

# Liz Claiborne: The US Apparel Retailer's "Three-M's" Strategy

"Our multi-brand, multi-channel, multi-geography portfolio helps to protect shareholder value by giving us the flexibility to address trends in distribution and changes in consumer behavior."<sup>1</sup>

– Paul R. Charron, former CEO of Liz Claiborne

"Looking ahead, we intend to focus on four important business drivers — first and foremost, consistently creating irresistible product for our brands, building buzz and brand loyalty, evolving our supply chain capability to improve our competitive advantage, and focusing on talent."<sup>2</sup>

– William L. McComb, CEO of Liz Claiborne

In early 2007, Liz Claiborne, an apparel retailer in the US, was encountering problems due to the changing dynamics of the apparel industry. As consolidation among major departmental stores and the launch of private labels grew, the industry has been undergoing many changes. These evolving market dynamics forced apparel companies to re-evaluate their business strategies. As a result, companies resorted to widening distribution network across channels and expanding brand portfolios. Under these trying circumstances, Liz Claiborne has embarked on a new strategy. William L. McComb (McComb), the CEO of Liz Claiborne, initiated 'Three-M's' strategy – multi-brand, multi-geography and multi-channel – to bring back its lost glory. Through this, McComb hopes to win in the fiercely competitive apparel industry.

## Global Apparel Industry: The Trends

Apparel industry, a highly competitive and dynamic one, has undergone many changes over the past century. During the World War II, apparel companies followed progressive bundle system<sup>3</sup> to produce large quantities of identical products as there was more demand for military garments and consumers preferred quality to variety. However, this system was slow and the lead times for manufacturing and shipping ranged from 2 to 2½ months. As a result, retailers had to place orders well in advance of the start of each season. These longer lead times led to a shift from domestic to offshore production as the disadvantage of slower imports were more than offset by lower costs.

Since 1950s, production in global textile and apparel industry migrated to many places around the world, notably the low cost countries. The first migration took place in 1950s when production was outsourced to Japan from North America and Europe. Further, in 1970s, the sourcing shifted from Japan to other Asian regions like Hong Kong, Taiwan and South Korea. In 1980s, due to the rise in wage rates and appreciation of the currencies in Japan, Taiwan and South Korea<sup>4</sup>, apparel sourcing moved to China and later in 1990s, South Asian and Latin American countries began to enter the apparel sourcing market. Apparel industry played a leading role in the export growth of most Asian countries.

<sup>1</sup> "Liz Claiborne Inc", [http://media.corporate-ir.net/media\\_files/NYS/LIZ/reports/ar\\_2003.pdf](http://media.corporate-ir.net/media_files/NYS/LIZ/reports/ar_2003.pdf)

<sup>2</sup> "Liz Claiborne Inc. Reports 4<sup>th</sup> Quarter and Full Year Sales and EPS", <http://www.highbeam.com/doc/1G1-159893593.html>, February 28<sup>th</sup> 2007

<sup>3</sup> Progressive bundle system was employed in apparel production where the task of assembling the garment is broken down into small operations, and bundles of work are progressed down the production line through each operation in sequence until the assembly process is complete.

<sup>4</sup> In 1985, after the Plaza agreement was signed, currencies in Japan, South Korea and Taiwan appreciated against dollar. Between 1985 and 1987, Japanese yen was revaluated by close to 40%, the new Taiwan dollar by 28% and from 1986 to 1988 the Korean won appreciated by 17%.

This case study was written by Vineetha Ravipati under the direction of Rajendar Singh Rathore, IBSCDC. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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In 1975, only 12% of the apparel sold by the retailers in the US was imported but by 1984, the imports doubled.<sup>5</sup> Other developed countries also experienced the same trend. In order to control the increasing imports and protect the domestic textile industries, developed countries like the US, Canada and western European countries imposed quotas on the import of apparel and textile products. Multi-Fiber Arrangement<sup>6</sup> (MFA), which applied to most developed and developing nations, was renegotiated in 1986 to control international trade in textiles and apparel. Quota restrictions made apparel companies to outsource their production to countries, based on the availability of quotas rather than on the competitiveness of the manufacturers.

Trade preferences through Free Trade Agreements<sup>7</sup> (FTAs) also influenced the apparel companies. As an FTA allows member countries to import goods without any tariff, apparel companies were able to reduce costs by outsourcing their production. For instance, some companies in the US shifted their production facilities from Asia to Latin American countries, as US signed FTA with them. This shift facilitated companies to respond faster to the changing fashions and shorten the production and distribution cycles.

