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**Preparing for Free Trade:**

**APPAREL RETAILING  
IN THE UNITED STATES  
PHASE II**

Canada

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Preparing for Free Trade:

**APPAREL RETAILING  
IN THE UNITED STATES  
PHASE II**

Prepared for Industry, Science and Technology Canada

by

Kurt Salmon Associates-Canada, Ltd.

April 1990

## TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. RETAIL CHANNEL DEFINITIONS.....	4
III. MAJOR ISSUES AFFECTING U.S. RETAILERS' SOURCING DECISIONS.....	15
IV. COMMON MERCHANDISING PRACTICES ACROSS RETAIL CHANNELS.....	29
V. SPECIALTY STORE PROFILE.....	45
VI. DEPARTMENT STORE PROFILE.....	60
VII. CHAIN STORE PROFILE.....	70
VIII. DISCOUNT DEPARTMENT STORE PROFILE.....	82
IX. MAIL ORDER PROFILE.....	95
X. RESIDENT BUYING OFFICES.....	107



# I. INTRODUCTION



## I. INTRODUCTION

The Free Trade Agreement between the United States and Canada will provide increased opportunities for Canadian apparel manufacturers to enter a large, relatively new market. The importance of preparing to enter the U.S. has increased as barriers continue to fall. To assist Canadian manufacturers in developing market entry strategies, Industry, Science and Technology Canada has retained Kurt Salmon Associates to profile U.S. retailing -- its trends, structure, and practices.

Phase I of this study (April, 1989) provided an overview of the apparel retail environment defining channels of distribution and explaining forces of change. In addition, consumer purchasing patterns were examined by product and channel.

This report, Phase II, describes the structures and procedures within the various U.S. retail channels. Emphasis will be placed on:

- Buying organization and procedures
- Decision making for products and vendors
- Merchandising practices
- Partnerships between manufacturers and retailers



## INTRODUCTION (cont.)

### Methodology

KSA conducted trade probes with top management at major companies within each retail channel. Multiple product categories were explored. Included among the interviews were multiple discussions with specialty stores, department stores, chains, discounters, mail order companies and resident buying offices.

The information in this report gives a retailers' perspective on the organization and expectations of the U.S. market. As such, this information will be useful in allowing Canadian manufacturers to target those U.S. retail channels which they can best service, and provide a base of knowledge to use when doing more detailed research on developing relationships with specific retailers.



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## **II. RETAIL CHANNEL DEFINITIONS**

- **SPECIALTY STORES**
- **DEPARTMENT STORES**
- **CHAIN STORES**
- **DISCOUNT STORES**
- **MAIL ORDER**



## SPECIALTY STORES

Specialty apparel stores offer a relatively limited number of apparel and accessory categories but typically have more depth in their merchandise selections. Many are focused on an end-use, age/size group, or product category.

- Examples of the variety of merchandising approaches available are:

- End use

- Career (Ann Taylor)
    - Casual Unisex (The Gap)
    - Safari (Banana Republic)
    - Sports (golf & tennis shops)

- Age/Size

- Children (Kids R Us)
    - Juniors (Deb Shop)
    - Large Size (Forgotten Woman)

- Merchandise Focused

- Jeanswear (County Seat)
    - Lingerie (Victoria's Secret)





## SPECIALTY STORES (cont.)

- Specialty stores may be independent, consisting of one-to-several stores, or a chain with several dozen to hundreds of location.
  - Independents are an extremely diverse group. They reflect the many interests of the U.S. market, including stores that sell only tailored clothing, military uniforms, western wear, bathing suits, etc.
  - Specialty chains are classified as either super specialists or specialty department stores
    - Super specialists concentrate on a narrow range of merchandise (e.g. The Limited, The Gap, Ann Taylor, Merry-Go-Round).
    - Specialty department stores resemble Department stores except they do not carry hard goods such as appliances, furniture, etc. and typically have larger assortments of private label merchandise. (e.g. Saks Fifth Avenue, Lord & Taylor, Neiman Marcus, Nordstrom)



## DEPARTMENT STORES

Department stores typically carry full assortments of both hard and soft goods arranged by merchandise category.

- There are three types of Department stores:
  - "National"/Regional
    - A large number of "doors" (store units) per company: 15 - 50+
    - Emphasis on apparel and accessories, but include "home" departments
    - Established private label programs as well as major brands and designers
    - An average store size of 80,000 - 150,000 sq. ft.
    - E.g., Bloomingdale's, Macy's, Marshall Field's
  - Independent
    - Heavily branded
    - Full line: both hard and soft goods
    - Have typically less than 15 "doors" per company
    - An average store size of 50,000 - 100,000 sq. ft.
    - E.g., Hornes, Porteous Mitchell & Braun



## DEPARTMENT STORES (cont.)

### – Promotional

- Emphasize a "veneer" of brands, with an extensive private label base
  - Have a strong value focus
  - Include apparel, accessories, housewares, soft home
  - The number of "doors" range from 10 - 200+
  - An average store size of 60,000 - 100,000 sq. ft.
  - E.g., Mervyn's, Kohl's, Uptons
- Practices among the different types of Department stores are similar, and, therefore, will be considered as a group in this report.



## CHAIN STORES

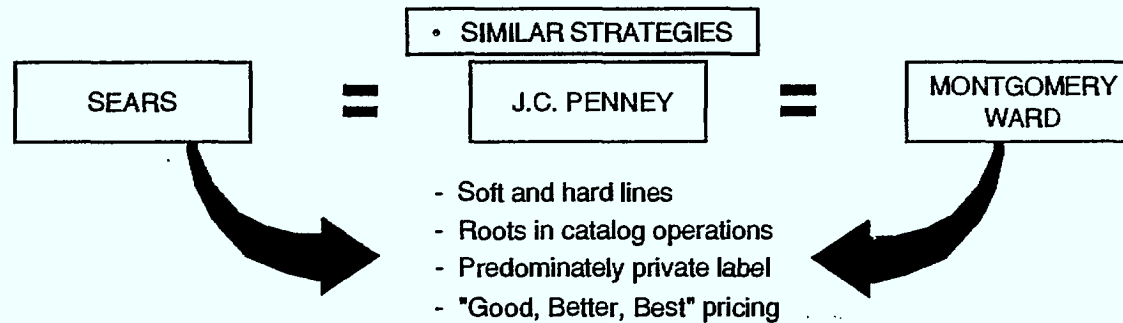
Chain stores are full-line department stores that have traditionally appealed to the mass "middle America" market. Typically they were organized with separate retail store and catalog divisions, and had strong private label programs.

- There are three U.S. Chain, or "catalog chain stores": Sears, J.C. Penney, Montgomery Ward
- Originally, these three companies were virtually identical
  - Began with strong catalog operations
  - Gradual retail expansion until ...
  - Retail represented majority of sales.
- In the 1980's, declining profits and stagnant sales forced restructuring:
  - Montgomery Ward repositioned as a group of "specialty stores" under one roof and discontinued its catalog. (1986)
  - J.C. Penney dropped hard lines and repositioned as a Department store. (1984)
  - Sears has instituted "every day low pricing" and is offering more national brands in an attempt to compete with discounters. (1989)

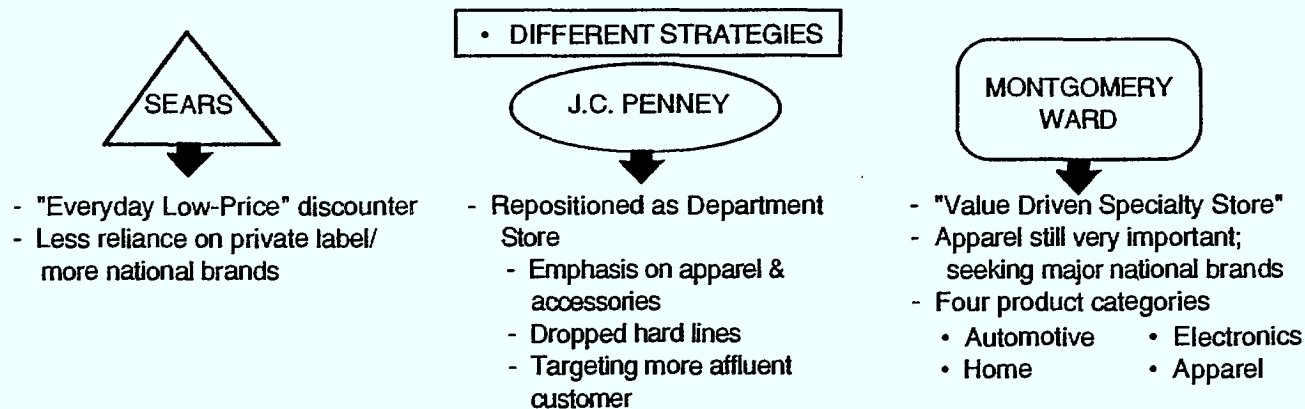


# CHAIN STORES

1960's



1980's



## DISCOUNT STORES

Discount stores are general merchandise retailers that attempt to offer the consumer lower prices than Chains or Department stores through lower operating costs and/or advantageous merchandise purchasing.

- Their strategy is based on "Everyday Low Price"
- There are four types of Discount stores that offer apparel:
  - Traditional Discount department stores
    - Developed as a low-cost alternative to Department stores.
    - Stores are typically organized similar to a supermarket, with strict departmentalization, central checkout and use of shopping carts.
    - Good mix of hard and soft lines, with a growing emphasis on apparel in recent years
    - Examples: Wal-Mart, K-Mart
  - Variety Stores
    - Offer generally disposable and consumable items: "five & dime". Soft goods volume is generally low.
    - Examples: Woolworth, Ben Franklin



## DISCOUNT STORES (cont.)

### - Off-Price

- Offer nationally advertised apparel brands and designer labels at discount prices. Since they are stocked with excess inventory from manufacturers and close-outs from retailers, off-price stores do not attempt to maintain full assortments.
- Examples: Marshalls, T.J. Maxx.

### - Hypermarkets

- Combination food and general merchandise, discount retailers operating in huge 300,000+ square foot stores.
  - Examples: Auchan, Biggs.
- This report is most concerned with Discount Department Stores, as they do a significant volume in apparel goods, and engage in more direct relationships with manufacturers.



## MAIL ORDER

The rapid growth of the Mail Order industry during the last decade has been propelled by the development of "specialty catalogs" versus large, 1,000+ page "general" catalogs, and the use sophisticated consumer mailing lists.

- Mail Order companies are direct marketers in the purest sense:
  - They are fulfillment centers to service orders from their catalogs.
- Examples: Land's End; L.L. Bean; J. Crew.
- They are typically specialized by merchandise "end use", consumer, or lifestyle.
  - Few firms carry both apparel and hard goods, unless tied to outdoors product line. J.C. Penney, Sears and Spiegel are major exceptions.

In recent years, some Mail Order companies have made efforts to open retail outlets, showcasing their merchandise and expanding their consumer franchise.





## PRICE RANGE DISTRIBUTION BY RETAIL CHANNEL

The various retail channels tend to concentrate on different price ranges, from the high-end "better/designer" price range at Department and Specialty stores to low-end "budget" prices at Discounters.

PRICE RANGE	RETAIL CHANNELS				
	DEPARTMENT	SPECIALTY	CHAIN	DISCOUNT	MAIL ORDER
BETTER/DESIGNER					
MODERATE PLUS					
MODERATE					
POPULAR					
BUDGET					

 Price Ranges Covered



**III. MAJOR ISSUES AFFECTING U.S. RETAILERS'  
SOURCING DECISIONS**



### III. MAJOR ISSUES AFFECTING U.S. RETAILERS' SOURCING DECISIONS

There are several key issues and trends which affect all channels and levels of retail, and, therefore, have an impact on sourcing decisions. These subjects include:

- A. Strengthening vendor/retailer partnerships
- B. Narrowing vendor structure
- C. Retail consolidation
- D. Segment trends
- E. A global market

An understanding of these issues is important in facilitating the establishment of successful relationships with U.S. retailers.



#### A. Strengthening Vendor/Retailer Partnerships

There is a trend in the U.S. retail industry towards retailers and their vendors forming close, interdependent relationships based upon a joint commitment to mutual profitability. Partnerships between vendors and retailers are important in terms of determining the size and nature of orders.

- To a retailer, a "partnership" can involve a commitment of selling space and merchandising support to a vendor's product in return for flexibility in product buying.
- To a vendor, a "partnership" often promises a steady flow of orders in return for producing the right product for a retailer and helping it sell as expected. Partnerships can mean sharing markdowns with the retailer, holding inventory, and producing exclusive items. Such commitments usually require increased contact between the two parties.

Retailers prefer such flexible relationships, and will normally buy from vendors with such capabilities over those who do not.

- Popular branded firms which have a direct consumer franchise are in a position to be less flexible.

Flexibility is an advantage which can increase sales for a manufacturer now, and will most likely be expected in the future.



## B. Narrowing Vendor Structure

In order to improve efficiency and lower costs, retailers have made an effort to narrow their vendor structure.

- Larger commitments with fewer vendors lessens paperwork, and lowers transaction costs.
  - Closer partnerships with fewer vendors eliminates the need to negotiate terms and conditions with many vendors, and, therefore, saves time and assists in improving profits.
  - Some U.S. retailers (e.g. May Company) have developed pre-approved "Vendor Matrices" or lists.
    - Such lists include only those vendors who understand the retailer's specific needs and have the resources to meet them. Once on a list, a vendor is one of the primary companies from which buyers obtain merchandise.
- Larger orders with fewer vendors has added to the increasing importance of partnerships to assure mutual profitability.
- Larger manufacturers are more likely to be willing and able to invest in increasingly important Quick Response technology and linkages with retailers. This gives them an advantage in remaining on retailers' vendor lists.



