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

Dr. Adomaitis

Jesenia Bravo

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?

Vertical integration in retailing refers to the business strategy that expands into controlling most parts of the supply chain. From the designing, production, distribution and even sales, the vertical integration strategy takes full control of the supply chain from conception to the consumers hands. In managing and controlling more of the supply chain process, the company grows to the point of being able to cut costs, control quality and distribution to the markets. Seeking higher profits, better margins and greater efficiencies, the strategy allows for companies to grow from retailers that function with the help of third parties to fully integrate their operations into their control. A company evolves from only owning a retail store, to buying up or recreating functions of suppliers, distributors or manufacturers to gain control, cut costs and manage all aspects of the supply chain. According to Rosen, vertical integration within retail states that stores are selling vast quantities of apparel at lower prices that mom-and-pop shops can't replicate and compete with (Rosen, 2002, p.177, par.1). In retailing, controlling the supply chain and implementing vertical integration allows for companies to offer lower prices to consumers by minimizing expenses, enhancing efficiency thus leading to making more competitive in the markets to attract consumers.

The rise of vertical integration and of the large companies that are able to implement this strategy has led to the demise of mom-and-pop shops. With the inception of vertical integration, the once king, small mom-and-pop shops have been the recipient of pain, as the strategy revolutionized the industry that once was dominated by these small independent retailers. The large corporations that implemented vertical integration have shifted the industry into their dominance by creating lower pricing, greater market diversity and availability for consumers with which the small shops just couldn't compete with. U.S. transnational vertically integrated retailers such as Wal-Mart, The Gap, and Federated Department Stores have troubled small family-owned businesses, with their vast quantities of products and inventory as well as reduced cost and prices for consumers that mom-and-pop shops can't replicate or compete with (Rosen, 2002, p.177, par.1). As Rosen stated, the smaller shops can't successfully contest the pricing and goods offered that the bigger stores could provide for consumers, making it tougher for small mom and pop shops to survive the competitive retailing markets. The convenience of being able to grab a variety of products in a one stop shop at lower competitive pricing allows for consumers to sidestep the necessity of visiting different smaller shops. The ability for these corporations and companies to grow and vertically integrate has destroyed the ability for mom-and-pop shops to compete. Having the ability to control the supply chain, allows for better consumer pricing, lower operation costs and better inventory management that is unattainable by smaller shops in competing for consumers.

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)

With the removal of restrictive quotas, reduction of tariffs and opening of new markets, the apparel and retailing industry quickly became a booming industry that many wanted to partake in. With the new rush of investments, the industry quickly expanded, leading to the creation of large numbers of factories and innovations that brought a lot more volume of clothing while also lowering apparel costs. Despite the enhancements in efficiencies and cost savings strategies, apparel clothing still retails at expensive prices to consumers. The lower production costs, lower wage expenses and other savings haven't directly transfer over to consumers who still may pay expensive prices for these apparels that usually don't cost as much to manufacture. In fighting for market share, the big corporations and vertically integrated companies continued to eliminate smaller mom-and-pop shops that no longer could profit and compete in this market. As Rosen mentioned, with the rounds of vertically integrated companies entering the markets coupled with the concentration of the apparel markets, competition has increased leading to up charging of their products to gain more profit in this aggressive industry (Rosen, 2002, p. 177, par.3). Investing into marketing and branding to create desirable products and brand images, retailers learned to maximize profits by selling their products at the highest price that consumers were willing to pay, offsetting operating and overhead costs to grow margins and still be profitable in this competitive market. The costs from productions and even marketing and advertising can be passed onto consumers who are willing to pay for the aspirations and desires for the brands and products. The industry being very competitive requires investments and innovations to be able to stand out and survive, creating perceived value to capture the same market share that everyone is fighting for.

