Men's Wearhouse – The 800 Pound Gorilla of men's suit's

The only thing worse than a pushy salesman in a slick suit is a salesman pushing a slick suit. In 1973, that insight led George Zimmer to open a store that would sell suits differently from how they'd been sold before. Much has changed since he opened that first store in Houston. By 2001, The Men's Wearhouse Inc. was the country's leading discount retailer of men's clothing, with 6,000 employees, 400 stores, and annual before tax profit of $63 million. But Zimmer's basic idea remains the same - the average man enjoys shopping for clothes about as much as going to the dentist, so they are dedicated to making the process quick and painless.

The company is dedicated to customer service and easily sees the link between human resources, marketing, operations and financial responsibility. The company is one a few large retail players who steadily maintains a 40% contribution margin. The company has been named as one of the top 100 companies to work for by Fortune magazine for the past five years. Fast Company, Business Week, Wall Street Journal and other popular business magazines have touted the company as one of the best-oiled retailers around. In an era of declining suit business, Men's Wearhouse keeps on growing: its market share, its sales and profits, its store count, and its employee morale. Men's Retailing, notes that among the more interesting aspects of Men's Wearhouse's quiet and steady stealing of clothing market share from conventional stores is the fact that the conventional stores just sat back and let them do it. Today, Men's Wearhouse controls 1.5% of the men's apparel market. Although they offer similar merchandise as other mixed retailers, they note the interdepartmental synergy, employee energy and corporate agility as the key forces behind their success. Despite their much publicized success, the company needs to be constantly searching for growth opportunities and operational efficiencies.

To date the company has grown revenues by opening new stores and becoming operationally more efficient. However, the company is noticing increasing differences between its top performing stores and its lower tier and thus has decided to not open any additional stores until it can analyze revenues on a per-store basis. Further, given the economic climate, it is unlikely that new stores will be successful. As such, the company has decided to put a freeze on new store openings until 2005. Thus, growth in revenue must come from other sources. Three sources that company executives are considering are developing an in-store formal wear boutique, a point of sales system and an expansion into the big and tall category.

TABLE 1: Men's Wearhouse stores by size and revenue

	Number of stores	Average revenue per store	Average square footage per store
Top – large urban areas	100	$2.767 million	6065.82
Mid range – moderate sized urban to suburban	200	$1.4 million	6489.02
Bottom – all suburban	100	$850,000	1551.72

MEN'S RETAIL INDUSTRY

The market for fashion and apparel retailers reached US$112,579 million in 2001, up 9.1% over 1997 (US$103,159 million). However, in constant terms, the market realized growth of only 1.7% over the five-year period. The men's sector accounts for a constant 38% of the total market. Market growth in the entire industry is hampered by increased competition from mass merchandisers, hypermarkets and home shopping via catalogues, television and e-commerce. Although home shopping was once thought to be "women's work", we see increasing numbers of men buying online. The push in private labels and outlets have created a strong segment of price-conscious consumers who are savvy buyers that are willing to defer purchases until items go on sale or travel further distances to get sale prices. Brook's Brothers, a key player in the traditional dress sector of the market announced plans to expand its outlet division by35%. Brooks Brother's is hoping recapture some its share lost to mixed apparel off-price stores such as Men's Wearhouse. Over the past five years, Brooks Brother's market share has declined to .6% of the market from an all time high of 3.5% in 1988.

The industry is highly fragmented with strong competitors in all sectors – formal, dress, casual/leisure and sport/athletic. All competitors have low absolute market share, with the top five each accounting for 1.5% - 2.5% share. Many of the major retailers and designers have extended their offerings to include perfume, accessories, and footwear. Additionally, we see outlet and off-price offerings by the key players. Other factors contributing to the real dollar stagnation over the past five years include price deflation, increases in labor and materials, and oversaturation of the industry that have led to cut-rate competition, store closings, bankruptcies, and consolidations. The number of totals retail outlets fell 7.9% over the past five years from 121,800 outlets to 112,200 outlets, further, the total retail space dedicated to apparel retailers also declined by 6.3% from 361.7 million sq ft to 339.1 million sq ft. Men's apparel stores account for 32% of all square footage and Men's Wearhouse is 1.3% of the men's apparel square footage. Similar patterns are evidenced across the men and women's sectors. The end result is a reduced number of outlets, a greater push for operational efficiency, the need for stronger sales per square foot and a focus on consumer targeting. As with large mixed retailers, men's clothing and footwear stores have employed technology to track consumer demands and purchasing habits, which help outlets move inventory and increase sales and profit margins.