B. Narrowing Vendor Structure (cont.)

Implications -

- Could create partial barriers to entry for new vendors. However, most retailers rarely refuse to see a new line, as they are always searching for fresh looks.
- Canadian apparel firms must properly study the opportunities in the U.S. unique to their business before attempting entry.
- To be included on U.S. retailers' shortened vendor lists, Canadian manufacturers must not only fill a product need, but they must also be prepared to cooperate as partners with the goal of long-term prosperity.



### C. Retail Consolidation

As discussed in Phase I, the U.S. retailing industry experienced restructuring during the 1980s. Forces behind the changes include:

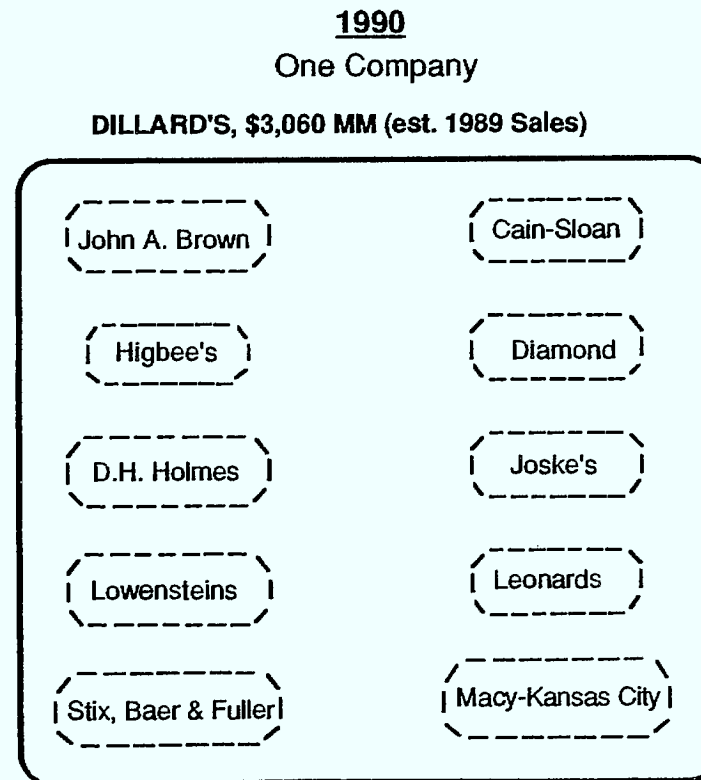
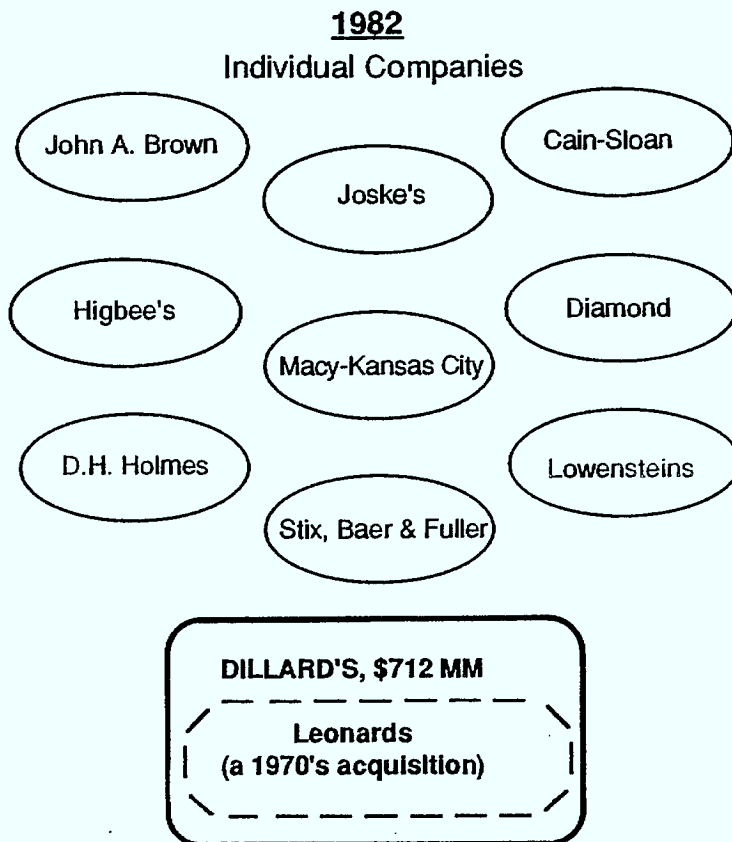
- Increased buying/selling activity.
  - Relatively affordable take over costs due to Wall Street undervaluing major retailers.
    - Poor performance by management caused perception of lower values of companies
    - Real estate holdings were intrinsically valuable and not fully considered by market
  - Break-up value of conglomerates is greater than their collective divisions
    - Some retail divisions have very valuable "brand names" (e.g. - Bloomingdale's)
  - Ready supply of foreign and domestic buy-out funds
- An over supply of retail space, resulting in lower gross profit margins and rising overhead, has fueled consolidation.
- During the 1990s, financial troubles of new owners (e.g. Campeau, Hooker Group) and a continued shakeout of weaker companies will cause restructuring to continue.



### C. Retail Consolidation (cont.)

Consolidation of U.S. retailing has been one result of the observed restructuring.

- The acquisition activity of Dillard's Department Stores during the 1980's offers a case-in-point.





**D. Segment Trends**

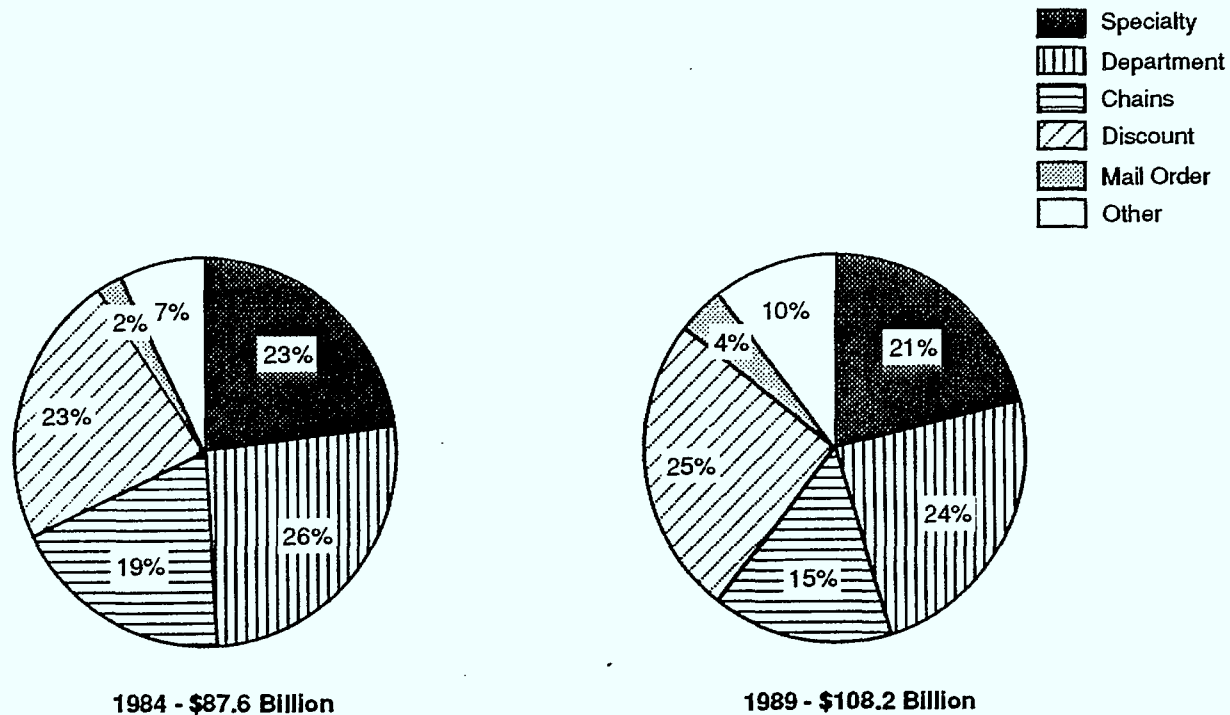
Since 1984, all of the five major retail channels have grown, albeit at different rates. Discounters and Mail Order firms have gained market share at the expense of Specialty, Department, and Chain stores.

The "Other" types of retailers which include warehouses, factory outlets, grocery stores and miscellaneous, also gained market share.



- Discounters have replaced Department stores as the largest retail segment.
  - Chains and Specialty stores have also lost market share.

**U.S. APPAREL MARKET SHARE BY CHANNEL  
% OF RETAIL DOLLARS**

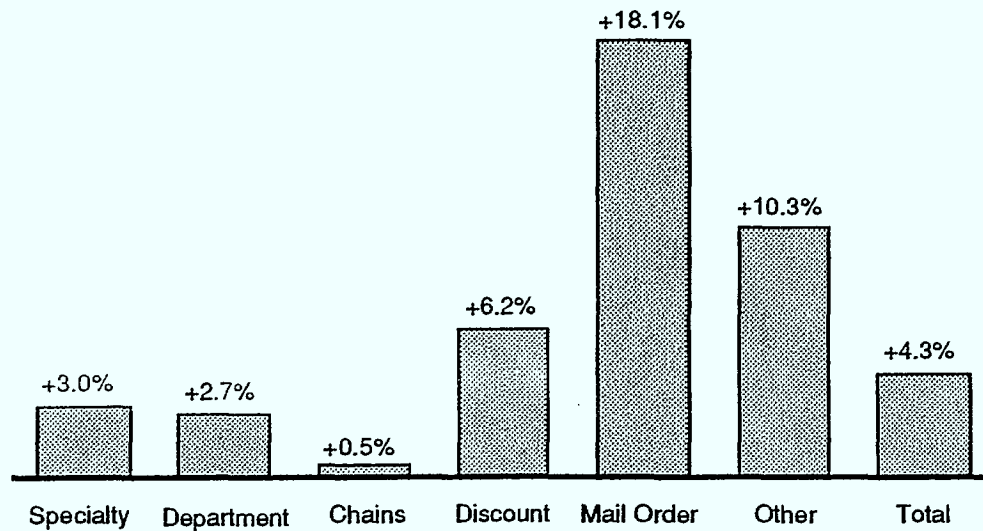


Source: KSA/NPD Purchase Panel



- Discounters, Mail Order companies and "Other" retailers have been growing faster than the average for all apparel:
  - Specialty, Department and Chain stores have experienced slow to flat growth in sales.

**U.S. APPAREL MARKET  
COMPOUND ANNUAL % CHANGE: 1984-1989  
BY RETAIL CHANNEL**



Source: KSA/NPD Purchase Panel



#### E. A Global Market

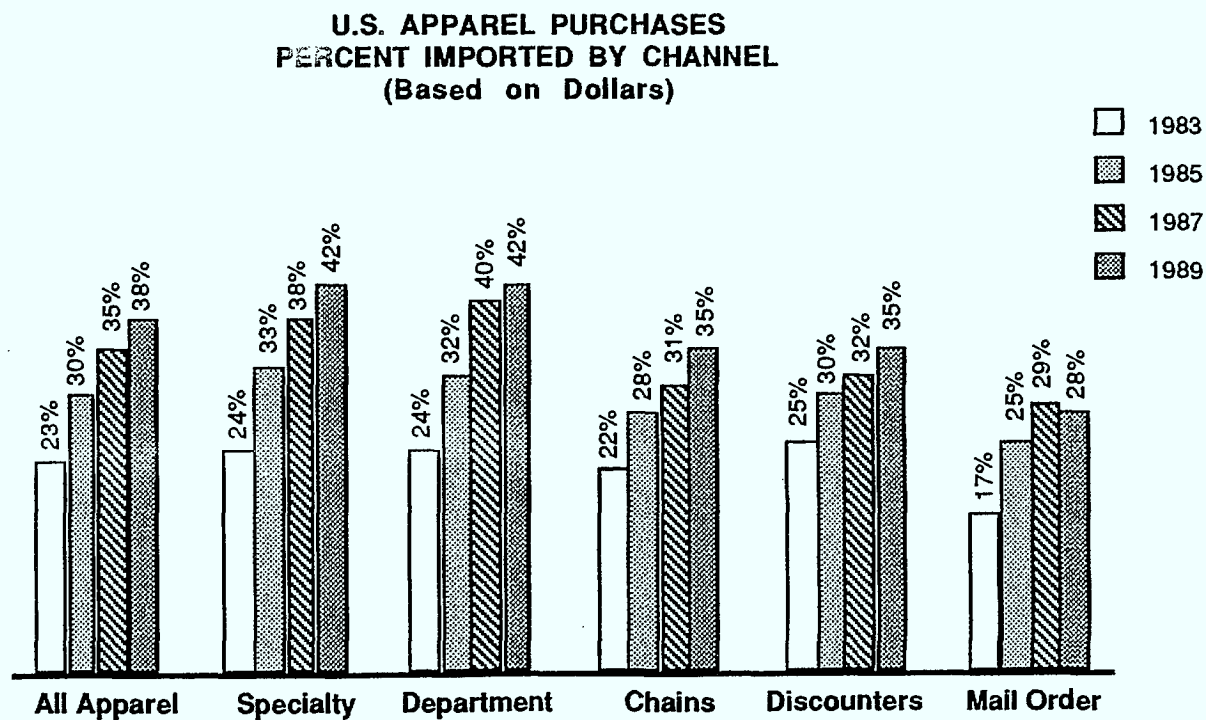
All levels of U.S. retailing management -- General Merchandise Managers (GMM's), Divisional Merchandise Managers (DMM's), and Buyers -- are increasingly viewing the marketplace for products and vendors as a global one.

