STANDARD & POOR'S

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CURRENT ENVIRONMENT 1
A $500 million opportunity in women's better apparel
More changes to follow
The end of quotas and tariffs
Summary of overall environment
Consumer confidence on the rise
Apparel sales decline eases
In search of style
Footwear sales step down
Industry outlook brightens

INDUSTRY PROFILE 7
The industry that suits everyone
Apparel
Footwear
Industry Trends 8
Shorter cycles
Technology changes the competitive landscape
Price deflation
Offshore sourcing
Diversifying to survive
Sales channels proliferate
Following the demographics
How the Industry Operates 16
Components of the industries
Intense competition
Manufacturing dynamics
Vital role of technology
Pivotal distribution channels
Enhancing customer loyalty
Key Industry Ratios and Statistics 22
How to Analyze an Apparel or Footwear Company 24
Qualitative factors
Quantitative factors
Earnings quality

GLOSSARY 30

INDUSTRY REFERENCES 31

COMPARATIVE COMPANY ANALYSIS 34

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A $500 million opportunity in woman's better apparel

In early June 2003, after its attempts to negotiate a higher licensing fee failed, Polo Ralph Lauren Corp. ended its six-year licensing agreement with Jones Apparel Group Inc. for the Lauren line of better women's sportswear and took its design and sourcing functions in-house. Many designers see this development as an opportunity to wrangle more floor space for themselves. They figure that department stores will not commit the same amount of money to Lauren's own production as they did to Jones's, due to Lauren's unproven ability to deliver quality goods on time.

Design firms have thus rushed to claim the Lauren line's stake in department stores and capture some of the sales presumably up for grabs. At the wholesale level, the Lauren line generated an estimated $475 million in 2003 and $550 million in 2002. We estimate that this translates to about $665 million and $770 million, respectively, at retail.

Jones Group deftly turned adversity into opportunity by redirecting the factories it had devoted to Lauren to a new brand of moderately priced "dressy casual" attire called Signature. To further beef up its better apparel offerings after the split with Lauren, Jones New York in December 2003 acquired Kasper A.S.L. Ltd., with its Anne Klein, Albert Nipon, Kasper, and le Suit labels. Polo Ralph Lauren, for its part, immediately hired a seasoned apparel retail executive, Kim Roy (former president of the AnnTaylor Stores Corp.), as division president of Lauren brands to spearhead its in-house efforts.

Not to be outdone, Liz Claiborne Inc. sped up the launch of its new Realities line, while pursuing exclusive opportunities at various retailers — part of a micromerchandising strategy to sell parts of a line or an entire line to a single retailer. Along with Polo Ralph Lauren and Jones, Liz Claiborne is the third member of the troika of apparel wholesalers that lead department store sales of women's apparel.

Meanwhile, Calvin Klein Inc. (a wholly owned subsidiary of Phillips-Van Heusen Corp., in a strategic licensing arrangement with Kellwood, which is responsible for production and sourcing), Tommy Hilfiger Corp., and Michael Kors LLC are readying new lines in an attempt to capture a portion of the better women's sportswear market.

The department stores are responding to the split with their own plans, which, if successful, could help differentiate them from competitors and yield additional gross margin dollars. For example, they are asking vendors for exclusivity — unique lines or items that competitors would not carry. Some are increasing their proprietary private labels; examples include I.N.C. and Alfani at Federated Department Stores Inc., and Identity and Kate Hill at the May Department Stores Co. They are also introducing relatively unknown labels to inject newness onto the selling floor.

The dissolution of the Polo/Jones venture means that an estimated 20% to 30% of the floor space devoted to better sportswear could change hands by early 2006. However, with department stores pursuing private label strategies, it remains to be seen whether vendors will benefit from the overhaul.

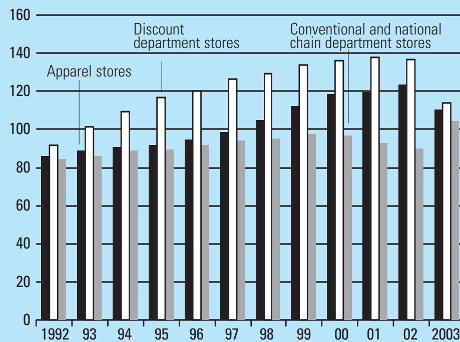
More changes to follow

Vendors generally are taking steps to stabilize their businesses. For example, they are pulling lines (or parts of lines) from less productive retailers in an attempt to restore brand equity. They are also opening specialty stores in malls or in so-called lifestyle shopping centers where they can better control their destiny.

The changes come none too soon. The department store channel has lost market share over the past two decades as national

APPAREL STORE VS. DEPARTMENT STORE SALES

(In billions of dollars)



Source: US Department of Commerce.

chains, such as Kohl's Corp. and J.C. Penney Co. Inc., increased competition for moderately priced apparel, while discounters began offering fashionable designer brands. Concurrently, service levels declined at department stores, creating a price/value equation that other channels could easily improve upon. We believe the current success of such specialty apparel retailers as Banana Republic (part of Gap Inc.) and AnnTaylor is directly related to price and service issues at the better department stores.

Standard & Poor's believes that department stores have run out of cost-cutting and productivity measures to increase profitability, and that operators realize they must upgrade their store environments to once again make them preferred destinations for shoppers.

In 2004, a sense of newness on department store floors should create excitement and drive traffic. After years of minimalist and casual trends, the return of color, texture, and detail has given consumers reason to shop again. Tax rebates, along with higher levels of consumer confidence, spending, and disposable income, have set the stage for department stores and their vendors to enjoy a cyclical rebound in 2004.

Career apparel has been a key sales driver, especially at the better department stores and specialty apparel retailers, and a job recovery should accelerate its popularity. In the moderately priced apparel sector, trends are more challenging. Falling prices for better brands, due to increased competition from mass merchants, is exerting pressure on the moderate brands, leading to acute price deflation.

The end of quotas and tariffs

It is estimated that quotas and tariffs added as much as $80 billion to the retail cost of clothing and shoes in 2002. According to the US International Trade Commission (ITC), a quasi-judicial federal agency, the average tariff for clothing, shoes, and textiles was 10% in 2002 — about 12 times higher than that levied on other products — and the combined effect of quotas and tariffs raised average prices by 34%.

