Harrington collection essay sample

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Harrington Collection is facing declining sales and shifting consumer tastes, and the company must consider new strategies to compete in the women's apparel industry. The company should introduce a line of active wear under the Vigor brand, as this brand extension will result in $40 million dollar in sales per year, a 15. 8% profit margin, and $6. 3 million in profit. It will also allow Harrington to maintain, and possibly grow, its 7% market share in the " better" category.

Evaluation of Women's Apparel Industry and Harrington's Market Position

The overall women's apparel industry is characterized by fierce competition in production costs, decreasing prices, and fast-paced trends. Brands are adjusting to consumers' preferences of buying less expensive and more casual apparel. The industry also faces external competitors as consumers are deciding to use their discretionary spending on products besides apparel, such as technology products, home design, and travel. This suggests that consumers value the experiences that come with their purchases. Harrington must acknowledge these general trends before losing its 1. 83% market share in the women's apparel industry. From a manufacturing perspective, the women's apparel industry faces significant threats from outsourced production and shorter product life cycles. Cost advantages from outsourcing to low-cost countries could reach up to 50%, and these savings are integral in an industry in which consumers are becoming more price sensitive.

Lower prices result in higher sales volume, which is a main indicator of market share. While market share is currently determined by retail sales dollars, it will also be noteworthy to assess how Harrington's profits compare to its industry competitors. Additionally, shorter product life cycles are

forcing manufacturers to reduce product design, production, and retail placement time. This directly affects Harrington because the company experiences additional pressure to deliver high quality products and services in a shorter amount of time. However, this pressure may be mitigated by the fact that its manufacturing plants are located in Mexico and it has sophisticated technology to track purchase trends and prevent overproduction.

From a retail perspective, specialty stores and department stores still lead the US women's apparel industry with 77. 6% of sales in 2007. Discount retailers are burgeoning competitors within the industry, but it should also be noted that warehouse clubs and supercenter apparel sales are capturing a greater percentage of market share. The increase in discount and warehouse retail sales suggests that more consumers are buying apparel based on value. The shift in retail trends challenges Harrington's lifestyle-branding strategy because some consumers are not as concerned with service and brand perception. Consumers may still value quality in their apparel, but Harrington will need to reassess how much they invest in service training and brand marketing.

Analysis of Harrington's Financial Performance

There is little detailed information presented in the case regarding the finer points of Harrington's financial performance. However, it is clear that Harrington's sales performance is underperforming compared to the US market for women's apparel. Unit sales for the $200+ segment of that market, where Harrington does most of its business, are growing while Harrington's total retail sales are declining. In the absence of unit sales data

from Harrington and assuming the company is keeping prices constant, this means that its unit sales have been declining.

As another point of reference, sales of women's clothing in specialty stores have increased 11% between 2005 and 2007, the main channel for Harrington's products, while Harrington's sales revenue has declined 3. 3%. To compound this issue, the company appears to be having difficulty improving its gross margins, which have remained flat at around 46% from 2005 through 2007. This can be a result of Harrington focusing on manufacturing in more expensive regions of the world. However, in the face of declining sales, the rigid adherence to not outsourcing more of its manufacturing risks Harrington's financial health. From a brand (highest quality) and product development (quick turnaround) perspective, though, this appears to make sense. Otherwise, the company as a whole has kept other costs in check. Across both segments, SG&A has remained flat.

Financial Impact of Vigor Active Wear

We recommend Harrington Collection pursue the opportunity of introducing an active wear line in the " better" segment under the Vigor brand. Although active wear lines originated as a fashion trend born from rapidly changing consumer tastes, there is a high possibility of a long-term trend as the market switches towards more contemporary and casual apparel. Further, this can be considered an altogether new category of apparel since the stylish design and comfort makes active wear a substitute for everyday clothes. We expect the seasonality of the " active wear" category to be significantly lower than regular " active" apparel. In addition, this is an opportunity for Harrington to leverage the purchasing power of loyal

customers who otherwise would purchase active wear from a competitor because of the lack of offerings from Harrington. Based on Harrington's product portfolio and each line's image and price point, introducing active wear as an extension of the Vigor line is consistent with the brand objective of providing fashion, comfort, and a moderate price point.

Further, Vigor's existing national advertising campaigns and key relationships with the trade will make it easier to push the new product line in a highly competitive market. Distribution would take place through Vigor's 50 retail stores in addition to department stores. Our analysis indicates that Harrington Collection would have to sell 290, 000 units to break even on this investment (Exhibit D). The contribution margin for each unit will be $48. 44. Direct variable costs make up most of this figure at $37. 93, with fabric being the most expensive component (Exhibit B). Indirect costs are 9. 09% of the blended wholesale price of $95 (Exhibit C). The percentage includes costs associated with working capital, sales commissions, inventory carrying, bad debt, transportation and order processing. Ongoing fixed costs of $14 million are split between overhead, rent, additional personnel and $3 million annually for advertising and PR efforts based on competitive benchmarks. Additionally, the manufacturing department will need to spend $12. 7 million in plant and startup costs for two plants designed to fabricate pants separately from hoodies and tee-shirts.

This budget also includes $2 million in advertising campaigns to create awareness of the product and $2. 5 million to outfit the 50 existing stores with the new fixtures for this type of apparel (Exhibit A). We expect the initiative to break even within the first year based on a demand estimate of

420, 000 units (Exhibit F). In 2009, the overall demand for active wear apparel is expected to be 15 million units based on the assumption that this fashion will transition to the mainstream public. Forty percent of these units are expected to fall in the “ better” segment, up from less than 20% in 2007. This indicates a highly sought segment, which could suggest competitive pressures, but we anticipate that Vigor active wear will be able to maintain its 7% market share in the “ better” category (Case Exhibit 8). This is an attainable sales goal based on the large size of the baby boomer population and their transition into retirement with career being a secondary focus.

This is an opportunity for Vigor to cater to the new needs of the baby boomers segment as this segment wants their clothes to make them look trendy while maintaining high quality and appropriate fit. Further, 98% of focus group participants responded positively to the introduction of active wear at a lower price point, alleviating the company’s risk of diluting its brand with this initiative. Even with a lower price offering, Harrington can expect to make up the loss in unit margins through the purchase of multi-piece outfits. Aside from its retail stores, Harrington must focus on increasing volume in specialty stores channel since they represent 58. 6% of retail sales with 11% growth between 2005 and 2007 (Case Exhibit 5). Capturing the specialty stores channel will be a distinct advantage for Harrington because it already has strong relationships with the retailers through sales programs, support, and excellent customer service.

With the indicated market share, we estimate sales of $40 million per year with a 15. 8% profit margin and the opportunity to achieve $6. 3 million in profit (Exhibit E). This represents a higher margin compared to the 11%

margin from 2007. However, performing a sensitivity analysis reveals that a 5% market share will result in a 1. 73% margin due to the high fixed costs associated with the production. On the upside, 10% market share wills more than double profit to $15 million for a 26% margin (Exhibit G). Despite the potential risks associated with this investment, a new Vigor-branded active wear line is a promising opportunity to fight the company’s declining revenue trend. Strategically speaking, this is an opportunity to engage not only with Vigor’s core segment of trendsetters over 25 years old but also with the women who are loyal to the Harrington brand but are looking for different clothing styles.

References:

[1]. We arrived at this figure by taking $50, $20, and $40 multiplied by the unit cost conversion of 0. 5, 1. 5 and 1 for hoodie, tee-shirt and pants, respectively. [3]. In 2007, the Manufacturing Division had Sales of $538 and Profit of $59.