In January 2005, the quota restrictions imposed by the developed countries on developing nations were eliminated. With the removal of quotas, companies started importing from locations that offer quality products and services at competitive prices. The competition in the apparel industry intensified with many new players entering the market, subsequently lowering the prices of apparel. This pressurised textiles and apparel manufacturers in developed nations as they were unable to compete with the growing number of international suppliers who supplied the same quality at lower costs.

These changes in the international apparel trade dynamics had a profound effect on the apparel retailers in the developed economies. Rapidly changing trends and styles (Annexure I) affected the apparel retailers who used to carry huge inventories. Richard Romer, executive vice president of CIT Group<sup>8</sup> said, "Just when you think you've figured out exactly what your customers want, everything changes – sometimes overnight."<sup>9</sup> Apparel retailers who were unable to identify these changes and anticipate demand, experienced lower sales, excess inventories and decreased earnings. The changing trends created demand uncertainty, which complicated production planning, forecasting, inventory management, production system and distribution. To reduce the risk of demand uncertainty, retailers introduced various innovative techniques such as 'lean retailing' and 'quick response manufacturing'. Lean retailing practices gained momentum as they helped retailers in streamlining supply chain activities, improving operational efficiencies through various technological advancements and manufacturing the products according to the changing trends and customer preferences. Proliferation of Internet-based communication networks enabled companies to improve coordination between all activities of the supply chain making it easier to respond to the changing trends.

Despite these initiatives, apparel retailers faced troubles due to decrease in the average selling prices of the apparel, especially in matured markets like the US and western Europe. These price pressures decreased margins of most US companies making them implement new ways to improve the profitability. Apparel companies in the US diversified into new product lines, segments and channels to survive competition.

## US Apparel Industry: The Landscape

Organisation of the textile business as an industry in the US dates back to the beginning of the industrial revolution in the 18<sup>th</sup> century. Prior to the 1970s, most activities of the apparel supply chain, such as textile manufacturing, fabric designing and retailing, were carried out in the US. However, reduced margins made many companies to shift their manufacturing base to low labour cost countries.

During the mid-1970s, retail industry in the US experienced a downturn due to the sluggish US economy and decrease in consumer spending on apparel. As a result, the apparel manufacturers and retailers were forced to explore new methods of sourcing apparel. This led to the creation of a new business model by marketers who outsourced

<sup>5</sup> Gereffi Gary, "GLOBAL SOURCING IN THE U.S. APPAREL INDUSTRY", *Journal of Textile and Apparel, Technology and Management*, Volume 2, Issue 1, Fall 2001

<sup>6</sup> Multi-Fiber Arrangement was introduced in 1974 which provided the basis on which developed countries restricted imports from developing countries. It was designed to protect the domestic companies in the developed countries against low cost competition from developing countries.

<sup>7</sup> A free trade area – as defined by the GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) – is a group of two or more customs territories in which duties and other restrictive regulations of commerce ... are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

<sup>8</sup> It is a New York-based credit protection and lending services provider for apparel manufacturers.

<sup>9</sup> "Trends analysis", <http://www.highbeam.com/doc/1G1-60377448.html>, March 15<sup>th</sup> 2000

