

Harrington collection essay



**ASSIGN
BUSTER**

Case Assignment #2 - Harrington Collection Outlook for overall women's apparel industry Since the downturn that began in the early 2000s significantly impacted the women's apparel industry, the increasing rate on overall sales had presented a slight decrease from 2004. Although it came up from 3.5% to 5.7% in 2004, it began to come down from that year as well with a relatively stable dropping rate. However, it led to a significant fluctuation among units that sold in different price ranges.

Let's take a look at Chart-1 below which is transformed from Exhibit-2 in the case to the form of increasing rate and proportion respectively. According to (a), units sold whose price is more than \$200 and in the range of \$100 and \$200 increased well below the average increasing rate. While the units sold whose price ranged from \$50-\$100 and under \$50 increased higher than the average increasing rate. What's more, the growth rate of units sold under \$50 had jumped to 11.50% in 2007 by 4.28% which is in great contrast with that of only 1.5% whose price ranged from \$100-\$200. Chart-1: (a) Price Point| 2006 (growth rate)| 2007 (growth rate)| difference| \$200+| 0.6508%| 2.8736%| 2.2228%| \$100-\$200| -0.0457%| 1.5075%| 1.5532%| \$50-\$100| 7.0548%| 9.0851%| 2.0303%| Under \$50| 7.2188%| 11.5010%| 4.2822%| Total| 5.1272%| 8.1631%| 3.0359%

According to (b), the units sold proportions presented little difference from 2005 to 2006. However, in 2007, we found that 2 points less of units sold pricing up from \$100 and 2 points more of that were priced under \$50 compared with previous year.

Chart-1: (b) Price Point| 2005 (proportion)| 2006 (proportion)| 2007 (proportion)| \$200+| 10.7601%| 10.3020%| 9.7982%| \$100-\$200| 17.0388%| 16.2004%| 15.2036%| \$50-\$100| 34.0776%| 34.7025%| 34.

9983%| Under \$50| 38. 0456%| 38. 8025%| 40. 0000%| Total| 100%| 100%| 100%| Although the statistics suggests a slight increase of the total demand in the industry of women's apparel, the shift in the structure of units sold in different price ranges indicates a downturn in the industry which led to a downward consumer purchasing behavior.

Indeed the economic sluggish hit the segment targeted on upscale-class apparel pricing higher than \$100, however, it provides a great opportunity for manufactures who engaged in the segments targeted toward " budget" and " moderate" classifications. As a result, consumers undergoing economic downturn would become more and more price sensitive, especially for those who were always purchasing " moderate" or " budget" apparel even before the economic sluggish began. Competition Since the industry was moderately concentrated, it should belong to monopolistic competition market, under which sellers could differentiate their offers to buyers.

Products can be varied in quality, features, or style, or the accompanying services can be varied. Sellers try to develop differentiated offers for different customer segments and, in addition to price, freely use branding, advertising, and personal selling to set their offers apart. Retailing Competition for the Apparel Market In current years, department stores have been squeezed between more focused and flexible specialty stores on the one hand, and more efficient, lower-priced discounters on the other.

It results in a markedly falling in market share which can be found in Exhibit-5. In the contrast, specialty stores with narrow product lines and deep assortment, and supercenters who are actually giant specialty stores with

broader product lines presented an enlightening future trend. The fierce competition, as a result, gave rise either to merger and consolidations between retailers in order to gain bargaining power with suppliers, or to contracting directly with manufacturers to produce private label products.

Manufacturers also expanded their roles by integrating forward into retailing so as to reduce expenditures and to take better control over their own business. Harrington Collection targets itself at high-class fashion enthusiasts and divides the "upper-class" market into 4 further specific segments represented by 4 brands which focus on people with different income status, ages, self-concepts, etc. If we refer back to Chart-1: (b), we find that market share of total apparel industry pricing higher than \$100 decreased in 2007.

It would hit the performance of Harrington Collection since all of its products are priced up from \$150. In addition, we also find a rapid growth was taking place in the low-end market in 2007. As a result, senior executives of the company is considering to introduce active-wear into manufacturing and stretch its product line downward to grab the opportunity in low-end market as well as to make up for their profit loss in high-end market. However, a brand's price and image are often closely linked and a change in price can adversely affect how consumers view the company.