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.

https://www.nytimes.com/1995/01/18/nyregion/after-130-years-a-s-name-will-fade-into-retailing-history.html

Federate Department stores is a holding company of department stores. Strategically merging after the Great Depression with Abraham and Strauss and later Bloomingdales, the corporation has grown into being the dominating industry owner of store chains today (Berger, 1985). The company has effectively bought out a lot of declining and near bankrupt department chains to grow its empire and become the leader of the department retailing industry.

https://www.businessinsider.com/macys-history-includes-rise-and-fall-photos-2020-2#by-1924-the-store-had-completed-a-renovation-that-officially-made-it-the-largest-department-store-in-the-world-13

"Macy created the modern department store as we know it today. He is credited with several major contributions to the retail industry" (Biron et al., 2024) Macys has grown into one Americas largest retail chains but now also has been dealt with difficult challenges from the changing industry and growing competition. Become a staple in shopping centers and malls, Macys was the got destination for apparels and much more.

https://money.cnn.com/2005/02/28/news/fortune500/federated_may/index.htm

"Federated, based in Cincinnati, owns Bloomingdales, Macy's and other chains. May, based in St. Louis, owns Lord & Taylor's and Marshall Field's, among other stores" (Bhatnager, 2005) Founded in 1877 by David May, the department store chain offered discounted pricing in Marshall's outlet and retail stores like Lord & Taylor. It was bought by Federate Department stores to merge the company with Macys in 2005.

https://corporate.target.com/about/purpose-history/History-Timeline?era=2

"Dayton's was the parent of Target, opening the first Target in 1962 as the discount store version of Dayton's. Target eventually grew to become the company's dominant division. In 2000, Dayton–Hudson renamed itself Target Corporation. In 2004, Target divested its department-store division to focus on discount retailing." This Iconic discount store now dominates the industry, offering a variety of products that targets a wide range of consumers while offering great competitive pricing.

https://www.nytimes.com/1987/01/10/business/company-news-the-breakup-of-allied-stores.html

Allied stores was a department store chain that was founded in the 1930s by B.E. Puckett. Owning the likes of Ann Taylor, Brooks Brothers and Bonwit Teller it was a leading department store chain, expanding to own 26 different stores that offered a variety of products and pricing (Barmash, 1987). Ultimately with increasing competition and the consolidation of the retail industry, the economic environment required it to sell its stores and later merge with Federate Department company as well.

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 the economy fluctuates and goes though different economic cycles, the fashion industry is vulnerable to bad times and requires adjustments and revisioning. As high-end designers focused on couture fashion, they created products for smaller niche markets and consumers that sought out select fashion pieces at higher pricing that they were willing to pay for this exclusivity. The demand for these products eventually declined as the economy cycled through worse times, causing these high-end designers to revision their game plan and instead chase higher volume of sales at lower prices as opposed to higher priced goods to generate profits and more sales. "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, p.182, par.3). With the declining couture desire and changing of this segment, the apparel retailing industry was transforming to target bigger audiences and acquire greater market shares as opposed to targeting smaller niche groups. With the more price sensitive consumers during worsening economic periods, competition in the retailing markets grew. Companies were fighting for the diminishing market share and consumers causing the retailing industry to look for alternative ways in which to profit and generate sales.

In adjusting to economic conditions and seeking to reduce costs and implementing other money saving approaches, the targeted consumers in the market started to shift from seeking high-end couture fashion to instead desiring to more practical ready to wear apparel at affordable pricing. "The growth of private-label clothing blurred the lines between different segments of the apparel industry—between large corporate retailers, merchandisers, importers, and manufacturers. Retailers began to compete with importers and manufacturers" (Rosen, 2002, p.183, par.4). As the vertical integration consolidated companies to seek higher profits in lowering costs, competition in the apparel industry continued to lower profit margins and challenges of gaining market share. This competition led to a new sector of production and fashion designing being created that was more in house while offering better profit margins. Companies improvised on the supply chain control and leverage to allow for the brands to create similar products, at lower costs since they are being made under their supply chain to be able to offer consumers better prices while still generating great profit.

Controlling the production process was an advantage, being able to create the best profitable pricing, especially catering to loyal consumer base who sought out these limited private items only sold by the retailer. In addition to carrying other third-party brands, these retailers could now offer their own similar products at advantageous pricing that their customers actually favored. Private label offerings by retailers often produces better profit margins as they can produce their products and don't have to price it to compete with third party brands that they carry. Taking advantage of loyal customer base and the brand loyalty that has been created over times, these retailers can now produce products for their base who are more likely to return and will trust the value and products of the brand name. The retailers have more insights into the designs and prices that their customers want, allowing for them to respond quickly to market trends and consumer desire and demands. The private label creations allow for retailers to sell greater profit generating products on top of the third-party goods they carry to remain competitive in the markets and has become an integral part of their business strategy to survive and prosper.