However, in accordance with rules promulgated by the World Trade Organization, the quota system for clothing ends January 1, 2005, with an expected phase-out to last through the end of 2008. The implications are multiple. For one thing, the practice of allowing firms to ship up to 8% of the following year's quota will end with quotas themselves. This will create a "quota crunch" beginning in late 2004. According to the US Association of Importers of Textiles & Apparel, a trade group, the diminishment of quotas could reduce apparel inventory at retail, causing clothing prices to rise in 2004.

However, the ITC estimates that the net national gain of abolishing quotas and tariffs will be $13 billion in cost savings and the addition of 12,000 jobs. Domestic manufacturers are likely to continue to benefit from their own competitive advantage — their proximity to the end user — and to produce for the high-fashion and specialized markets for which they are best suited.

Most industry observers agree that manufacturers in China, and to a lesser extent in India, are likely to gain the most from the elimination of quotas, in the short term, due to economies of scale. Retailers have estimated that China's apparel prices could drop by 40% to 57% with the phase-out of quotas. However, in such a case, we wouldn't expect retailers to pass on the entire savings to consumers, as this would leave them fewer dollars to pay for fixed overhead.

The longer-term implications are that apparel costs are likely to drop significantly and that apparel companies will shift their sourcing strategies. In the latter case, Standard & Poor's expects that the companies gaining the most will be those that can shorten their production cycle while maintaining or improving quality and value. We

also expect consolidation in the industry to intensify.

Summary of overall environment

The US economy grew at an annualized rate of 4.0% in the final quarter of 2003, down from 8.2% in the third quarter, but above the 3.1% of the second quarter. For the year, real GDP increased 3.1%, up from the 2.2% increase in 2002. The fourth quarter of 2003 saw a 2.6% rate of growth for personal consumption expenditures (compared with a 6.9% rate in the third quarter) and an acceleration in imports and exports. Equipment and software purchases and residential fixed investment slowed and were offset by an increase in inventory investment.

According to the US Department of Labor, the December producer price index for finished goods increased 0.3%, on the heels of a 0.3% decline in November and a 0.8% advance in October. Concerns about a deflationary trap — falling prices and wages and eroding asset values — that were prevalent in early 2003 are easing in light of recent pricing data as well as the declining US dollar. The dollar's drop should provide some pricing power as well as raising import prices. Economywide deflation, though an unlikely scenario, would pose a major threat to long-term prosperity and would hurt the apparel and footwear industry by slowing consumer spending.

Pivotal to a healthy domestic economy is the employment picture, which as of early February 2004 was puzzling though improving modestly. The recovering economy's inability to generate new jobs is cause for concern to retailers and manufacturers, particularly in the apparel and footwear industries, as it could restrict consumer spending. The unemployment rate stood at 5.7% in December 2003, down from 5.9% in November. But rather than representing an increase in jobs, that decline was caused by a 309,000-person drop in the labor force, in which participation fell to a new cycle low of 66%. Standard & Poor's believes that the weakness in hiring at this point in the recovery reflects a systemic change among larger corporations, which are increasingly using contract workers in an attempt to avoid employee benefit costs.

The good news is that the economy appears poised to maintain a higher level of growth in 2004. Standard & Poor's currently expects that real gross domestic product (GDP), which increased 3.1% in 2003, will expand at a 4.5% pace in 2004.

Consumer confidence on the rise

Consumer confidence, one of the foundations of consumer spending and thus of great importance to the apparel and footwear industry, has gyrated considerably in the last few quarters but appears to be on the rise. The University of Michigan's consumer sentiment survey jumped to 103.2 (preliminary) in January 2004, from 92.6 in December. January's reading, the highest level in over three years, suggests that the economic recovery is becoming tangible to US consumers.

Another sign of relative optimism could be discerned in the consumer confidence index calculated by the Conference Board, a private research organization. Though that index slipped modestly to 91.3 in December, from 92.5 in November, the expectations index rose, signaling healthy economic growth in 2004. Driving the slight decline in the overall index was consumers' deteriorating assessment of current labor markets. However, their view of the future employment outlook improved.

Throughout most of 2002 and 2003, US personal consumption expenditures (PCE) held up better than did other components of the economy. In the fourth quarter of 2003, PCE rose 2.6% to close out the year at a 3.1% growth rate. For 2004, Standard & Poor's projects that personal consumption expenditures will rise 3.4%, compared with a gain of 4.5% for the economy as a whole.

Apparel sales decline eases

US apparel sales totaled $163 billion in 2002, down 1.8% from $166 billion in 2001, according to the NPD Group, a market research firm. Although sales of men's and women's apparel fell 1.7% and 6.1%, respectively, children's clothing sales grew 6.0%. These results were an improvement over 2001, when sales slid 5.9% from $176 billion in 2000. All sectors saw declines in 2001, with sales down 7.0% in men's, 6.7% in women's, and 4.7% in children's apparel.

Women's clothing, with $84 billion in 2002 sales, accounted for 51% of the year's

total apparel sales, down from about 54% in 2001. The men's segment rose slightly, to $52 billion, accounting for 32% of the year's sales versus 31% in 2001. The children's segment (including boys', girls', and infants' and toddlers' clothing) climbed to $27 billion in sales, representing 17% of the total, up from 16% a year earlier. Given its favorable demographics, this latter category continues to capture a greater share of the total market.

In search of style

In the fashion world, the onset of the new millennium was accompanied by a sense of malaise — a lack of exciting fashion trends that only sharp pricing could cure. Only recently have multiple fashion trends arisen to generate interest on the part of consumers. For instance, dressier apparel for both sexes is supplementing the extremely casual attire of the last decade, driving sales of career suiting, occasion wear, and accessories. (You need the right accessories to match, for instance, your new bouclé knit suit.) Another growing trend is differentiated, individualized products with details such as embroidery, monogramming, and the like.

Retailers usually rely on a few fashion "hits" to drive traffic into their stores, where customers may be enticed to buy other items as well, including basics and accessories. Often, consumers are more willing to pay full price for fashion items, helping retailers and producers maintain lower prices on commodity-type goods.

Women's apparel sales tend to be fashion-driven, so the absence of a fashion megatrend has cut into women's apparel sales more than men's. Thus, the new trends for women should provide a more noticeable lift going forward. AnnTaylor Stores, a women's specialty clothing retailer, cited the strength of refined separates as the impetus behind its exceptional performance in December 2003, when same-store sales rose 26.2%.