When a cheaper product is introduced into the market, their loyal consumers would think that the quality has been reduced. Especially for luxury oriented company like Harrington Collection whose customers are extremely loyal to the brand and looking for status that the company's brand stands for,

lowering price would threaten the company's position in the minds of its loyal customers. (disadvantage) On the other hand, when it comes to new customers who never purchased Harrington's apparel before, lowering price might attract consumers in " moderate" or even " budget" segments to buy its products.

Moreover, if prices are similar with that of competitors who target only in " moderate" or " budget" segments, consumers are more likely to purchase Harrington's apparel, because the brand would make them look wealthy. (advantage) However, it is not the case. Consumers belonging to " moderate" or " budget" segments are extremely price sensitive, especially under a downturn economic situation. When company slightly raise the price to meet a higher quality or service requirement, lots of consumers coming from these two segments would turn to its competitors.

Even though the company makes profit due to the current fad, it would hurt the company's profitability in a long run. (disadvantage) As a result, management of Harrington Collection should trade off both advantages and disadvantages when making decision of lowering its price to develop active-wear product line. Active wear According to the case, both the facts that the number of active-wear units sold was expected to double by 2009 and the extremely high turnover rate suggest a promising future of active-wear classification.

So the point is to which segment active-wear classification should target and how this new product line should be priced. First of all, let's refer back to our analysis right above. Although targeting to consumers who pinch pennies

and lowering price to attract this kind of “ new” purchasers might make profit in short term, the great price sensitivity and disloyalty hidden behind this group would result in a greater loss in a long run. Moreover, the inexpensive brand image would drive a lot of loyal customers away to its competitors.

However, “ 10% of customers purchasing apparel in the \$100-\$200 price range would buy an active-wear set if one with superior styling, fabric, and fit was available. ” “ There is a sub set of Harrington customers who were loyal to the brands throughout their careers but no longer desire the tailored, professional look. They are now interested in something fresh and comfortable that fits with their active lifestyles. ” “ The aging baby boomer population wants clothing that does not make them feel old. All of these facts suggest that it seems safer and more conservative to remain in the existing classification and excavate the need of loyal customers. However, due to the high growth in low-end market, we don’t want to give up the opportunity to take a bite on that tempting market. So why don’t we price the product slightly higher than the “ moderate” active-wear product, and increase the quality as well as add exceptional features to attract both old customers and new consumers who are not that sensitive to price?

For instance, if customers purchasing active-wear from Liz Claiborne related themselves with sexy and glamorous image, Harrington could redesign the active-wear product adding features to attract customers who would like to relate themselves with elegant or sophisticated images which is more consistent with the company’s value. It can also increase the quality in

fabrics, manual work and services. People would love to pay a little higher price in exchange of a much higher quality, unique style and better services.

In this way, not only it would attract new customers who are less price sensitive with affordable prices and retain them by reliable quality compared with that of poorly made “ moderate” products, but also it would bring fresh experience to its old customers and then increase the times of their purchasing behavior without eating up the sales of company’s other brands or hurting a luxury image. Secondly, if Harrington faces a host of smaller competitors charging high prices relative to the value they eliver, it might charge lower prices to drive weaker competitors out of the market. However, Liz Claiborne, one of Harrington’s major competitors, was also one of the leaders in the “ better” active-wear category with relatively low price. As a result, the company may decide to differentiate itself with value-added products at higher prices. In conclusion, Harrington should price the new product line of active-wear slightly higher as well as increase its quality and services in order to support the price and keep consistency with its luxury image.

Furthermore, Harrington should differentiate its style and features to avoid direct competition with other leading manufacturers. Brand Targeting and Positioning Myer thought active-wear would be a perfect addition to the Vigor division for two reasons - Vigor styles were less traditional than the other Harrington divisions, and Vigor division emphasized comfort and fashion although it’s a career-oriented design. However, these two reasons cannot sufficiently support whether active-wear would well fit into Vigor brand.

Even though attributes and benefits brought to customers could be varied among different products, the images, beliefs and values created for customers must be consistent with each of the product under the same brand. For instance, active-wear and existing Vigor's product don't have the same features, as active-wear is more sporty and casual while the other is more work/professional oriented. The point is neither the same attributes they have in common nor the comfortable benefits they will bring to customers. The point is the same image customers would like to relate themselves with and values the company intends to create.

