BRANDED EVOLUTION, APPAREL MERCHANDISING

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DISCOUNT STORE NEWS

Merchants, searching for consumer beacons in the stagnant apparel seas, are turning to proprietary brands for differentiation, and in the process are changing the traditional relationship between buyers and sellers.

A case in point: When Haim Dabah reintroduced his Regatta label recently he didn't invite a broad range of retailers to simply come up and see the line. Rather, the veteran apparel merchandiser who reigned over Gitano during its heyday concentrated his efforts on establishing the brand at an extremely limited number of targeted accounts.

The sportswear brand will appear for the first time as a major statement in Kmart's spring 1996 womenswear assortments. Repositioned from the department store channel and newly energized by the celebrity modeling of actress/talk show host Lauren Hutton, this brand may mean big things for the Troy, Mich.-based chain.

In addition to selling the line to Kmart, Dabah has prepared customized point of purchase and ad circular graphics for the store that include prices for planned promotions of the line. Generic national print ads have also been generated.

Goods are planned to hit men's and children's categories by Back-to-school.

While other chains have expressed interest in Regatta, and exclusivity has not been assigned to Kmart, Dabah says the brand is destined for limited distribution.

Why? Dabah asserts that manufacturers must shift their focus away from product sell-in. "Today, you have to be responsible for the sell-through. To do that effectively, you must work with fewer retailers."

It is clear that a retailer can benefit by getting the "A team" treatment in dealing with a supplier. But what is the benefit to the manufacturer?

"Above all," Dabah says, "to succeed today, companies must be exceptionally low-cost producers, so that the value is in the product rather than in the overhead. Focusing on fewer retailers helps: You don't spend on a big sales force or managing the needs of many different buyers."

As the apparel world continues to change, other companies are taking even more non-traditional approaches to business. Cherokee, a label that was once successfully positioned as a moderately priced department store brand, is now offering its trademarks directly to discounters and other retailers.

Rather than supplying retailers with merchandise from its own sources and a network of licensed manufacturers, the standard practice of many former department store brands - Sasson, Manhattan and Brittania, for example - Cherokee is committed to "retail direct licensing."

Calling the arrangement a "marriage of megabrand and private label," Cherokee provides marketing while the retailer takes on the risks and burdens of everything else. Target Stores, Venture and Pamida were the first mass merchants to sign up. Other licensees include Bealls, Mervyn's and specialty, chains J. Byron and Modern Woman.

Cherokee chairman and CEO Bobby Margolis has estimated the brand will realize $11.5 million in royalties from Target alone over the next five years. The contract offers category exclusivity in the case of Target; the Dayton Hudson division has the rights to women's five-pocket denim jeans and shorts, all female footwear, all infants-to- 14 girlswear and some women's and girls' fashion accessories.

Chains from Caldor to ShopKo are considering the addition of Cherokee - in non-exclusive agreements-to their mix.

Such a diffuse design and distribution strategy begs the question: Will the brand's identity be undermined by a lack of continuity?

Cherokee is available to a broad selection of retailers, but other brands seem bent on a more narrowly defined proprietary brand concept.

In 1995, Dayan Associates (parent firm of Bonjour) licensed their Faded Glory name exclusively to Wal-Mart. Dayan provides the retailer with a dedicated design and sourcing team, but all manufacturing and advertising is in the hands of Wal-Mart.

For Wal-Mart, Faded Glory is part of a strategy to build proprietary brands across many apparel categories and classifications. Its stable now includes such former national brands as Catalina and White Stag. Its homegrown Basic Equipment and Kathie Lee collections are also growing in importance. In addition, Wal-Mart has exclusivity on McKids and McBaby, licensed by fast-food giant McDonalds; the chain is launching these lines in childrenswear departments for spring.