Streetwear is a bustling business

One apparel segment that has made rapid strides in recent years is streetwear: youth-oriented, edgy, urban fashions inspired by hip-hop and rap music, surfing and skateboarding styles, and even military designs.

Streetwear is sold mostly through specialty stores, such as Urban Outfitters Inc. and d.e.m.o. (a division of Pacific Sunwear of California Inc.). However, department stores and national apparel chains are starting to carry this merchandise. The Sean John clothing line, sold by hip-hop music producer Sean Combs's Bad Boy Entertainment Inc., is fast approaching half a billion dollars in sales. Other entrants in this field include Jay Z and Damon Dash's Rocawear Inc.; JLO, by entertainer Jennifer Lopez and produced by Sweetface Fashion Co. LLC; and Shady Ltd., produced by Nesi Apparel Group LLC under license from rap musician Eminem.

Skateboarding and surfing styles continued to outperform the overall apparel market. Quiksilver Inc., which designs and makes youth-oriented casual wear, snowboardwear, and swimwear, grew sales by 38% in fiscal 2003 (ended October 2003).

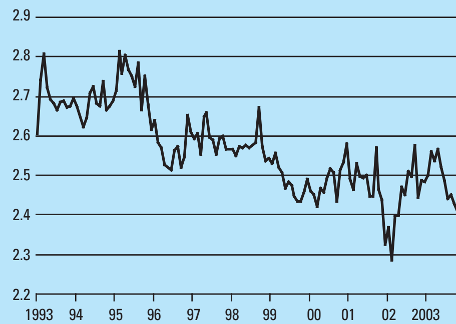
Consumers hooked on bargains

A huge problem for retailers is that consumers are addicted to promotional pricing. Indeed, for many apparel products, consumers will wait for price reductions before purchasing. While retailers traditionally charged full price for new preseason merchandise, today many resort to discounting from the start. What this often means, however, is that retailers have to make even larger end-of-season markdowns, as they attempt to move inventory out of the stores to make room for new assortments. Shoppers, thus accustomed to bargains, forgo purchasing until the items they want go on sale.

Lean inventories hold promise

Through 2003, apparel retailers attempted to drive sales growth with fewer promotions, increased full-price selling, and more productive inventory. In fact, some retailers went too far in this direction, ending up with low in-stock positions and losing sales. For apparel producers, these low inventory levels are good news, as they could lead to a substantial pickup in orders. For retailers, smaller, more frequent merchandise flows can encourage shoppers to "buy now." Additionally, the new fashion trends should help retailers wean some shoppers off bargains.

Since 1995, the industry's inventory-to-sales ratio has declined steeply. According to the US Department of Commerce, the inventory-to-sales ratio for clothing and ac-



Source: US Department of Commerce.

cessory stores was 2.41 at the end of 2003, level with 2001, but below 2.48 in 2002 and 2.58 in 2000. The 2.41 reading indicates that retailers were cautiously managing inventory levels.

Footwear sales step down

Despite stiff competition and a price-conscious consumer, US footwear manufacturers had a fairly positive year in 2003. Economic growth and healthy consumer confidence levels in the second half of 2003 helped stabilize the US footwear market. Large footwear manufacturers, like Nike Inc. and Reebok International Ltd., continued to seek growth by expanding internationally and diversifying further into apparel and sporting goods. The dollar's weakness vis-à-vis the euro boosted results for US footwear makers with a significant presence in Europe.

According to Standard & Poor's estimates, Nike Inc. remains by far the largest footwear manufacturer, with revenues likely to top $11.2 billion in 2003. The runners-up are Adidas-Salomon AG and Reebok Inc., with estimated net sales of $8.0 billion and $3.4 billion, respectively. Other major manufacturers include Fila USA Inc., the Timberland Co., K Swiss Inc., Wolverine World Wide Inc., Sketchers USA Inc., and Steven Madden Ltd.

Footwear retailers also fared better in the latter half of 2003. However, promotional pricing remained a concern, and a strained relationship between Nike and Foot Locker Inc., a major athletic footwear retailer, hung over most of the year. In the fall of 2002, Foot Locker cut back sharply on purchases of high-end products from Nike, its biggest vendor. Nike, in turn, announced that Foot Locker would no longer be the primary distribution point for its elite or statement products. The dispute reflected the pressure on retailers to sell more affordable products to their increasingly value-conscious customers. In the fall of 2003, the two companies appeared to be moving towards a rapprochement, which Standard & Poor's believes would give Nike better exposure for its new product introductions in 2004.

Consumers spent $40.6 billion on footwear in 2002 (latest available), down 5.0% from $42.6 billion in 2001, according to the US Department of Commerce. In 2003, the average price of footwear continued to decline as consumers sought price bargains and lower-priced casual shoes grabbed a greater share of the mix. The US Department of Labor's consumer price index for footwear dipped to 119.6 in 2003 from 121.4 in 2002. In 2001 and 2000, the index stood at 123.0 and 123.8, respectively.

Athletic footwear outperforms

According to SGMA International, a trade group for sporting goods companies, a strong second half drove a 4.9% increase in unit sales of athletic footwear and a 4.5% rise in spending in 2003. Standard & Poor's estimates that this works out to about 450 million pairs of athletic shoes purchased by US consumers at a total cost of about $16.5 billion.

That spending rose slightly slower than did unit sales points to continuing price deflation in this segment, which is nonetheless moderating. In 2003, retro or classic styled shoes, which had been the dominant fashion for the previous several years, appeared to be losing their popularity.

For 2002, the NPD Group, a market research firm, reported that consumer spending for athletic footwear rose 2.5% to $15.7 billion, from $15.3 billion in 2001. Consumers purchased 428.6 million pairs of athletic shoes, up nearly 7.0% from 408.9 million in 2001. However, the average price they paid per pair dropped 4.2% to $36.61, from $38.20 in 2001.

Spending for men's athletic shoes rose 2.5% in 2002; women's sales were essentially unchanged, while children's sales rose 7.0%. The trend toward retro or classic looks was pronounced, particularly in basketball and running styles. Sales of retro

and classic footwear rose 11.4% in 2002, whereas spending on nonretro styles fell about 2.0%.

