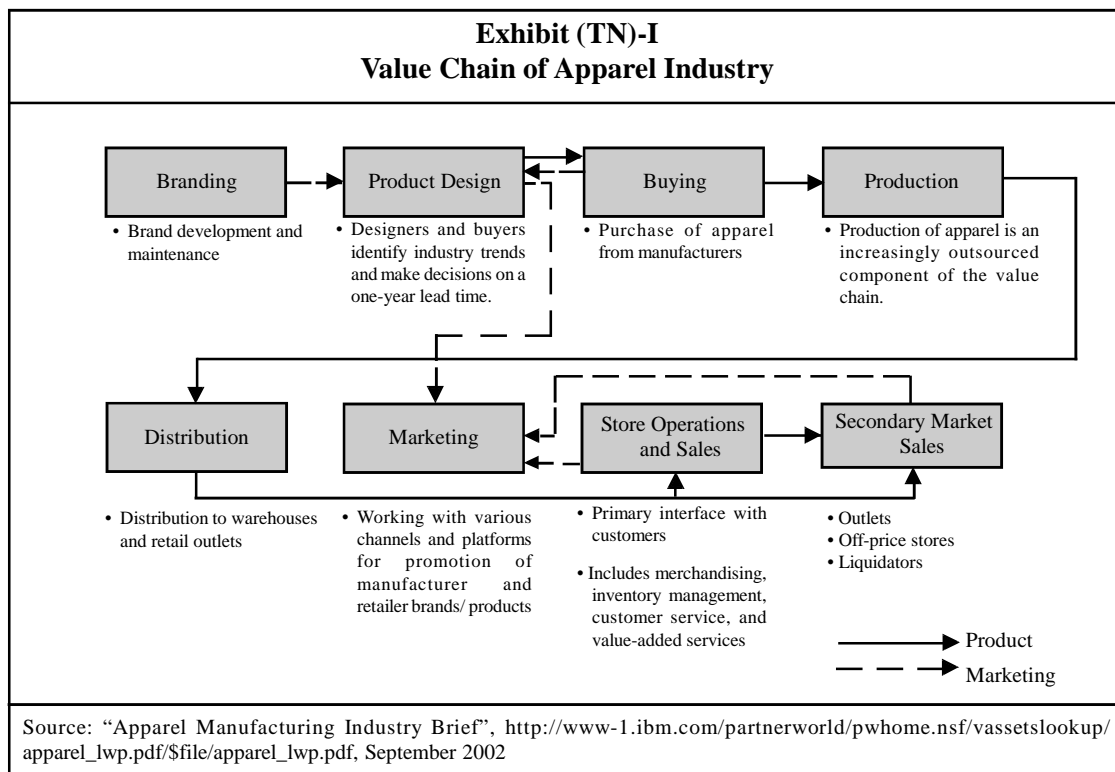
Case Analysis

Over the decades, the global apparel industry has seen many trends; the notable one was the outsourcing of production to countries with cheap labour. To analyse whether the companies should outsource or produce in-house, students should have an idea of the process of value chain.

I. Value Chain of the Apparel Industry

A value chain is the process involved in the design, production and marketing of the products. The value chains can be either producer-driven or buyer-driven. In producer-driven value chains, the manufacturer plays an important role. This is practiced in industries that are capital and technology intensive like automobiles, aircrafts and computers. In a buyer driven value chain – which is followed by the apparel industry – the retailer, marketer or the branded manufacturer plays a major role.

The instructor can then move on the discussion to the value chain of the apparel industry. The apparel industries value chain comprises of – procurement, design, production and marketing [**Exhibit (TN)-I**].



Procurement: This is the function responsible for the purchasing of materials required to perform the operations. The procurement department should negotiate for high quality at low prices.

Procurement is usually outsourced to gain economies of scale and to manage costs. Along with reduction in operational costs, it also helps enhance performance and cycle times of the companies. Companies should identify the risks of outsourcing procurement and should check whether outsourcing procurement would lead to the loss of its core competency. However, the decision whether to outsource procurement varies between companies based on the value, procurement contributes to the business.