John Lupo, senior vice president, general merchandise manager of apparel at Wal-Mart, says that proprietary brands fill a gap on the sales floor. "If Levi's would sell me, if Nike would sell me," then the nation's largest retailer would carry those world class brands. "But if what you really want is not available, you have to go out and do it yourself," Lupo says. As an alternative to designing a private label program from the ground up, an offer of branded exclusivity can be attractive. In the Faded Glory program, the Dayan team provides input to Wal-Mart's selected manufacturers, although the retailer ultimately controls production and design.

Dayan now has a similar agreement with Kmart for the Route 66 brand, a new denim-oriented line. The name has strong resonance with consumers, but it remains to be seen how well the chain can translate it into a meaningful apparel collection. New Kmart president and top merchant Warren Flick will decide how far and how fast to go with Route 66.

Apparel merchants differ over the meaning of all this licensing action. "Proprietary brands" is certainly the catch phrase of the day among apparel retailers, but this raises several questions:
Is it just a cyclical trend in private label? Is it just another way to pressure manufacturers into shouldering more of the burden? Or is it indeed evolutionary?

Cecil Kearse, senior vice president, general merchandise manager for men's and children's at Kmart, sees proprietary branding as an extension of existing private label strategies, which discounters use not only to build margins, but to strengthen the bond with their customer base. "There's nothing that builds the value image better than a successful private label program," he says. "Every retailer is taking it [proprietary brands] seriously, all the way to the brand management model of execution."

Regional discounter Caldor, which over the past year has on its own cultivated a denim private label called Fresno, is pondering participating in other proprietary brand opportunities.
"If you do it properly," says Mark Minsky, senior vice president, general merchandise manager at Caldor, "it gives some authenticity to a category of merchandise. If people recognize the brand, if they trust it, they will buy it."

Far from swept away, however, Minsky points out, "The onus is on the retailer and the person who owns the label to put it on the right category, have the right quality control and have consistency - not set it at an opening price point in jeans and at the top point in dresses."

Skip Chustz, senior vice president, general merchandise manager at ShopKo, agrees. "What is pre-eminent in the customer's mind is the value proposition, for instance, the fit of the item."

No chain has value in mind more than Wal-Mart. Referring to proprietary branding, Lupo says, "If your customer knows it stands for something, you can build a nice relationship with the customer." The best example of clear merchandising at Wal-Mart today is the Kathie Lee Collection, with its carefully designated category assignments and non-sense presentation. "Kathie Lee is going to be careerwear. End of discussion."

Wal-Mart learned the focus lesson the hard way. Lupo notes it was a lack of merchandising focus that caused some early proprietary branding programs at Wal-Mart, including Bobbie Brooks, to wither.

Some chains, both national and regional, are willing to pay the royalties and assume the risks of sourcing and managing the business because they see proprietary brands as a means toward superior differentiation, and by extension, gains in market share.

Yet not everyone bubbles with enthusiasm over the idea. While Ames president and CEO Joe Ettore believe proprietary brands can work, the current Ames merchandising strategy doesn't have room for them. This is due to the prevailing Ettore dictum of closer-to-need purchasing.

When a retailer takes a major position on a brand, this means advance commitment to a fashion buy - not a position favored by Ettore. "We're buying season-to-season," he says. "I'm not a big believer in buying so far in advance."

John Kulacz, president of licensing at Chic/H.I.S., offers a point of view as a brand manufacturer operating in a traditional way. The drawbacks of proprietary brands for the retailer, he says, include no insurance against bad fashion picks. "You have to be right all the time or the perceived margin benefit can be blown away in one bad season." He says that retailers, as in their traditional private label programs, must absorb markdowns when styles don't wash with the consumer.

However, other manufacturers disagree. One supplier who is partnering with a discounter on a proprietary brand claims it's just business as usual. "In direct licensing," he says, "you just roll the 10 percent closeout allowance into the contract."

To some, though, margin isn't the issue. Lupo says that customer loyalty outranks profit margin in his concept of brand strategy. "It is not a margin consideration."