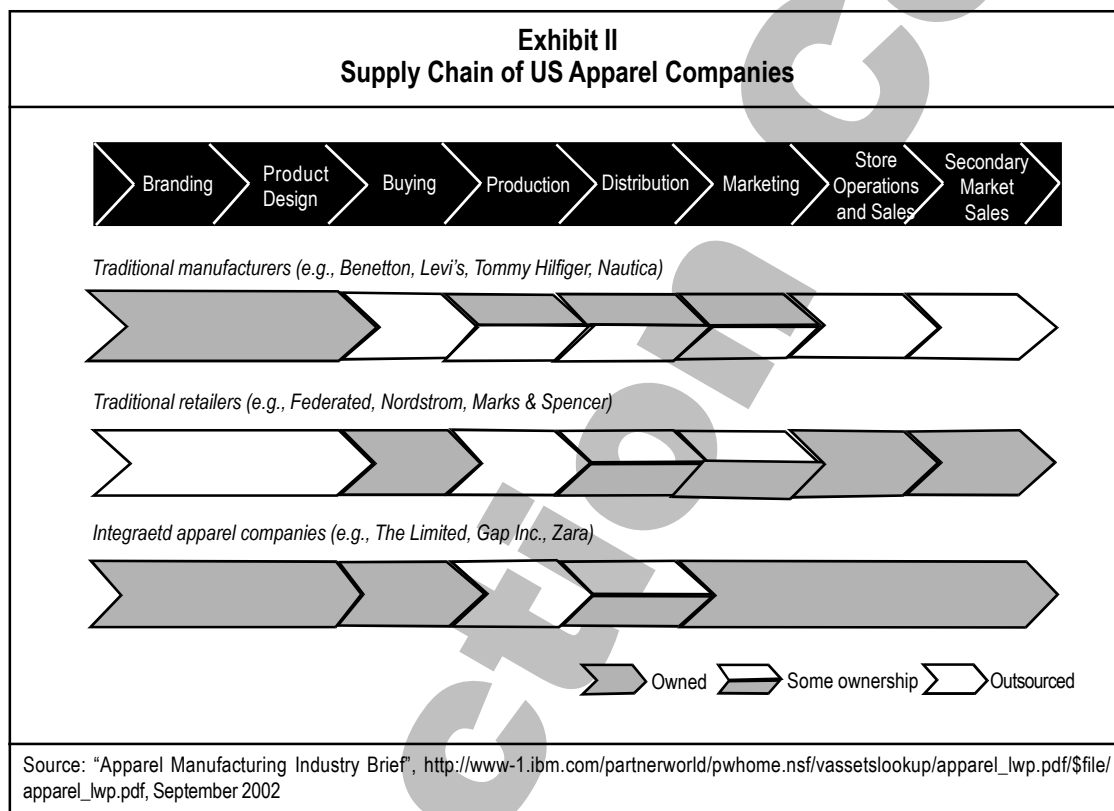
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their entire production to other countries. These marketers known as branded marketers – companies like Liz Claiborne, Jones Apparel and V.F. Corporation – were considered as pioneers in global sourcing and were instrumental in providing overseas suppliers with knowledge that later allowed them to upgrade their position in the apparel value chain. These branded manufacturers offer brands under different names and distribute products through either department stores or their own outlets (Exhibit I).

<b>Exhibit I Leading Branded Manufacturers</b>		
<b>Company</b>	<b>Product lines/Brands</b>	<b>Channels</b>
V.F. Corporation	Lee, Wrangler, Rustler, Riders, Britannia, JanSport, Vanity Fair, Lily of France, Oscar de La Renta, Vassarette, Bestform	Department stores, specialty stores, mass merchandisers, discount chains
Jones Apparel Group Inc	Jones New York, Evan-Picone, Rena Rowan, Nine West, Enzo Angiolini, Easy Spirit	Specialty stores, department stores, urban retail centres, outlet stores, Internet (ninewest.com)
Liz Claiborne Inc	Liz Claiborne, Liz Sport, LizWear, Liz&Co., Dana Buchman, Crazy Horse, Elisabeth, Emma James, First Issue, Russ, Villager, Baby Togs, Laundry by Shell Segal, Niki Taylor	Company-owned stores, department stores, mass merchandisers
Warnaco Group Inc	Warners, Olga, Lejaby, Van Raalte, Fruit of the Loom, Bodyslimmers, Chaps by RalphLauren, Catalina	Department stores, specialty stores, mass merchandisers, outlet stores
Benetton Group, S.P.A	United Colors of Benetton, 012 Benetton, Sisley, Playlife, Nordica, Prince, Rollerblade, Killer Loop	Independent sales representatives, company-owned 'Mega stores', sport specialty stores, Playlife department stores
Polo Ralph Lauren Corp.	Polo Ralph Lauren, RL, Chaps, Ralph Lauren Home	Company-owned stores, department stores, independent retailers, factory stores
Tommy Hilfiger Inc	Tommy Hilfiger, Tommy Jeans, Tommy Hilfiger Layette	Department stores, specialty stores, outlet stores
Philips Van Heusen	Van Heusen, G.H. Bass, Izod, Geoffrey Beene	Department stores, company-owned factory stores
Gucci Group N.V	Gucci, Sergio Rossi, Boucheron, Yves Saint Laurent	Company-owned stores, franchised stores, duty-free boutiques, department and specialty stores
Russell Corporation	Russell Athletic, JERZEES, Cross Creek	Department stores, sporting goods, dealers, mass merchandisers, golf shops, catalogs, wholesale clubs, college bookstores
Source: "Apparel Manufacturing Industry Brief", <a href="http://www-1.ibm.com/partnerworld/pwhome.nsf/vassetslookup/apparel_lwp.pdf/\$file/apparel_lwp.pdf">http://www-1.ibm.com/partnerworld/pwhome.nsf/vassetslookup/apparel_lwp.pdf/\$file/apparel_lwp.pdf</a> , September 2002		

