



STUDYDADDY

Get Homework Help From Expert Tutor

[Get Help](#)

Industry Research: Specialty Retail, Apparel

Student Name

Ohio Dominican University

Industry Research: Specialty Retail

Specialty retail in its current form arose in the 1970s and 1980s with the proliferation of indoor shopping malls (Souers, 2013). Prior, the most popular store format was the department store. The appearance of discount stores in the 1960s led to the rise of specialty retail as a cost effective way to compete with discount stores through specialization (Souers, 2013). Today, apparel is the second largest segment of specialty retail, second only to the automotive industry; globally, apparel comprising 16.2% of the entire specialty retail industry in terms of annual revenue (Datamonitor, 2011). The industry is highly competitive.

External factors facing the specialty retail apparel industry include regulatory/ legal, customer spending, social, and technological trends. The apparel industry faces stringent safety requirements, especially for children's apparel. The Consumer Product Safety Improvement Act of 2008 (CPSIA) details the testing requirements for apparel and other direct to consumer goods (Hopkins, 2012). Consumer spending has remained depressed since the 2009 recession (Souers, 2013). Trend conscious teenage consumers, however, keep products moving through stores (Katz, "Increased promotional activity," 2013). The utilization of new textile technologies, manufacturing processes, and advertising media such as mobile and internet shopping have allowed for the diversification of product portfolios (Souers, 2013). These combined forces make the apparel industry still moderately accessible to new entrants.

L Brands, Inc. exemplifies competitive trends in the industry. Rising commodity costs from suppliers cannot be passed down to consumers in apparel because consumers will instead move to another retailer (Katz, "The corporate initiative," 2013). Competitive trends within the industry have led to diversification into different types of apparel by retailers, such as

athleticwear, and accessories (Souers, 2013). L Brands spunoff many of its apparel segments in the mid-nineties to form new corporations such as Express and Abercrombie; L Brands now focuses on its lingerie and fragrances (Katz, “Geographic expansion,” 2013). The market is competitive, but healthy overall, led by a competitive few forced on higher margin lines.

Branding is the main strategy used by apparel retailers to establish entry barriers, keep prices stable, and maintain consumer loyalty. Apparel retailers seek to make a sensory experience within their stores that is consistent with their brand. For example, Urban Outfitters give its store managers the freedom to customize the sales floor to appeal to the local market (Krippendorff, 2013); this strategic difference makes Urban Outfitters appeal to a different customer base than its competition. Loyalty programs and children’s clothing lines are additional methods used to establish branding (Pasquarelli, 2012). Even though business models for specialty retailers are fairly consistent on the consumer end, management of suppliers varies. For example, American Eagle has one foreign buying agent, and this supplier only provides for American Eagle (Katz, “Increased promotional activity,” 2013). This one buyer has substantial power. Conversely, Abercrombie has approximately 170 foreign suppliers and a primarily centralized disbursing system (Marketline, 2013). The individual suppliers have limited power over Abercrombie’s business as individual units. Backward and forward integration of the supply chain are also present.

Contributing to the level of competition, apparel retailers are moving toward the trend of creating luxury and discount lines. Rivalry is expected to increase among existing firms (Driscoll & Souers, 2011). Luxury brands such as Ralph Lauren and Coach are most likely to have two distinctly segregated lines: premium and outlet quality (Driscoll & Souers, 2011). The outlook for these luxury brands is strongly positive because consumers perceive them as

universally valuable, regardless of their brand hierarchy. According to Standard and Poor's analysts, the top 20% of earners contribute 50% of discretionary spending, which includes apparel spending (Driscoll & Souers, 2011). Other brands which do not focus on projecting luxury have been participating in market consolidation; these brands are considered less established and more subject to shifts in trends and economic factors. For example, Chico's has taken market share from both Coldwater Creek and Talbots through additional services such as fittings and customer service (Driscoll & Souers, 2011). However, large conglomerates Gap, Inc. and L Brands, Inc. and their subsidiaries consistently lead revenue accrual. Trailing twelve month revenue for Gap is \$16.2 billion, and trailing twelve month revenue for L Brands is \$10.7 billion (Yahoo Finance, 2013). Market share is variable in the apparel industry.

The market is changing for specialty retail, and the finances of major industry participants reflect these changes. New markets are also key to competition; these new markets include foreign consumers reached in stores, as well as consumers shopping through online media (Souers, 2013). Apparel has made a slow but accelerating entry into foreign markets. For example, 74.8% of Abercrombie & Fitch's revenues were generated in domestic markets in fiscal year 2012, but foreign revenues increased 74.0% that same year (Marketline, 2013). Consumer expenditures have reached \$665 billion, up from \$637 billion in FY2011, on apparel; however, sales are focused in the United States (Souers, 2013). Projected growth in consumer expenditures is a modest 2.5% domestically (Souers, 2013). Controlling costs is key in the current economic environment.

In conclusion, the apparel industry is a competitive segment of specialty retail with considerable market fragmentation. Sales are substantial, but margins are substantially lower

because costs cannot necessarily be passed on to consumers. The industry is expected to recover from the 2009 recession along side other retail segments.

References

- Datamonitor. (2011, July). Global Specialty Retail. *Industry Profile*, pp. 1-38.
- Driscoll, M., & Souers, M. (2011, September 5). Organic Growth Trends in Specialty Retail. *The Wall Street Transcript*.
- Hopkins, R. (2012, December 21). New Safety Test Requirements For Children's Products Become Effective In February 2013. *Mondaq Business Briefing*.
- Katz, J. (2013, August 22). Geographic expansion and improved merchandise margins offer promise for earnings growth. *Morningstar Investment Research Center*.
- Katz, J. (2013, August 21). Increased promotional activity weighs on American Eagle's near-term earnings potential. *Morningstar Investment Research Center*.
- Katz, J. (2013, August 22). The corporate initiative to evaluate A&F's business strategy could help profitability. *Morningstar Investment Research Center*.
- Krippendorff, K. (2013, February 5). *How to Beat Your Competition by Innovating in Ways They Can't Copy*. Retrieved from Forbes: <http://www.forbes.com/>
- Marketline. (2013, June). Abercrombie & Fitch Co. *Marketline Industry Report*.
- Pasquarelli, A. (2012, May 28). Kids wear out retailers; High costs, low margins force many chains to rethink their plans. *Business Insights: Essentials*. Crain's New York Business.
- Souers, M. (2013, March). Retailing: Specialty. *Standard & Poor's Industry Surveys*, pp. 1-46.
- Yahoo Finance. (2013, September 8). *Industry Center - Apparel Stores*. Retrieved from Yahoo Finance: www.yahoo.com



STUDYDADDY

Get Homework Help From Expert Tutor

[Get Help](#)