Running styles remained the biggest segment, with 28.6% of the total market in 2002, though sales were flat, at $4.49 billion. The basketball category, which was the most popular style until the late 1990s, surged anew, growing 17% in 2002 to $3.25 billion (or 20.7% of the total market). This trend has continued in 2003, according to SGMA, which reported that at mid-year 2003, basketball styles had captured 22% of the market. Tennis and skateboard styles achieved double-digit growth, reflecting the current trend toward casual looks.

Industry outlook brightens

With the economic recovery gaining traction, apparel and footwear sales should benefit from resurgent consumer spending. However, consumers remain focused on bargains, and deflationary pricing pressure is likely to continue. Hence, we expect branded apparel companies offering fashion-right products at attractive prices to outperform the overall industry in 2004. The best performances are likely to come from companies with strong brand recognition, such as Quiksilver and Liz Claiborne.

The footwear industry faces a highly competitive but improving environment. Standard & Poor's anticipates that footwear sales should show modest gains in 2004, building on momentum gained in the second half of 2003. Economic growth, an improving job market, and a higher level of consumer confidence during the year could spur consumers to revamp their footwear collection.

Footwear manufacturers and retailers will likely seek to attract customers through new product introductions and brand differentiation. Casual shoes should continue to gain market share at the expense of formal footwear. New, so-called hybrid shoes, such as casual shoes that incorporate sports technology, should gain further customer acceptance. Nike and Reebok are expected to see a slight pick up in domestic footwear sales, while sales continue growing rapidly abroad. Finally, the planned staging of the 2004 Summer Olympics in Athens, Greece, should enhance the opportunities for major athletic footwear manufacturers to market their products. ■

The industry that suits everyone

In 2003, US consumers spent about $310.5 billion on clothing and footwear, up 2.0% from $304.4 billion in 2002, according to the US Department of Commerce. With an estimated US population of 288 million, the 2003 expenditures equaled roughly $1,130 per person. Standard & Poor's estimates that Americans spent $1,125 per capita on clothing and footwear in 2002.

US employment levels in apparel and footwear manufacturing have fallen drastically. According to the US Department of Labor, domestic apparel employment has fallen about 65% over the past three decades, to a record low of 293,400 in December 2003. In 2003 alone, 43,800 apparel jobs were lost. Increased quotas, reduced tariffs, and a string of free-trade and preferential trade agreements have all contributed to the steady flow of manufacturing jobs out of the United States and into low-cost countries in Asia, Latin America, Africa, and the Caribbean. According to Labor Department data, apparel employment peaked in 1973 at 1.45 million; since then, the sector has shed almost a million jobs. Domestic footwear employment has fallen as well, with 25,500 people employed in December 2002 (latest available), down 11.8% year over year — a 48% drop since 1997.

Apparel

With respect to both manufacturing and retailing, the US apparel industry is large, mature, and highly fragmented. Apparel sold in the United States is made both domestically and internationally. Some of the largest US-based apparel wholesalers are listed in the table, "Major Apparel Companies."

Domestic apparel production was worth $27.8 billion in 2002 (latest available), according to the US Department of Commerce, down 17.1% from $33.5 billion in 2001. Approximately $68.2 billion worth of apparel was imported into the United States in 2002, essentially flat with 2001, but down slightly from $69.3 billion in 2000. Exports of US-made clothing continued to fall, coming in at $4.4 billion in 2002, compared with $5.3 billion in 2001 and $6.7 billion in 2000.

US retail sales at clothing and clothing accessories stores rose 4.0% to $178.7 billion, according to the US Department of Commerce, after rising 2.8% in 2002 and declining 0.4% in 2001. In comparison, average annual increases of 5.0% were seen in the five years ended 2000.

The US apparel market can be divided into two tiers: national brands and other apparel. National brands, produced by about 20 sizable companies, currently account for some 30% of all US wholesale apparel sales. The other apparel category, accounting for about 70% of all apparel distributed, comprises small brands and private-label goods (store brands).

Apparel is sold through a variety of retail outlets. Based on data from the NPD Group Inc., a market research firm, discount stores accounted for 31% of apparel purchases by consumers in 2002, followed by specialty stores (25%), department stores (19%), and

U.S. APPAREL INDUSTRY EMPLOYMENT

(Production workers, in millions)

Source: Bureau of Labor Statistics.

MAJOR APPAREL COMPANIES

COMPANY	FISCAL YEAR ENDING	SALES (BIL. $)
Sara Lee†	Jun.'03	6.4
V.F. Corp.	Jan.'03	5.1
Jones Apparel	Dec.'02	4.3
Nike†	May'03	3.1
Polo Ralph Lauren	Mar.'03	2.4
Kellwood	Jan.'03	2.2
Tommy Hilfiger	Mar.'03	1.9
Berkshire Hathaway†	Dec.'02	1.6
Russell	Dec.'02	1.2
Reebok International†	Dec.'02	1.1
Phillips-Van Heusen	Jan.'03	1.0
Oxford Industries	May'03	0.8
Nautica*	Feb.'03	0.7
Guess?	Dec.'02	0.6
Hartmarx	Nov.'02	0.6

†Apparel products only. *Acquired by VF Corp. in 2003.
Source: Company reports.

national chains (16%). "All other" retailers, a category that includes direct mail, Internet vendors, and factory outlets, accounted for the remaining 9%.

Footwear

Like the apparel business, the US footwear industry is mature and fragmented, and its manufacturing base is declining. According to the US Department of Commerce, 59.1 million pairs of shoes were produced domestically in 2002, versus 79.7 million pairs in 2001 and 86.6 million pairs in 2000. In 1978, domestic production stood at 418.9 million pairs — seven times 2002's level.

In contrast, US exports have held steady and even increased a bit. About 30.0 million pairs, or 51% of domestically produced shoes, were exported in 2002, compared with 28.4 million pairs in 2001 and 28.8 million pairs in 2000.

Meanwhile, the nation imported about 1.9 billion pairs of shoes during 2002, up from 1.8 billion pairs in 2001. China continues to provide the lion's share of those imports, accounting for 80.4% of shoes imported into the United States in 2002.