Design: It is an important stage in the value chain of the apparel manufactures. After thorough research on the fashion trends, the designers create new designs for their products. Based on their business model, companies either go for in-house designers or outsource the designing process.

Companies usually have an in-house design when their focus on brand image is more. Designing in-house enables companies to respond to the changing trends and fashions faster when compared to outsourcing. However, if companies cater to mass markets and if production differentiation is not necessary then outsourcing design is a better option. Companies need to be careful while selecting the suppliers for outsourcing, as the suppliers should be competent enough to respond faster to the changing trends.

Production: It deals with transforming the inputs to the final product. Most apparel companies are outsourcing production activities to countries having abundant cheap labour and raw materials.

Outsourcing production leads to reduction in costs and helps companies that are involved in rapid growth. However, apparel industry, which is dynamic in nature, requires production to be closer to the markets to ensure faster turnaround time. Outsourcing also encounters many risks such as loss of critical skills and abilities. It will also lead to loss of technical competence and ultimately the ability to innovate. Taking into these considerations, companies need to decide whether to outsource their production or not.

Warehousing, logistics and distribution: In this stage, the finished goods are delivered to the warehouse and then transported to the stores through the logistics and distribution network. By outsourcing warehousing and logistics, companies can reduce costs and save time. This may also help the companies to manage the supply chain effectively. However, if the outsourcing partner is not efficient, apparel companies might face the risk of damage or loss of goods.

Sales: Some companies are forward integrated and sell their goods directly to the customers, whereas others outsource their sales and marketing. Companies outsourcing their sales should determine the extent to which this outsourcing of activities leads to increase in efficiencies and productivity. Generally, outsourcing sales activity helps increase sales and market penetration at comparatively lower costs.

Based on the above parameters, apparel companies need to decide which activity should be outsourced.

Over the years, many trade regulations affected the global textile and apparel trade. Therefore, before outsourcing, companies need to understand the impact of these trade regulations on their business.

Trade Regulations and Their Impact on Apparel Companies

Over the past decades, the Textile and Clothing (T&C) trade was subject to many restrictions, in the form of quotas and tariffs. Quota restrictions on textile and clothing trade dates back to the time when the Roman Empire – to protect its producers from low-cost Chinese products – restricted its imports. Since then, the textile industry has encountered many trade regulations [Exhibit (TN)-II].

Exhibit (TN)-II
Trade Regulations on Textile and Clothing Products

- In 1930s, Japan exercised voluntary export restraints (VER) on its textile exports to the US
- In 1961, a Short-Term Arrangement Regarding International Trade in Cotton Textiles (STA) was reached at the initiative of the US and under General Agreement on Tariffs and Trade (GATT)
- In 1962, Long-Term Arrangement (LTA) was reached which imposed a 5% annual growth limit on imports of cotton T&C products for a five-year period
- Between 1974 and 1995, the T&C trade was governed by the Multifibre Arrangement (MFA), which established quotas limiting imports into countries.
- In 1995, Agreement on Textiles and Clothing (ATC) came into effect, which stated that the percentage of quotas should be removed in accordance with the stipulated schedule.

Implementation Date	Integration Share (based on 1990 import volume)
Phase 1: 1 January 1995	16%
Phase 2: 1 January 1998	17%
Phase 3: 1 January 2002	18%
Phase 4: 1 January 2005	49%

- The agreement also stated that the quantities of imports permitted under the quotas should grow annually, and that the rate of growth should increase at each stage
- By January 1st 2005, the ATC came to an end.

Source: "Developments in the Textiles and Clothing Trade: Impact of Quota Elimination from 2005", <http://www.tdctrade.com/econforum/tdc/tdc050103.htm>, January 26th 2005

Outsourcing production also resulted in the loss of many manufacturing jobs in the US. The US manufacturing jobs fell from 857,800 in 1994 to 381,100 by 2001.¹ Due to quotas on T&C products, developed countries like US entered into regional trade agreements. With the implementation of North American Free Trade Agreement (NAFTA) in 1994, the US importers shifted their manufacturing base to Mexico. As a result, they were able to benefit from the low-cost labour in Mexico; and because of the free trade agreement, they were able to freely move products between the borders, without any tariffs.