- Country of origin is less important than success factors such as quality, styling, price and service.
- Vendors who can provide the right product for the right price, delivered at the right time will usually gain business regardless of country of origin. A sample of quotes from retailers verifies this fact:
  - "We buy from U.S. companies which produce abroad, companies with domestic plants, and foreign manufacturers. As long as we get what we want, country doesn't matter."
  - "If product arrives as specified and when expected, the vendor's manufacturing location isn't that important."
  - "Sure, there are some products we buy domestically because of proximity and quick delivery, but it isn't that important since manufacturers in most countries are willing to service us."
  - "The Limited gets products from the Orient within two months... Source country is not as great an issue as it used to be."



**E. A Global Market (cont.)**

- As retailers' acceptance of global resource options has grown, imported apparel has enjoyed increasing penetration of the U.S market.



Source: KSA/NPD Purchase Panel

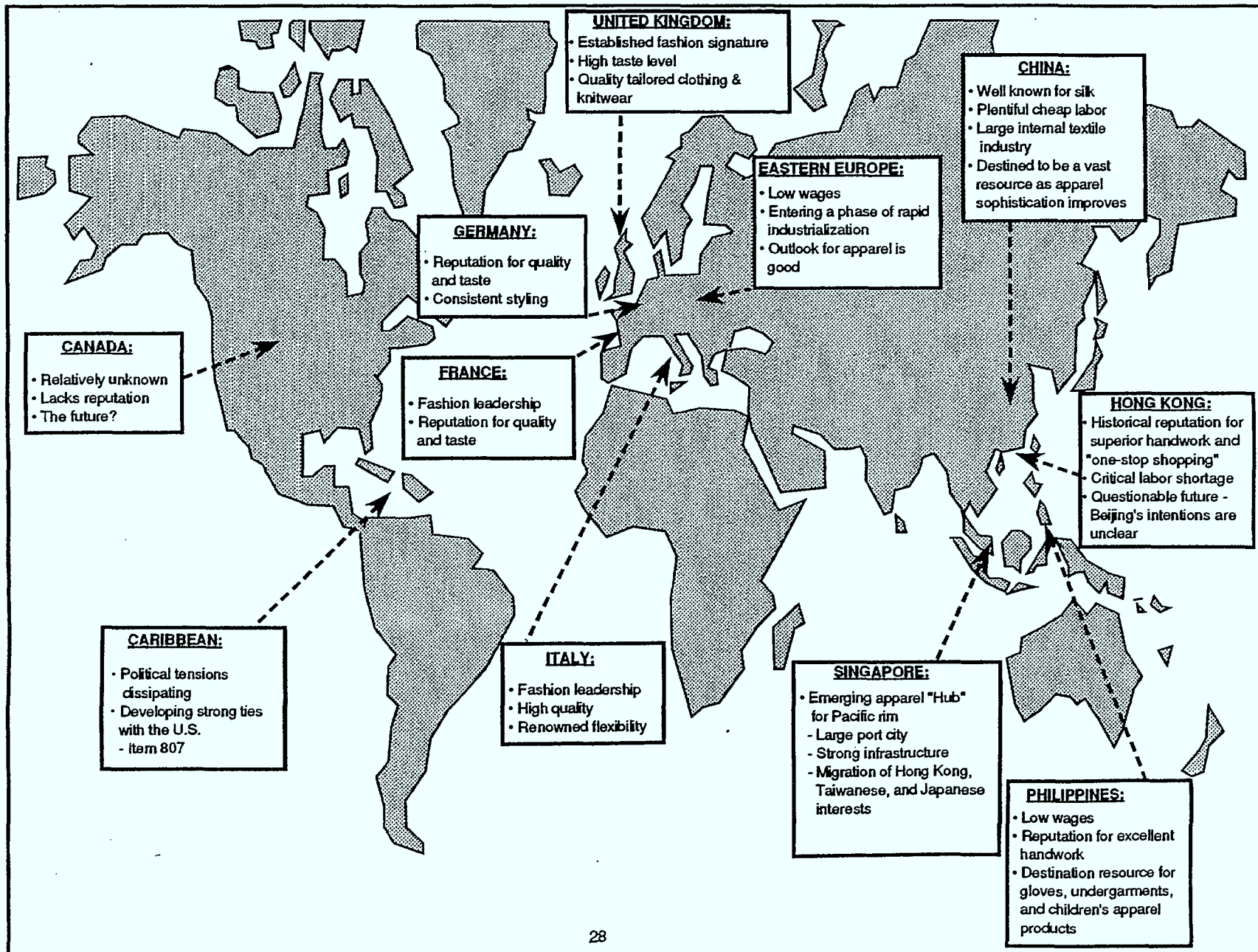


E. A Global Market (cont.)

- A significant factor behind the wide acceptance of imports by U.S. merchants has been that many of the exporting countries have nurtured and maintained consistent images within the minds of apparel buyers. By eliminating much of the mystery involved with "shopping" a foreign market, it has been easy and efficient for buyers to rely on these countries to fill their specific sourcing needs.



## AN INTERNATIONAL APPAREL MARKET



#### **IV. COMMON MERCHANDISING PRACTICES ACROSS RETAIL CHANNELS**





#### IV. COMMON MERCHANDISING PRACTICES ACROSS RETAIL CHANNELS

In many respects, all U.S. retail operations are similar. Merchandising procedures or vendor requirements vary only slightly between companies. When differences do arise, it is usually due to some uniqueness in the markets served or some other element of the company's positioning. In order to identify these differences, an understanding of the similarities between each channel is first necessary. What follows is a discussion of these shared practices.



**A. Buying Structure**

---

U.S. retail buying offices are organized around three common positions -- the GMM, DMM, and buyer. Throughout the different retail channels, each will perform similar responsibilities.

**GMM**

General Merchandise Manager

**DMM**

Divisional/Departmental Merchandise Manager

**BUYER**



**GMM**

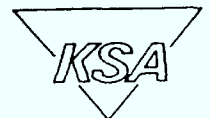
**DMM**

**BUYER**

- GMM is the highest merchandising position in a retailer. As such his/her major responsibility is setting and maintaining the direction of a division - Men's, Women's, Children's, Accessories, etc.

This entails:

- Financial planning and budgeting
  - Merchandising focus and goals
  - Personnel management
  - Pricing Policies, Inventory Control, Advertising
- The GMM normally reports to the president of the retailing company
  - A retailer normally has between 1 and 5 GMMs for apparel categories.



**GMM**

**DMM**

**BUYER**

- DMMs help develop and execute the GMM's plans. As such, they are the facilitators of the merchandising process -- the bridge between the administrative and purchasing functions of a retail operation.
- A GMM will have 2 to 5 DMMs, each having responsibility for a category, group, or classification.
  - For example, a DMM for men's clothing may oversee suits, sports clothing, slacks and outerwear; or a DMM of women's better sports wear may oversee several brands and types of apparel.
- DMMs oversee buyers, approve buyer decisions and assist in the development and implementation of a season's offerings. DMMs are also actively included in vendor negotiations.



**GMM**

**DMM**

**BUYER**

- The Buyer has the responsibility of purchasing a particular product or type of merchandise. Buyers can be assigned by:
  - Product (e.g. knit shirts, women's slacks, etc.)
  - Vendor (e.g. Polo, Liz Claiborne, etc.)
  - Lifestyle (e.g. Women's Moderate Sportswear, etc.)
- Buyers assist in the planning process by providing information regarding expectations and goals.
  - They are the retail organization's most direct link with current market trends. Buyers ...
    - Attend shows
    - Read industry journals
    - Shop competing stores
    - Talk with vendors to gain their opinions
    - Place orders
- Buyers act as the main link between retailer and vendor.
  - All negotiations and other vendor communication is coordinated by the buyers.



## **B. Buying Process**

The buying function is approached as a team effort by the GMMs, DMMs and Buyers. Most of the actual execution is done by the buyer. Support comes primarily from DMMs, based upon a season's plans. Buyers should be continuously aware of market trends and store needs and buy goods for each season accordingly.

Typically, a buyer will view available goods during a season's market week and place orders based on what he/she sees and the knowledge he/she has developed during the course of the year. Input from vendors is often utilized as well.

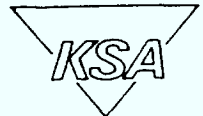
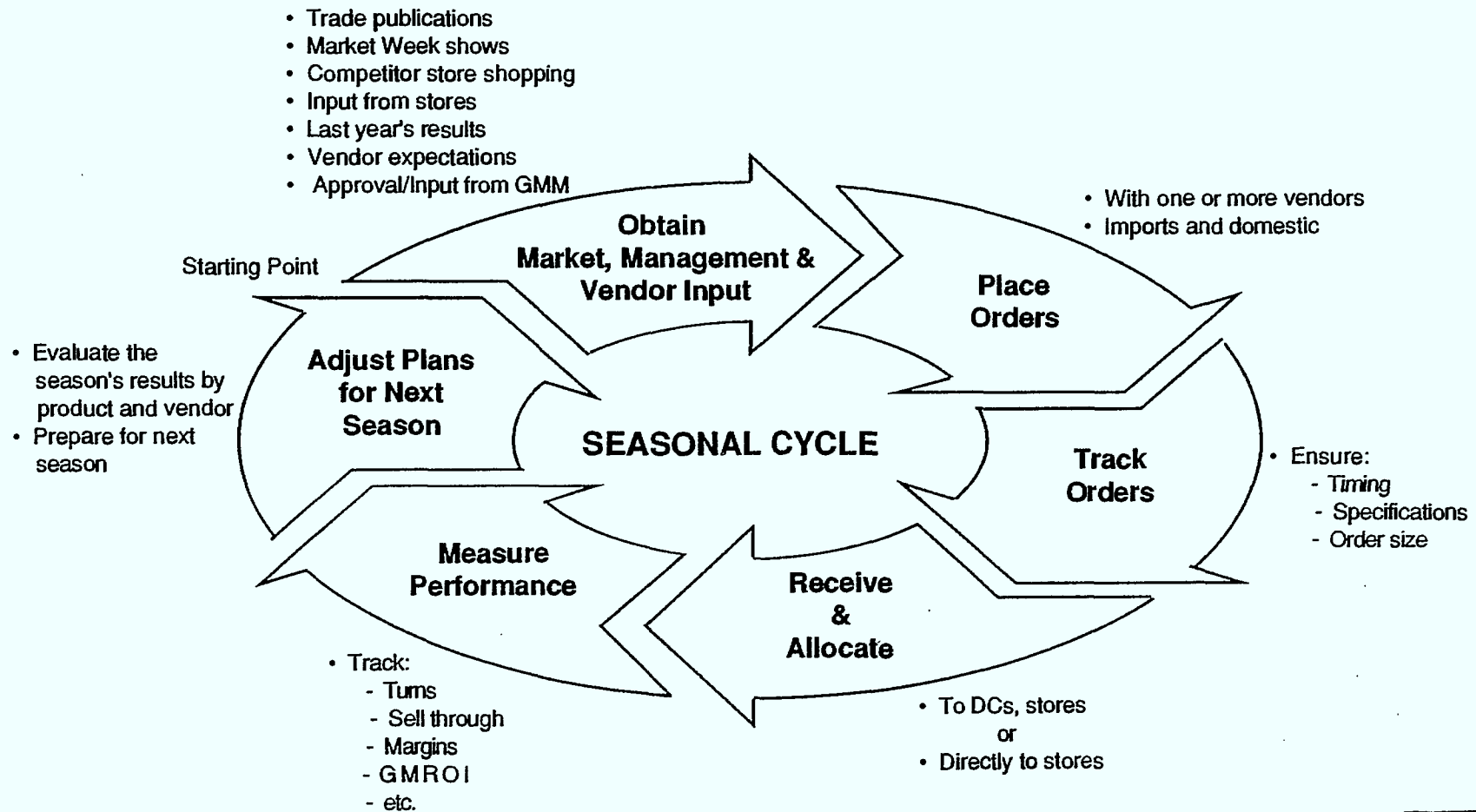
For larger orders, DMM or GMM approval is often necessary. For new vendors, confirmation from DMMs or GMMs is the norm. Such decision checks are stricter within larger retailers.



## GENERAL BUYING PROCESS GMM/DMM



## GENERAL BUYING PROCESS DMM/BUYER





## **B. Buying Process (cont.)**

---

Usually the same buyer will choose between imported and domestic options. There are advantages and disadvantages to each which are measured on an individual case basis. The major differences between the processes are:

### **DIRECT IMPORTS**

- Usually an order is placed farther in advance: 6-12+ months
- Letter of credit issued upfront which equates to immediate payment for vendor
- Quality control performed in factory or on shore
- Responsibility for product shifts to retailer when goods land
- Any markdowns absorbed by retailers

### **DOMESTIC**

- Ordering window ranges between 3 to 6 months
- Payment made after delivery of goods
- Responsibility for product shifts to retailer upon receipt in distribution center (DC) or stores
- Markdowns often shared

It is important to note that, in most cases, U.S. retailers will treat Canadian manufacturers as domestic sources based on their proximity.



**C. Decision Making Focus**

---

- Planning:** Seasonal and yearly plans are developed primarily on the GMM and DMM level with input from buyers and stores, and strategic planning offices, when they exist.
- Product Selection:** Products are selected primarily by buyers with input from above. Buyers have the liberty to try new products, but normally need approval for large orders or for key categories such as tailored clothing.
- Vendor Selection:** In most cases, vendors are identified by buyers but approval by GMMs or DMMs is often necessary in order to begin a new relationship. The importance of scrutiny from above is heightened with key items or large orders.



#### D. Merchandising Practices

Generally, U.S. retailers are more demanding of their vendors than their Canadian counterparts. This requires greater flexibility on the part of manufacturers, but can result in closer relationships which provide a strong and steady sales flow.

Markdowns: The more powerful retailers sometimes seek to share markdowns. This occurs as a consequence of a flexible relationship and can be expected when the quality of a product is below retailer specifications or a shipping window is missed by the vendor. Up to 50% of markdowns are shared when such arrangements exist.