The men's apparel industry is divided into six sectors: formalwear (2%), dress/professional (26%), casual/leisure (43%), sport/athletic (20%), footwear (5%) and accessories (4%). The lines between the sectors are blurring as work place attire becomes increasingly casual. Large mixed apparel retailers, which can offer both style and value, seem to be driving the industry. The greatest growth over the past five years has been in the casual wear sector. Most of the growth of this sector has come at the expense of the dress sector.

MEN'S WEAR HOUSE - DISTRIBUTION & INVENTORY MANAGEMENT
Distribution in the men's apparel industry is relatively simple. There are often detailed contracts between the manufacturers and retailers, which cover specific inventory, transportation and financing requirements. Small retailers and small manufacturers tend to use distributors who facilitate the ordering, transportation and inventory management processes. Men's Wearhouse deals directly with 75% its suppliers. The company believes this is the most efficient system.

Distribution in the apparel industry is becoming more efficient as more manufacturers are using specialized software, which allows for forward ordering, tracking, and inventory management. Additionally, Men's Wearhouse is seeking VMS agreements with its top five suppliers (which account for 80% of the inventory and 85% of the sales revenue). They have paid close attention to their inventory management and rarely have stock outs even though they have been forced into eliminating warehousing space. In 1996 they adopted the same quick response and electronic data interchange systems as J. C. Penney. As a result, they have been able to reduce inventory costs and better target merchandise to geographic customer preferences, resulting in an average annual rate of inventory turnover of 5.6 times. The industry average is 4 and J.C. Penney boasts a 7.8 rate.

Just as bankruptcies and consolidations have plagued the retail sector, manufacturers have experienced similar patterns. In the early 1990s, disintermediation was a potential problem for many retailers. However, many of these efforts were unsuccessful and the manufacturers have gone back to more traditional channels of distribution.

Men's Wear house is considering a contract with a new manufacturer, J2. J2 is a quality manufacturer of men's casual and outerwear, specializing in wool and cotton fabrics. Although many of the manufacturers purchase processed fabrics from distributors and sew the garments overseas, J2 buys wool fiber direct from farmers and spins and weaves its own fabric. The fabric is then cut and sewn in the US. Although the company could reduce its costs by relying on foreign labor and using preprocessed fabrics, they insist that the quality of the garment is not as good and that consumers are willing to pay the additional amount for a US made product. J2 is 7 years old and just beginning to seek national distribution. The company has had limited Internet and boutique distribution in New York, San Francisco, Los Angeles, Chicago and Houston. Men's Wearhouse is trying to put together an exclusive distribution package with J2.

CONSUMER DEMOGRAPHICS AND LIFESTYLES

Sales of men's clothing and footwear in the US have fallen as a share of total expenditures over the last five years, dropping from 6.5% of disposal income in 1997 to 6.2% in 2001, however, overall consumer expenditures increased by 16.3% in the same period and disposable income increased by 18.2%.

A key problem the men's clothing and footwear industry faces is a decreasing customer base. The population of men and women between the ages of 21-29 is at its lowest levels in almost 10 years, and the numbers of those between the ages of 30-34 has also been down for the past five years. These age groups tend to be the most important purchasers of clothing and footwear.

Also, with consumers spending larger proportions of their disposable income on high-ticket durable goods such as electronics and computers, as well as on recreational activities, the retail apparel industry has suffered. A combination of more casual lifestyles, together with an improvement in the product quality of apparel offered by alternative outlets such as hypermarkets, has led consumers to shift from more expensive apparel items found at department stores to less expensive and more basic clothes. Mass merchandisers and discounters are attracting these customers, while specialty apparel stores appear to be losing them.