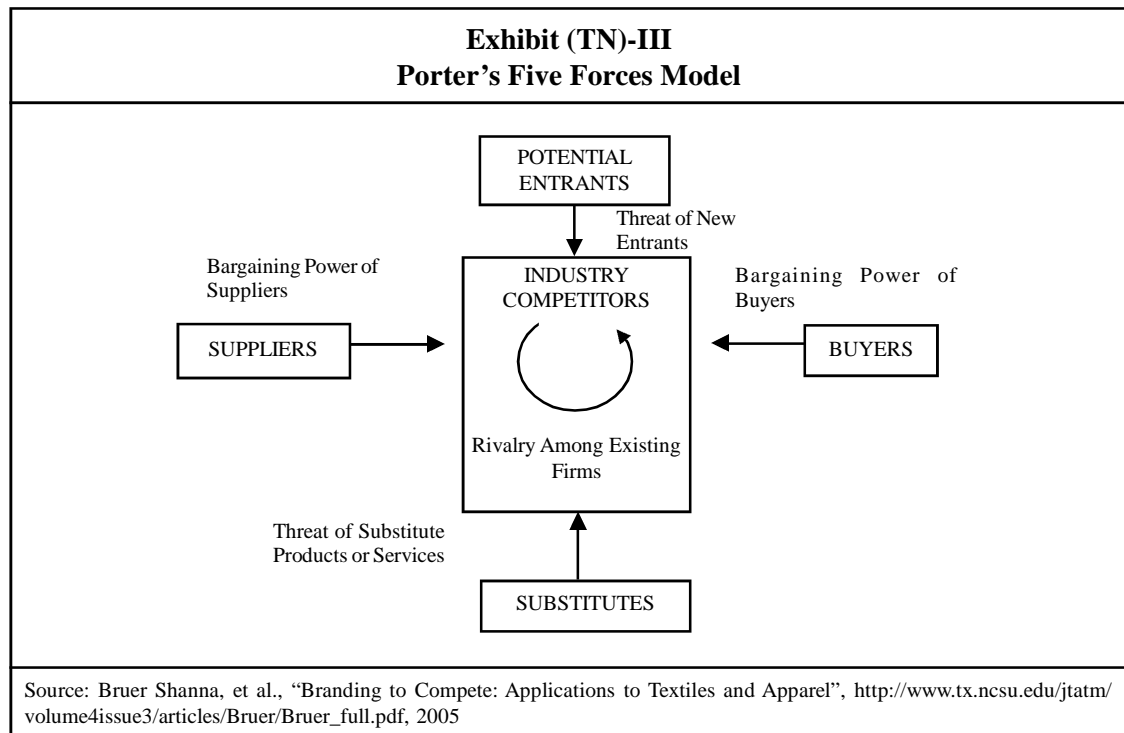
Quota restrictions affected the global T&C trade too. In January 2005, the restrictions were purged. With this, T&C manufacturers in the developing countries benefited, while those in the developed countries faced severe competition. Ridding quotas shook up global T&C trade:

- Asian T&C manufacturers benefited as their exports increased
- Before 2005, T&C importers sourced their products from locations based on the quotas. But after they were removed, importers' sourcing locations shrunk that in turn cut their administrative costs
- Consumers also benefited because without quota premiums, prices dropped. For instance, it was estimated that the removal of quotas and import tariffs saved \$13 billion in prices paid by US consumers²
- In the quota-free environment, T&C manufacturers in the developed countries started facing severe competition from the low-cost countries.

After understanding the trade regulations, students can be asked to conduct an industry analysis of the US apparel industry using Michael E. Porter's five forces model [**Exhibit (TN)-III**].

¹ "Developments in the Textiles and Clothing Trade: Impact of Quota Elimination from 2005", <http://www.tdctrade.com/econforum/tdc/tdc050103.htm>, January 26th 2005

² Ibid.