Since Vigor has already successfully created an image of "Trend Setter", the new product line must also create values of "breaking rules", "looking exceptional", "pursuing new life style" for customers to meet the requirement under the brand of Vigor. As a result, it's not a bad idea to branch out Vigor to support active-wear manufacture. Advantages and Disadvantages Moreover, to extend a current brand name to a new category will give the new product instant recognition and faster acceptance. It also saves the high advertising costs usually required to build a new brand name.

And it could also use the brand's existing support and functions to run the new business, which would decrease part of overhead expenditures. At the same time, branching out Vigor involves some risks. If a brand extension fails, it may harm consumer attitudes toward the existing products carrying the same brand name. Potential Retail Trade Since Company-owned stores accounted for about 20% of the manufacturing group sales, and the remaining sales were split 40: 60 between specialty stores and department

stores. It can be inferred that the sales proportion among these three outlets is 20: 32: 48 in manufacturing group.

According to the sales information provided in Exhibit-6, the sales and corresponding proportions among different retailing terminals can be concluded as below: (For instance, in 2005, sales of Own store is $\$556 \times 20\% + \$843 = 945$. 2) Chart-2: (a) | 2005 (sales in millions)| 2006 (sales in millions)| 2007 (sales in millions)| Own Store| 945. 2| 921. 4| 913. 6| Specialty Store| 177. 92| 173. 44| 172. 16| Department Store| 266. 88| 260. 16| 258. 24| Total| 1390| 1355| 1344| Chart-2: (b) | 2005 (sales in pro)| 2006 (sales in pro)| 2007 (sales in pro)| Own Store| 68. 00%| 68. 0%| 67. 98%| Specialty Store| 12. 80%| 12. 80%| 12. 81%| Department Store| 19. 20%| 19. 20%| 19. 21%| Total| 100. 00%| 100. 00%| 100. 00%| As we can see from Chart-2 above, sales from Company Owned Store account most of the company sales. By integrating itself forward into retailing or the entire value chain, company could be able to reduce the time required of distribution, to take control of promotion and retail prices directly, and to provide more personal selling services to customers by professionally trained salesperson so as to better meet customer needs.

On the other hand, multiple channels offer many advantages as well to companies facing large and complex markets. With each non-company owned store, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments. But such multichannel systems are harder to control, and they generate conflict as more retailers compete for customers

and sales. The current channels of different brands are exhibited in Chart-3:

Chart-3: | Harrington Ltd. | Sopra| Christina Cole| Vigor|

Price Range| \$500-\$1000 (Dsn)| \$400-\$800 (Brd)| \$300-\$700 (Brd)| \$150-\$250 (Btr)| Retailer| 70 Company Own; Specialty; Department| Specialty| 70 Company Own; Specialty; Department| The other 50 Company Own; Specialty; Department| 40% (50 stores) of the Company Owned Stores sell Vigor exclusively. One of the reasons might be that Vigor stands for a less traditional image and a new life-style relatively to the others. As a result, environment, decorations and even salesperson of stores selling Vigor would be specifically designed to meet the specific expectation of the customer positioned in that segment.

Since we've decided to branch out Vigor to integrate active-wear line into it due to the similar value they represented, we should display active-wear together with existing Vigor brand with separated segments in order to deepen the assortment of Company Owned Stores and give customer psychological suggestions about the value it intends to present. Secondly, since specialty store carry a narrow product line with a deep assortment, active-wear provides a great opportunity to enrich the classifications of the store. Thirdly, upscale-department outlets might also find active-wear an appropriate supplement for their product line.

Since consumers with relatively high income would like to give the stylish, active and more casual clothes a shot in the case that the clothes have to be made in good quality. As Harrington's active-wear has differentiated itself with exceptional quality, features and services, which implies nothing related

to the cheap prices. As a result, upscale-department would love to support this product line regardless its low price range. What's more, Harrington could develop its channel into Superstores which indeed is a giant specialty store, since it might attract a larger group of people with various income statuses and self-positioning.

Reaction of Competitors If active-wear with Vigor's logo performs brilliant once it is introduced, it would attract lots of small competitors into the market. Since it's a monopolistic competition market which allows a wide range of price and competitors could differentiate their products with various qualities, features, values and services, small companies who are not able to find themselves competitive in quality and creativity would be more likely to cut their price down to attract customers coming from a more price sensitive and less loyal segment compared with the segment targeted by Harrington.

