Chapter VI: STRATEGIC DIMENSIONS

Strategic dimensions include the study of strategic growth, diversification in Branded showrooms.

Retailers and brand-owners have emerged from the recession tougher and more resilient and with a host of new solutions the industry is putting in place, retailers are poised to benefit even further from source to store.

The economic recovery is continuing to gain traction, and with it, the global apparel industry is gradually feeling the effects of improving conditions. Retailers and brand-owners have skillfully managed their businesses through the turbulence of the recent recession, albeit not without some necessary belt-tightening and the fallout of some significant industry players. On a positive note, as the economy continues to strengthen, apparel shoppers not only are stepping back into stores, but they’re digging deeper into their wallets than they have in several years.

Of course, that doesn’t mean the industry is without challenges. Consistent and dramatic price reductions, undertaken to boost demand and incent buying behavior, have left their mark in the form of lower prices and tighter margins. In addition, apparel retail out-of-stock rates average 10 to 12%, as retailers try to ensure adequate shelf availability while at the same time limit the amount of inventory they carry to avoid costly markdowns on unsold merchandise.

To cope with both long-standing and new challenges, the apparel industry has stretched the boundaries of its creativity and imagination to find new ways to increase selling opportunities, reduce operating costs, achieve competitive advantage and improve the bottom line.

Apparel retailers and brand-owners are stepping up their efforts to marry improvements in business processes with innovative technology that touches every step in their workflows, often collaborating to create synergistic, holistic solutions from the manufacturing source through distribution and all the way to the retail store’s back room, sales floor and point-of-sale.

This white paper examines these new realities for apparel manufacturers and brand-owners, and explores some of the ways the industry is using new, technology-based
solutions to improve profitability, enhance the customer experience and future-proof their supply chain and store systems and infrastructure.

**The Apparel Industry’s New Reality Challenges for the Apparel Industry:**

More of the Same, The challenging economic scenario of 2008-2009 finally appears to be improving. Still, the overall recovery is proceeding slowly and for the apparel industry specifically, there are a host of challenges – some variations on familiar themes of the past, and some new ones causing retailers and brand-owners to rethink their strategies and adopt new approaches.

Susan Nichols, publisher and editor-in-chief of Apparel Magazine, points out that the apparel industry has had to cope with higher expenses for both cost of goods and operating costs. “Today’s number-one pain point is cost,” she notes. “We’ve got super high raw materials costs, not only in cotton but in wool and synthetic fibers.” Add in higher energy and transportation costs that squeeze the entire supply chain, and it puts pressure on retailers to keep their selling prices at reasonable levels, she adds. “But with consumers facing their own financial challenges, they’re not going to be willing to shoulder higher apparel prices; in fact, in February we saw retail apparel prices fall 0.9 percent compared with the month prior.”

Another challenge for the industry: finding new ways to reduce expenses other than production sourcing decisions. “Just about every reasonable country in which to produce has been explored,” she says. “Wages are rising in many of the old standbys, with China being the obvious one.” As a result, it’s harder and harder for the industry to squeeze cost of goods simply by finding a cheaper place to manufacture.

For retailers, the key focus is on making smarter decisions about stock levels. “It’s not exactly a new problem, but it’s more important than ever in apparel, even as the economy continues to improve,” pointed out Benjamin Mokotoff, retail strategist for consulting firm Kurt Salmon. “If you stock too little, or the wrong merchandise mix, you miss out on sales because of out-of-stocks. If you stock too much, you risk markdowns and price erosion,” he said.

“Your need for the right information at the right time becomes more granular, so apparel companies are looking at technologies like RFID to give them better, more actionable information. It can be at the container level or pallet, or ideally at the item level, but it needs to be much more detailed.”
Your need for the right information at the right time becomes more granular, so apparel companies are looking at technologies like RFID to give them better, more actionable information. The Top Challenges in Apparel Retail.

For apparel retailers and their brand-owner partners, the top challenges include:

**Reducing Out-of-Stocks**

This is more critical than ever to apparel retailers, since many have adopted defensive-inventory practices designed to keep only as much inventory in the store as is absolutely needed. This has put significant pressure on retailers to enhance supply chain efficiency by having real time visibility to merchandise levels in their stores and at distribution centers.