Potential entrants: According to Michael Porter, the entry of new entrants into a market depends on various barriers, which include economies of scale, product differentiation, capital requirements, switching costs, etc. Therefore, the success of new entrants depends upon their ability to compete with the already existing market players. The US apparel industry, at present, is highly competitive due to low entry barriers. Before 2005, the industry was highly protected because quotas and tariffs restricted free trade. But with the end of quotas, the US apparel industry has become very competitive with the entry of many new players, prices have dipped.

Bargaining power of the buyers: Buyers usually demand for better quality and service, at competitive prices. Buyers are powerful when they purchase in large quantities and if the switching costs are less. US apparel manufacturers are affected by the mass discount stores, which quote lower prices. So, they are forward integrating to reduce their reliance on retailers.

Bargaining power of the supplier: Suppliers are powerful when they are highly concentrated and if the costs for switching the suppliers are high. Supplier competition is increasing because US mass discount stores are becoming more popular. Moreover, with more low-cost suppliers from countries like China, the bargaining power of US suppliers has reduced.

Rivalry among existing competitors: The intensity of rivalry in a particular industry is influenced by the number of firms, slow market growth, high fixed costs and low levels of switching costs, and product differentiation. The US apparel industry is highly competitive, with many players offering a variety of products at different prices.

Threat of substitutes: According to Porter, the threat of substitutes exists when the demand for a product is affected by the price changes in the substitute product. As in the US apparel industry, many companies offer similar products; and consumers are easily attracted towards those companies that tune into the changing fashion trends. A different kind of fabric that a consumer would like to choose may also become a substitute for other fabric-makers. So, in the apparel industry, the threat of substitutes depends on the buyer propensity to substitutes, the relative price/performance relationship of substitutes, the buyer switching costs, and the

perceived level of product differentiation. Considering the highly customer-driven nature of the industry, companies must offer a superior product value to avoid loss of market share.

After discussing the competitive forces driving the US apparel industry, students can be asked to

II. Identify the major trends affecting the US apparel retailers.

The trends affecting the US apparel industry are:

- **Shorter cycles:** Due to the fast changing fashion trends, apparel retailers – who used to carry huge inventory – saw their sales decline. Customer's buying patterns have also changed and now they purchase close to their needs. As a result, apparel retailers need to shorten the design, development, production and distribution cycles.
- **Technological advancements:** Firms that are capable enough to invest in technology are enjoying competitive advantage, whereas smaller firms that cannot are jostled
- **Price deflation:** Since 1994 apparel prices have been declining, creating margin pressures for most of US retailers. Factors forcing the prices to come down include increase in imports, retail promotions and increase in discounter's market share
- **Outsourcing:** With the rising competition and bargaining power of the retailers, US apparel-makers are forced to cut costs. As a result, they had to look for means to cut costs and outsourcing production was a possible way out. But the trade regulations, which put restrictions for free trade, acted as a barrier. However, when quota restrictions ended in 2005, makers could opt for any low-cost country as their production house
- **Diversifying to survive:** Apparel retailing in the US is highly competitive, with many players fighting for the market share. Companies wanting to survive had to diversify into various product-lines across different channels, instead of depending on a single product-line
- **Demographic changes:** Many demographic trends affected the US apparel industry. The baby-boomers, initially key customers for apparel retailers, later spent less on apparel.

To succeed in the apparel industry, the demographic changes needs to be monitored carefully and companies should adjust accordingly. So first the apparel companies need to define their target segment and then concentrate on the changing trends in that segment.

Shifts in **baby-boomers'** preferences produced major altered apparel demand. They comprised 77 million people born between 1946 and 1964.³ Till 1960s, traditional and formal clothing was preferred (**Refer Annexure I of the case study**). But from then on, fashion statements changed like the hippy look. During 1970s and 1980s, baby boomers, who had more disposable income, drove retail sales. But after a period of time, their preferences shifted to other priorities like healthcare and education for their children. They started preferring comfortable clothing.

