An Industry for All Seasons

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What the apparel industry has gained in scale and scope over the past few decades it has lost in agility and speed. A new kind of product segmentation keeps painful trade-offs to a minimum.

by Doug Hardman, Simon Harper, and Ashok Notaney

Until a couple of decades ago, the modern fashion industry had the trappings of a medieval cottage industry. In office and loft buildings along Manhattan's Seventh Avenue, designers maintained large cutting rooms full of immigrant seamstresses. Adjoining them were the studios where the Geoffrey Beenes and Pauline Trigères of the day, pins sticking out of their mouths, dreamed and drew and draped. If Beene or Trigère wanted to see what the ladies shopping at Saks Fifth Avenue or Lord and Taylor were buying, those stores were only a crosstown taxi ride away. As for the great department stores themselves, the buyers on their staffs were always dropping by and candidly registering reactions to the designers' budding triumphs, as well as their mistakes.

This almost perfect concentration of market awareness, product development, and manufacturing in a single place and time eventually fell victim to rising rents, wages, and labor standards; the influence of design in mass markets; the advent of licensing; and industry consolidation. Outsourcing, economies of scale, and competitive bidding — the tools of modern manufacturing — came to define the business processes of apparel firms.

Such practices work reasonably well when the items being made and sold are generic and multiseasonal, like a pair of men's basic jeans. But the extension of the supply chain has not been kind to the purveyors of more fashion-forward items. Unless retailers are able to get this season's skinny jeans or balloon skirts quickly onto the selling floor, they sacrifice the high margins and fast turnover such trendy items generate. The wrong items, or the right items late in arriving, must be marked down, depressing the retailer's gross margins. Even worse, if this happens so often that customers come to expect a discount, the practice distorts the retailer's — and even the industry's — economics.

Today's apparel industry cannot return to the garment trade's cozy origins. Fortunately, it does not need to. A best-in-class retailer like Spain's Zara can sell 85 percent of its inventory at full price, compared with competitors' 50 percent, by recognizing that the apparel sector is in effect three sub-industries living side by side: the first producing striking but usually ephemeral designs; the second, fashion-conscious, if less than cutting-edge, collections; and the third, perennials or classics. Each strives to achieve for itself the optimal balance between speed and cost, which almost always exist in a state of tension. By reconstructing relationships among customers, designers, manufacturers, and retailers to take the differences among the three sub-industries into account, the

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apparel industry can continue benefiting from the cost efficiencies that labor arbitrage and scale can yield, while recapturing something of the savvy and speed of the rag trade of yore.

The secret is to create a separate design and production schedule for each of these sub-industries. The right one will produce the best trade-offs among novelty, quality, speed, and cost for its category. Goods that are novel and ephemeral have to arrive quickly in stores, but they needn't have a strong emphasis on quality or durability, and the high margins their uniqueness commands lessen the importance of cost savings — particularly if those savings lead to delay. The period from first sketches to delivery of the finished goods should be no more than eight weeks; at Zara, it can be as little as one week. One retailer we advised was able to cut lead times by one-third by having its designers set up shop at the actual plants to facilitate the back-and-forth of sample-making, as well as by having them work on one season at a time, rather than three.

For classic items, by contrast, retailers should take advantage of the predictability of demand to make sure that such items are always available in an array of sizes. Because a longer lead time is acceptable for these goods, retailers can focus on cost efficiencies rather than speed in procurement, production, and shipping.

Once fabric and basic design have been settled on, adjustments can still be made to the quantity of items produced and shipped, according to demand for different sizes, colors, and decoration. Through a technique we call "staged manufacturing," which is cost-effective for high-margin trend items, early orders — before the market has spoken — are kept to as little as 15 percent of anticipated sales. The remaining capacity is reserved and then deployed to reflect consumer tastes and patterns recorded at the point of sale and elsewhere. One apparel company that used this technique for its line of women's jeans was able to capture a sales increase of 15 to 20 percent that would otherwise have been lost to out-of-stocks on popular size and wash combinations.

But none of this is possible without the cooperation of the manufacturers themselves. Long-term partnerships that ensure manufacturers high capacity-utilization rates and steady work for their most skilled workers make them more willing to negotiate lower unit prices. The close relationships that result from long-term partnerships also tend to produce goods of more consistent quality. Manufacturers that enjoy this status may even decide to pass along possible improvements in product design, such as elimination of unnecessary stitching.

The different streams of the clothing business, with their varying needs in terms of time and costs, have their counterparts in numerous other industries. Take, for instance, book publishing: Some publishers stay afloat on the strength of their backlists — they keep cloth-covered editions of perennials like *The Sun Also Rises* and *The Great Gatsby* in print and in stock. Other publishers excel at producing, in a matter of weeks, cheap paperback accounts of cataclysmic news events. But the publishers that can do both, and almost everything in between, will be the strongest. As will the apparel retailers and the other members of their supply chain that respond to the pressures of the moment while still serving the tried and true. +

Resources

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Zara Web site: The home page of the Spanish retailer. www.zara.com/

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