

A Yen to Dress for Less

The recession following the collapse of the bubble economy has also greatly affected the apparel industry. As of December 1993, department store clothing sales have lagged behind those for the same month period as the previous year for 17 straight months; 14 months in row at supermarkets. This can be attributed to the heavy influence of increasing calls by consumers for lower prices.

For the first time since the apparel trade was recognized as a separate industry, many apparel makers have shown worsening results in the midst of this situation and some leading manufacturers posted mid-term operating losses in fiscal 1993. These sorts of greatly worsening results on the part of clothing manufacturers cannot simply be attributed to the aftereffects of the

business slowdown. Rather, with consumers' desire for lower prices in the background, the illogical nature of the apparel manufacturing and distribution system has come to the fore and the issues that confront the apparel manufacturers who sustain clothing production and distribution have now been thrown into relief.

It should be noted first of all that a production system that adequately corresponds to diversified consumer needs has not been put into place. Apparel makers ordinarily produce nearly 100% of their products before the season in accordance with forecasts. This type of production system is a factor in the occurrence of losses at the point of sales (insufficient product) and the risk of being burdened with remaindered items.

Regarding distribution, we should

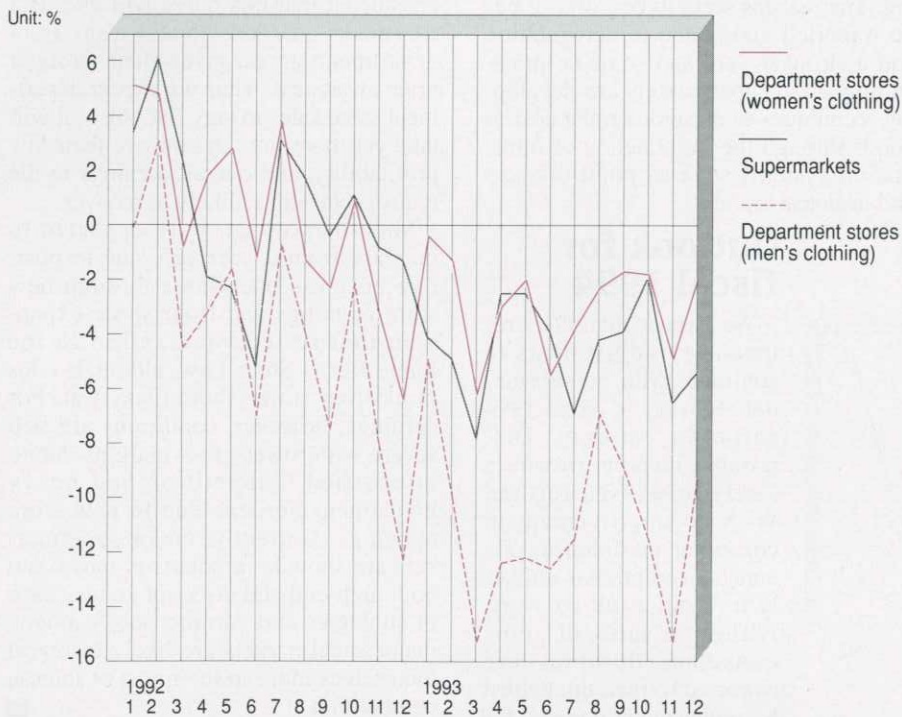
note the form taken by transactions with retailers, with department stores at the core. The usual transaction between an apparel maker and a retailer centers upon a form of consignment, with the clothing manufacturer bearing the risk of returns, reserving in turn the right to set retail pricing (this system is usually employed with department stores). This transaction formula was undeniably a factor in apparel manufacturers' growth, but because the risk of returns was woven into retail prices it led to higher priced clothing.

What is required on the manufacturing side is a shift to follow-up production during the season while keeping an eye on sales trends, establishing a flexible production system. From the standpoint of distribution as well, reviews of transaction formulas must be promoted. Apportionment of risk with retailers must be clarified and prices which are acceptable to consumers set.

These types of streamlining and rationalization efforts in both manufacturing and distribution in order to formulate appropriate consumer pricing are what is now most demanded of apparel manufacturers.

Today, with the appearance of inexpensive suburban stores, discount outlets and other new business configurations, and attempts by retailers to simplify distribution by promoting vertical tie-ups with upstream manufacturers, there are possibilities for great changes in the apparel supply system. Amid these types of environmental changes apparel makers must remodel their previous production and distribution systems and establish a foundation that will permit them to fully demonstrate their own product planning capabilities. There has been a boom in overseas production among clothing manufacturers in recent years, but if they are just pursuing the easy way through labor cost differentials they should instead put the priority on establishing a firm foothold for their domestic operations.

Value Growth of Department Store and Supermarket Clothing Sales



Source: Japan Department Stores Association and Japan Chain Stores Association

(Ueda Kyoko, economist)