Those born between 1977 and 1994 – referred as **Generation Y** – brought in many new fashion trends – served by apparel companies like Jones Apparel, Tommy Hilfiger and Polo Ralph Lauren.

Manufacturers must adapt to changing lifestyle and fashion trends, by altering their product-lines accordingly. **Preteen and teenage** markets are fashion-driven and, apparel manufacturers have to closely monitor and anticipate the styles.

Companies got to catch up with the frequently changing fashion trends. If they do not, sales would drop, inventories pile up, and profitability may be plundered.

³ Driscoll Marie and Wagle Yogeesh, "Industry Surveys Apparel & Footwear", <http://sandp.ecnext.com/sandp/includes/paper.pdf>, March 4th 2004

Besides, US apparel retailers are also bullied by major discounters and departmental stores selling their own private labels.

Strategies adopted by the companies

- To quickly respond to the changing trends, apparel retailers are altering their manufacturing strategies. Companies, which earlier were outsourcing their production to low-cost Asian countries, are now shifting a part of their production to the US. They are also shifting their production to Mexico and Caribbean countries, with which they have a free trade agreement. This helped the companies reduce their turnaround time. Companies are also adopting market research to keep up with customer preferences
- Adopting the latest technological advancements benefited the companies in many ways. Internet-based communications benefited both the suppliers and retailers. Retailers were able to pass the information regarding the demand for a particular product more easily to the suppliers. This helped retailers to tailor their products according to the needs of the customers
- Retailers are focusing on improving their assortments by introducing new products. They are concentrating on improving customer service and adopting strategies, to differentiate themselves
- Apparel retailers are spending more time to understand the unmet customer needs
- Retailers are following lean retailing practices to streamline supply chain activities, improve operational efficiencies through various technological advances
- Most apparel companies consolidated and developed mega-brands, to serve a wide variety of customers, with their diversified product lines.

This understanding would help leading the case discussion towards the critical success factors in the apparel industry.

Critical success factors in the apparel industry

- **Brand image:** Consumers regard brands as unique products that have constant performance and features. So, apparel retailers need to develop a sustainable brand image
- **Customer relationship management:** Apparel retailers can gain a competitive advantage by providing quality customer service
- **Price:** Retailers must offer value-for-money products
- **Product mix:** Right product assortment is essential, to succeed in the retail industry
- **Store location:** Location is very important for the success of retail stores as it directly affects the performance of the stores. Stores should be located at places convenient to customers
- **Inventory control:** Effective inventory management and ability to improve inventory turnover, are also important for retailers.

After understanding the dynamics of the apparel industry, the students can now discuss the growth of Liz Claiborne.

III. Analyse the reasons behind the success of Liz Claiborne.

- In 1977, Ms. Claiborne started serving a new market segment – the working woman – who did not have much choice with career clothing

- Ms. Claiborne made a mark in the apparel industry by remarking that 'the American woman is pear-shaped'.⁴ Her designs provided perfect fit compared those of other fashion houses
- Liz Claiborne products were low priced, as most of its production was outsourced. Liz Claiborne priced its products differently from other apparel companies that sold products at 40% mark up costs (**page 7, para 1 of the case study**)
- The company presented the apparel lines as an entire collection, enabling customers to mix and match the clothes within its collection
- Liz Claiborne – operated through large up-scale departmental stores – and insisted on showcasing the merchandise as an entire collection
- The company's sales-force and its SURF (Systematic Updated Retail Feedback) system (that pumped information about the country sales), helped stay more closely with the end-customers than most other apparel designers
- Liz Claiborne introduced two new seasons – pre-spring and pre-fall – while the rest of the apparel industry used four seasons. As a result, the departmental stores bought six smaller inventory batches, instead of four larger ones, which helped the stores to reduce inventory costs.

Through these strategies, Liz Claiborne was able to differentiate itself from its competitors.