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The US apparel manufacturers with domestic production base were unable to compete with the apparel manufacturers outsourcing their production to other countries, as foreign production resulted in low cost. Most apparel manufacturers that initially controlled all the activities of the supply chain later outsourced their production to other countries (Exhibit II). For example, Sara Lee Corporation, one of the largest producers in the US offering many leading brands, like L'eggs hosiery, Hanes, Playtex, Bali and Coach leather products, started outsourcing its production. Most apparel manufacturers shifted their emphasis from production activities to marketing and promotion of their brands. Apparel manufacturers, like Phillips-Van Heusen and Levi Strauss & Co., focused on brand building and global retailing while closing their production facilities and outsourcing their production to other countries. This led to the emergence of a new format called 'concept stores' where the manufacturers directly market their products to the consumers – bypassing retailers – through franchises.



In the 1980s, many retailers began to compete directly with apparel manufacturers by introducing their own private label<sup>10</sup> merchandise. This popularised the private label apparel – designed, labelled and marketed by the retailers. Retailers sub-contracted their production activities to low labour cost countries. This helped the retailers to achieve lower costs and streamline the distribution process. JC Penny, a US retailer, repositioned its image from a mass merchandiser to a premium apparel retailer by developing its own private labels. Its private labels like Hunt Club, Worthington, Stafford, St. John's Bay, Arizona jeans and Jacqueline Ferrar form 60% of the women's apparel sales volume and are the fastest growing portion of the retailers product mix.<sup>11</sup> By 1995, the five largest US retailers – Wal-Mart, Sears, Kmart, Dayton Hudson and JC Penny – accounted for 68% of the total apparel sales in the US.<sup>12</sup>

By the turn of the century, the US apparel industry encountered changing trends that include consolidation, diversification, pressure to minimise time to market and quota driven sourcing. In 2001, the apparel sales in the US

<sup>10</sup> Retailers introduced private label brands – their own brands – to attract customers and to survive competition.

<sup>11</sup> Gereffi Gary, "International trade and industrial upgrading in the apparel commodity chain", <http://ideas.repec.org/a/eee/inecon/v48y1999i1p37-70.html>

<sup>12</sup> Ibid.

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declined from \$179 to \$166 billion over the previous year. The economic downturn (inflected by dotcom bubble burst) coupled with September 11 terrorist attacks hit the apparel sales. This economic instability resulted in decline in consumer spending on apparel.

The decline in margins forced apparel companies to rethink their business style. Most apparel companies consolidated and developed mega brands to serve a wide variety of customers with their diversified product lines. Apparel companies maximised the operating efficiency, streamlined inventory management systems and reduced their excess manufacturing capacity. To derive operations of scale, firms began to enhance volumes through mergers and acquisitions. Removal of the quotas, through North American Free Trade Agreement and Africa-CBI<sup>13</sup> bill, further benefited the companies. This made sourcing cheaper and faster, improving their turnaround time and profitability.

During 1990s, with increased penetration of Internet, retailers started expanding beyond physical stores and increased their online presence. Chad Doiron of Kurt Salmon Associates, opined, "The retailers who are going to win are the ones that have visibility online and product in the store."<sup>14</sup> Apart from these operational changes, apparel companies resorted to new strategies to improve brand experience provided to the customers through multiple channels across segments. Phillips-Van Heusen initiated multi-brand, multi-channel and multi-price point strategy that helped the company to increase its revenues. Allen Sirkin, president and chief operating officer of Phillips-Van Heusen, explained, "We design and market substantially all of our products on a brand-by-brand basis, targeting distinct consumer demographics and lifestyles. We market our brands at multiple price points and across multiple channels of distribution. This strategy enables us to provide product to a broad range of consumers, while minimising competition among our brands and reducing our reliance on any one demographic group, merchandise preference or distribution channel."<sup>15</sup> Liz Claiborne adopted 'Three M's strategy' to improve its profitability by widening its brand portfolio and increasing its presence through various channels.

### Liz Claiborne: McComb's "Three-M's" Strategy

Liz Claiborne Inc. was established in 1976 by Liz Claiborne (Claiborne), a dress designer with her husband, Arthur Ortenberg (Ortenberg) and partners Leonard Boxer and Jerome Chazen. Claiborne started the company to serve the expanding niche of working woman, as she commented, "The goal was to clothe the working American woman. I was working myself, I wanted to look good, and I didn't think you should have to spend a fortune to do it. Only a couple of companies were catering to that emerging woman – both in traditional, suited ways. I felt we could do better."<sup>16</sup> Initially, the company manufactured a single brand – Liz Claiborne – sold primarily in department stores across the US. Claiborne was able to attract more customers as her designs provided perfect fit, unlike designs of other fashion houses.