**Lowering the Cost of Inventory.**

Retailers had to adapt during the recession, making difficult cuts to their inventories in order to avoid overstocks and markdowns. But the short selling seasons of apparel, as well as frequent reconfiguration of products on the sales floor, makes this challenge particularly poignant in the apparel industry. Improving Speed to Market. Fashions change at blinding speed, and new trends and consumer preferences emerge at the blink of an eye – today, even more than in the past. Apparel brand-owners must get their products from the design center to the store faster than ever, and retailers must stock and sell those products immediately while consumer interest is at its highest – and before the next selling season begins.

**Reducing or Reallocating Labor**

Gross margins on apparel have dropped significantly in the past two years as a result of the recession, as retailers have slashed prices to move merchandise. This has put renewed pressure on retailers to be more efficient with their labor allocation in order to recoup a few percentage points of margin lost by price-cutting. Additionally, more retailers have begun adopting source-tagging, moving the process of attaching tags to the front end of the supply chain, where it can be done more cost effectively.

Generating Data to Manage and Maximize Programs. As both sales and gross margins have slipped among apparel retailers and brand owners in recent years, more money has been spent on direct-marketing programs to drive store traffic and encourage consumer purchasing activity. But retailers need additional, real-time information in
order to determine what promotions are working and which ones are not, while manufacturers need this information to determine which retailer marketing campaigns they will continue funding.

**Preserving Brand Integrity**

Apparel counterfeiting remains a huge, vexing problem. It robs retailers of legitimate sales opportunities, erodes margins, confuses supply-chain partners and erodes a brand in the eyes of consumers who receive shoddy substitutes for the real thing. Retailers and brand-owners are taking extra steps to ensure that their brands are properly and consistently presented to consumers.

Enhancing Customer Satisfaction. Research from Harvard Business School has consistently noted that when a product is out of stock when a customer comes in, that customer is highly likely to shop for the product in another store….perhaps unlikely to return again in the future to the original store for that product. It also means that the customer doesn’t buy additional apparel products and accessories, robbing the retailer of important add-on sales and profits.

Reducing Shrink. Apparel is the number-two category for shrink worldwide, according to the Global Retail Theft Barometer. Reducing shrink is a huge step toward improving the bottom line of apparel retailers, especially considering that higher-margin products such as accessories, designer-label clothing and intimate apparel are stolen at even higher rates.

Maximizing Sales. At a fundamental level, retailers are in business to sell products that their customers want to buy, and they need to do everything possible to maximize sales. Having the right mix of products, maintaining adequate shelf availability, and keeping prices competitive are all key to their long-term success.

**Using Integrated Technology to Alleviate Pain Points**

Whether a retailer or brand-owner is focused on maximizing sales opportunities, reducing operating costs, improving shelf availability, enhancing their brand – or a combination of all of these – the apparel industry has increasingly adopted technology-based solutions to help achieve its objectives. Many of these solutions have helped improve inventory management, track merchandise in the supply chain, provide more customer buying information on tags and labels, or reduce shrink. But only a handful of retailers have thus far taken the next logical step, by connecting
these disparate solutions into a holistic, synergistic approach that leverages information-sharing to provide greater cost efficiencies and better decision-making.

Of course, information “silos” are hardly unique to the apparel industry. But with the industry’s economic challenges and the need to step up its game by becoming more efficient in how it uses such critical resources as store-level inventory, it’s now becoming essential to develop and deploy an integrated solutions architecture that facilitates real-time information sharing throughout the apparel supply chain, from “source to store.”

RFID Is a Critical Component One of the most important technologies for apparel retailers in their effort to build holistic, multifunction solutions is, in fact, one that’s been around for decades.