Discounts: Discounts exist in U.S. retailing for early payment (5-8%), Volume (1-5%), warehouse allowance (1-2%) and advertising Co-op monies (2-3%). Shared advertising, however, can vary greatly by product and by each individual store's needs. On the upper end of the scale, intimate apparel categories can go as high as 15-20%.

Shipping and Marking: U.S. retailers choose between two general methods of product delivery.

- Most retailers require goods to be shipped to central Distribution Centers. Goods are then checked in and sometimes price marked.
  - Prepacking orders by store is sometimes required.
  - Premarking with UPC codes has become the norm.
- Some retailers opt for drop shipping directly to their retail outlets. This facilitates a smoother flow of goods and eliminates the costs for warehousing. However, check-in costs are incurred at each store. As QR becomes more widespread, the use of drop shipping and premarking will increase.



**D. Merchandising Practices (cont.)**

**Returns:** Returns are rare. Late deliveries or quality problems prompt returns from retailers. To avoid the logistical complications and costs associated with physically returning merchandise, retailers will sometimes subtract the value of returns from the next invoice.

**Test Marketing:** Many retailers are normally willing to test a new vendor who they believe has a potentially successful product. In such cases, the retailer will select a limited number of stores and monitor results.

Large retailers sometimes require guaranteed sales for product testing; thereby pushing the risk to the manufacturer. If a vendor is willing to take the added risk, this can be a successful way for a vendor to prove itself to a retailer.



## RETAIL DISCOUNTS

**U.S.**

**5-8%**

Early Pay

**1-5%**

Volume

**1-2%**

Warehouse Allowance

**2-3%**

Coop \$

**CANADA**

**2-3%**

**1-5%**

**2-3%**

**1-3%**



## E. Partnership and Linkages

### Partnerships

Fiscal "partnerships", described in Section IIIA, are growing in importance. Partnerships ensure that the right product gets to the selling floor. To the vendor, however, partnerships sometimes entail close contact and sharing of markdowns or advertising, especially with powerful retailers or for large orders. The vendor who shares those costs will be more attractive to all retailers, including those who don't normally expect or require assistance from vendors.

### Linkages

Electronic linkages between retailers and vendors are growing in importance and use. In order to remain competitive, retailers are attempting to limit markdowns and stockouts, and carry less inventory (and thus less investment and risk) through the use of Quick Response (QR).

- QR entails the linking of retailers, manufacturers and piece goods suppliers, through both electronic means and cooperative relationships, in order to more closely tie orders and production to consumer demand.
- Electronic Data Interchange (EDI) involves the linking of partners through electronic and computer systems providing two-way communication.
  - Retailers use sell-through data to place electronic orders on line to the manufacturer
  - Manufacturers ship products with UPC coding which allows tracking of point of sale (POS) performance



## E. Partnership and Linkages (cont.)

### Linkages (cont.)

In QR arrangements called "Pull" systems, a retailer transmits orders to its vendors by computer when a minimum inventory level is reached. The manufacturer receives the order on his computer and replenishes the product within several days to two weeks.

Such systems enjoy greater usage today in basic items which require more regular replenishment. Categories include: hosiery, underwear and intimate apparel, basic shirts (knit T-shirts, "polo" shirts, woven oxfords), basic pants, and some accessories.

Additionally, U.S. retailing is becoming more aware of the benefits of QR and EDI, and will certainly head in this direction.

The manufacturer who can provide the systems support and flexibility to offer such services holds a competitive advantage by being able to service a greater variety of retailers.



## V: SPECIALTY STORE PROFILE





## V: SPECIALTY STORE PROFILE

Of the five major retail channels, Specialty stores exhibit the greatest organizational diversity. Such differences, more in structure than buying process, are due primarily to specialty retailers' focus on consumer niches, product, or pricing.

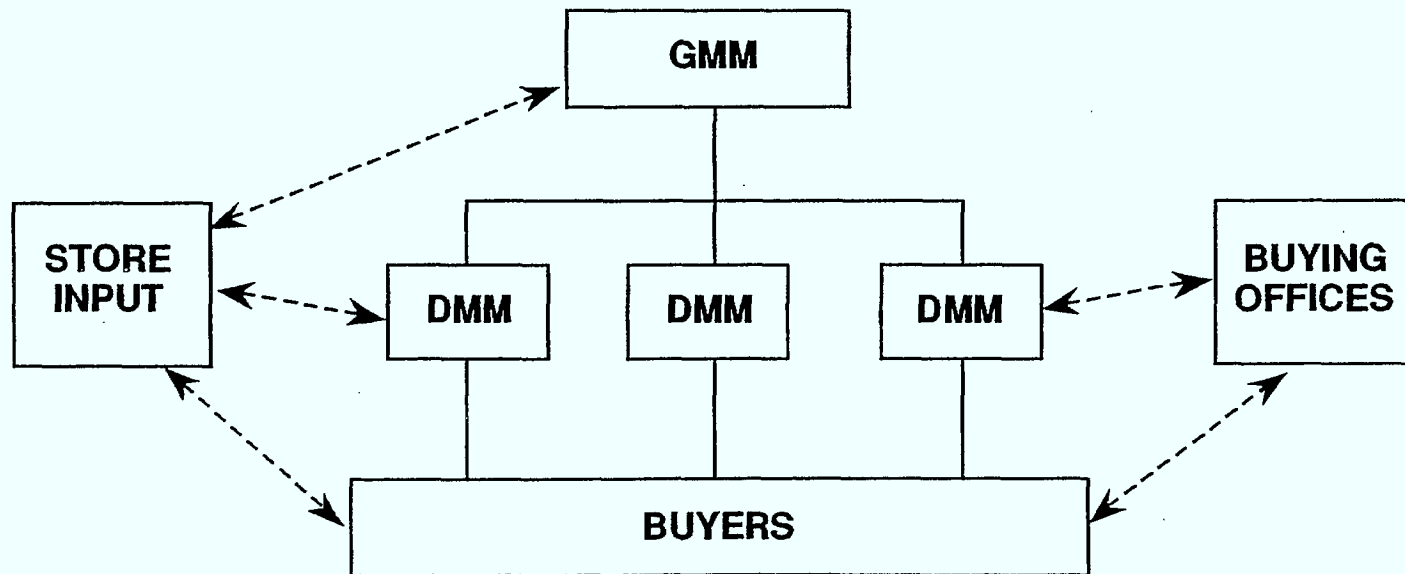
Three specialty store classifications are profiled:

- Specialty Department Stores
- Super Specialists
- Independent Specialists



### A. Buying Structure

The buying structure for a Specialty Department store is similar to that of a regular department store organization.



**GMM**

**4-6/Store**

**DMM**

**3-5/GMM**

**BUYER**

**4-5/DMM**

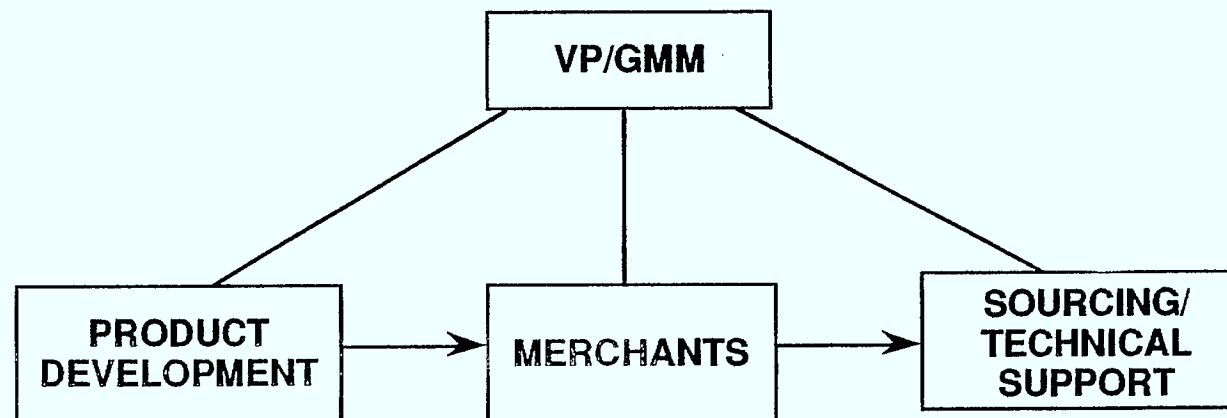
- Regional input is obtained from store managers or regional vice presidents for planning and performance-measuring purposes
- Most buying is done from a central location.
- Association with Resident Buying Offices exist for some basic, private label goods.
  - Resident Buying Offices can also be used as overseas agents to facilitate and/or execute a retailer's own imports in the country of origin.



### **A. Buying Structure**

---

The buying structure of a Super Specialist is organized around the need for in-house product development.



**VP/GMM**

- 1-6 per store depending on size and structure

**PRODUCT  
DEVELOPMENT**

- Design and produce sample products and lines
- Keep abreast of market trends
- Centralized at one location

**MERCHANTS**

- Amend lines and rework sample products
- Arrange for production
- Plan budgets (with VP/GMM) and distribution
- Centralized at one location, often in the same place as product development

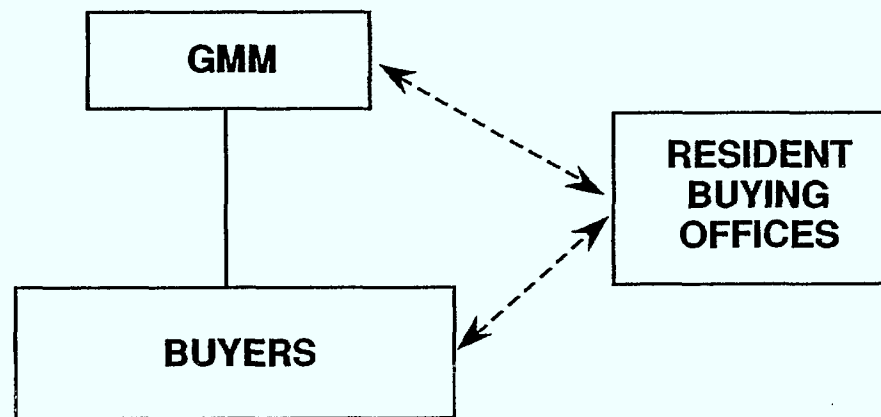
**SOURCING/TECH.  
SUPPORT**

- Execute production
- Find best sourcing options by country and manufacturer
- Ensure quality
- Located in various countries of origin



### A. Buying Structure

Independent Specialist are less complex than most other specialty stores due to their smaller size and fewer stores.



**GMM**

**1-2/Store**

**BUYERS**

**0-6/GMM**

- GMMs are often the store owners as well.
- Some Independents have no buyers, focusing all merchandising responsibility with one person.
- Buying is performed from one location, usually the store itself.
- Resident Buying Offices are used for basic items and fashion trend information.



## **B. Buying Process**

Specialty store buying is typical of U.S. retailing discussed in Section IV.

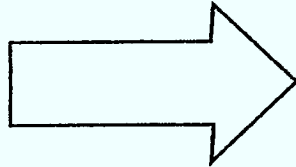
- GMMs, DMMs and buyers work together in planning and execution. The GMM has responsibility for planning and buyers have responsibility for execution. DMMs bridge the gap with responsibility to manage the buyers' activities and to assist in planning.
- Buyers must keep abreast of market trends including popular items and competent vendors.
- The same buyer for any given product usually will have responsibility for both imports and domestic merchandise sources.
  - Super Specialists, however, may have merchandising personnel who are specifically responsible for imports.
- When choosing between imported or domestic goods, product is more important than origin.
  - The major exception to this rule is for those few specialty retailers who chose to source domestically as a competitive focus.

"We have always bought American, and will always buy American. That's what our store is about." (Specialty Chain)



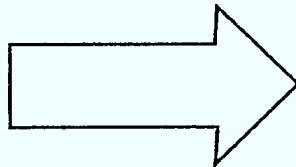


## SPECIALTY STORE BUYING



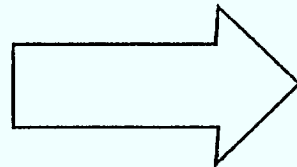
### Products Viewed and Selected

- Market shows (Specialty Department, Independents)
- Vendor presentation (Specialty Department, Independents)
- Own product development (Super Specialists, some Specialty Department)



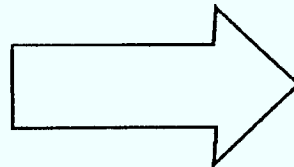
### Orders Placed

- Most or all of forecast ordered up front
- Phased shipments within 2 to 9 months



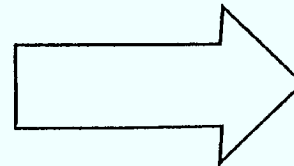
### Results Tracked

- Sell-through, Turns, etc.
- By product and by vendor



### Refills Ordered

- Rare among Specialty Stores
- 2-4 week delivery expected when placed



### Season Evaluated

- Vendor summary analysis
- Results used for following season



### C. Decision Making Focus

Specialty store buying/sourcing decisions are made according to the norms of the retailing industry.



- Responsibility of GMM, with input from DMM, buyers, and stores
- Includes budgeting, merchandise direction, and pricing, advertising, etc.
- 3-6 seasons per year.

- Buyers have responsibility to executive plans
- Flexibility to choose products without approval by DMM or GMM varies among Specialty retailers
  - Larger and more important orders require greater control from above (DMM)

- Buyers identify new resourcing options.
- Buyers can often arrange testing programs.
- DMMs or GMMs must approve most new vendors



**C. Decision Making Focus (cont.)**

---

New vendors are evaluated by Specialty retailers based on:

- |                                   |  |
|-----------------------------------|--|
| <b>Product:</b>                   | Does a vendor's product have the appropriate quality for the retailer's customer? Does the product offer a good value? |
| <b>Fashion:</b>                   | Is the product unique? Does the vendor's styling match the retailer's strategic focus?                                 |
| <b>Stability of<br/>Resource:</b> | Can the vendor consistently meet the retailer's needs?<br>Does the vendor have a solid financial foundation?           |



#### **D. Merchandising Practices**

Specialty store merchandising demands are typical within the retail industry.

