Research Report
ABOUT Style

The global branding report

2005 edition

by Stacy Baker

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ZARA CALVIN KLEIN GUESS?
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ABOUT Publishing Group
21 Noel Street
London W1F 8GP
United Kingdom

ABOUT Publishing Group
21 Noel Street
London
W1F 8GP
United Kingdom
T: +44(0)20 7434 1269
F: +44(0)20 7434 1545
Email: admin@aboutpublishing-style.com
www.aboutpublishing-style.com

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Chapter 1

Executive Summary

It is becoming increasingly difficult to distinguish between the maker and the seller

Apparel experts say that 2005 will be no different to any other year for manufacturers and retailers—in that there will, of course, be significant challenges to face. The most pressing issues to confront the industry have recently shifted to logistics, sourcing in a global marketplace, rising oil costs, the lifting of quotas, savvier shoppers and counterfeiting.

Making this more daunting is the blurring of the distinction between the brands, the manufacturers and the retailers—in many instances it is becoming increasingly difficult to distinguish between the maker and the seller. "You've got an interesting equation as manufacturers, brands and retailers cross traditional roles and responsibilities," says Marshall Gordon, industry executive for retail, apparel and footwear at SAP. The result in apparel firms is similar to what we've seen in retail: a widening gap between the "haves" and "have-nots."

He points to firms like VF Corp. who are selling at Wal-Mart whilst at the same time entering China with retail stores and diversifying their portfolio with a collection of outdoor, jeanswear, intimates and, most recently, sneaker brands. "They're differentiating on all levels," says Gordon. "Most firms possess core competency in either design/branding, manufacturing, sourcing or retailing. The most successful firms develop and leverage all areas and collect the incremental value each competency brings to the demand/supply chain. While these dimensions are all individual competencies at VF, their core competency is leveraging them together to drive both brand and operational performance and differentiation—basically, they've got something going in every area."

Many brands are expanding through new acquisition, additional lines and adding new signature labels

They are not the only ones. Many brands such as Nike, Reebok and even Victoria's Secret (also a retailer and manufacturer) are expanding through new acquisition, additional lines and adding new signature labels to their brand, a strategy successfully employed by both Target and H&M. This type of brand strategy translates into growth for an apparel company in a market where synergy, creativity and innovation are rewarded. Communication of the benefits and competitive advantages (otherwise known as product distinctions) of this effort, then, is in the hands of apparel companies via a strong brand message. "With the proliferation of mass merchants and the homogenisation of retail outlets, apparel manufacturers are taking the responsibility of brand development and brand loyalty," says Noha Tohamy, research director at Forrester. "As customers have more options for where and when to buy products, they view the apparel manufacturer as the ultimate source for product information and customer service."

Apparel manufacturers and retailers must increase their investment in technology

To rise to this challenge, apparel manufacturers and retailers must increase their levels of investment in technology such as RFID and pricing solutions. They must also look for a climate that offers customers more solutions in multi-channel fulfillment with more and more retailers integrating order fulfillment and customer service across all channels as well as manage their inventory among them. This ultimately means more ease for customers, greater presence and exposure of brands and an improved shopping experience.

Chapter 3

Consumer trends: the 2005 consumer

A New Normal

Today's shopper is far more savvy than ever before, and has got a much tighter grip on the purse strings. This is particularly true of American shoppers. Perhaps this should come as no surprise: the plummeting US stock market significantly impacted everything from savings to investment funds, unemployment has risen and overall the economy shows little sign of real recovery for the people actually spending the money. Only in the past few months have consumers felt really comfortable spending again. WSL Strategic Retail has named this post 9/11, post discount retailing, era as "A New Normal" which is defined by a new idea of "value" and lower expectations.

"The New Normal is clearly evident in the way consumers shop today," says Wendy Liebmann, president of WSL Strategic Retail. "It combines a willingness to spend but cautiously, with a desire to simplify and enhance their lives. All this impacts shopping. Prudent Spending + Simplification + Emotional Connection = The New Normal. Prudent spending is indispensable in this New Normal. It's about making choices, recognising they cannot have it all, and so 'Pushing Back.'"

This trend toward "pushing back" has shoppers seeking to buy more items under one roof and creating a more efficient shopping experience, rather than browsing or buying for the fun of it. For example, nearly 60% of shoppers now say that before they buy something, they ask themselves whether it is actually a good use of their money. 57% say they shop differently to help simplify their lives and half like to spend time browsing. And compared to two years ago, these consumers are spending more on savings, investments, education and shopping, while being more conservative on categories like leisure travel, entertainment and themselves. All of this means that brands need to ensure that they are more relevant in consumers' lives and become an integral part of their world, instead of a whimsical purchase.