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?

"The fair-trade laws were repealed at the behest of the growing number of discount retail merchants. Repeal allowed them to compete with traditional retail outlets by selling brand-name products at discounted prices" (Rosen, 2002, p.185, par.3). This repeal was essential in allowing for discount retailers like Walmart to be able to revolutionize the retail industry by allowing these discounters to offer lower priced goods to consumers. In trying to compete for market share and to gain the attention of consumers, pricing was essential, and being able to offer deals to gain customer loyalty and market share was important. The fair-trade laws being repealed gave outlets the right and opportunities to sell even brand-named products at discounted prices. Prior to the law being repealed, the law had stated that only off branded names could be discounted, and brand names had to be priced at the discretion of the company to not create competition and different pricing for the same goods. After the passing of the consumer goods pricing act of 1975, retailers now were able to purchase brand-named clothing at lower costs in bulk, allowing for them to transfer this benefit onto consumers with selling them the same goods at discounted pricing, a big shock that the department stores felt (Rosen, 2002, p. 186, par. 2). The discounts draw attraction from consumers who are dazed by the pricing as well as allowing for retailers to adapt to worsening economic situations by offering lower priced goods when times get hard.

Discounted stores focused on volume and selling lower priced goods to compete with department stores and steal their consumer base by offering the same products at much better pricing with the mark downs. "When purchasing slowed and competition accelerated, full-price retailers were forced to behave more like discounters, to hold more sales and clearances. The result was higher and higher markdowns" (Rosen, 2002, p. 187, par. 4). Consumers and price sensitive customers loved discounted stores as they gave them the ability to purchase high quality clothing and garments and brand-named goods at discounted or sale pricing. This new strategy revolutionized the industry since the 1950s, creating a huge threat to department stores that ultimately have had to adjust and mirror some of the discounted sales and promotions from the discounted retailers to be able to compete for consumers and market share. The success of discounts has led to the expansion of discount outlets like Walmart’s to be able to spread across the U.S. Discounts are now implemented in various forms such as club memberships that offer more benefits or to promote online business with competitive pricing and email that use promotions to attract consumers.

The significance of outlet shopping centers such as Tanger and Prime Outlet in San Marcos, Texas, is that they fill the void within the fashion industry that catering to consumers who are price sensitive. They benefit those would want and seek discounted goods and who don’t necessarily want to pay the full price for items. The outlets and factory stores also allow for the fashion cycle to resume. As the constantly revolving and quick inventory season apparels can finish their fashion cycles by being sold at lower more attractive fair value in these outlets as they are now out of season and not trending. These outlet shopping centers give consumers a great variety of goods and products that have been off seasoned and are now discounted that still fulfill the needs of consumers as well as their wants of good products and great pricing. These outlets work great for both consumers and brands as they allow for the higher demand for lower priced goods to move instead of being wasted.

References

Barmash, I. (1987, January 10). COMPANY NEWS; The Breakup of Allied Stores. *NYtimes*. https://www.nytimes.com/1987/01/10/business/company-news-the-breakup-of-allied-stores.html

Berger, J. (1995, January 18). After 130 years, A. & S. name will fade into retailing history. *NYtimes*. https://www.nytimes.com/1995/01/18/nyregion/after-130-years-a-s-name-will-fade-into-retailing-history.html

Bhatnagar, P. (2005, February 28). *Federated to buy May in $11 deal - Feb. 28, 2005*. https://money.cnn.com/2005/02/28/news/fortune500/federated_may/index.htm

Biron, B., Dawkins, J. O., & Weiss, G. (2024, March 4). The rise and fall of Macy's, the beloved American retailer that just received a $6.6 billion buyout bid. *Business Insider*. https://www.businessinsider.com/macys-history-includes-rise-and-fall-photos-2020-2

Rosen, E. I. (2002). Making sweatshops: The Globalization of the U.S. apparel industry. University of California Press.

Target history timeline. (n.d.). https://corporate.target.com/about/purpose-history/History-Timeline?era=2