Internationalization and diversification

Today, the footwear industry is truly global in nature, with large manufacturers sourcing products from and selling products in different countries over several continents. A multinational strategy allows manufacturers facing a slow economy in one country to keep expanding revenues by focusing on selling in another country's faster growing economy.

For instance, US-based companies such as Nike Inc. have countered the lack of growth domestically by growing sales through increased penetration in the well-developed markets of Western Europe, including the United Kingdom, Germany, and France, and by entering new Eastern European markets in such countries as Poland and the Czech Republic. In fiscal 2003 (ending May 2004), Nike's international footwear sales grew 15%, year to year, while US footwear sales declined 5.2%.

By the same token, Europe-based footwear makers such as Adidas AG derive a significant portion of their revenues from the US market.

Footwear companies, particularly manufacturers of athletic footwear, have diversified into related apparel and sporting goods categories as a way of extending their brand's reach and growing revenues. For example, Reebok Inc. has seen double-digit growth in Reebok-brand apparel sales in the United States over the past three years, compared with low single-digit growth domestically of Reebok-brand footwear sales. Nike's sales of sports gear and equipment rose more than 25% in fiscal 2003, compared with 8.1% overall sales growth.

INDUSTRY TRENDS

Most trends affecting apparel and footwear manufacturers today are driven by consumer demand and relate to the size of the various demographic groups, their particular wants, shopping patterns, and spending power. Changing styles in workplace and leisure attire are also influencing retail and manufacturing operations.

Shorter cycles

In the past, retail stores often carried apparel and footwear months in advance of the season in which they would be worn. Times have changed, however, and consumers nowadays tend to buy closer to need — especially juniors (preteens to early 20s). To meet this demand, manufacturers have had to

shorten design, development, production, and distribution cycles.

In response, companies are emphasizing market research in order to stay in tune with consumer needs and trends. They are also re-evaluating their manufacturing strategies. Moving to offshore production lengthens the turnaround time for garment makers, making it harder for them to respond to quick changes in domestic demand. Hence, apparel companies have had to maintain a certain level of domestic production to fulfill small orders and orders for seasonal or special items.

Technology changes the competitive landscape

Numerous technological developments — generally related to the Internet — are transforming the manufacturing and retailing of apparel and footwear. By doing so, they are also changing the relationship between suppliers and retailers — largely to the benefit of both.

For instance, new technologies are now available to customize products for specific customers at affordable prices. For instance, on its Web site, Polo Ralph Lauren offered custom polo shirts in a choice of colors (for both shirt and insignia) during the 2003 holiday season — a kind of exclusivity made available to the masses. Levi's and Lands' End have offered pants with a custom fit and/or features.

Such custom production is generally done domestically due to the time and expense of finishing garments offshore. As such, it reduces the time to market as well as the risk that a fashion will go out of style before the goods are sold. Moreover, custom production increases full-price sales and thus improves profitability in that supply is meeting specific demand in terms of the size and color. Additionally, with fewer returns and greater customer satisfaction, custom production increases the long-term value of a customer.

As this "mass customization" infiltrates the apparel industry, it may be the saving grace for domestic producers who can quickly deliver the individualized goods. Such producers include those who have spent the last decade fighting price deflation brought about by retailers who have competed on price rather than by differentiating their goods and services. As an alternative to price wars, customized or exclusive products can attract and retain customers who are willing to pay for exclusivity — to the benefit of vendor and retailer alike.

In another development, automatic replenishment uses point-of-sale (POS) computer technology to record each sale, update inventory, and share this information between retailer and vendor. The system automatically informs the vendor in real time of what items the retailer has sold each day and orders replacement items. In this way, it improves the retailer's supply of popular merchandise while giving vendors better control over their sell-through and profit margins. However, the system is more effective for basic items and staples than for fashion items. This is because fashion items constantly change, and each new fashion must be sold individually to the vendor. Nonetheless, automatic replenishment helps to improve future retail assortments by store location to reflect recent sales trends.

Information technology enables Liz Claiborne Inc. to look at retail sell-through of its brands in terms of size, color and location/geography. The company's supplier base is integrated into the information flow, enabling the company to better plan production and delivery.

Internet-based communications networks can also enable manufacturers to share design plans with vendors in order to determine which goods are most desirable and which should be altered or discontinued. The vendor uploads an entire schematic of which merchandise it is planning to make. As the sales season approaches, the vendor will edit or alter its designs and prices based on expressions of interest from retailers (or the market). This practice of planning assortments on the part of the vendor and committing to orders from their retail trade partners is simplified with fewer errors due to multiple manual data entry and enables both parties to focus on product opportunities. It replaces inefficient faxes and emails, whose product information may be inaccurate and obsolete, with a shared interactive Web format that keeps frequent product additions and deletions, alterations and price changes up to date. Retailers can more proactively shape the assortment and tailor it to the particular needs of their shoppers.

7thOnline is a Web-based merchandising and order placement system designed for apparel, accessory, and footwear vendors and their retail partners. Detailed product images and real-time product information facilitates communication between retailer and apparel manufacturer early in the assortment planning process.

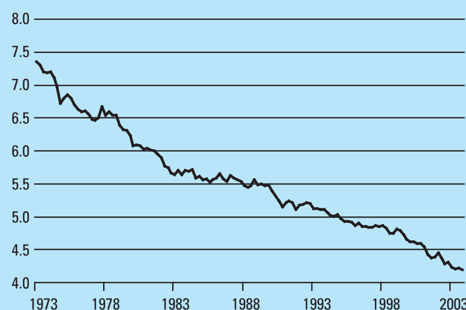
In 2003, Liz Claiborne and Federated Department Stores launched LizPlanning, a program using 7thOnline software. It is part of Liz Claiborne's larger micromerchandising strategy, designed to make sure that each retail door has exactly the right merchandise assortment for its defined consumer base. Ultimately, LizPlanning is expected to improve productivity and efficiency for both parties as they endeavor to implement collaborative forecasting, planning, and replenishment (CFPR).

While these new technologies are transforming how apparel manufacturers and retailers operate, they are also altering their relationships with one another. Long viewed as adversaries, both sides are beginning to work together for their mutual good in determining product, quantity, and prices.