MEN'S WEARHOUSE CUSTOMERS

Men's Wear house has been a strong contender in the off-price moderate quality category of the men's apparel industry. They are a mixed apparel company whose offerings have traditionally been in the dress/professional sector. They have consistently added to their casual offerings. Their customers tend to be value conscious looking for quality, service and price. They divide their customers into two segments: wardrobe buyers and item specific. The wardrobe buyers come to the store to buy a suit, tie, socks and other accessories. Generally they purchase more than 1 item at a time. They account for 40% of the company's transactions and 70% of their sales. In the item specific segment customers come to the store in search of a specific item – belt, shoes, tie, shirt. They know ahead of time what they are interested in purchasing and not interested in having a sales person engage in suggestive selling. Sixty percent of the purchases in this segment are motivated by specific personal needs, while 35% of the purchases are gifts and 5% are impulse. This segment accounts for 60% of the transactions and 30% of the sales dollar volume. A conjoint analysis revealed the following part-worth utilities for the average male customer in each segment.

TABLE 2: Part-Worth Utility Scores for each segment

WARDROBE		ITEM SPECIFIC	
Quality	.17	Quality	.22
Selection	.21	Selection	.32
Brand names	.33	Brand names	.16
Customer assistance	.21	Customer assistance	.08
Quick check out	.08	Quick check out time	.22

Additionally some commissioned research revealed the following price elasticities. The elasticities are based on sales records of the company from the past five years. All elasticity's are based on price discounts of 5% - 25%. When the price discount is greater than 25%, the elasticity changes. The accessories category is comprised of ties, socks, belts and similar items.

Table 3: Price elasticities for each segment

	Suits	Dress Shirts	Casual Shirts/Sweaters	Accessories	Cross elasticity: ΔP suit to ΔQ dress shirts	Cross elasticity: ΔP dress shirts to ΔQ suits
Wardrobe	-.5	-1.5	-1.25	-2	-2	-.5
Item specific	-.25	-.5	-.75	-1	0	-.25

POINT-OF-SERVICE/THEFT SCANNER SYSTEM

The company is considering investing $256 million in a computerized scanner system, which will allow customers to independently check out their merchandise or get more information on specific items. The system is based on a new scanner/weight measurement system in which all merchandise is weighed and given a unique scanner code when it is stocked in the store. The corporate office maintains a database containing the codes, weights and manufacturer supplied information. At each store, there will be 5 small computer consoles where customers can use the scanner codes on the tags to check prices or obtain more information about a product (e.g., what other colors a shirt is available in, what other accessories a designer may offer, or fabric care). At the front of the store, customers can use specially designed check-out computers/bagging stations to independently check out of the store. This reduces wait times and eliminates the need for extra sales associates. Customers will only be able to check out if they purchase the items with a credit card. Thus, those customers who use cash, personal check or have returns, will still need to use the regular terminals. Additionally, the system is expected to decrease theft in that all scanner tags also serve as security tags. Thus, anyone who leaves the store without deactivating a tag will set off an alarm. Historically, each store loses an average of $150,000 in sales revenue from employee and customer theft. It is estimated that this system will be able to reduce theft by 80%.

EXPANSION INTO FORMAL WEAR

Another possible area of growth is into the formal wear category. To date, Men's Wearhouse has had a very limited inventory of formal wear, which has been for sale in select locations. Most often they are special order requests and take eight to twelve weeks to fill. The store is considering dedicating 350 sq. feet of space to a formal wear department where they will rent and sell tuxedos. Currently 50% of this square footage is used for large size men's suits, while the remaining 50% will come from fitting room space and aisle space. The stores will keep the same number of fitting rooms and tailoring bays, but will redesign them so they are smaller. Additionally, the seating area of the fitting rooms will be eliminated.

Although everyday and office men's wear has become more casual, specialty occasions are becoming more formal. More weddings and special events are black tie than five years ago. The trend is expected to continue over the next five year, with the greatest increase in metro areas such as Chicago, New York, Los Angeles, and Houston. Interestingly, outside of densely populated urban areas, we see declining rates of tuxedo rentals. Sales associates have reported increasing numbers of requests for tuxedo rental referrals. Wedding World magazine reports that the number of formal weddings in the top 20 US metro areas increased by 35% in 2001.