Perform SWOT analysis for Liz Claiborne.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Diverse brand portfolio • Brand recognition • Sourcing capabilities • Customer service • Understanding customer needs • SURF • Product diversification strategy • Tailor to the changing need, preferences and life style • Bringing mix and match designs. 	<ul style="list-style-type: none"> • Deterioration of brands • Long lead time in bringing new styles to the market • Clothing line is either a complete success or a costly mistake.
Opportunities	Threats
<ul style="list-style-type: none"> • Acquisitions • Expansion to new markets • Expansion through specialty retail channel • Entering large size consumer market • Expansion to overseas markets. 	<ul style="list-style-type: none"> • Key competitors • Decrease in consumer confidence • Changing fashion and trends • Increased competition • Import tariffs • Changing shopping patterns.

⁴ Siggelkow Nicholaj, "Change In The Presence Of Fit: The Rise, The Fall, And The Renaissance Of Liz Claiborne", <http://knowledge.wharton.upenn.edu/paper.cfm?paperid=872>, January 1st 1999

Liz Claiborne started to face troubles that led to its decline. Here the students can be asked to list out the factors that led to Liz Claiborne's decline.

The factors that led to the decline of Liz Claiborne were:

- Decrease in consumer spending, coupled with sluggish US economy in 1990s, dipped its sales
- During the same time, workplaces were becoming casual and Liz Claiborne was unable to tune up accordingly
- Customer's changing preference, to shop at specialty stores and discount stores, further added to its troubles
- During the early 1990s, the departmental stores – that are the main distribution channels of Liz Claiborne – failed to generate revenues. Major departmental stores like Federated Department Stores and Macy filed for bankruptcy. To save costs, departmental stores cut the sales-force and less attention was given to store presentation. This affected Liz Claiborne, as it was keen on displaying its entire collection
- Departmental stores cut down their inventory levels, to avoid costs for carrying bulk inventories. They also demanded for reordering of items. As most of Liz Claiborne's production were outsourced, reordering was pretty difficult
- Its longer design cycles further added to its financial woes.

In 1995, Paul Charron was appointed as the CEO of the company who initiated various strategies to turnaround the company:

- He initiated strategies to improve product portfolio, by adding more brands at various price levels
- To improve the presentation of the apparel 'LizEdge', a new in-store marketing department was started
- To understand the consumer behaviour, Charron ordered a study. Through its insights, the company modified its display units and strengthened its efforts to allow mix-and-match across divisions (**page 9, para 3 of the case study**)
- A national brand advertising model was launched
- He also modified the distribution set-up. The company reduced the number of suppliers and shifted its production to Mexico and Latin American countries. As a result, the company was able to reduce the cycle times.

In spite of these strategies, the company sales in 2005 began to decline compared to most of its competitors. Phillips Van-Heusen, a close competitor of the Liz Claiborne, could get more operating margin (**Refer Exhibit V of the case study**). It further declined in 2006 and posted much lower revenue growth (**refer Exhibit VI of the case study**).

At this juncture, students can be asked to analyse Liz Claiborne's downtrends.

The reasons for Liz Claiborne's downturn, when compared to its competitors, were:

- Liz Claiborne was slow on investing in marketing and technology – unlike its competitors like Tommy Hilfiger and Jones Apparel
- Liz Claiborne's produced only 14% in the US, while the rest was outsourced to other countries. On the other hand, competitors like Jones Apparel sourced 55% of its products domestically – making it easier for the company to quickly respond to the trends.

To overcome these problems, William L. McComb, who succeeded Paul Charron as the CEO of the company, initiated the 'three M's' strategy – multi-brand, multi-channel and multi-geography – to offer apparel across a range of styles, price points and distribution channels (**page 11, para 1 of the case study**).

By adopting multi-channel strategy, Liz Claiborne increased its presence in the upscale and mainstream departmental stores, specialty stores, promotional chains, e-commerce websites, outlet stores and mass merchandisers. By adopting multi-brands strategy, Liz Claiborne plans to cater to all consumer segments like trendy, classic, casual, suburban and urban at various price points. By adopting multi-geography strategy, the company plans to increase its presence in the Europe.