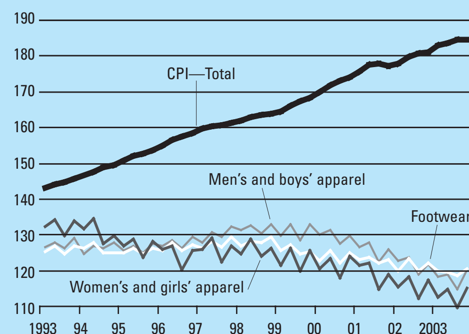
Notwithstanding their effectiveness, the new technologies are also expensive. Standard & Poor's believes that in a consolidating retail industry, rising technology costs will prove burdensome for smaller firms, while larger players will gain a competitive advantage by their ability to meet them.

Price deflation

Average selling prices for most apparel and footwear have been in a long-term secular downtrend. Contributing factors include the continued influx of imports, retail promotions, and market share gains by discounters. This pressure on prices has threatened margins at many apparel and footwear companies, spurring them to seek new ways to boost profitability.



Source: US Department of Commerce.



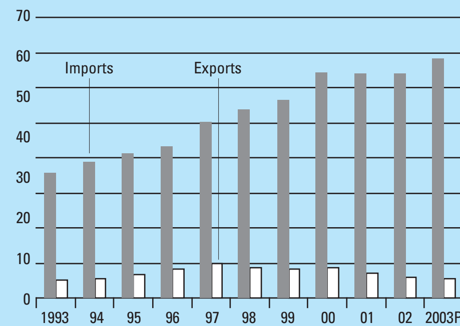
Source: Bureau of Labor Statistics.

Although overall apparel and footwear sales have risen (in total dollars) since 1999, average selling prices have declined, as indicated by the apparel consumer price index (CPI) published by the Bureau of Labor Statistics (BLS). According to BLS data, US apparel prices fell five years in a row beginning in 1998. In 2003, the apparel CPI declined 2.1% to 119.0 (1982–84=100), from 121.5 in 2002. Infants' and toddlers' apparel prices declined by 4.9%, while men's and boys' were off 1.1% and women's and girls' were down 1.9%. In 2003, the footwear CPI declined 1.8% to 118.5.

Offshore sourcing

In the ongoing search to cut expenses, US apparel and footwear manufacturers have increasingly moved their production facilities to lower-cost regions outside of the United States, notably Mexico, the Caribbean, Central America, Asia, and sub-Saharan Africa. However, as noted earlier, many manufacturers have retained some facilities in the United States to manufacture products that require a fast turnaround time.

Asian facilities already produce a substantial portion of the apparel and footwear sold in the United States. Following the 1995 implementation of the North American Free Trade Agreement (NAFTA) and the subse-



P-Preliminary.
Source: US Department of Commerce.

quent lowering of tariffs, apparel manufacturing in Mexico and the Caribbean has grown significantly. These countries' proximity to the United States means that their facilities can offer significantly shorter shipping times compared with Asia, while also providing low-cost production — factors that are especially important for basic goods.

Recent legislation sustains the long-term shift to offshore sourcing. In July 2002, the Trade Act of 2002 was approved by the US Congress and signed into law by President George W. Bush. This legislation contains the Trade Promotion Authority (TPA), which grants the president the right to negotiate trade agreements and gives Congress the final authority to approve or disapprove those agreements. It also contains the Andean Trade Preference Act (ATPA), which provides duty-free access to most apparel and virtually all footwear from the Andean region (Bolivia, Colombia, Ecuador, and Peru). The new legislation made certain retroactive modifications to the May 2000 Caribbean Basin Trade Partnership Act (CBTPA) and the African Growth and Opportunity Act (AGOA), both of which carry numerous breaks for footwear and apparel from countries in those regions.

Standard & Poor's believes that while tariff and quota preferences for apparel and footwear produced in the Caribbean basin and Andean region, and to a lesser extent sub-Saharan Africa, have increased sourcing from these regions temporarily, the trend is not likely to last. Over time, we expect China's share of apparel and footwear sourcing to increase dramatically, facilitated by its recent entry into the World Trade Organization (WTO) and the planned elimination of quotas between all 146 WTO member countries in 2005. The quick turnaround time that Mexico and the Caribbean make possible will ultimately prove less significant than China's lower costs. Indeed, because the Internet speeds communications between an apparel company and its far-flung plants, providing faster cycle times, such geographic proximity may become less of a concern.

Another advantage for China is that its factories employ highly skilled laborers capable of producing complex garments. In contrast, AGOA-eligible countries are unable to produce technical, fashionable, and high-quality garments, due to generally low levels of technical expertise and literacy, underdeveloped infrastructure, and dearth of capital.

Corporations that set up and run plants in China are taxed by that government at a lower rate than they are for operating in the United States. Moreover, by keeping their sweetened profits in China, US-based apparel makers can fund future growth.

Diversifying to survive

Relying on a single product line, market segment, or sales channel can lead to failure for an apparel or footwear company. To survive, they must come up with new designs, either as product line extensions or as wholly new product lines. They can develop these new products internally — a process that requires a great deal of investment in time, research and development, and marketing — or they may obtain them externally by signing licensing agreements with or even acquiring another company.

Buying into new markets

Generally speaking, acquiring another company is a way to eliminate current or potential competitors while adding to the acquirer's top line and market share. In mature industries like apparel and footwear, acquisitions can often be the purchaser's only route to sales growth. They can also enable companies to combat pricing pressures by developing megabrands and maximizing operating efficiencies.

Additionally, when brands with strong consumer recognition are acquired, they provide new licensing opportunities as well. For instance, Jones Apparel Group expects its Anne Klein label to offer strong royalty

streams from licensing key accessories, such as watches, footwear, and eyewear.

If an acquired firm's product lines are similar to its own, the acquiring company is usually able to merge production lines, cutting overall expenses by sharing facilities. However, apparel and footwear makers are just as apt to make acquisitions so as to diversify their product mix. Offering other types of products allows apparel and footwear companies to balance their product portfolios, allowing a better performing product line to offset a poorly performing line.

For instance, Liz Claiborne and Jones Apparel Group Inc. have utilized acquisition strategies as well as licensing agreements to broaden their brand portfolios. Traditionally sellers of apparel and accessories in the better-to-bridge categories, both companies have sought to penetrate the broader moderate market as well as distinct niche markets.