The way in which Liz Claiborne priced its products was different from other apparel companies that sold products at 40% mark up costs. Its products are either priced in moderate or premium categories, but the company always adhered to the same quality standards.

In 1977, Liz Claiborne had sales of \$2.6 million<sup>17</sup>, by 1980 its sales increased to \$79.5 million and the net income grew to \$6.2 million<sup>18</sup>. In 1981, the company went public and posted net sales of \$116.8 million.<sup>19</sup> In 1985, Liz Claiborne expanded into men's apparel and in 1986, it entered into a joint venture with Avon to sell cosmetics. Liz Claiborne acquired and launched many brands to cater to wide variety of tastes of the US customers at several price points (Exhibit III).

<sup>13</sup> In May 2000, Africa-CBI (Caribbean Basin Initiative) Countries Law was passed by the US for tax exemption to US imports of products using US-made materials from Saharan-African countries and Central American countries.

<sup>14</sup> Wagner Mary, "Pressures on stores could spell more online retailing", <http://www.internetretailer.com/internet/marketing-conference/95911-pressures-stores-could-spell-online-retailing.html>, October 1<sup>st</sup> 2006

<sup>15</sup> "Strategy and Operation", [http://www.pvh.com/annual\\_pdfs/pdf\\_2006/StrategyandOperations.pdf](http://www.pvh.com/annual_pdfs/pdf_2006/StrategyandOperations.pdf)

<sup>16</sup> Guzzardi Walter, "THE NATIONAL BUSINESS HALL OF FAME", [http://money.cnn.com/magazines/fortune/fortune\\_archive/1990/03/12/73165/index.htm](http://money.cnn.com/magazines/fortune/fortune_archive/1990/03/12/73165/index.htm), March 12<sup>th</sup> 1990

<sup>17</sup> Ibid.

<sup>18</sup> Mayo Anthony J. and Benson Mark, "Liz Claiborne and the New Working Woman", Harvard Business School (Case Study), *Harvard Business School Publishing*, March 23<sup>rd</sup> 2007 [Ref. No.9-407-060]

<sup>19</sup> Bower Joseph L., et al., "Liz Claiborne China", Harvard Business School (Case Study), *Harvard Business School Publishing*, April 10<sup>th</sup> 2002 [Ref. No. 9-301-098]

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Exhibit III Brands of Liz Claiborne					
Division	Description	Brand labels	Date Acquired or initiated	Market Segment	Channels of Distribution
Liz Claiborne	Women's and men's career, casual and sportswear	Claiborne, Liz Claiborne, Liz Sport, Liz wear, Liz & Co	1976	Better <sup>20</sup>	Department stores and Company retail stores
Elisabeth	Plus-sized career, casual and wardrobe basics	Elisabeth, Elisabeth-Indigo, Elisabeth-Liz & Co.	1989	Better	Department stores and Company retail stores
Dana Buchman	Women's career, evening and casual collections	Dana Buchman, Dana Buchman Luxe, Dana Buchman Intuition	1987	Bridge <sup>21</sup>	Department stores and Specialty stores
Laundry	Contemporary women's sportswear and dresses	Laundry by Shelli Segal	Nov 99	Better	Department stores and Speciality stores
Lucky Brand Dungarees	Denim-based casual wear for women, men and kids	Lucky brand, Hot Pink, Triple XXX	June 99	Better	Specialty stores, Company retail stores, department stores and company internet site
Secrets	Women's sportswear	Sigrid Olsen Sport, Sigrid Olsen, Collection, So Blue by Sigrid Olsen, Sigrid Olsen Women, Sigrid Olsen Petites	Feb 99	Better	Specialty stores and department stores
Special Markets	Ensemble of casual and career casual	Russ, Crazy Horse, First Issue, Niki Taylor, Emma James, Villager	May 92 Aug 98 Feb 98 Nov 2000 1996 May 92	Moderate & Discount	Wal-Mart, J.C.Penny, Sears, Target, Department stores
DKNY	Women's jeans, active wear, juniors, career and casual	DKNY Jeans, DKNY Active, DKNY City	May 98 May 2000 May 2001	Better	Department Stores, Specialty stores
Kenneth Cole	Contemporary men's and women's career, casual and sportswear	Kenneth Cole New York, Reaction Kenneth Cole, Untitled.com	July 2000 May 2001 Aug 2001	Better	Department stores, Specialty stores
Source: Bower Joseph L., et al., "Liz Claiborne China", Harvard Business School (Case Study), <i>Harvard Business School Publishing</i> , April 10 <sup>th</sup> 2002 [Ref. No. 9-301-098]					

<sup>20</sup> Better segment includes moderately priced dresses and suits.