The program will be tested in 150 of the largest, most successful metro area stores. It is estimated that first year start up expenses will be $125,000 per store. This includes inventory, sales training, and store redesign and merchandising. It is estimated that each store will be able to rent 1456 tuxedos a year for an average cost of $165.00 per rental. The cost of each rental is estimated at $28.00 and includes dry-cleaning, customer assistance and tailoring. Additionally each store will be allocated $20,000 for local print advertising, which is likely to be matched by designers, thus each store will have a total of $40,000. Each store can determine how they will spend the money, but the corporate advertising department must approve the ad copy. The coop advertising revenue will be coordinated via the corporate office as all ordering will be centralized to ensure the lowest prices.

After the first year of the program, it is estimated that each store will need to replace half of the 200 suits it initially purchased as some will be damaged and others will be sold. Previously rental or stock tuxedos can be purchased for $250. The company estimates that 30% of the stock will be sold each year. New tuxedos will be purchase throughout the year to maintain a constant stock of 200. Replacement costs are estimated at an average of $125 per tuxedo. Special order tuxedos from top designers will also be available at the formal shop. It is estimated that each store will sell 100 special order tuxedos for an average price of $400. They will cost an average of $175.

BACKWARD INTEGRATION - BIG AND TALL

Lastly the company is considering purchasing a manufacturing facility that will specialize in Big and Tall fashions. The Big and Tall category has grown steadily over the past 10 years and now accounts for 26% of all men's apparel and footwear purchases. Currently, Men's Wearhouse has limited offerings in this category and reports that less than 12% of its sales come from this segment. They find that many of the traditional manufacturers are not used to the larger specs and thus the clothes do not fit correctly. Some manufacturers who have started "athletic" cut suits and have had similar fitting difficulties. The athletic cut suits are traditional lengths, but cut broader in the shoulder area. However, they do not account for larger waists or roomier pants. Men's Wearhouse believes it can develop a quality well-tailored product for this segment that accounts for the broader build. Additionally, they will not have to pay extra with manufacturers who have stringent minimum order requirements for these specialty type products, they will be able to react more quickly to changes in the market and will be able to reduce the cost of goods.

The private label merchandise will be integrated throughout the store, and account for roughly 650 square feet of floor space. For example, the broader cut suits will be in the suit section and the broader cut pants will be in the pant section. The products will be labeled as Alfanzi **+** on the tag so customers can easily identify which products have a broader cut.

The cost to acquire a manufacturing facility will be $65 million. In order to adequately use the capacity at the facility, all of the + size merchandise and 20% of our other merchandise will be manufactured under the Men's Wearhouse private-label line, Alfanzi. It is expected that the gross margin on the private label products (regular and +) will be 55%. Further, it is expected that plus size merchandise will account for 18% of total sales volume in the first year, 22% in year and then level off at 25%.

Several company executives, including the President, believe this is a risky venture into an area in which the company has no real expertise.

Case Questions

1. What is Men's Wearhouses' point of differentiation? How would you characterize their corporate strategy?

2. Men's Wearhouse faces many potential sources of channel conflict. In a broad context what are some of the sources of conflict?

3. The case notes that Men's Wearhouse is a high brand equity company, what evidence is presented that substantiates that claim?

4. It is noted that Men's Wearhouse has increased its stock turnover rate, how might this help the company?

5. Which size store is most successful?

6. What do the part-worth utility scores tell us about the different customer segments?

7. Given the price elasticities for the wardrobe segment, does it make more sense for Men's Wearhouse to reduce the price on shirts or suits by 10%?

8. The price elasticities for the item specific customers are lower than the wardrobe customers, what does this indicate?

9. Given the alternatives presented in the case for growth and profit, which would you recommend?
    a. Point of service/scanner theft system
        i. Evaluate the impact of this system.
        ii. Which customer segment is most likely to use the system?
    b. Formal wear expansion
        i. In what stage of the product life cycle is formal wear service?
        ii. How could Men's Wearhouse increase the adoption rate for the formal wear service at its stores?
        iii. Do we break even on the formal wear option?
        iv. What are the pros and cons of the service (address both qualitative and quantitative issues)?
    c. Backward integration
        i. How would this strategy impact potential sources of channel conflict? How do recommend the company address these issues?
        ii. How would implementation of this strategy change the profit margin at Men's Wearhouse?
        iii. What are some of the inherent risks associated with this strategy?