Radio Frequency Identification (RFID) has dramatically evolved from a technology deployed for niche applications to one that pervades all industries, due to its vast potential to improve operations and business performance, its declining cost during the past decade, and increasingly pervasive evidence from retailers who have already deployed it and are seeing significant and measurable benefits, including:

• 6%+ increases in same-store sales
• 30%+ improvements in replenishment of items that were previously out-of-stock
• 10% to 30% decreases in on-hand inventory
• 70%+ time savings in taking inventory in stores and in distribution channel, reduced from days to hours
• 98%+ inventory accuracy

RFID is gaining momentum among apparel retailers and brand-owners, in large part due to growing interest and acceptance of the technology for item-level tracking and visibility, as well as its appeal as a robust carrier of variable data on apparel labels. It’s even gaining appeal as a vehicle for next-generation shrink management. Industry standards have already developed to further the adoption of RFID in retail. The Item-Level RFID Initiative – comprising more than 100 major retailers, brand-owners and technology providers – was formed in 2010 to accelerate adoption of item-level RFID tagging. Market research firm ABI Research recently forecasted that more than 750 million RFID tags will be used in global apparel markets during 2011,
driven in large part to the desire to track merchandise at the item level. “The growth in retail item-level tagging is huge, both in shipments and in total spending,” wrote ABI principal analyst Bill Arnold. “The average growth rate is close to 60 percent for the next three years; in fact, the number of tags that will be used for item-level tracking in apparel alone is likely to exceed the total number consumed over the past five years for all RFID markets combined.”

Kurt Salmon’s Mr. Mokotoff noted that apparel labeling has taken on a new importance because of the need to manage multiple types of data carried by those labels. “The challenge isn’t just getting labels woven into a piece of clothing, but in dealing with all the data related to that garment,” he said. “We’re talking about massive amounts of data, especially at the unit level, for apparel labels.

It’s obviously great to have all that information, but the ability to manage it is vital.”

Apparel retailers and their suppliers need to think strategically about the information embedded on apparel labels, and how to configure their systems to capture and share the right information to the right people at the right time, he said. “For instance, does the retailer need to know the movement of that product throughout the entire supply chain, or just at certain critical points such as when it leaves the distribution center or when it reaches the store’s receiving dock.”

Of course, doing so requires the ability to work with other applications, such as warehouse management, logistics, ERP and shrink management to provide a 360-degree visibility into merchandise status. “At some point, companies need to ask themselves what visibility they need, what they actually have, and how they fill that gap,” he said, adding that much of this trend is driven by retailers’ insatiable need to understand the net profitability of everything they sell.

Ms. Nichols of Apparel Magazine also pointed out the economic realities of integrating technology “stacks” to form a more holistic solution. “In today’s economy, visibility into your supply chain and the management of your inventory becomes more critical because the downside of mistakes could possibly mean not only a bad season, but the demise of an entire business,” she said. In order to mitigate that downside risk, companies need to ensure a seamless flow of real-time information from function to function, tying together previously disconnected
applications and data sources. “You’re always at an advantage when you have a seamless information flow, as opposed to trying to deal with data in silos,” she said.

RFID is gaining momentum among apparel retailers and brand-owners, picking up steam in large part due to growing interest and acceptance of the technology for item-level tracking and visibility.

**Checkpoint Systems:**

Over 40 Years of Solving Problems in Apparel

Checkpoint Systems has a long, rich and successful history of meeting the evolving needs of apparel retailers and the complete retail supply chain, from source to store.

Checkpoint’s 40-plus years of experience with Radio Frequency technology has helped apparel retailers overcome countless problems related to shrink management, and Checkpoint in recent years has dramatically expanded its apparel solutions portfolio through a combination of innovative, in-house developments and savvy acquisitions.

As a result, Checkpoint today is the only solutions provider to develop, market, install and support end-to-end solutions tying together such critical business functions as merchandise visibility and apparel labeling, often layered on top of shrink management solutions. Only Checkpoint has a full suite of internally developed solutions for RFID-based merchandise visibility and apparel labeling, as well as for shrink management. The benefit to Checkpoint’s customers?

A partnership offering the complete, end-to-end solution to address their needs, without the need to engage multiple vendors and face the inherent complexity that this can cause.

