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Tug-of-War in Apparel World

By ELIZABETH HOLMES

Tension is rising in the apparel industry, as retailers push garment makers for faster turnaround on smaller orders ahead of the key Christmas holiday season.

The old model—where retailers placed orders six to nine months in advance and suppliers ramped up factories to produce high volumes cheaply—has been thrown out the window after a recession that left stores swamped with unsold clothes and idled factories.

Head-to-Head

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Tension is rising between apparel retailers and their suppliers during the economic recovery. Scared during the recession, both sides are pushing their own—often competing—agendas.

- 1 Cautioning about restarting capacity due in part to labor shortage and a fear of idle factory time
- 2 Seeking firm commitment for orders as far in advance as possible
- 3 Hoping through national and labor issues to preserve profit margins



Photo: Shutterstock/Steve Ralston



Illustration: Bob Green, Patrick, James Ralston, Matt Seltzer

To lower the risk of a fashion miss, more retailers and apparel companies are pressing their suppliers to crank out a small order quickly—allowing them to test styles in stores—and then fill re-order requests even faster, a tactic known as chasing, says Josh Green, chief executive of Panjiva, an international trade data service.

Teen retailer [Aéropostale Inc.](#), known for racks of marked-down items, has spent the past 18 months honing its ability to quickly follow up orders for items that sell briskly. "We buy

conservatively, and then we chase," co-Chief Executive [Tom Johnson](#) says.

But shorter lead times mean more uncertainty for factories that have been burned when orders were scaled back or, in some cases, canceled altogether. Wary of bringing capacity back too fast, some manufacturers are keeping some production lines off line and turning down even established customers rather than risk having workers sitting around doing nothing.

The resulting scramble is pushing up retailers' supply costs and leaving some wondering how they're going to keep styles in stock.

"There's a real jockeying by these companies at different places within the supply chain to figure out who is going to absorb risk and who is going to absorb costs," says Panjiva's Mr. Green. "It's not just convincing their suppliers to take smaller orders. It's convincing them to take orders in a totally different way."

Aéropostale can restock a popular graphic T-shirt within 30 days, but the strategy is facing hurdles, including container-ship operators that are limiting cargo supply. Shipping by air gets expensive.

"There's been pressure with containers and pressure with labor and pressure with factories," Mr. Johnson says.

Aéropostale has been able to hold its pricing for back-to-school goods, Mr. Johnson says, but has seen some delays in the delivery of a few styles.

The increased pressures are leading factories to set limits on the work they are willing to do at a given time and demand that orders be placed far in advance, according to consultants. That's led some retailers to book the factory, but leave open what they want made until closer to production time.

Some retailers that have tried to wait until the last possible moment to schedule orders in an attempt to better gauge demand have been stuck without a factory to produce the goods, says Jeremy Rubman, a retail strategist at consultancy Kurt Salmon Associates. Even retailers that have worked with vendors for more than a decade, placing large orders of more than \$10 million, are being turned away. "It's scary," he says.

Inventory levels are a perpetual source of worry for apparel retailers. Overstocking leads to deep markdowns that erode profits. On the other hand, running out of a hot-selling item is a missed opportunity.

Earlier this year, AnnTaylor Stores Corp. had a white lace dress sell out in four days. The garment turned up on online auction sites for twice its \$198 list price. The company was able to re-order only about 100 more, which shoppers snapped up.

Chief Executive Kay Krill says the shortage sent a message to shoppers to buy quickly. But the missed sales also taught the company's buyers a lesson. "The team has more confidence to be able to stand behind the depth" in certain styles, she says.

Last year, amid economic turmoil and depressed spending levels, retailers slashed their inventories by 30% or more. Renewed demand during the 2009 holiday season and the first quarter of this year led companies to boost stocks a bit. Even so, most retailers are operating with lower inventory levels.

[Abercrombie & Fitch Co.](#) said in May it expects its inventory for the current quarter to be up more than 17%—but that follows a 35% decline a year earlier.

Compounding the supply-chain problem for all parties are rising costs and a new choppiness in consumer spending after a strong start for the year.

Chinese factories are facing labor shortages and minimum wages are rising. Wage increases, coupled with higher costs for cotton, oil and freight, are pushing up prices. For next spring delivery, factories are quoting prices that are 15% to 20% higher than this year, according to Robert Samuels, a senior retail analyst with Phoenix Institutional Equities.

Aéropostale worked directly with fabric mills earlier this year to place orders when cotton prices were low and tries to build ties to suppliers by producing a reliable stream of orders.

"We know that over time all of these challenges will normalize," Mr. Johnson says. "We'll be able to have a new normal—maybe."

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