<sup>21</sup> Bridge segment includes highly priced ready to wear fashion products.

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Since its inception, Liz Claiborne operated through large up-scale department stores. The company insisted on a new presentation format at most of its department stores where it can display its entire collection. It rejected orders of the departmental stores if they were not willing to display the collection according to its specifications. Retailers were assisted to present collections by providing 'Claiboards' and 'Lizmap diagrams' that provide instructions to the staff how to mix and match the clothing and present them on the clothing racks and display counters. In 1987, Liz Claiborne opened its first 'concept store'. Later on, it opened around 200 concept stores within the department stores. Liz Claiborne trained its sales persons who travelled around the country to help retailers in merchandise presentation and interact with the customers. In 1985, Liz Claiborne established Systematic Updated Retail Feedback (SURF) system, which provided information about its sales across the country.

In the beginning, Liz Claiborne manufactured its products in the US, but later it began to outsource its production to Asian countries. Liz Claiborne entered into contracts with suppliers situated in China, South Korea, Sri Lanka, Hong Kong and Indonesia.

In 1990, Liz Claiborne's sales began to decrease due to the sluggish US economy coupled with the decrease in consumer spending. In 1992, the company's sales stagnated and its net income declined. Its market capitalisation dropped from \$3.5 billion in 1992 to \$1.2 billion in 1994.<sup>22</sup> As department stores are the main distribution channels for Liz Claiborne, it was more affected when department stores faced problems to generate revenues. Most of the department store went for mergers and cut their staff. To reduce the inventory levels, department stores required fast reordering from their suppliers.

Liz Claiborne was slow in investing in marketing and technology unlike its competitors like Tommy Hilfiger and Jones Apparel. As a result, Liz Claiborne's products were unable to attract the department stores, which meant less floor space from the retailers. Further, Liz Claiborne was unable to shift its product portfolio according to the changing trends of the consumers. Changing preference of consumers to shop at specialty stores and department stores preferring their own brands further added to its troubles. Liz Claiborne's sourcing strategy was also futile, as it did not allow the company to adapt to the changing market trends. Jones Apparel sourced 55% of its products domestically, as compared to 14% for Liz Claiborne, making it difficult for the company to adapt to the changing market trends.<sup>23</sup> The company's lead times were about 3 months longer than its competitors as most of its suppliers are located in Asian countries and who were smaller in size to invest in information technology to reduce the lead times.<sup>24</sup>

In 1995, Paul Charron (Charron), former executive vice president of VF Corporation, was appointed as the CEO of the company. He initiated strategies to improve product portfolio and restructured its production and distribution set-up. In 1995, Charron created 'LizEdge' a new in-store marketing department to improve the presentation of its apparel. It started LizView, in-store fixtures in department stores. Charron commissioned a study to understand the shopping behaviour of its customers. With the insights from the study, Liz Claiborne modified its display units and strengthened its efforts to allow mix-and-match across divisions.

Charron widened the company's brand portfolio to cater all consumer segments at all price points. He also initiated a national brand advertising campaign to increase its brand awareness. In 1995, Charron announced a comprehensive programme, LizFirst, to improve the efficiency of the company. As a part of this programme, Liz Claiborne reduced the number of suppliers and shifted its production to Mexico and other Latin American countries. It was able to reduce the cycle times by moving its production closer to the US and by improving its relationship with larger suppliers, who could afford and were willing to invest in information and production technology. As a result, by 2000, Liz Claiborne's net sales reached \$3 billion.<sup>25</sup> In 2003, the company's profits increased by 21.5% over 2002.<sup>26</sup>

In 2005, the Federated Department Stores acquisition of May Department stores resulted in closure of almost 90 stores. As Liz Claiborne generates most of its business through department stores, the operating margins of the company declined in 2005 (Exhibit IV).