#### **Mark up Targets.**

- Specialty Department 51-52%
- Super Specialists/Independents 55-60%

#### **Markdowns**

- More common among Specialty Department Stores
- Rarely shared with manufacturers within Super Specialists or Independents

#### **Discounts**

- Early pay 6-8%
- Volume 2-5%
- Co-op 2-3%

#### **Shipping and Marking**

- To central DCs usually
- Some prepacking by store
  - becoming more common
- Pre-marking requests are growing

#### **Returns**

- Only for products which don't match specifications or late shipments



## E. Partnerships and Linkages

### Partnerships

- Specialty retailers are more flexible in developing relationships with vendors than some other retail channels. Compared to Department stores, Chains and Discounters, Specialty stores place fewer financial demands on their vendors.

### Specialty Department Stores:

- Expect vendor participation in line development.
- Prefer to buy at net.
- Will demand shared markdowns if quality or delivery is incorrect.
- Are more likely to make margin maintenance demands, primarily larger companies.

### Super Specialists

- Develop own products, so assume most of the risk.

### Independents

- Place few demands on manufacturers.
- Right product most important.
- Value long-time relationships with trusted manufacturers.



## E. Partnerships and Linkages (cont.)

### Linkages

Electronic linkages are growing in importance in Specialty retailing. There is a gradual shift to Quick Response, which utilizes EDI and UPC bar coding.

While not implemented on a wide scale by Specialty retailers, most have plans to move toward QR. Currently, many require UPC bar coding to simplify inventory management and to prepare for greater EDI. While not always expected today, such services are currently a strategic advantage to a retailer and will become the norm within several years.



## **VI: DEPARTMENT STORE PROFILE**



## **VI: DEPARTMENT STORE PROFILE**

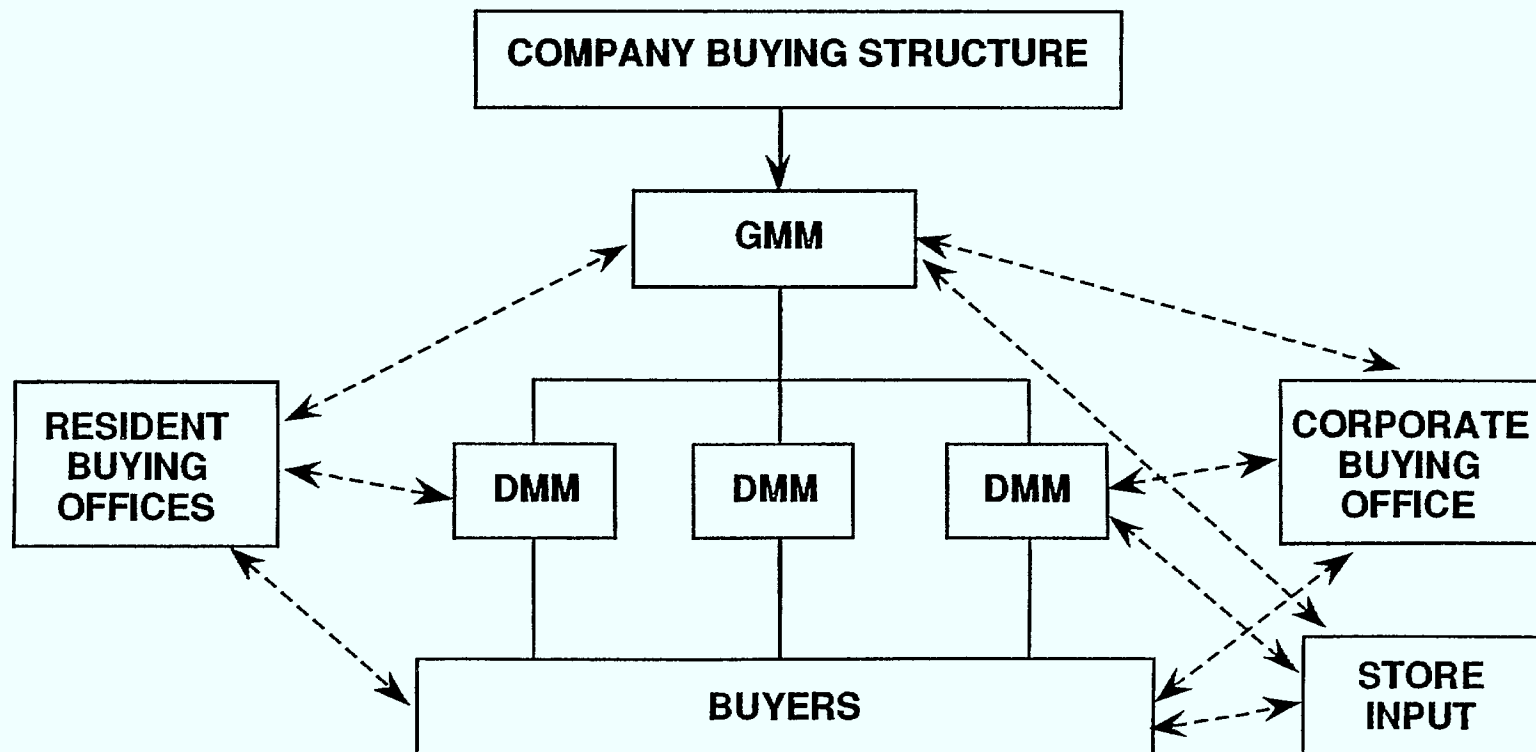
The structure of Department stores is fairly consistent. Differences in buying processes and procedures are minimal compared to the many variations among specialty retailers. Similarities are primarily due to the broad range of products offered and the consequent need for a relatively structured buying environment to maintain consistency and profitability.





### A. Buying Structure

The Department store structure is more rigid than Specialty retailers, and often includes relationships with Resident and/or Corporate Buying Offices.



**GMM**

**3-6/Store**

**DMM**

**3-4/GMM**

**BUYER**

**3-6/DMM**

Department Stores:

- Have more tightly controlled planning and buying procedures than Specialty retailers.
- Occasionally have regional buying offices which are better able to match merchandise assortments with local demand.
- Are less flexible and less entrepreneurial than Specialty stores.
- Often use Resident Buying Offices to provide market information and/or sourcing assistance.
- Corporate buying offices place orders for multiple buying regions of the same retailing company or for several retailing companies owned by the same parent company to take advantage of economies of scale.
- Buyers often have assistant buyers who perform many of the buyer's administrative and clerical tasks for them.



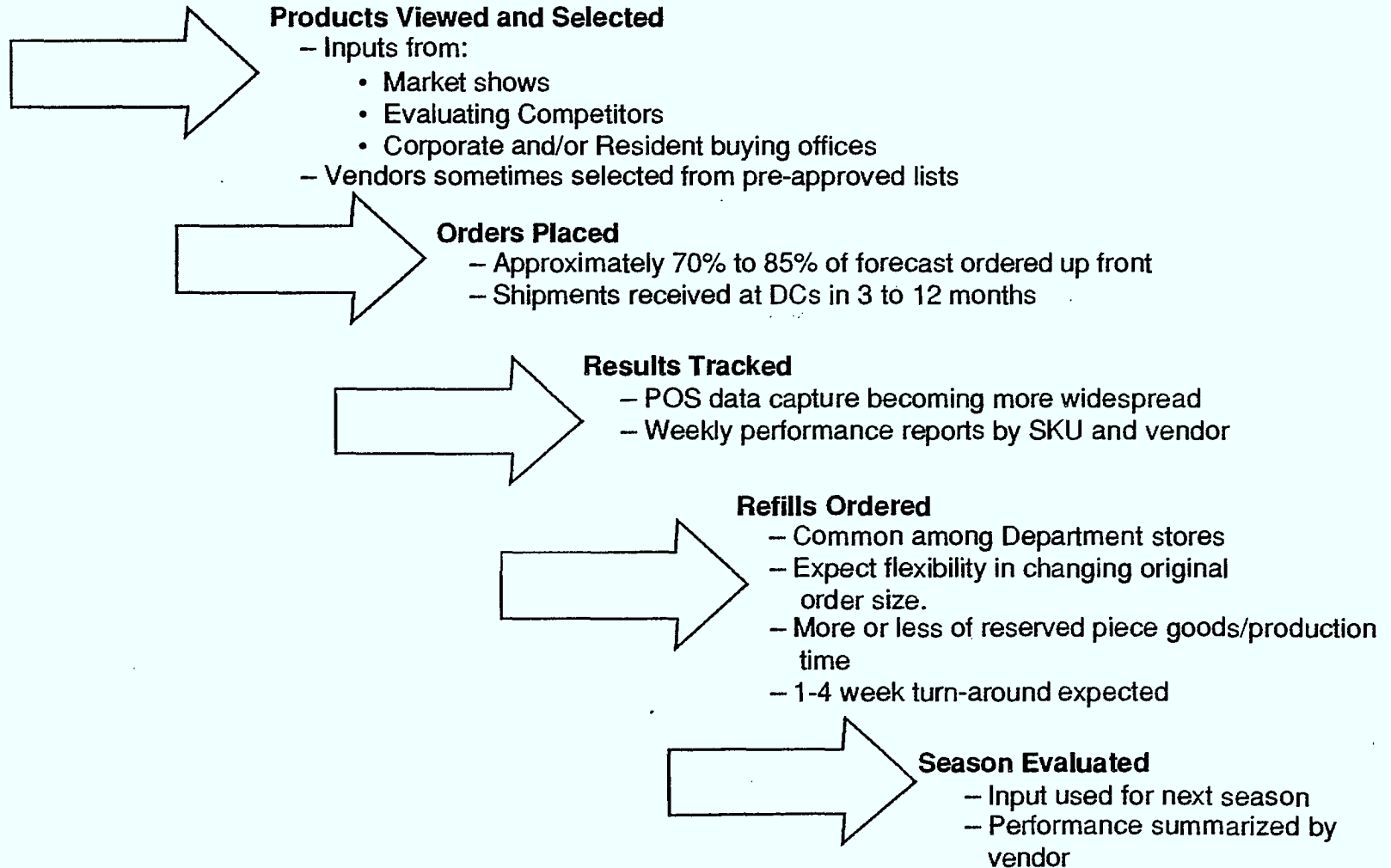
## **B. Buying Process**

Purchasing in Department stores follows the general practice of the retail industry.

However, vendor selection can sometimes be different. Buyers in some Department stores may only choose vendors from a list of resources pre-approved by their management. These lists are sometimes referred to as Vendor Matrices.



## DEPARTMENT STORE BUYING PROCESS



### C. Decision Making Focus

---

Because Department stores are more hierarchical than Specialty stores, there is less freedom within and overlap between merchandising positions.



- GMM responsibility with input from above and below
  - DMMs & Buyers
  - Stores
  - Parent offices where applicable
- Tight control over budgets and direction.
- 4-6 seasons per year.
- Executed by buyer with limited flexibility to stray outside of plans
- Buyers must convince DMM or GMM as to the worthiness of some products in order to have them remain in the assortment.
- Sought by buyers, approved by DMM or GMM
- Difficult for a new vendor to enter without review/approval of all levels



**C. Decision Making Focus (cont.)**

---

New vendors are evaluated by Department stores based on:

- Newness:** Will the vendor's product generate excitement? Department stores want to maintain fresh and unique styles on the selling floor
- Fill Void:** To replace a current vendor or compete more broadly in products not previously offered.
- Price/Quality:** Does the vendor deliver the necessary quality for the retailer's customer? At what price? How is this vendor an improvement over current resources?



#### **D. Merchandising Practices**

Department stores are demanding merchants. While most of their requirements fall within the normal industry range, they are more likely to be at the high-end.

#### **Mark up Targets.**

- 48-52%

#### **Markdowns**

- Shared with vendors when possible

#### **Discounts**

- Early pay      8%
- Volume        4 - 5%
- Co-op         2 - 3%

#### **Shipping and Marking**

- Charge-backs for late shipments
- Primarily sent to DCs - some drop shipping
- Prepacking by store becoming more common
- Pre-marking requirements growing, albeit more slowly than in Specialty stores

#### **Returns**

- Always for defective products or very late shipments
- Sometimes for poor selling items



## E. Partnerships and Linkages

### Partnerships

Department stores are demanding business partners. Many companies use their considerable size and unit volume as leverage to obtain "deals" from vendors. Such "deals" may include shared markdown arrangements whereby up to 25% of markdowns are covered by manufacturers. Flexibility is also expected in the form of shared advertising dollars and volume discounts. Manufacturers interested in serving Department stores must be willing to be an active partner by sharing information and projections, and being flexible in meeting financial demands.

### Linkages

Most department stores are just now beginning to plan for future QR relationships. As a distribution channel, these retailers have been slower to join the movement toward QR strategies. As with all retailers, however, UPC coding is becoming more common, and will be standard in the future. Currently, interested vendors are not required to be able to enter electronic linkages, but this could prove to be an advantage, since department stores prefer long-term, not one-time, relationships. The vendor who can be a QR/EDI resource will fit in with Department store future expectations.