In 2001, Jones Apparel acquired McNaughton Apparel Inc., a leading manufacturer and marketer of moderate priced apparel. In April 2002, the company acquired Gloria Vanderbilt Apparel Corp. to help build its share of the important moderate denim jeans market. Jones's latest acquisition, Kasper A.S.L., completed in December 2003, brings a portfolio of women's branded suits to Jones.

Meanwhile, Liz Claiborne expanded its moderate portfolio with the 2002 purchase of the Mexx Group BV, a privately held fashion apparel and accessories company based in the Netherlands. Mexx distributes its clothing in the United States through its own specialty retail stores. Also in 2002, Liz Claiborne added jewelry and accessories manufacturer Judith Jack to its stable of brands in 2002. In 2003, it acquired urban brand Enyce, expanding the demographic base that Liz Claiborne serves.

Even footwear maker Nike has gotten into the acquisition act with its 2002 purchase of surfwear manufacturer Hurley International.

All of these diversification strategies have built volume and lessened the risks of being too focused on a particular segment of the market. However, acquisitions are not without their down sides, including the costs of borrowing and of assuming the acquirees' liabilities. Such costs must be reduced, and many synergies achieved, before an acquisition can be accretive to earnings. Nonetheless, with pressure to increase top-line growth and intensifying competition among the megabrands, Standard & Poor's expects more acquisitions to occur over the next year.

U.S. POPULATION PROJECTIONS*

	2004		2010		2015	
AGE GROUP	NUMBER (THOUS.)	% OF TOTAL	NUMBER (THOUS.)	% OF TOTAL	NUMBER (THOUS.)	% OF TOTAL
Under 5 yrs.	19,098	6.7	20,099	6.7	21,179	6.8
5 to 14 yrs.	39,947	14.0	39,345	13.1	40,549	13.0
15 to 19 yrs.	20,631	7.2	21,668	7.2	20,892	6.7
20 to 24 yrs.	20,019	7.0	21,151	7.1	21,748	7.0
25 to 29 yrs.	17,915	6.3	19,849	6.6	20,765	6.6
30 to 34 yrs.	18,967	6.6	19,002	6.3	20,484	6.6
35 to 39 yrs.	20,255	7.1	19,039	6.3	19,442	6.2
40 to 44 yrs.	22,914	8.0	20,404	6.8	19,346	6.2
45 to 49 yrs.	21,899	7.7	22,227	7.4	20,057	6.4
50 to 54 yrs.	19,122	6.7	21,934	7.3	21,929	7.0
55 to 64 yrs.	28,513	10.0	35,429	11.8	39,919	12.8
65 yrs. & over	35,986	12.6	39,715	13.2	45,959	14.7
All ages	285,266	100.0	299,862	100.0	312,268	100.0

*Based on 1990 census.
Source: U.S. Department of Commerce, Population Series P-25.

Licensing builds megabrands

Licensing — the process of leasing a trademarked or copyrighted entity (name, likeness, logo, graphic, saying, signature, or character) — has become an increasing common practice among apparel and footwear companies. Licensing is usually based on a contractual agreement between two business entities: the licensor (the owner or agent of the property) and the prospective licensee (usually a manufacturer), who agrees to pay the licensor royalties based on the product's sales. These arrangements benefit both the licensor and the licensee: the former sees an extension of its brands and receives royalties, while the latter gains a new revenue stream.

More often than not, a manufacturing company will seek to acquire the license for a product or line for which it already has the production capacity. Licenses, like acquisitions, provide a source of revenues and cost savings in manufacturing and distribution.

Clothing and apparel makers currently involved in licensing arrangement include Perry Ellis International Inc., which holds swimwear licenses from Tommy Hilfiger Corp. and Nike. Reebok International Ltd. markets apparel and footwear under such licensed brands as Polo Sport, Ralph Lauren, Greg Norman, National Football League, and National Basketball Association.

Some manufacturers do not sell goods under their own brand names at all — for example, G-III Apparel Group Ltd., a maker of outerwear. G-III holds fashion licenses from Kenneth Cole Productions Inc., Cole Haan (owned by Nike), the Timberland Co., and Jones Apparel Group (including its Nine West brand). It also has licensing agreements with national sports leagues and more than 20 universities.

Often, companies with well-recognized brand names license the use of those names for products that they do not have the manufacturing and/or marketing resources to handle themselves. For example, Mossimo Inc. now operates as a licensor and contributor of designs for Target Corp. and no longer distributes wholesale products. The arrangement has been lucrative for the company, which had profits of $13.7 million in 2002 and $9.0 million in 2001, versus a loss of more than $12.2 million in 2000. Accessory manufacturers have purchased the rights to use well-known apparel brand names on watches (Adidas, Fendi, Hugo Boss, and Gucci) and sunglasses (Anne Klein, Eddie Bauer, Brooks Brothers, Timberland, and Fila). The Tommy Hilfiger and Liz Claiborne brands are found on all sorts of items, from jewelry to bed linens.

Sales channels proliferate

Today, most companies distribute their products through a variety of channels, such as wholesale, catalogue, and Internet sales, and through their own retail stores. Within the wholesale channel, manufacturers often try to sell to various types of retailers, including department stores, specialty stores, discount stores, and national chains.

For retailers, expanding their number of stores is a way to diversify risk while also leveraging efficiencies across a greater number of stores and products. While many apparel and footwear retailers had a tough time in 2002 and 2003, they continued to expand both domestically and internationally. To increase store traffic and the average ticket, retailers are remodeling or converting existing locations to improve the shopping experience.

In the past decade, many manufacturers have opened their own retail stores, which reduces their dependence on retailers while potentially increasing sales. It also permits manufacturers to showcase an entire line of products, enhance brand awareness, test new products, and directly collect customer feedback. (It also carries the risk of alienating retailers who carry the same merchandise.) Some manufacturers also have established outlet stores to move older inventory. For instance, at the end of October 2003, Liz Claiborne operated 227 specialty retail stores and 263 outlet stores.

Following the demographics

Understanding target markets is a key to succeeding in the apparel and footwear business. Among the important demographic trends in the United States, baby boomers are outgrowing their focus on fashion, while the younger generations are an emerging, though elusive, source of demand. Another important market now being targeted by apparel makers is the plus-size segment of the population.

