



Case 40

ELEGANCE, AN UPSCALE SPECIALTY RETAILER, USES DATA MINING TO SOLVE VENDOR FIT PROBLEMS

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Retailer

Elegance, an upscale specialty retailer with sales over \$4 billion, has 30-plus stores nationwide. Store values include providing distinctive merchandise and superior service to customers. The company focuses on the luxury retail market, selling brands including Armani, St. John, Zegna, Ellen Tracy, and Kate Spade. Women's apparel accounts for 35 percent of sales. Elegance is also known for strong vendor relationships, often working closely with vendors to develop products that will be desirable to its clients.

Vendor

A luxury knit apparel vendor, Luxe, in California, has been designing, manufacturing, and marketing women's clothing and accessories for 45 years. The company has wholesale as well as retail sales business segments. Luxe employs 4,000 people and

operates dozens of offices and manufacturing facilities worldwide. Wholesale business segments include Knitwear, Sport, Shoes, Jewelry, Accessories, and Home Accessories. The vendor manufactures its products primarily to order. Products are sold by upscale specialty retail stores, such as Elegance, with whom the vendor has long-term relationships, as well as through company-owned retail boutiques. Luxe's top clients include Saks Fifth Avenue, Neiman Marcus, Nordstrom, and Bloomingdale's. The vendor works with retailers to get product to the selling floor quickly. Often product is shipped directly from the factory to stores, bypassing retailers' distribution centers.

Case

This case concerns a problem that occurred with the fit of the vendor's knitwear products. Knitwear is organized into four groups: Collection, Evening, Basics, and Couture. The vendor twists and dyes its own brand of wool and rayon yarns. The garments are made of a special type of knit that is known for being wrinkle-free. Luxe's collections are manufactured at the company-owned manufacturing facilities. Alterations to the garments are labor-intensive, requiring the un-knitting and re-knitting of the garment to shape. The vendor's alterations policy is to provide their services to retailers who currently carry their garments. Repairs/alterations are done through the retailer where the garment was

purchased. Some retailers have their own skilled alteration staff that can accommodate requests, and some send garments directly to the vendor.

Elegance, like most retailers in the segment, provides alterations service for all garments sold. Clients are not charged for basic alterations to full-price garments. Certain more extensive alterations, along with alterations to discounted merchandise, are charged a fee. Total company alterations costs (including salaries, equipment, supplies, and transportation) always exceed income collected from fees. The company constantly seeks to minimize losses from alterations.

Elegance has a long-standing relationship with Luxe, which is one of the top ten vendors for the retailer. The knit suits are popular with its core customers. This customer is an older woman with high income and high net worth. The vendor made a change in their basic suit pattern to make the arms narrower. Clients were upset because they had to buy a larger size than they did before or have more alterations than before. Elegance realized that it was having an increasing number of alterations on garments from Luxe and sought to find where the majority of problems were occurring. Through its innovative use of a data mining system, which they use to track sales, cost, and customer information, they were able to mine its alterations by vendor and type of alteration, and by doing so Elegance was able to isolate the cause of this problem. These fit problems were causing reduced sales and increased alterations costs.

Major Question

What should Elegance do about the alterations problem with Luxe?

Study Questions

1. Are alterations and other services important for buyers to understand and use in their relationships with vendors?
2. Much of the information retailers collect about customers is proprietary and used to give them a competitive advantage. What information do retailers typically share with vendors? What information could a retailer share to improve the relationship? What potential implications might Elegance face by sharing alterations data?
3. How might the size of either the vendor or retailer in relation to the other affect the relationship and the sharing of "problem" information?

Exercises

1. Research data mining systems that are used by retailers to track sales and cost data. Name systems that are available. List all types of data that can be tracked. From where are these data collected? Are there multiple sources? How could this data be used by retailers to improve sales and reduce costs? How could this data be used to improve vendor relationships? What is the cost of implementing such systems?
2. Find an article in a trade publication discussing the implementation of data mining by a retailer. What system was used? Why was this system selected? What were

the benefits and costs of implementing the system? How does this real-world scenario compare with the pros and cons in the various alternatives in this textbook case? Does the article discuss benefits to retailer/vendor relationships? If so, what are they?

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CREDIT PROBLEMS AND ORDER NIGHTMARES

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Kelsey began her career at an upscale specialty store in Dallas, Texas. After working for two years as an assistant buyer, she moved to Carson's, a small men's and women's specialty retailer. Kelsey became adept at working with branded products in Dallas, and during her time as an assistant at Carson's, she quickly learned the ins and outs of the private-label fashion business. As Carson's is a private-label retailer, Kelsey had to learn about technical design, tech packs, sourcing, and many other aspects that she hadn't dealt with before. One of the most difficult things that Kelsey had to learn was the timing of a private-label business. Since all merchandise must be designed and manufactured by the retailer, the orders had to be placed much earlier than with the branded products she had helped buy before.

Kelsey worked as an assistant buyer at Carson's for about a year and a half in the

women's tops division. She quickly realized that she could be much more creative in this business than she was in her last job. She did so well that she was promoted to the position of men's sportswear buyer. This position came with a whole new set of challenges. The first one was learning the men's business. Kelsey had previously only worked with women's accessories and apparel. However, she loved her Divisional Merchandise Manager (DMM) and everyone on the men's team helped her get acclimated very quickly.

One of her first tasks was to learn the current vendor matrix and place fall orders. Fall is the largest season for Carson's both in terms of volume and orders. Carson's believes that its customers are always looking for newness. It wants them to see new merchandise each time they enter the store. Because of this, Carson's delivers 12 assortments per year to stores—or one assortment every month. This seems to work well for the ladies business, but men shop a little less often than women, so some of the men's deliveries are very small (approximately four SKUs per department). In addition, Kelsey's total SKU count for fall is decreased from last year's numbers. (See Table 7.2.) She is buying five departments of merchandise for both July and August delivery. Records show that last year Carson's delivered a total of 112 SKUs between the two deliveries. Kelsey already took this year's purchase plans and her average unit retails to come up with this year's planned SKU count. It is smaller than last year, at 97 SKUs, because of poor sell-throughs and an overstock situation after Christmas.