Fashion Economics: FM 4339
Quiz #9 The US Textile Industry
Chapter (10)
Dr. Adomaitis

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Rosen, E. I. (2002). The Globalization of the U.S. Apparel Industry: Making Sweatshops. University of California Press.

Please answer to the best of your knowledge the following essay question. Use detail where appropriate. Remember grammar, punctuation & spelling count.

a. **In the introductory paragraph, Rosen discusses vertical integration within retailing. What does vertical integration mean and how has it effected retailing since the inception when mom-and-pop- shops were king? (2pts)**

Vertical integration according to Harvard Business Review is the “combination, under a single ownership, of two or more stages of production or distribution (or both) that are otherwise usually separate” (Buzzell, 1983). This means that the company at hand gets to control different steps within the supply chain rather than going through separate suppliers they are able to deal with these processes in-house.

This has affected retailing by taking over a market in which mom-and-pop shops once flourished. Rosen states that “ The highly concentrated, vertically integrated U.S. retail transitional like Wal-Mart, Federated Department Stores, and the GAP – selling vast quantities of apparel, have put many of the smaller businesses and even some of the larger department stores out of business” (Rosen, 2002, pg. 177, par. 1). This new wave of vertical integration had intensified the competition within apparel retailing and forced companies to sell more clothing to increase their market share.

b. Rosen discussion continues about the elimination of quotas, reduction of tariffs, and the opening of new markets that increase volume and lower apparel

costs. Why then, does apparel clothing retail at expensive prices to the consumer. Defend your answer. (2pts)

Although Rosen discusses the elimination of quotas, reduction of tariffs, and opening of new markets, the pricing of apparel clothing retails at more expensive price points. This is because of the rapid increase of competition within the retail market. This also means that the clothing items are marked up at more expensive prices than what they had gotten those clothing items for. Although these manufacturers are able to produce these products at a higher volume that does not mean that the retailers are able to sell those items at the same low price point if they want to make a profit they are going to have to mark up the items for their customers.

Rosen, E. I. (2002). The Globalization of the U.S. Apparel Industry: Making Sweatshops. University of California Press. (cont.)

c. Rosen states that in 1977, there were four (4) major holding companies in retailing – (1) Federated Department Stores (2) Allied (3) May and (4) Dayton Hudson. Please find one (1) article that discusses each of the holding companies today. Bring your four (4) articles to class.

(1) Federated Department Stores: https://www.wsj.com/articles/SB110954537749165299
(2) Allied : https://www.nytimes.com/1987/01/10/business/company-news-the-breakup-of-allied-stores.html
(3) May: https://www.bizjournals.com/stlouis/stories/2004/12/13/focus1.html
(4) Dayton Hudson: https://www.minnpost.com/mnopedia/2015/09/dayton-s-more-century-minnesota-retail/

d. **What has happened to the couture fashion industry? How did private label emerge in the industry? What is the significance of private label to retailers? (2pts)**

As transformations within retailing were beginning to occur this in turn led to a decline in the couture fashion industry. According to Rosen “Well-known couture fashion designers had produced individualized clothing for wealthy patrons. As this clientele began to shrink, many designers discovered the advantages of higher volume sales in high-niche ready-to-wear women's apparel” (Rosen, 2002, pg.182, par. 3). By using this approach it led the way for the production of high-end as well as low-end. By the early 1970s, Liz Claiborne burst into the scene with her clothing being produced in Asian countries like South Korea, Hong Kong, Taiwan, and Singapore. One term that was used by Rosen to describe how buyers would set up instructions for production is the “buyer-driven commodity chain”. This is when “ Local firms carry out production according to complete instructions issued by the buyers and branded companies that design the goods; the output then is distributed and marketed abroad by trading companies, brand name merchandisers, large retailers, and their agents.” (Rosen, 2002, pg. 183, par.1).

Private labels have emerged in the industry as a way to create “ backward integration”; this is the instance when the retailer owns the brand as well as the manufacturing facilities for the goods that he or she sells. Rosen then describes how retailers like “ J.C. penny to Saks soon discovered the value of private-label merchandise, which differs from brand-name merchandise in that it is commissioned by retailers rather than those who traditionally have been manufacturers” (Rosen, 2002, pg. 183, par. 2).

The significance of this is that the clothes that carry a retailer’s label are designed by the retailer and commissioned directly from the producers which eliminates the process of buying it from the manufacturer. Nowadays retailers do their own manufacturing and other manufacturers sell their own clothing. By doing this manufacturers are able to cut the middlemen and open their own retail stores and can sell products at a lower price point to increase their sales volume.

e. **How did discounting become such an important part of the retailing industry? How has discounting grown since the 1950's? What do you think is the significance of discounting retailers such as those that are in *Tanger* and *Prime* Outlet Shopping Centers in San Marcos, Texas?**

Discounting had become a very integral part of the retailing industry because of the role that it played in the reconstruction of the textile, retail, and apparel complex. In the 1970s fair trade laws were abolished and this came with the benefit of discount stores. Rosen states that " Fair trade laws required retailers to sell national brand-name products at prices determined by manufacturers" (Rosen, 2002, pg. 185, par. 2). Once these laws were repealed, discount stores were able to compete with these traditional retail outlets by selling the same brand name products but at discounted prices. This means that these stores could sell at a higher volume and at a lower price. By the early 1980s, off-price outlets began to top department stores' market share.

Discounting has grown significantly since the 1950s. An example of this arises when discussing the intensified profit crisis faced by the expanding retail and apparel industry due to the success of discounting. According to Rosen "By 1983, off-price retailers rang up 6.5 percent of the $100 billion retail apparel business and it was estimated that the 30 percent annual growth of off-price could give it a 15% to 20% by 1990" (Rosen, 2002, pg. 186, par. 4). One reason for this boom was because of the abundance of fashion apparel that had become available to discounters.

The significance of these discount retailers such as *Tanger* and *Prime* Outlets is that they are able to sell higher-priced items at a lower price point which in turn increases the appeal of these stores. The fact that these outlets sell well-established brands that are also offered at the department and retail stores but with reduced prices shows how significant the dynamic of discounting really is.