Students can then be asked to bring out the advantages that companies can achieve by following the multi-brand, multi-geography and multi-channel strategy:

- By developing multi-brands, companies can cater to a wide variety of customers
- Developing multi-brands helps companies penetrate new markets
- Multi-channel strategy addresses the changing shopping behaviour of consumers
- Having multi-brands allows a growing company to diversify the risks and capitalise on its established reputation
- As multi-brands attract more varied customers, profitability will go up. It will also help the company achieve a competitive position in that particular industry
- Multi-geography strategy provides many growth opportunities, as they can reach to a wider customer base by expanding into new markets
- By implementing the Three M's strategy, companies can fulfil the consumer's needs by offering products through any channel.

Phillips Van-Heusen (PVH) initiated multi-brand, multi-channel and multi-price point strategy (**page 6, para 2 of the case study**). By following this strategy the company was able to develop brands to cater to different consumer demographics. As the company's brands are at multiple price points and across multiple segments, this strategy helped the company to provide broad range of consumers while minimising competition among its brands.

From **Exhibit V** of the case study, it is quite clear that PVH has shown remarkable growth over the years. But Liz Claiborne, which had initially very good operating margins compared to PVH, declined. And by 2006, the operating margins of PVH exceeded Liz Claiborne's.

From **Exhibit VI of the case study**, the revenue growth of Liz Claiborne and its competitors can be calculated [**Exhibit (TN)-IV**].

Exhibit (TN)-IV			
Revenue Growth of Liz Claiborne and its Competitors			
	Total revenues in 2005	Total revenues in 2006	Revenue growth
Liz Claiborne	4,847.75	4,994.32	2.96%
Philips Van-Heusen	1,641.43	1,908.85	14%
V.F. Corporation	5,654.15	6,215.79	9.03%
Polo Ralph Lauren Corporation	3,305.40	3,746.30	11.7%
Prepared by the author			

When compared to most of its competitors, Liz Claiborne has shown very less growth in 2006. PVH was able to generate a revenue growth of 14%, while Liz Claiborne posted only 2.96%. By comparing the financial figures of PVH with Liz Claiborne's, we can say that the Three M's strategy followed by PVH is better. However, as the results of the Three-M's strategy are not yet out as the quarter earnings of Liz Claiborne are not yet stated.

Finally I would like to conclude that, in a highly dynamic market like apparel industry, companies need to constantly innovate new strategies and quickly warm up to changing trends.

Annexure (TN)-I Teaching Plan								
Prerequisite Conceptual Understanding								
<ul style="list-style-type: none"> • Value chain of apparel retailers • Trends in the US apparel industry 								
<table border="1" style="margin: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">The Big Picture: Expected Learning Objectives</th> </tr> </thead> <tbody> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Apparel industry's changing dynamics • For apparel industry, does multi-brand, multi-channel, multi-geography strategy work? • For apparel industry, does multi-price-point-brands strategy work? </td> </tr> </tbody> </table>					The Big Picture: Expected Learning Objectives		<ul style="list-style-type: none"> • Apparel industry's changing dynamics • For apparel industry, does multi-brand, multi-channel, multi-geography strategy work? • For apparel industry, does multi-price-point-brands strategy work? 	
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Teaching Plan Flow								
Sl. No.	Analysis Section	Expected Learning Objectives	Forward Linkage	Ideal Duration (mins)				
1	Apparel Industry's Changing Dynamics and CSFs	<ul style="list-style-type: none"> • Changing dynamics of the apparel industry • Manufacturing practices of the companies. 	To understand how the apparel industry operates and its changing dynamics.	45				
2	Liz Claiborne: The US Apparel Retailer's Rise and Fall	<ul style="list-style-type: none"> • Apparel industry's value chain. • Initial success of Liz Claiborne • Troubled times • Strategies adopted by the Liz Claiborne. 	Gives an understanding of how Liz Claiborne was troubled by the changing dynamics in the apparel industry; and strategies to overcome these challenges.	30				
3	Three-M's strategy vs multi-price-point-brands strategy	<ul style="list-style-type: none"> • Three-M's strategy and multi-price-point-brands strategy – Merits and demerits. 		35				
<i>Contd...</i>								