<sup>22</sup> "Keeping Fit: The Liz Claiborne Story", <http://knowledge.wharton.upenn.edu/article.cfm?articleid=137>, March 1<sup>st</sup> 2000

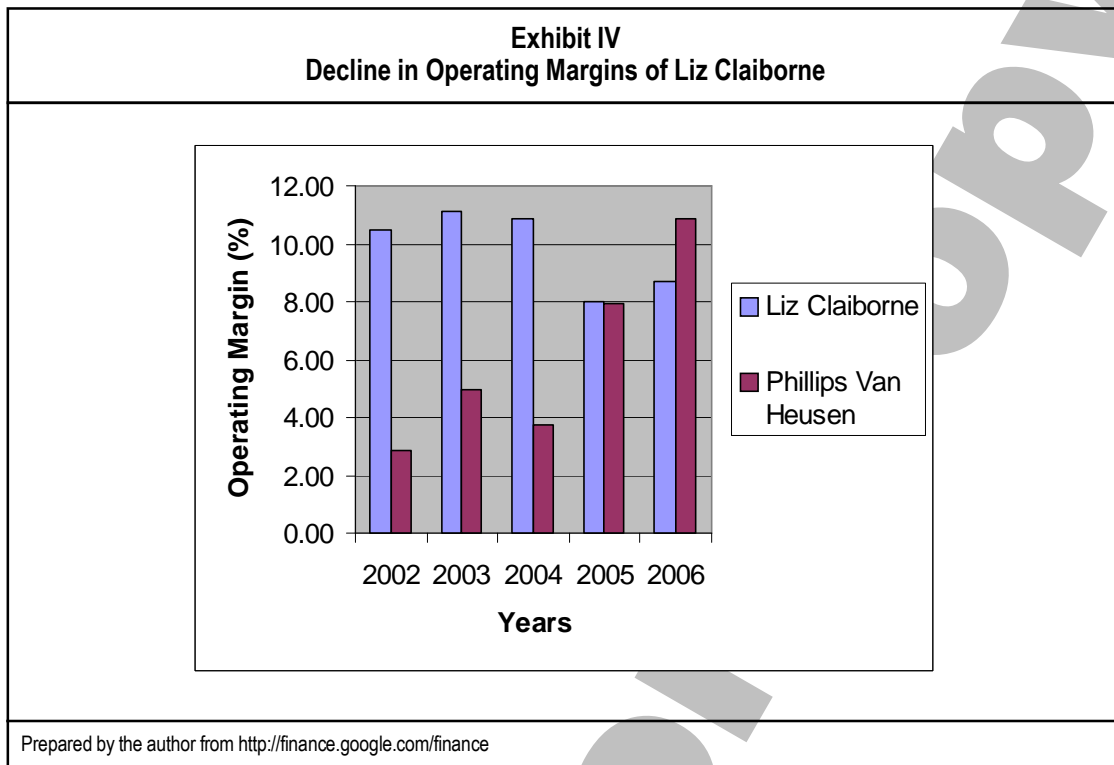
<sup>23</sup> Siggelkow Nicholaj, "Change In The Presence Of Fit: The Rise, The Fall, And The Renaissance Of Liz Claiborne", <http://knowledge.wharton.upenn.edu/paper.cfm?paperid=872>, January 1<sup>st</sup> 1999

<sup>24</sup> Ibid.

<sup>25</sup> "Liz Claiborne China", op.cit.

<sup>26</sup> Capriccioso Robert, "Liz Claiborne posts record profits despite 'Crazy Horse' protests", <http://www.highbeam.com/doc/1P1-88187650.html>, October 20<sup>th</sup> 2003

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In 2006, Liz Claiborne's revenues declined further than most of its competitors (Exhibit V). In October 2006, William L. McComb (McComb), who worked as a chairman at Johnson & Johnson, succeeded Paul Charron as the CEO of the company.

**Exhibit V**  
**Performance of Apparel Firms in 2006**

Company	Liz Claiborne	Phillips-Van Heusen	V.F. Corporation	Polo Ralph Lauren Corporation
Total revenues in \$ million in 2006	4,994.32	1,908.85	6,215.79	3,746.30
Total revenues in \$ million in 2005	4,847.75	1,641.43	5,654.15	3,305.40

Prepared by the author from <http://finance.google.com/finance>

In the 1<sup>st</sup> quarter of 2007, Claiborne's net income declined to \$16.2 million, or 16 cents per share, from \$46.9 million, or 45 cents per share during the same period last year<sup>27</sup> (Exhibit VI).