## VII. CHAIN STORE PROFILE



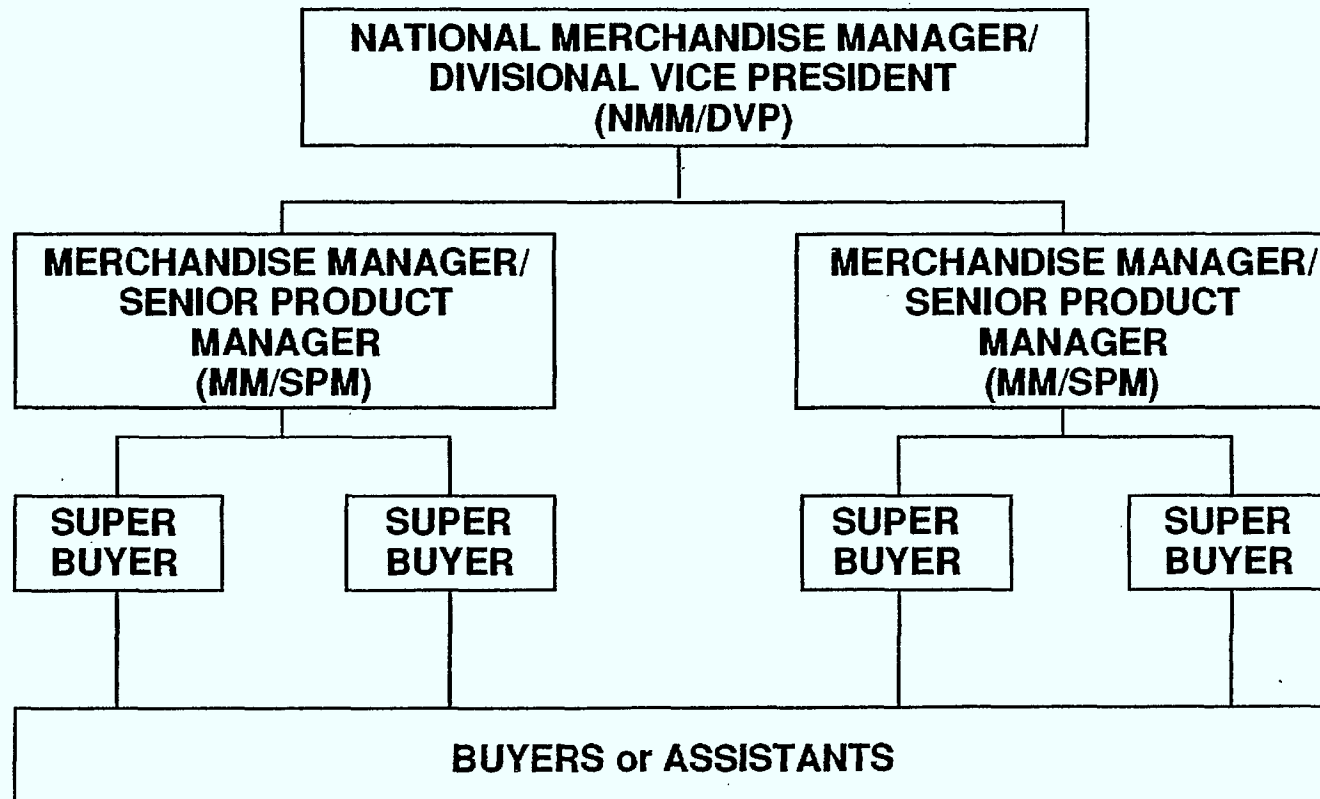
## **VIII. CHAIN STORE PROFILE**

The buying structure and procedures of Chain stores are more strongly centralized than most other channels, excluding Discount stores. Tight control from above is the norm. Implementation is executed by a buying staff which has limited authority to make major decisions without management approval.



### A. Buying Structure

Chain store buying is strongly centralized, with most purchases made from one location and execution supported by company offices abroad.



**NMM/DVP**

- Performs similar role as GMM
  - 4-8 per store

**MM/SPM**

- Performs similar role to DMM with some overlap with GMM
  - Stronger planning role
  - 3-4 per NMM/DVP

**SUPER BUYER**

- Acts as buyer for several products or categories.
  - Exist in structure in place of several buyers, when present
  - 0 to 5 per MM/SPM

**BUYERS or ASSISTANTS**

- Buyers exist in structures without Super Buyers
  - 4-5 Buyers per MM/SPM, or 2-5 Assistants per Super Buyer



**A. Buying Structure (cont.)**

- Merchandising staff is centralized in one office, except for support facilities abroad.
- Relationships with Resident Buying Offices are rare since Chains large order volume provides the cost leverage benefits that Resident Buying offices try to offer.
- Strategic planning groups may assist in direction setting, trend analysis, and product development.



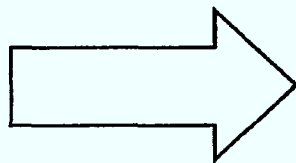
## **B. Buying Process**

Several merchandising techniques are employed by Chains which are not common to other channels of retail.

- Buyers forecast demand with assistance from vendors.
- Open-to-buy is allocated by store for some products. Individual stores place orders with buyer after viewing product options developed by the buyer.
  - Buyers often place purchase orders with vendors before receiving individual store orders based on anticipation of store needs. These preliminary orders are frequently modified after store demand is received.
- Buyers have a global view of the market.
  - Product specifications and terms are much more important than country of origin.
  - Chains have leverage to get beneficial buying terms anywhere.
- Buyer has the option to test potential new vendors in a limited number of stores.
- Because of changing Chain store market positioning, it is crucial that a vendor understand a Chain's direction before approaching buyer (see Section II, pp. 9,10).

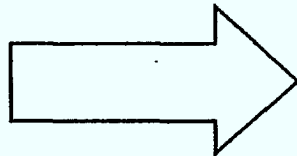


## CHAIN STORE BUYING PROCESS



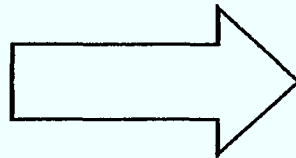
### **Products Viewed and Selected**

- Strong emphasis on using current vendors and long-term relationships
- Market shows are an important input



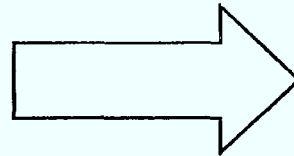
### **Orders Placed**

- 60%-70% of projected need placed up front
- Flexibility required of vendors to modify orders (production time & quantity changes, etc.)



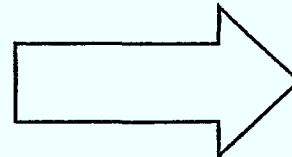
### **Results Tracked**

- Sell-through, turns, etc.
- "Service level", the ability to have appropriate inventories at all times.



### **Refills Ordered**

- More of same product, or different product if original item is slow moving



### **Season Evaluated**

- Results used for planning purposes



### C. Decision Making Focus

Chain store decisions are made at similar levels to other channels, however, more checks exist.



- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"><li>• Responsibility of NMM/DVP with strong support from MM/SPM</li><li>• Input often used from strategic planning offices</li><li>• Top down approach</li><li>• 4-5 Seasons per year</li></ul> | <ul style="list-style-type: none"><li>• Super Buyer or Buyer responsibility to execute plans from above</li><li>• Limited freedom to deviate from plan</li><li>• Need approval from above for large orders</li><li>• Seasonal line reviews</li><li>• Bottom up approach</li></ul> | <ul style="list-style-type: none"><li>• Super Buyer or Buyer remain aware of options</li><li>• Strong emphasis on current vendors and long term relationships</li><li>• Approval from above needed for most new vendors</li></ul> |
|---|---|---|





**C. Decision Making Focus (cont.)**

New vendors are evaluated by Chain stores based on:

- Timing:** Can the vendor consistently ship product on time?
- Product:** Will the vendor add to a Chain's assortments? Chains search for the right goods at the right price. These retailers are increasingly seeking nationally recognized branded merchandise.
- Stability:** Will the vendor be able to consistently service the retailers needs? The financial means and capitalization of the vendor who can accommodate large orders and provide merchandising support without committing more than half of its production capacity to any one retailer can be an important attribute.



#### **D. Merchandising Practices**

---

Chain stores are demanding retailers and tough negotiators. Their large volume demands enable them to make requests which many other retailers' may not.

#### **Mark-up Targets**

- 40-45% (Basics)
- 45-50% (Fashion)

#### **Markdowns**

- Not commonly shared with vendor(s).

#### **Discounts**

- Early pay - up to 8%
- Volume - 1 - 2 %
- Co-op - 2 - 3 %
- Damage - Negotiated

#### **Shipping and Marking**

- Pre-ticking and pre-marking (w/UPC) in most cases
- Sent to DCs and/or drop shipped
- 8 shipments or more per year



**D. Merchandising Practices (con't.)**

**Returns**

- Only for products which do not meet specifications

**Other**

- Extended pay terms – 90 days preferred



## E. Partnerships and Linkages

### Partnerships

- As with most U.S. retailers, Chain stores prefer long term, cooperative relationships.
  - Over the past few years, chains have been reducing the number of "fringe" vendors they work with while solidifying relationships with their "core" resources.
  - Vendor turnover in Chains is under 10% each year. This illustrates the value in maintaining relationships through "give-and-take" cooperation.
- To the vendor, give-and-take usually requires negotiating a low price up front. It can also mean discounts for volume, early payment or other considerations.
- To the retailer, cooperation demonstrates that a vendor is interested in its business, which helps assure long-term contact.

### Linkages

- QR and EDI is commonly practiced by Chain stores for basic goods. Often called "pull" systems, such linkages are fully electronic and serve to replace goods as often as established minimum inventory levels are reached.
- Fashion items are not normally on pull systems because with such items it is more important to move ahead to fresh styles than to refill old looks.
- All products are pre-marked, often with UPC codes.
- Though not required, the vendor which can offer EDI partnerships has an advantage over those which cannot. This will become even more relevant in the future.



**VIII. DISCOUNT DEPARTMENT STORE PROFILE**



## VII. DISCOUNT DEPARTMENT STORE PROFILE

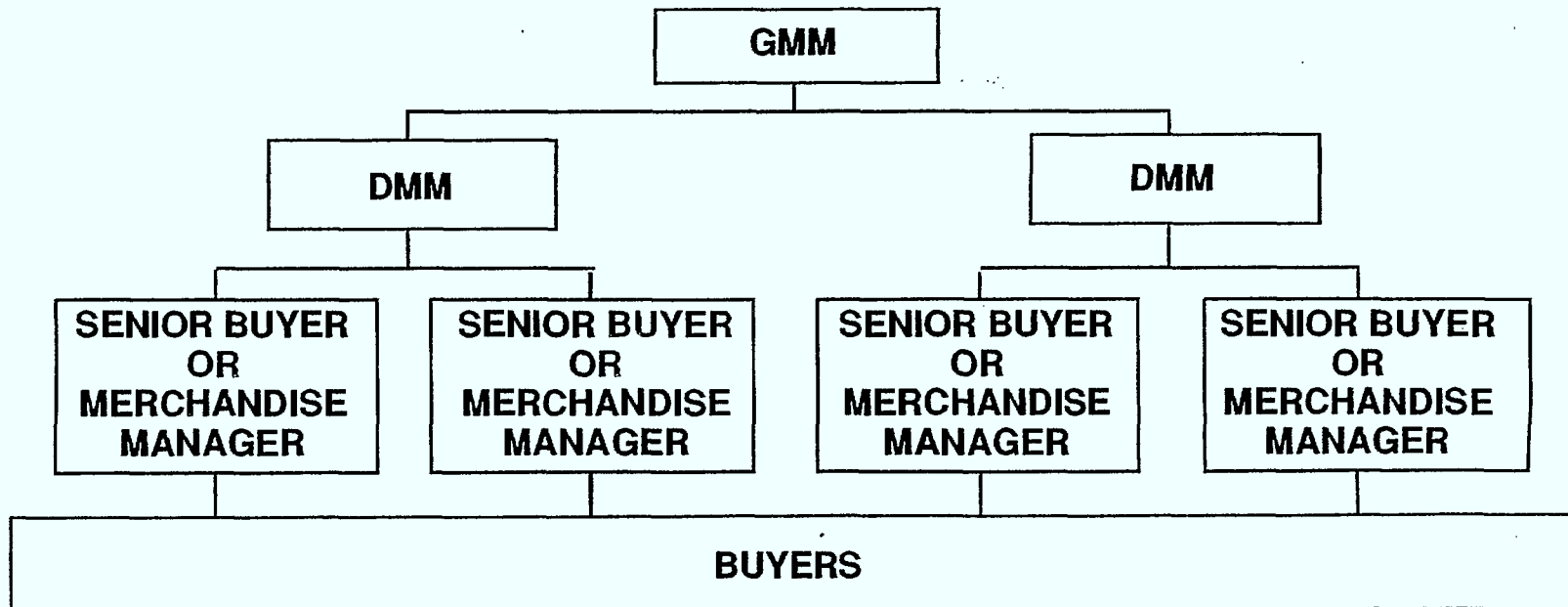
Discount Department stores (or more commonly called Discounters) attempt to offer the lowest price possible on all merchandise. Intense price competition has forced these retailers to remain profitable on slim margins (average Discounters gross margin 25.7%, Department stores 29.4%). High stock turns, volume sales and relatively low operating costs (average Discounters selling, general & administrative costs 20.7%, Department stores 22.7%) enables their success.



### A. Buying Structure

- Due to their lower margins and the relatively basic nature of their product offerings, Discount Department Store merchandising staffs tend to be "leaner" than a typical department store organization.
- An experienced merchandising staff allows Discounters to operate with fewer personnel and has enabled some to add an additional management layer - the Senior Buyer (sometimes called Merchandise Manager, or MM).

### Organizational Chart



**GMM**

- 2-3 per store

**DMM**

- 2-4 per GMM

**BUYER**

- 1-6 per Senior Buyer, where they exist, or DMM

**SENIOR BUYER  
OR  
MERCHANDISE  
MANAGER**

- Senior Buyers are accountable for the product selection and/or development, and day to day vendor relations of the 1-5 product categories they oversee.
- 2-4 Senior Buyers per DMM
- Not all Discounters include Senior Buyers in their organizational structures.
- When they exist, Buyers will work closely with a Senior Buyer, usually concentrating their efforts on 1 or 2 items or product categories each.





