

Strategic corporate development history of american apparel



American Apparel is the largest clothing manufacturer in the United States. It is also a large wholesaler, a retailer that has a range of its own designs, and performs its own advertising and marketing. American Apparel was founded in 1989 by Canadian Dov Charney, who had a long history with T-shirts and a fascination with American culture. It is mainly acknowledged for its basic cotton knitwear such as t-shirts and hoodies, but in recent years it has expanded its range to include dresses, vintage clothing, denim, leotards, tank tops, leggings, bedding and accessories for men, women, children, babies and even dogs

It was founded as a wholesale business in 1998 , and in 2003 it opened its first retail store and sales began to grow significantly. By the end of 2009 it was operating 281 retail stores in 20 countries. The company continues to run its wholesale business, and also operates an online retail e-commerce website.

They use “ team manufacturing” which groups the most able employees towards the highest priority orders. Each team functions individually and determines its own daily production schedule, giving them control over their own hourly wages. After team manufacturing was introduced, garment production was tripled and required a less than 20% staff increase. The factory claims to have the capacity to produce 1 million shirts per week and manufacture 275, 000 pieces a day.

The production system of American Apparel centralizes most of its employees in a single location. By not outsourcing, Charney believes that he knows his workers better and that it ties them directly to the brand. A banner

on top of the downtown factory states “ American Apparel is an Industrial Revolution.”

American Apparel designs, creates and prints its own advertisements. They are widely known for their provocative and controversial advertising campaigns, which is largely the inspiration of Dov Charney. Their print campaigns are widely considered to be some of the best in the industry.

SWOT Analysis

Strengths

- Loyal Customer Base
- High Quality Manufacturing
- Ethical
- Profitable
- Stylish
- Global Business
- Fast lead times(due to manufacture being sourced in the US
- Wholesale

Weaknesses

- Expensive (easily undercut by other high street retailers)
- The range is not too broad, simple designs etc.

- Expensive labour costs.

Opportunities

- New stores opening globally.
- Fast fashion becoming ever more prominent within our culture.
- Ethical buying habits are on the rise.

Threats

- Constant bad press and law suits could damage the company's image.
- Competitors being able to source every cheaper labour and materials.
- Competitors having more elaborate designs.
- Recession costs

The SWOT analysis shows that the companies' strengths completely outweigh the weaknesses which is always a positive situation for any company to find themselves in. However there are significant threats to the company that could potentially become weaknesses. American apparel will need to engage with the potential threats and deal with them; this may be difficult due to the threats being mainly against their company policy, or outside of their control. They need to try to remain an individual company which keeps their USP; this will inevitably help them to keep their title as the US's largest clothing manufacturer.

Current Strategic Situation

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Competitors for American Apparel

Being a high street fashion brand American Apparel is bound to have plenty of competitors both nationally and globally. American Apparel has proved successful in a market dominated by competitors who have substantially greater financial, marketing and other resources-such as Gap, Urban Outfitters, H&M, Uniqlo and Forever 21. Their main competitor for the UK and the US is undoubtedly Urban Outfitters. Urban Outfitters has the same target market and offer their clothing for roughly the same price. Urban outfitters also have a much larger range of products spanning into home wear, novelty games, and gifts. However there are vast differences in the two companies, Urban Outfitters do not have the same ethical policy as American Apparel

It differentiates itself on the basis of the fit and quality of its garments, the broad variety of colours and styles on offer, its imaginative marketing campaigns, and its ability to fulfil orders, large or small, at short notice. Using its core strengths, it has increased its sales rapidly. In 2008 alone its retail sales grew by 62%. But in 2009, hit by the US recession and the global economic downturn, growth in its net sales was minimal, and its net income declined. Nonetheless, the company remains optimistic about the future, and is hoping to return to significant growth in 2010.

Recent Launch

One of the latest updates to the ever expanding product range at American Apparel is quite an innovative one. On August 24th 2009, American Apparel launched a new product to their range called the `Bag-O-Scraps.' This

product is exactly how it sounds, it is a bag of factory off cuttings for a price of \$8.00USD, and effectively they are selling waste as a product.

“ Collected cuttings from some of your favorite fun fabrics from around the American Apparel factory to make one-of-a-kind bags of scrap fabrics. Use them for all sorts of arts and crafts. Make clever jewelry, accessories, a card for your grandma or a colorful hanging sculpture for your apartment. Each bag comes with a zine (printed on scrap paper, of course) with five fun and easy scrap projects, complete with how-to instructions.”(-www.americanapparel.com)

Strategic Direction for the future

New Innovation for American Apparel

An innovation is widely regarded as doing something new, however it does not have to be a completely new invention, it just has to be something that the company has not done before, and this can be a new way of thinking, a new line, or even updating an original product.

Currently American Apparel does not manufacture any organic products other than T-shirts. A large sector in the fashion retail market that does not carry many organic products is shoes. Therefore, American Apparel should manufacture shoes made organically. This would be fairly easy to do as they could source organic fair-trade cotton from India which keeps their ethical trading policy and ensures that the farmers are getting the correct price. Any leather can be sourced from free range/ organically farmed cows, and any rubber needed can be sourced from organically grown rubber trees. This can

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thus be extended into a range of different organic shoes, American Apparel have a rather weak range of shoes as it is with only a few designs and some being unisex. Therefore this organic shoe range could have the potential to become their main range of shoes which could be a real USP for the company.