Study results also showed that when compared with 2002, people are shopping at more places today. The rise in 2004 reflects 2000 levels, which shows that 2002 hit a new low for shopping, according to Liebmann. As the economy improves over time, people feel more confident in their financial situation and they are shopping more, but differently. Today, they are hitting, on average, 2.6 stores per week, up from 1.9 in 2002. Also, compared to 2002, they are that little bit more demanding—expecting stores to always have their brands in stock, stores to be in a convenient location and for their brands to be sold at the lowest prices. Not so long ago, it was only about convenience.

Today's generation of male shoppers is quite different

Other key findings from the study showed that today's generation of male shoppers is quite different from any other generation. Their findings showed that men, particularly those under 35, are shopping more like their girlfriends and are moving from a traditionally hunter mode to a more female-style gatherer mode when shopping for everything from fragrance to fashion to home decor.

Brand management is being driven by consumers

and matching. In the future, he says, this will move us from a "here's the Jones New York section and the Tommy section" to a conglomeration of fashion based on the way we shop and how we put merchandise together to create distinct looks. Brands facilitating this for retailers will be more likely to have their presence at the forefront of this new concept.

The end result will be those who can interpret and respond to the consumer best will rise to the top whether you are talking about footwear makers or Proctor and Gamble. The merchandising aspect for brands should truly be a matter of "what can I be to you?"

"While we're all innately greedy, what we're going to see changing is that companies you wouldn't think to find making a certain design or commodity will show up, like VF getting into backpacks and footwear with the Vans purchase," Gordon adds. "It used to be that a brand became a company but now it simply means they're interested in lifestyle. Brand management—like the Jones New York, VF and Nike types—is being driven by consumers. You have to figure out how this plays into your core competency and leverage it. The companies owning brands are becoming multibillion-dollar brand managers which is core competency in itself, just like in the case of Proctor and Gamble."

Table 1: Today's Mood Consumer

Style-Vision has named today's new shopper the "mood consumer." "Fifteen years ago we were segmenting consumers by demographics; age, sex, income etc.," explains Kristine Oustrup, the company's director. "People are no longer acting within the boundaries of their demographic dome. Millionaires are flying down to the south of France on Easyjet to while away a night at the casino. Luxury brands are selling to secretaries, mobile phone companies are hiring fashion designers, seniors are acting like teenagers, young men are spending more time on their looks than girls." Because of these new rules, the company has developed a more sophisticated way to understand consumers, which takes into account psychographics along with spending drivers, buying behaviours and more. The new definition of today's mood consumer is that they:

- are more demanding than ever before.
- are not as influenced by advertising as previous consumers.
- look for a good quality-price relationship whether they are buying discount or luxury: They want value for money.
- can't be segmented into demographics like age, sex, income.
- know about fashion trends but don't necessarily follow them.
- can easily jump from H&M to Chanel and can even combine the two.
- look for stronger personal links to a brand or a shop.
- are tired of meaningless brands and have more interest in authenticity.
- are quick to reject a shop or brand when they receive poor service.
- look for experiences instead of pure material consumption.

Source: Kristine Oustrup, Managing Partner, Style-Vision.

Chapter 11

Company profiles

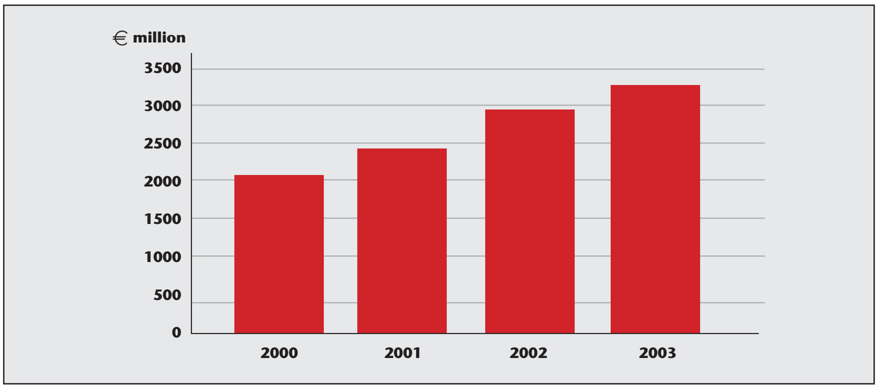
11.1: Zara

One of the hottest brands in fashion circles in the new millennium is Spain-based retailer Zara. Now based in 55 countries, Zara has created a stable of more than 755 stores, which are predominantly based in the largest urban cities in the world. Its philosophy—that national borders are no impediment to a single international fashion culture—is illustrated in its highly cutting edge fashions delivered to consumers every two weeks.

Fundamental to the design process are more than 200 designers, closely linked through technology and information gathering to respond to consumer needs and demands almost immediately.

Zara prides itself in keeping in step with society, dressing the ideas, trends and tastes that society has created. This, according to corporate executives, is the key to the company's global success. Experts, however, believe that it is the speed in which the fashion is distributed that makes the distinction among consumers.

Figure 1: Zara sales, 2000-2003 (euro millions)



	(euro millions)
2000	2,044.4
2001	2,477.4
2002	2,913.0
2003	3,219.6

Source: Zara

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