#### **A. Buying Structure (con't.)**

---

- A Discounter's merchandising staff is less "specialized" than in Department stores. A single buyer will frequently be working with both direct imports and branded domestic resources simultaneously.
- The addition of the Senior Buyer position diffuses many of the decisions which would normally filter up to a DMM or even GMM. Without as many distractions, senior management may concentrate on cost controls and other managerial tasks important to the success of his/her division or department(s).
- In practice, however, Discounters are not as rigid as the organizational chart implies.
  - For example, GMMs and DMMs, in addition to fulfilling their other responsibilities (see Section IV), might involve themselves in the assortment planning and, more often, vendor negotiation processes. A GMMs/DMMs role in a situation will increase with higher dollar and/or store commitments.
- Discounters usually experience lower Buyer attrition rates than most other retail channels.



**A. Buying Structure (con't.)**

Some common attributes of Discounters' merchandising operations:

- Centralized in one location
  - Some Discounters maintain overseas offices to facilitate direct importing and resource identification.
- Relationships with Resident Buying Offices are rare.
  - When present, the buying office will usually provide only trend information.
- Prefer arrangements for net payment after delivery (rather than Letters of Credit) to decrease inventory risk.
  - Trending away from Private Label merchandise in favor of national brands.

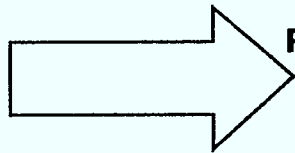


## **B. Buying Process**

- Buying is performed by the Buyers and Senior Buyers according to the financial limitations and general fashion direction dictated by the DMM's and GMM's plans.
- Aside from the broad boundaries set by the plans, Senior Buyers have relative autonomy on how they develop their assortments. Formal line reviews are held by the DMM and GMM each season to approve each Buyer/Senior Buyer's plan.
- The planning process begins 8-12 months before each season.
- Most Discounters utilize mailing circulars
  - Photograph samples are needed 4 months before publishing.
  - Imperative that featured merchandise is shipped on time.

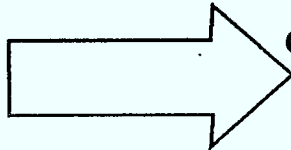


## DISCOUNT DEPARTMENT STORE BUYING PROCESS



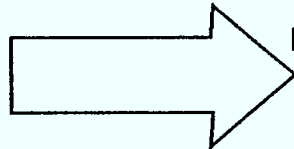
### Products Viewed and Selected

- "Shop" competitors; attend shows; external trend information services
- Discounters are typically loyal to their current vendors



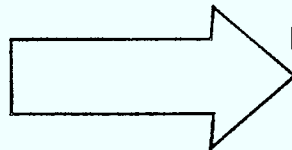
### Orders Placed

- No more than 70%-80% open-to-buy is committed up front
  - Remain flexible to take advantage of mid-season bargains and, less frequently, refill orders
- Place large volume orders to get rock-bottom prices



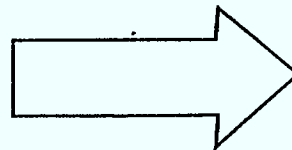
### Results Tracked

- Sell-through, turns, inventory levels
- Computer systems revolution occurring here



### Refills Ordered

- Not common to all categories
- When done, 2-4 week turn-around expected



### Season Evaluated

- Vendor performance summary



### C. Decision Making Focus

Discounters operate similarly to other retail channels



- Responsibility of the GMM. DMMs work closely with their GMMs during the planning process.
- Expectations of Senior Buyers and Buyers, as well as historical results are factored into plans.
- Tight control over budgets and cost over-runs.
- 2-5 seasons per year.

- Buyers work closely with their Senior Buyers to fill objectives of plans.
- All purchases must be approved by DMM and/or GMM

- Strong reliance on long-term relationships.
- Buyers, Senior Buyers identify potential new vendors
- All new vendors must be approved by DMM and/or GMM.



**C. Decision Making Focus (cont.)**

- Over time, Discounters' resource structures tend to be stable. However, when needed, new vendors are evaluated according to:

**Product:** Is the product needed? Recognized brand names are increasingly more important to Discounters

**Quality/Price:** What value does a vendor's product offer the Discounter's customers?  
Discounters must be highly price conscious or risk losing sales.

**Service:** How important would the Discounter be to the vendor's business?  
Would the store receive preferential shipping considerations from the vendor?  
Can the vendor handle volume orders? Even regional Discount Department stores can strain capacity of some vendors.

**Partnership Potential:** Is the vendor financially stable?  
Will the vendor be willing to work with the Buyer to help maintain margins?



#### **D. Merchandising Practices**

Discounters are demanding of their vendors; however, they also tend to be loyal. As stated in Section IV, a manufacturer's ability to accommodate reasonable merchandising requests can result in close relationships and steady sales flow.

#### **Mark-up Targets**

- 30-50%
  - Because of price competition, it is sometimes more important for a Discounter to hit an industry wide price point than attain a targeted margin.

#### **Markdowns**

- Discounters will request that as much as 50% of markdowns at cost be shared by the vendor. The amount will vary among retailers and specific circumstances.
  - Discounters may feel that a vendor's responsibility for its merchandise does not end when it "leaves the factory".

#### **Discounts**

- Early pay - Up to 8%
- Volume - 1-2%
- Warehousing - 1-2%
- Single Invoice - 1-2%
- Co-op - 2-3%



#### D. Merchandising Practices (cont.)

##### **Shipping and Marking**

- Discounters rarely request drop shipping.
- Product is usually sent to DCs.
- Most Discounters will request pre-packing of their orders to custom specifications in order to facilitate a smooth flow of merchandise through the DC.

##### **Returns**

- Returns are especially rare among Discounters. In fact, they frequently purchase merchandise refused by Department stores (at bargain prices).
- Only very late shipments or quality problems will cause orders to be returned.





## E. Partnerships and Linkages

### Partnerships

- Discounters must be very price competitive and survive on slim margins. The vendor who can help a Discounter build its margins (through aggressive prices, discounts, and allowances), and assist in minimizing its operating costs (by providing flexible pre-ticketing, shipping and delivery options) will be more likely to evolve into a long-time relationship with that merchant.

### Linkages

- Except for National Chains, Discounters lead other retailers in the use of QR and EDI systems.
- Discounters use of UPC scanning capabilities and EDI are advancing rapidly. Some Discounters have already attained 100% UPC ticketing and POS information capture and most of these companies require UPC pre-ticketing from their resources.
  - Requests for UPC pre-ticketing will become requirements within the next few years.
- EDI auto-replenishment systems are in use mainly in hard goods, and some soft-goods basics
  - The ability of a vendor to help Buyers shed their "reorder clerk" responsibilities will be highly valued as the 1990's proceed.



## IX. MAIL ORDER PROFILE



## **IX. MAIL ORDER PROFILE**

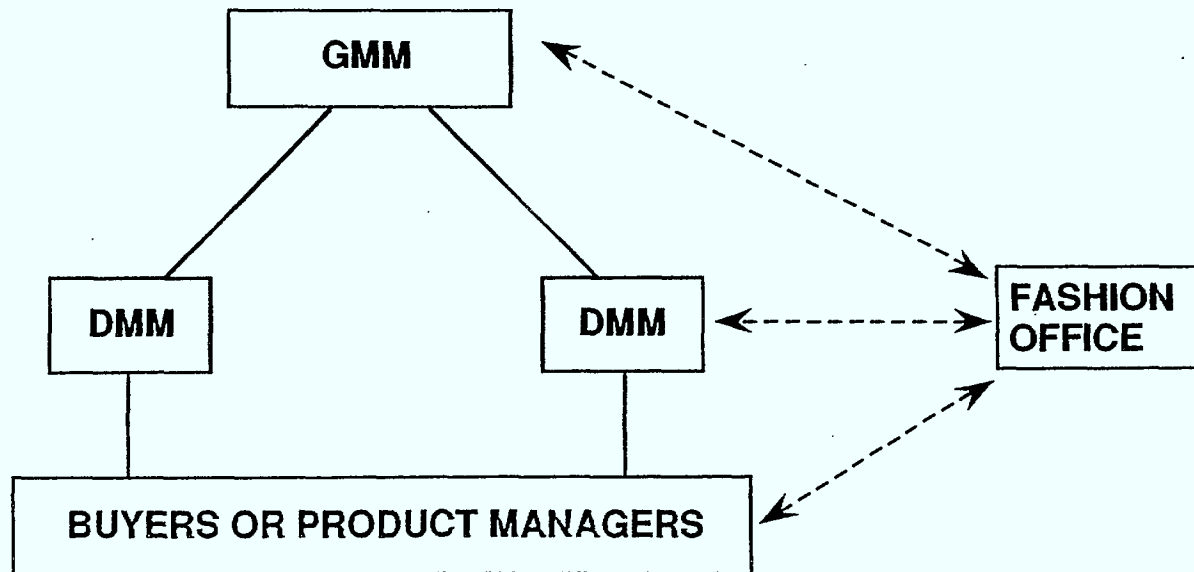
Most Mail Order companies are focused upon a particular consumer, end-use, or lifestyle, with the notable exception of national chain catalogs (Speigel). Due to their use of catalogs, they require longer product development lead times than other retailers and special manufacturing and shipping flexibility from their vendors. Mail Order company organization, however, is quite similar to other retail channels.



### A. Buying Structure

- Like Discounters, Mail Order companies have "lean" merchandise staffs.
  - As few as 15 Buyers/Product Managers for all apparel, due to specialized focus.
- Mail Order companies tend to maintain a narrow vendor structure.

### Organizational Structure



**GMM**

- 2-3 per company

**DMM**

- 2-5 per GMM

**BUYERS  
OR  
PRODUCT  
MANAGERS**

- Buyers are assigned to a "demand segment" or classification, consisting of one or several items. (Women's Sportswear vs. Men's Knit Tops)
  - This reflects that Mail Order is very much consumer (demand) driven.
- Buyers manage their business largely on an item by item basis. For this reason, they are often called Product Managers. They are responsible for all product development, sourcing, and shipment tracking for their assigned demand segments.



## **B. Buying Process**

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Mail Order companies generally develop and contract for their own product rather than purchase established merchandise on the open market.

**Fashion  
Office**

- In-house fashion/design offices, which most (but not all) Mail Order companies maintain, distribute their research vertically throughout a company. GMMs and DMMs use this information to guide the general direction of the firm in their plans and buyers integrate specific design and color trend information into their product development. The result is a consistent fashion/image for the company.
  - The presentation of a consistent "look" is critical to maintain a catalog's focus.
- Guidance from manufacturers regarding appropriate styling and design is of decreasing importance to Mail Order companies as they understand their customer with increasing sophistication each year.

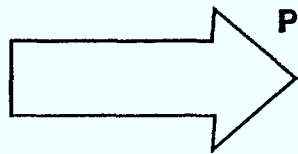


## B. Buying Process (con't.)

- Mail Order firms would like to shorten their product development lead time.
  - Currently firms begin product planning and development 12-18 months ahead of season. Vendor assistance in shortening the product development cycle would be a competitive advantage.
- Foreign vs. Domestic Sourcing: The extent to which each direct marketer uses Letter of Credit direct importing vs. domestic, net payment sourcing varies.
  - Some companies strive to minimize imports to take advantage of actual or perceived flexibility of domestic resources.
  - Those firms which are comfortable with direct imports would switch to a domestic (or Canadian) vendor if offered better price, flexibility, or response time.

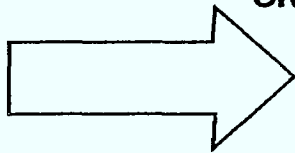


## MAIL ORDER BUYING PROCESS



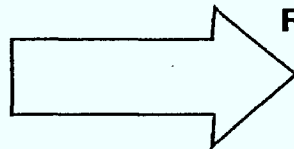
### Products Viewed and Selected

- 12-18 months ahead of season
- Emphasis on using current vendors and long-term relationships



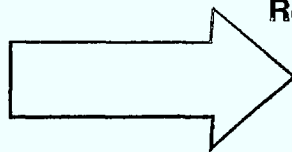
### Orders Placed

- 40-60% of forecasted need booked ahead of season
- "Trigger dates" for confirmation decisions regarding the remaining 40-60% are negotiated.
- Vendor expected to leave capacity open to accommodate these late orders



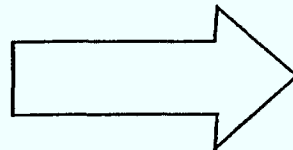
### Results Tracked

- Winners and losers are identified early, within 2 to 3 weeks of a catalog's  $\pm 16$  week life



### Refills Ordered

- Transfer production from slow moving items to current season's winners, where possible
- Manufacturer flexibility required



### Season Evaluated

- Results used for future planning





### C. Decision Making Focus

Mail Order decisions are geared toward items, rather than line development, in order to build upon a consumer focus.



- Responsibility of GMM with strong support from DMMs.
- Input from fashion office, when present, integrated into plans.
- Mail Order companies operate on 2-5 seasons; 9-23 catalogs per year.
- Typically plan 18 months ahead of season. It can be as short as 12 months, however.
- Buyer responsibility to develop items within budgetary and directional guidelines of plans.
- Approval of DMM, GMM needed before any orders placed.
- Input from fashion office.
- Buyer task.
- Tendency to use current vendors.
- Approval needed for all new vendors.



### **C. Decision Making Focus (con't.)**

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Mail Order specialists prefer to limit their vendor structure to those vendors who can meet their needs and have experience with addressing their customer's specific tastes. However, when selecting new vendors, they are evaluated according to:

#### **Product Quality:**

A dissatisfied customer is a lost customer. In addition to producing high quality garments, the vendor must illustrate his in-house quality controls to give the retailer confidence that quality issues will be minimized.