For years, Checkpoint has been a leader in the development and deployment of RFID-ready solutions that facilitate the integration of diverse applications for apparel retailers and brand owners. Those applications often start with such activities as RFID-enabled source tagging at the point of manufacture, continue into the supply chain, and throughout stores, with sophisticated, real-time merchandise visibility solutions at the receiving dock, in the stock room, on the sales floor, at the point of purchase, and at the exit door.

Merchandise Visibility
Checkpoint is squarely focused on helping apparel retailers to address the challenges of out-of-stocks and real-time inventory visibility by providing a source-to-store solution including hardware, software, labels, service bureau, deployment and support. This comprehensive solution provides a “one-stop shop” to minimize risk to customers. Checkpoint has long been a pioneer in the development of RFID for retail solutions, creating RFID-ready shrink management solutions and RFID tags, and being a vocal participant and leader in RFID standards setting organizations. To accelerate the company’s development and delivery of RFID solutions for the apparel supply chain, Checkpoint in 2008 acquired OAT Systems, an innovator in the development of RFID software and applications.

Because retailers make re-stocking decisions every day based on that incorrect inventory system, they repeatedly experience costly out-of-stocks or overstocks. Merchandise visibility enables retailers to:

- Reduce out-of-stocks, maximize on-shelf availability
- Reduce on-hand inventory
- Increase sales and margins

Checkpoint’s Handheld Visibility Solution is an “out-of-the-box” solution that provides improved inventory visibility to help reduce out-of-stocks, and serves as a starting point for merchandise visibility roll-outs. It includes a handheld RFID reader and related hardware, RFID tags, software, and services for deployment, training, and support. As part of this offering, Checkpoint partners with retailers to understand their business processes, develop a phased adoption plan, build an ROI model and Key Performance Indicators (KPIs), and deploy the Handheld Visibility Solution to prove the ROI.

Apparel Labeling Apparel tags, labels and specialty trim play an essential role in today’s supply chain. Not only do they promote brand recognition, communicate important consumer information such as size and price or point-of-sale data like the barcode, but they also help protect against theft and counterfeiting. These elements even can be combined into one single tag or label as a carrier of a complete solution.

Checkpoint offers a full range of apparel labeling solutions to provide retailers and apparel manufacturers with a single source for all their branding, labeling and security needs ... at the speed of fashion.
• Ensure data integrity and brand consistency
• Premium full-color, customizable tags and labels
• A choice of printing technologies to fit individual requirements
• Wide range of design possibilities
• Specialty trim and packaging
• Integrated EAS and/or RFID
• On-demand printing
• Convenient, secure online ordering and tracking

Checkpoint’s apparel labeling solutions are powered by Check-Net,

Checkpoint’s cutting-edge global IT infrastructure, adding simplicity and efficiency to the once-daunting task of management of a wide range of variable data for apparel tags. Check-Net is the largest Connected printing and logistics network in the industry, enabling retailers and manufacturers to promote their brands, convey item information, streamline logistics systems and reduce labeling costs with ease.

When combined with Checkpoint’s long-established strength in shrink management, merchandise visibility and apparel labeling can be integrated by Checkpoint’s expert consultants and support organizations to form a comprehensive solution for apparel retailers and their brand-owners. Add in Checkpoint’s skills in shrink management, and apparel retailers can share vital data from one end of the supply chain to the other – consistently, reliably and in real time.

Helping the Apparel Industry Drive Growth and Profits

The dramatic pace of change, combined with the new realities of competing and prospering in the apparel industry, makes it more essential than ever that apparel retailers and brand-owners consider new ways to reduce out-of-stocks, ensure real-time delivery of critical data, enable consistent brand treatment in front of consumers, reduce shrink and make global supply chains more efficient.

Doing so requires more than just developing new solutions for each of those functions. Increasingly, those functions need to be integrated in order to share data
consistently, reliably and in real time, from source to store. In order to become more efficient in the critical areas of inventory management, brand presentation and loss prevention, the apparel industry must push the edge of the envelope to come up with innovative new solutions. More and more often, those solutions will leverage the powerful benefits of RFID technology to not only uncover, create and share more information, but to manage it more effectively to promote greater business intelligence and better decision-making throughout the global supply chain.