In order for American Apparel to proceed with this innovation they will need to produce a new product development strategy. New product development (NPD) involves 7 key stages; idea generation (innovation), product screening, concept testing, business and financial analysis, product development, test marketing, and commercialization.

Idea generation is similar to innovation. It involves defining sources of new ideas and generating them.

There are several different analysis procedures which American Apparel can use in order to achieve idea generation;

Dimensional analysis

which lists all of the physical characteristics of a product type. When this list is obtained creativity is then allowed to happen.

Problem analysis

is a need assessment technique designed to acknowledge consumer problems in a particular category to serve as a new basis for new product or service ideas.

Benefit structure analysis

Determines what specific benefits and characteristics are desired by consumers within a particular category and then determines imperfections in the product or service that is currently provided.

Scenario analysis

Identifies opportunities by exploiting projected future environments and associated consumer needs.

Product screening

occurs after the firm identifies potential products. During product screening, poor, unsuitable, or otherwise unattractive ideas are taken out from further actions. Nowadays most companies use a new product checklist for preliminary evaluation. Within this list the new product attributes are listed and the firm will evaluate and compare each idea with those attributes, the checklist then becomes standardized and allows all of the ideas to be compared.

Concept testing presents the potential consumer with a proposed product and measures attitudes towards the product at early stages of the development. It is a quick and inexpensive way of measuring consumer enthusiasm and likeability towards your product. Potential consumers will then react to a picture the product, which enables a firm to determine initial attitudes prior to expensive prototype development. A business and financial analysis for the remaining product concepts will be much more detailed than products screening.

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American apparel will need to consider the following five factors in the business analysis stage; 1) Demand projections,

2) Cost projections,

3) Competition,

4) Required investment,

5) Profitability.

The product development stage will convert the idea into a physical form and will identify a basic marketing strategy. This stage will also involve packaging, construction, branding, product positioning and use testing.

The test marketing stage will involve placing the product for sale in one or more selected outlets to determine how that product will perform firstly within the market but also under the proposed marketing plan. The purpose here will be to evaluate their new product and pre-tested marketing efforts in a real situation in order for the introduction of their product. Rather than the company asking about consumer behaviour test marketing allows for actual consumer behaviour to be observed.

After all of the testing is completed American Apparel will be able to introduce the product to its full target market (commercialization). This will involve implementing a full marketing plan and full production.

A product development strategy is needed not only to organize development projects but also to organize the development process. There is no singularly

right strategy for any company. The strategy will take into account the company's capabilities (strengths, weaknesses and core competencies), the competition's capabilities (strengths, weaknesses, core competencies and strategy), market needs and opportunities, goals, and financial resources.

A company must recognize that it cannot meet every single consumers needs and that it must focus on what will distinguish it in the market place.

There are six primary product development strategic orientations: Time-to-market, low product cost, low development cost, product performance technology and innovation, quality reliability and robustness, and finally service responsiveness and flexibility:

- Time-To-Market- Involves getting a product to market, fast. This is typical of companies involved with rapidly changing technology or products with rapidly changing fashion. Technology development must occur on an independent path from product development and technologies should be inserted on a " modular" basis, often with frequent product upgrades to make this strategy work.

- Low Product Cost - This is focused on developing the lowest cost or highest value product. This is typical of companies with commodity type products, where products are regularly reaching the mature phase in the life cycle, or where there is consolidation or a shrinking market. This type of orientation typically will require additional time and development cost to optimize product cost and manufacture.

- Low Development Cost- This focuses on minimizing the cost of developing products within the budget. While this is not commonly used, it occurs mainly when companies are developing products under contract for other companies, where a company has severely constrained financial resources, or where a stealth development effort is being undertaken. This orientation is, to some extent, compatible with time-to-market, but involves tradeoffs with product performance, innovation, cost and reliability.
- Product Performance, Technology and Innovation- This focuses on having the highest level of product performance, the highest level of functionality, the latest technology or the highest level of product innovation. This orientation can be pursued by companies in many industries or many products except commodities. Using this strategy involves higher risks with newer technologies.
- Quality, Reliability, and Robustness- This focuses on assuring high levels of product quality, reliability and robustness. This orientation is typical of industries requiring high quality because of large costs to correct a problem (e. g. the food or automotive industry), the need for high levels of reliability (e. g., aerospace products), or where there are many safety issues (e. g., medical devices, pharmaceuticals, commercial aircraft, nuclear plants, etc.). This orientation requires added time and cost for planning, testing, analysis and regulation.
- Service, Responsiveness and Flexibility- This focuses on providing a high level of service, being very responsive to customer needs, and maintaining flexibility to respond to new customers, new markets and new opportunities.

This orientation also requires additional resources to provide this service and responsiveness.

American Apparel will need to adopt one of these strategies in order to develop the shoes. The proposed strategy would be to intertwine the one they already use, Time-to-market, with service, responsiveness and flexibility. This is because as with any high street fashion retailer they will need to be able to get the product to market fast as fashions are always changing, this should not be a problem unless due to the production being in the US. However interlocking this with the service responsiveness and flexibility strategy will allow customers needs to be looked after, which is exactly what a company with organic products should be seen to be doing. As there is not a large number of companies who sell organic shoes they will need to be flexible in order to deal with new customers, in a new market.