Although the price would be slightly higher than that of those small competitors, Harrington has gained strong customer relationship and its newly brought-in product targets both to loyal customers and to new customers who are less price sensitive and who'd like to pay more attention to quality and features. As a result, Harrington would successfully avoid competitions from its competitors.

Demand and Profitability Analysis Start-Up Costs:| Start-up Costs Pants Plant| \$1, 200, 000| Start-up Costs Hoodie and Tee-shirt Plant| \$2, 500, 000| Equipment Pants Plant| \$2, 000, 000|

Equipment Hoodie and Tee- shirt Plant| \$2, 500, 000| Launch-PR, Advertising| \$2, 000, 000| Fixtures for Company Stores| \$50, 000*50| Total Start-up Costs| \$10, 200, 000+\$50, 000*50| Annual Depreciated Start-up Costs| \$2,

540, 000 (total start-up cost/5)| Annual Ongoing Operating Costs - Fixed:|
 Overhead Pants Plant| \$3, 000, 000| Overhead Hoodie and Tee-shirt Plant|
 \$3, 500, 000| Rent Pants Plant| \$500, 000| Rent Hoodie and Tee-shirt Plant|
 \$500, 000| Management/Support| \$1, 000, 000| Advertising| \$3, 000, 000|
 Total Fixed Operating Costs| \$11, 500, 000|

Direct Variable Costs:| Hoodie| Tee-shirt| Pants| Sew and Press| $\$3.25 \cdot x$ | $\$2.00 \cdot y$ | $\$2.85 \cdot z$ | Cut| $\$1.15 \cdot x$ | $\$0.40 \cdot y$ | $\$0.70 \cdot z$ | Other Variable Labor| $\$3.20 \cdot x$ | $\$2.40 \cdot y$ | $\$3.05 \cdot z$ | Fabric| $\$9.10 \cdot x$ | $\$2.20 \cdot y$ | $\$7.50 \cdot z$ | Findings| $\$3.85 \cdot x$ | $\$0.50 \cdot y$ | $\$2.30 \cdot z$ | | $\$20.55 \cdot x$ | $\$7.50 \cdot y$ | $\$16.40 \cdot z$ | | *0.5 (weight)| *1.5 (weight)| *1 (weight)| | $\$10.275$ | $\$11.25$ | $\$16.4$ |
 4| Indirect Variable Costs| Wholesale "unit" price| $\$100 \cdot 50\% \cdot 0.5$ (weight)+
 $\$40 \cdot 50\% \cdot 1.5$ (weight)+ $\$80 \cdot 50\% \cdot 1$ (weight)= $\$95$ | Total variable costs as %
 of wholesale price| $\$(3+4+1+0.7+0.24+0.15)\% = 9.09\%$ | Indirect variable
 costs per "unit"| $\$95 \cdot 9.09\% = \8.6355 | Direct variable costs per "unit"|
 $\$10.275 + \$11.25 + \$16.4 = \37.925 | Indirect variable costs per "unit"| $\$8.6355$ |
 Total variable costs per "unit"| $\$46.5605$ | Contribution:| Wholesale
 price per "unit"| $\$95$ | Less total variable costs per "unit"| $\$46.5605$ |
 Contribution per "unit"| $\$95 - \$46.5605 = \$48.4395$ | Breakeven:|

Fixed annual costs (operating and depreciated start up) | $\$2,540,000 + \$11,500,000 = \$14,040,000$ | / Contribution per "unit"| $\$48.4395$ | = Breakeven
 Units| 289, 846 units| Profit Margin:| Revenue| $\$7,500,000 \cdot 2 \cdot 40\% \cdot 7\% \cdot \$95 = 420,000$ units * $\$95 = \$39,900,000$ | less fixed annual
 costs| $\$14,040,000$ | less total variable costs| $\$46.5605 \cdot 420,000$ units = 19,
 555, 452| Profit before tax| $\$6,304,548$ | Profit margin before tax| 15.

8009%| If Harrington could guarantee that there'll be 289, 846 units sold in the launch year, it won't lose money.

If market share of 7% "better" active-wear segment is accurately estimated, the breakeven point will be definitely met and the company will even earn a 15.80% profit margin. If the company decides to raise price in order to earn more on one unit in expense of losing part of its sales volume, consumers' price elasticity would be extremely important for company to see whether the amount of money it makes more on one unit would cover the loss of volume decrease. Sometimes the price-demand curve slopes upward when it comes to prestige goods, but it is another case.