#### **Manufacturing Flexibility:**

Mail Order firms often require their vendors to alter production plans mid-season. Vendors are highly valued if they can adapt quickly.

#### **Refill Turnaround:**

Customers can be lost if their order is not filled.

- A credit card authorization can be held a maximum of 90 days.
- Refill orders must turnaround within 90 days; however, 14 days is preferred.
- To meet this preferred turnaround time, a vendor's ability to hold piece goods and/or finished garments is valued.

#### **Shipping:**

Mail Order companies tend to be more lenient of late shipments than Department stores (they will wait 1-2 weeks before refusing to accept merchandise).

- However, most companies measure their service performance based on the percentage of orders which are fulfilled the same day they are received.
- Stock-outs due to tardy scheduled shipments are unwelcome.



#### **D. Merchandising Practices**

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Mail Order merchants describe their operations as "clean" businesses, meaning they prefer to negotiate the best price at net.

#### **Markdowns**

- Infrequent. However, when liquidation is necessary, they will attempt to share their losses. To avoid markdowns losses entirely, some companies ask their vendors to guarantee the price of items.

#### **Coop Dollars**

- Very infrequent. Only requested of branded manufacturers (who are a minority in Mail Order).

#### **Shipping and Marking**

- Each Mail Order company will have rather inflexible, unique needs for garment labeling and shipping.
  - Shipping is negotiated ahead of season.
    - Expect charges for missed windows. Punctuality is important to a Mail Order company's business; however, they will not be as quick as Department Stores to charge vendors for late shipments.

#### **Returns**

- Infrequent. Only quality problems or drastically late shipments will prompt returns from Mail Order companies.



## E. Partnerships and Linkages

### Partnerships

- The cooperation of vendors is key to a Mail Order company's business.
- Rather than place orders, Mail Order companies purchase open capacity from their vendors.
  - Before a given season, a Product Manager will inform each resource of projected needs for a specific item for that season.
  - 40-60% of projected volume booked with initial P.O.
  - The vendor is expected to hold piece goods or finished garments for quick delivery later in the season.
  - Negotiations take place at the time of the initial P.O. to establish "trigger dates" for cutting authorizations, etc. during the season.
- This mode of business opens vendors to inventory carrying costs and, potentially, latent capacity if forecasts are not met in a season.
- Mail Order companies try to maintain partnerships, however:
  - They will typically share losses due to unused piece goods.
  - To minimize losses, Mail Order companies expect their vendors to exhibit manufacturing flexibility by quickly transferring:
    - Production time slated for slow styles to best sellers.
    - Piece goods from slow selling styles into best seller silhouette production, where possible.
- Manufacturers servicing Mail Order houses must be flexible to react to the evolving needs of a company and still ship on time.



**E. Partnerships and Linkages (con't.)**

**Linkages**

- Most Mail Order companies have not implemented sophisticated Quick Response programs or electronic communication systems with their vendors.
- However, with the goal of shortening lead times, many Mail Order companies will be implementing QR and EDI systems within the next 1-5 years.



**X. RESIDENT BUYING OFFICES**



## X. RESIDENT BUYING OFFICES

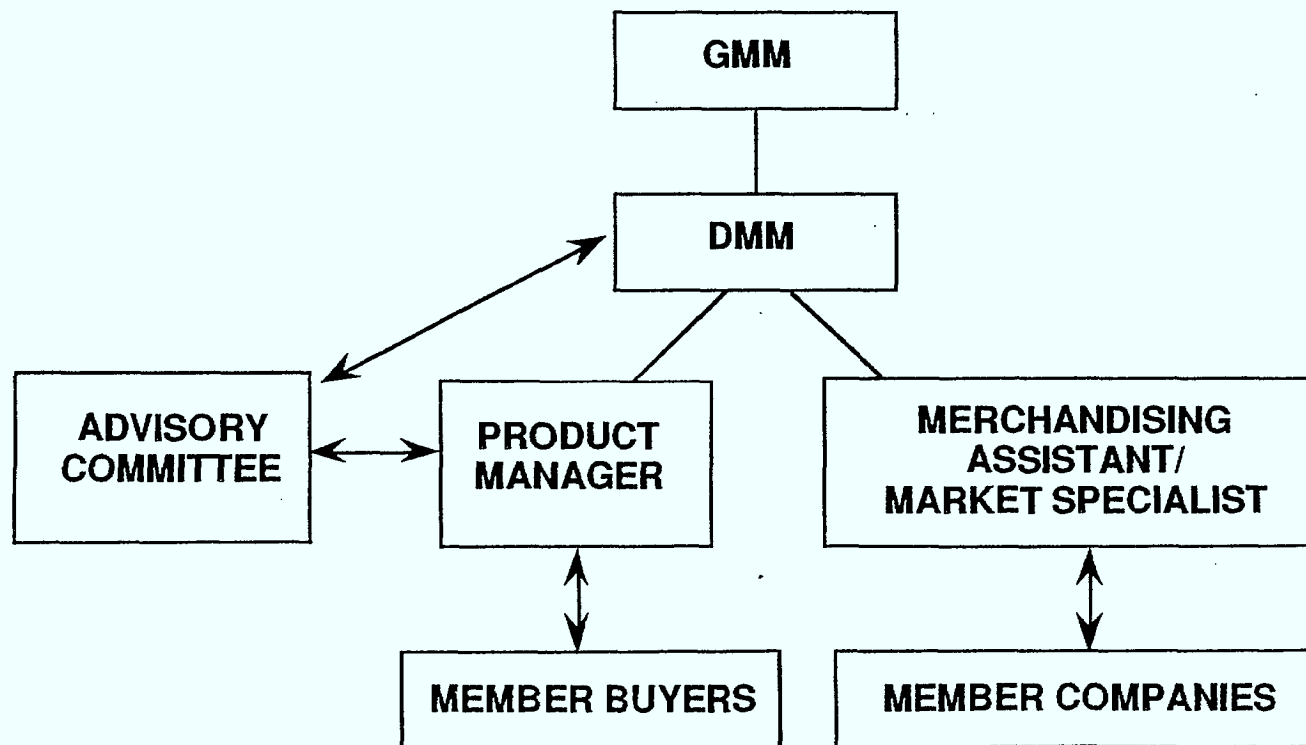
There are three types of buying offices:

- **Company** - Offices operated by a single retailer in a channel, responsible for obtaining the majority of items purchased. Such offices have been the primary focus of this report.
- **Corporate** - Offices operated by a parent company which owns more than one retailing company. Such offices buy goods in volume to be sold by all (or many) of the parent's retail divisions. In this manner, economies of scale are attained.
- **Resident** - Independently run offices which provide merchandising and sourcing support to retailers. Typically, member retail stores are shareholders of the buying office.
  - Majors like Associated Merchandising Corporation (AMC) and Frederick Atkins provide complete services.
  - Others provide specific information or services for a region.
    - Local fashion information
    - Resource identification and execution support from a foreign country



### A. Buying Structure

Resident Buying Offices are generally structured like most U.S. retailers, but have strong ties to their member companies. There are usually two types of services offered - buying services and in-store consulting.





**GMM**

• 3-5 per company

**DMM**

• 3-4 per GMM

**PRODUCT MANAGER**

- Acts as buyer to find and source products
  - Identifies optimal source countries and manufacturers.
  - Researches market.
  - Works with product engineers to monitor quality.
  - Works through details of program; processes orders.
  - Uses input from member companies
    - Advisory Committee - made up of member stores.  
Develops programs, monitors quality, helps set direction.
    - Member Buyers - Place orders for retailing companies through product manager of buying office.
  - Manages day-to-day relationship with members

**MERCHANDISING  
ASSISTANT/MARKET  
SPECIALIST**

- Act as in-store consultants to member companies
  - Provide market data and trend analysis.
  - Help change and improve store merchandising operations.
  - Follow markets

Buying offices contract agents or operate offices in foreign countries to facilitate order placement and tracking, and to monitor quality of product.



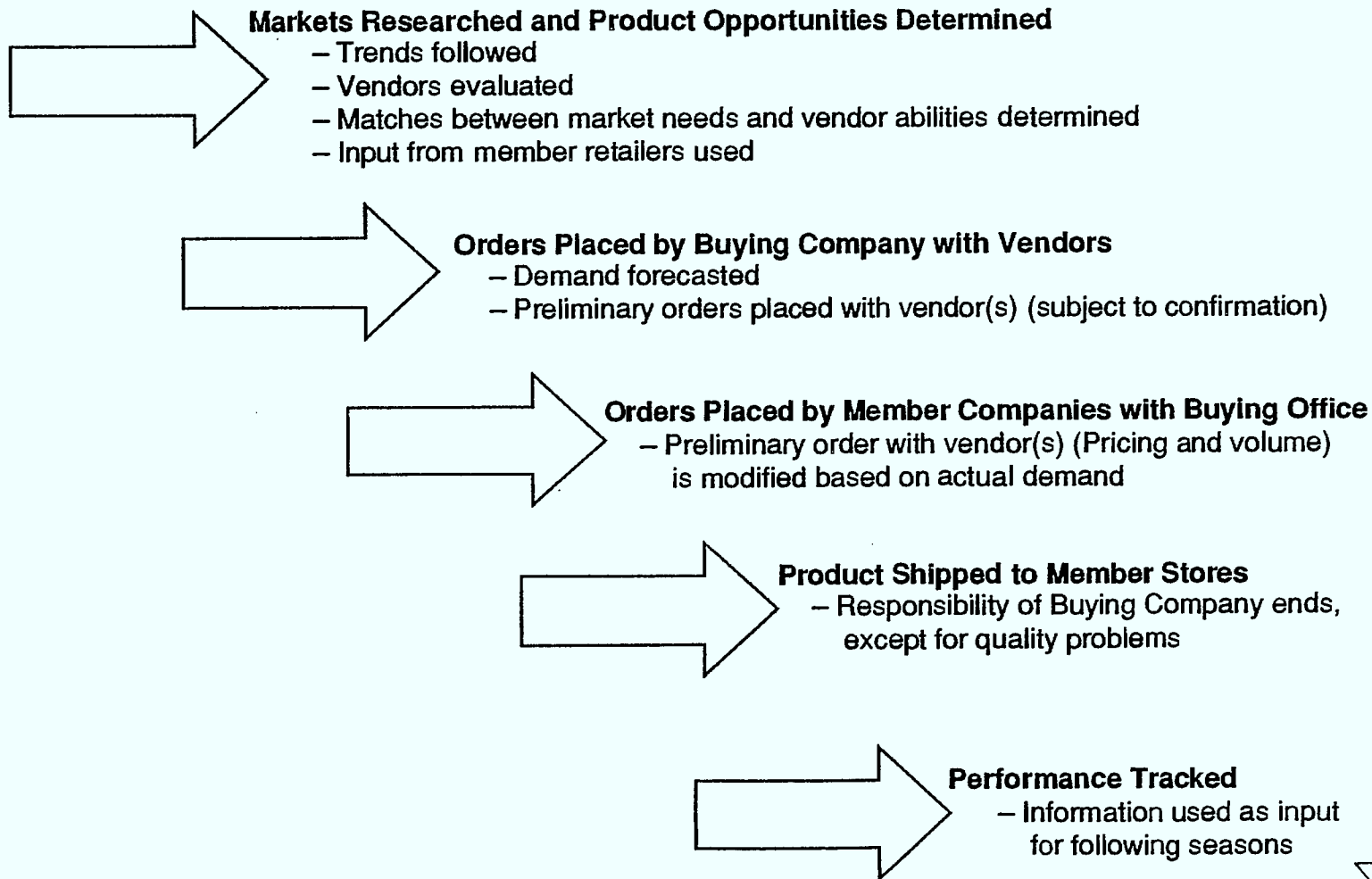
## **B. Buying Process**

Resident Buying Offices purchase both imported and domestic merchandise. The system of procuring goods is similar to other channels; however, some significant exceptions exist.

- Programs are developed based on Product Manager recommendation and member store input.
- After programs are developed, member stores place orders with Resident Buying offices.
- Resident Buying Office then negotiates price with vendor(s) based on actual, not forecast, volume demand. Letters of credit are issued as payment for both foreign and domestically produced goods.
- Shipping arrangements are worked out with the manufacturer on an individual store basis. For imports, Buying Office responsibility ends when goods reach U.S.
- Most purchasing is for private label programs.



## RESIDENT BUYING OFFICE BUYING PROCESS



### C. Decision Making Focus



- Performed by GMM, but not as focused as other channels where GMMs have direct budget and open-to-buy responsibilities.

- Accomplished by Product Managers with much input from member committee and member company buyers.
- DMMs and GMMs are typically more involved here than in other retail channels.

- Product Engineers perform quality control checks and factory inspections to determine suitability of manufacturing facilities.
- Product Managers, DMM and GMM choose actual vendors, with some member input.



**C. Decision Making Focus (cont.)**

Buying Companies evaluate new vendors on:

- Price:** Can the vendor offer an aggressive price? Obtaining the right product at a better price than normally available is the essence of a Buying Office's business.
- Quality:** Can the vendor consistently produce the product to specifications?
- Delivery:** Dependable, on-time shipments are critical.





## E. Partnerships and Linkages

### Partnerships

- Buying offices have strong relationships with their vendors. Vendor turnover is rarely more than 15% per year. Cooperation is expected in reaching the lowest price up front and on-time shipping. Little else is expected.
- Buying offices do not exert the pressure common of other retail channels by demanding give backs from their vendor partners.
- Buying Offices do not demand discounts and merchandising support of vendors because they are not retailers.

### Linkages

- Buying Offices do not presently engage in electronic linkages with their resources. This should not be an important issue in the future either, as such relationships are usually established directly with member retailers.



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