<sup>27</sup> D'Innocenzio Anne, "Liz Claiborne 1st-Quarter Profit Drops", [http://biz.yahoo.com/ap/070501/earns\\_liz\\_claiborne.html?v=4](http://biz.yahoo.com/ap/070501/earns_liz_claiborne.html?v=4), May 1<sup>st</sup> 2007

Exhibit VI Financial Statements of Liz Claiborne			
Income Statement (in millions of USD)	Quarterly (Mar '07)	Annual (2006)	Annual (2005)
Total Revenue	1,152.98	4,994.32	4,847.75
Gross Profit	527.77	2,387.47	2,298.36
Operating Income	38.88	436.08	525.34
Net Income	16.20	254.69	317.37
Balance Sheet			
Total Current Assets	1,576.14	1,470.12	1,456.54
Total Assets	3,584.95	3,495.77	3,152.04
Total Current Liabilities	549.93	673.92	607.74
Total Liabilities	1,436.93	1,365.79	1,149.33
Total Equity	2,148.01	2,129.98	2,002.71
Cash Flow			
Net Income/Starting Line	16.20	254.69	317.37
Cash from Operating	-196.18	394.04	440.55
Cash from Investing	-48.03	-435.43	-298.85
Cash from Financing	156.14	-89.77	-199.47
Net Change in Cash	-89.14	-142.88	-57.11

Source: <http://finance.google.com/finance?q=LIZ>

McComb said, "This is a big-picture conversation. There is a major change in channel dynamics. Neiman's doesn't want to carry what Bloomingdale's carries. Penny's and Kohl's are in bitter battle. They all think they can press the vendor world for exclusives."<sup>28</sup> He further added that "...retailers' demands for leaner inventory and faster fashion deliveries, have impacted Claiborne's business model with greater urgency and intensity than ever before, requiring a sea change in how we operate this wholesale business."<sup>29</sup> To overcome these problems, McComb initiated 'the three M's' strategy – Multi-brand, multi-channel and multi-geography – to offer apparel to its customers across a range of styles, price points and channels of distribution. However, analysts are sceptical about the success of McComb's strategies. Brad Stephens, an analyst for Morgan Keegan & Co. Inc., said, "Earnings growth has been nil for the last few years, and I just don't know how McComb goes about turning that around. The Liz brand makes up about 22 percent, and that 22 percent is not growing, which puts an awful lot of stress on the other 78 percent if growth is really the target."<sup>30</sup>

<sup>28</sup> Dodes Rachel, "Liz Claiborne's Unexpected Stumble", *The Wall Street Journal*, May 3<sup>rd</sup> 2007, page 29

<sup>29</sup> "Liz Claiborne 1st-Quarter Profit Drops", op.cit.

<sup>30</sup> Whitney Beckett, "TAKING A HARD LOOK AT LIZ: MCCOMB EVALUATES BRANDS FOCUSING ON 'REAL GROWTH' (Liz Claiborne Inc.'s William L. McComb) (Interview)", <http://www.highbeam.com/doc/1G1-161039652.html>, March 21<sup>st</sup> 2007

### Annexure I Major Trends in Fashion

Apparel industry has always been moving towards more fashionable costumes based on the consumers demand and purchasing power. The industry has seen many changes over the decades. In the history of fashion, 1960s was considered as the turning point. Prior to 1960, fashion was targeted to the elite class of the society and was dominated by the Parisian designers who provided haute couture at premium prices. But from 1960s, the tastes and preferences of customer across the globe changed with increasing income of younger generation coupled with urbanisation. As this younger generation began to develop a distinct style of dress, subsequently demand for less traditional and more affordable outfits increased manifold. Fashion houses began to provide clothing suited for busy urban lifestyle at affordable prices. By the end of the decade, the hippy look became popular which was carried to the next decade as well. In 1970s, non-traditional clothing that includes bellbottom pants, hip huggers, T-shirts and gypsy dresses became popular. Denim also gained popularity during this period. Most of the fashion during this period was influenced by the disco style.

One of the biggest apparel trends of the 1990s has been the steady shift toward casual wear in the office. In 1990s, the casual Fridays – when casual wear was permitted at workplace – were started propelling a major trend in fashion. Prior to 1990s, all days of a week were reserved for formal wear. Later, this casual dressing on Fridays extended to almost all days a week. During the same time, revolution in the television broadcasting blurred the physical territories and fashion was soon globalised. Especially, youth in the developing countries altered their dressing, almost with the same pace as fashions changed in Paris and New York fashion shows. This trend continued in the new millennium as dedicated fashion television channels brought the newest fashions to the living rooms at the blink of eye.

Compiled by the author