For more than 40 years, Checkpoint Systems has worked with the apparel industry to address its essential challenges, starting with shrink management and now embracing merchandise visibility and apparel labeling.

Checkpoint has a documented history of success in partnering with the apparel industry to build integrated solutions that accelerate profit growth by reducing out-of-stocks and reducing working capital, while protecting the industry’s leading brands with consistent presentation, unsurpassed flexibility in sourcing apparel labeling solutions and best-of-breed shrink management.

**Check-Net: Taking Data**

Management to the Next Level With the fashion industry moving and changing at lightning speed, it’s most critical than ever for retailers, brand owners and contract manufacturers to be able to reliably and quickly process the large amounts of information necessary for apparel labeling. These data management functions include label printing, ensuring consistent data integrity and conveying real-time data to such corporate applications as Enterprise Resource Planning.

Check-Net, Checkpoint’s data management architecture, is a cutting-edge platform that dramatically simplifies the process of managing data necessary to reliably and quickly print apparel labels in close proximity to apparel manufacturing centers throughout the world. More than 30 Check-Net service bureaus churn out millions of apparel tags every year, processing essential variable data through a Web-based portal.

Additionally, Checkpoint’s long history in working with the apparel industry ensures brings with it a deep appreciation for the critical importance of consistent and high-quality presentation of a company’s brand on its labels and tags. Whether it’s ensuring razor-sharp reproduction of a brand’s logo, color and typefaces or the proper use of
design elements to convey important information such as size, color, lot numbers or other variable data on the tag itself, Check-Net’s data management software and high-quality printing facilities give retailers and manufacturers confidence that their brands will be properly presented to consumers.

**Advertising**

*Advertising* is a form of communication for marketing and used to encourage or persuade an audience (viewers, readers or listeners; sometimes a specific group) to continue or take some new action. Most commonly, the desired result is to drive consumer behavior with respect to a commercial offering, although political and ideological advertising is also common. The purpose of advertising may also be to reassure employees or shareholders that a company is viable or successful. Advertising messages are usually paid for by sponsors and viewed via various traditional media; including mass media such as newspaper, magazines, television commercial, radio advertisement, outdoor advertising or direct mail; or new media such as blogs, websites or text messages.

Commercial advertisers often seek to generate increased consumption of their products or services through "branding," which involves the repetition of an image or product name in an effort to associate certain qualities with the brand in the minds of consumers. Non-commercial advertisers who spend money to advertise items other than a consumer product or service include political parties, interest groups, religious organizations and governmental agencies. Nonprofit organizations may rely on free modes of persuasion, such as Public service announcement (PSA).

Modern advertising was created with the innovative techniques introduced with tobacco advertising in the 1920s, most significantly with the campaigns of Edward Bernays, which is often considered the founder of modern, Madison Avenue advertising.

In 2010, spending on advertising was estimated at $142.5 billion in the United States and $467 billion worldwide

**Direct marketing** is a channel-agnostic form of advertising that allows businesses and nonprofits to communicate straight to the customer, with advertising techniques
such as mobile messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising.

Direct marketing messages emphasize a focus on the customer, data, and accountability. Characteristics that distinguish direct marketing are:

1. Marketing messages are addressed directly to customers. Direct marketing relies on being able to address the members of a target market. Addressability comes in a variety of forms including email addresses, mobile phone numbers, Web browser cookies, fax numbers and United States and international postal addresses.

2. Direct marketing seeks to drive a specific "call to action." For example, an advertisement may ask the prospect to call a free phone number or click on a link to a website.

3. Direct marketing emphasizes trackable, measurable responses from customers regardless of medium.

Direct marketing is practiced by businesses of all sizes — from the smallest start-up to the leaders on the Fortune 500. A well-executed direct advertising campaign can prove a positive return on investment by showing how many potential customers responded to a clear call-to-action. General advertising eschews calls-for-action in favor of messages that try to build prospects’ emotional awareness or engagement with a brand. Even well-designed general advertisements rarely can prove their impact on the organization’s bottom line.