CFA Members Event Discusses Private Label and Branded Manufacturing

Manufacturing

By **Alison A. Nieder**As of Thursday, September 18, 2014

There's no magic formula for striking the right balance between producing your own brand and producing private-label products for retailers. But having a mix of both can be a good strategy for growing a brand as you maintain a steady stream of production work.

That was the takeaway from a recent panel discussion organized by the **California Fashion Association** and held Sept. 16 at the **City Club** in downtown Los Angeles.

Kevin Sullivan, executive vice president of **Wells Fargo Trade Capital**, which hosted the event, moderated the discussion, titled "Private Label vs. Branded Manufacturing...How Does Your Business Grow?"

"Less than 5 percent of our business is private label," said panelist Daniel Neukomm, a partner with the **La Jolla Group**, the Irvine, Calif.–based company that produces licensed apparel for several brands, including **O'Neill Clothing USA**, **Metal Mulisha Clothing** and **FMF Clothing**. "The reason it's not zero is because we're always interested in the excess capacity utilization business. That's probably what gets more brands into private label in the first place."

Neukomm's fellow panelists agreed.

"We need volume to give the factories or we can't source efficiently," said Daniel Abramovitch, vice president of **Topson Downs**, which produces under **Elwood**; **Love, Fire**; **Tinseltown**; and **Bleulab** brands as well as the recently acquired **Rachel Roy** label.

Sullivan noted that many companies that focus solely on branded product or private-label production are struggling.

"It's all about balancing," said Mitchell Quaranta, co-chief executive officer and president of **Swat Fame Inc.**, which produces the **Kut From the Kloth**, **SeeThruSoul** and **Speechless** brands. "Solely private label is a margin eroder," he added.

That balancing act also helps manufacturers stay flexible to retailers' changing needs.

"I think it's a pendulum," Quaranta continued. "One minute [retailers] want 55 percent private-label brands. Then they take it to 60 percent, and they hit a wall."

For a manufacturer, a brand can command higher margins if there is consumer demand. Panelist Frank Kaufman, partner with **Moss Adams LLP**, offered, as an example, the **Mossimo** brand at **Target**, which carries a slightly higher price than the discounter's non-branded apparel.

"In a retail store, you need some branded product to get them in the door," he said.

For some retailers, the middle ground is private brands that, like Mossimo at Target, are exclusive to the store.

That exclusivity is valuable, Quaranta said, pointing out **Kohl's** and **Macy's** success with the practice. (Brands **Juicy Couture** and **Rock & Republic** are exclusively carried by Kohl's while Macy's exclusive brands include **American Rag** and **Material Girl**.)

“[The retailers] want to control their own destiny,” Quaranta said. “They have no choice. For everyone to buy the same brands, they’d just be hacking up price to compete with each other.”

Abramovitch and Kaufman noted that some of these brands follow an evolution that takes a brand from start-up to branded success to mass-market retail. “It’s just the lifecycle, and retailers are taking advantage of it,” Abramovitch said.

Although some companies strive to keep their brands limited to the core customer, Neukomm noted that it’s sometimes a difficult path to follow.

“The dangerous part is when brands set out to be a core brand and only limit themselves to a small distribution,” he said. “Once you do expand, it automatically puts you on a different trajectory.”

Big data and speed to market

The panelists also discussed other issues affecting the apparel industry, including omni-channel retailing and e-commerce, as well as retailers’ perpetual need for quick-turn merchandise.

At the La Jolla Group, 90 percent of the company’s business is wholesale, Neukomm said, which means Neukomm and his team don’t have access to the same volume of data retailers have gathered on their customers.

“Retailers are getting smarter with data,” he said. “Some of the more sophisticated retailers will put that data to work. They have an earlier read on consumer demand.”

Omni-channel retailing, or seamless interaction between bricks-and-mortar and e-commerce, have also given retailers such as Macy’s an edge.

“Macy’s uses their store as a fulfillment center for their dot-com,” Abramovitch said, holding up his cellphone before adding, “Every single one of these is a store. Now if we can figure out how to ship cheaper, it’s a competitive edge.”

Omni-channel distribution is here to stay, Kaufman said. “But you still want to pull them in [to the store] for one more thing. The efficiencies of the Internet are so huge, and it’s 24/seven. I look around this room and see people right now who are buying something.”

Fast-fashion retailers such as **H&M**, **Zara** and **Forever 21** have helped accelerate fashion’s production calendar, but Quaranta said he’s seeing a shift away from “disposable clothing” as consumers begin valuing quality more.

But “speed is here to stay,” Abramovitch said, noting that Topson Downs is producing more domestically and finding deliveries improving for offshore goods, as well.

“The impetus for [the shift to domestic production] is retailers not giving orders fast enough,” Kaufman said. “I think fast fashion will morph a little, but I think pricing will be a challenge. A lot of people will invest in that vertical model. Or [they will say to retailers,] ‘Give me another buck a garment [and we’ll make it here].’”

Money matters

Another key issue for apparel manufacturers is the growing interest from private-equity companies "that seem to be adding brands just to pump up the sale potential," Sullivan noted.

Quaranta said he thinks the practice of private-equity investors purchasing and quickly reselling a company is "harming our business."

Neukomm acknowledged that private-equity investment can be "useful" but added, "It's a slippery slope."

Once a company "deploy[s] private-equity partners," he noted, the company will be subject to stringent financial controls.

"There's certainly no shortage of capital on the sidelines—it's unprecedented," he said. "It's easier to get $100,000 than it is to buy a car."

In many cases, the investors are Chinese conglomerate companies, Abramovitch said. "They just want the [production] volume for their factories," he said. "I don't think that model is sustainable."

With all the focus on brand building and maintaining balanced growth, Sullivan asked the panel how a company can grow while keeping its brands relevant to its core audience.

"I was going to say that's the million-dollar question, but that's the billion-dollar question," Neukomm said. For La Jolla Group, it means making sure there is product for the early adopters—"the mom-and-pop surf shops … where Macy's and **Nordstrom** go to shop trend"—as well as for larger retailers.

"That means we make wide lines and we try to segment distribution as to where that product goes to try to keep everyone happy," he said.