Boomers: down but not out

In the United States, the baby boom generation comprises some 77 million individuals born between 1946 and 1964. As they became adults and formed households, they fueled much of the boom in retail sales in the 1970s and 1980s. However, despite their rising spending power, the baby boomers' attitudes, priorities, and time obligations have changed over time, dampening their enthusiasm for apparel shopping. Today, Americans in their 40s and 50s have shifted their priorities to tuition payments for children, saving for retirement, and caring for elderly parents. Other needs and desires, such as healthcare and leisure activities, also compete for their dollars. Although this age group continues to spend on furnishings and accessories for their homes, fashion has been, and will continue to be, an area that gets less of their attention.

Although they spend a declining percentage of their disposable income on apparel and footwear, baby boomers remain the biggest per capita purchasers of apparel. According to NPD Group, the 50-plus market spent about $27 billion in 2001 on women's apparel. Manufacturers are slowly realizing that this segment retains a lot of spending power, and as a result, many moderate to better retailers and manufacturers are again targeting it. Tactics to win back these customers include producing clothing

lines that are more conservatively styled and more generously sized.

One company that has grown rapidly by targeting baby-boomers is Chico's FAS Inc., which sells private-label apparel to women in their 40s and 50s. The company has achieved 30%-plus sales growth in 2000–03 by targeting this demographic.

Teen power strong

One of the more apparent trends among apparel and footwear companies in recent years has been a focus on marketing to Generation Y — the 75 million people born between 1977 and 1994. This cohort comprises 25% of the US population, and spends (or influences the spending of) approximately $200 billion a year. In addition, this group establishes trends that influence future product design aimed not only at its members, but also at the slightly older Generation X (people born between 1965 and 1976).

Smaller specialty retailers and apparel companies such as Quiksilver Inc., Abercrombie & Fitch Co., American Eagle Outfitters Inc., Pacific Sunwear of California Inc., and Urban Outfitters Inc. have already tapped into Generation Y's psyche. In addition, larger apparel companies such as Jones Apparel Group, Tommy Hilfiger, and Polo Ralph Lauren Corp. have recently either acquired or developed products in an effort to target this group. Although some of the larger branded apparel companies have successfully marketed performance-oriented and fashionable footwear to Generation Y, this group generally supports the smaller footwear companies that are in tune with its tastes, such as Timberland, Sketchers USA Inc., Vans Inc., and Steven Madden Ltd. Teenagers remain the most important market for athletic footwear, accounting for about a quarter of total 2001 spending, according to NPD Group.

Many members of this group are now in or approaching their teenage years. According to a 2002 study conducted by market research firm Harris Interactive, apparel, footwear, and related fashion items account for a significant portion of teenagers' discretionary spending. The study found that, on average, teenage girls spend 75% of their earnings on clothing and related accessories; for boys the figure is 52%. Teen spending on accessories has also been remarkably strong. In this sector, trends have been dynamic and price points are generally lower than in apparel and footwear.

For an apparel or footwear company, targeting fashion-conscious teens can be difficult. Interestingly, while teenagers are often perceived as fickle, they tend to be loyal to apparel and footwear brand names. According to a survey by technology research firm Forrester Research, 69% of teens said that when they find a fashion-forward brand they like, they stick with it.

Tween scene fleeting

Because teenagers exhibit a high degree of brand loyalty, both apparel manufacturers and specialty teen retailers are going all-out to court this group. They've discovered that one way to accomplish this is to "get them while they're young." As a result, many traditional teen apparel manufacturers and retailers have developed "sibling" concepts as a marketing ploy for outfitting children who want to dress like siblings or other influential people who are older than they are.

The "tweens" group is generally understood as comprising preteens aged seven to 12, of whom about 27 million currently live in the United States. Tweens follow fashion trends, and they influence almost $200 million in annual family spending. In addition, they spend about $520 a year of their own money on average, according to Roper ASW, a market research firm.

While selling to this demographic group can be financially rewarding, it also poses unique challenges. First, fashion trends can be fleeting, with the evolution of tween fashion increasingly dependent on trends in the more fashion-forward teen segment. To compete effectively, manufacturers and retailers must anticipate how trends will evolve and refocus their merchandise assortments accordingly.

Second, companies must find a balance between the trendy, provocative looks that might be appropriate for older teens, and the more conservative looks approved by the parents who generally buy the merchandise for the younger crowd. Many companies with junior (teen) brands, including Esprit de Corp., Tommy Hilfiger, and Guess? Inc., have introduced scaled-down versions of their teen looks for the tween group.

Finally, new brands have entered the scene, increasing competition. Among recently introduced tween brands are those offered by Hot

Kiss Inc., Pink Panther Corp., XOXO Clothing Co. Inc., Quiksilver, and Nike.

On the retail side, teen retailers have stepped up their efforts to capture the tween shopper. They include Abercrombie & Fitch (with its Hollister concept), Charlotte Russe Holding Inc. (with its Charlotte's Room stores), and Pacific Sunwear (d.e.m.o.).

Large-size fashion a substantial business

Two of the fastest growing apparel industry segments have been the women's plus (sizes 16 and up) and men's big-and-tall (sizes XXL and larger) segments. The women's plus-size market includes several subcategories, such as plus-size junior clothing, plus-size uniforms, and super-size clothing (sizes 28 and above).

While several factors contribute to the market's growth, the most significant is the increasing average weight of Americans. For women, the average size in 2002 was 14 up from size eight in 1985. Over the last 15 years, Americans have consistently reported that being thin is less important to them than it once was, according to NPD Group.

In recent times, apparel manufacturers and retailers have recognized the profit potential in targeting this underserved population. Approximately 52 million plus-size women live in the United States, or about 37% of the nation's female population. According to market researcher NPDFashionworld, women's plus-size clothing sales in 2001 were $17.3 billion. Similarly, the men's big-and-tall market comprises about 20.1 million individuals, or roughly 15% of the US male population, with $5.6 billion in annual sales. According to Packaged Facts, a division of MarketResearch.com, plus-size apparel accounts for 20% of the total apparel market and is expected to reach $47 billion by 2005, up from $32 billion in 2000. In addition, according to the National Health and Nutritional Examination Survey, published in the June 2001 issue of *American Demographics*, 14% of children ages six to 11 are potential plus-sized junior customers.

Both apparel manufacturers and retailers are getting into the plus-size game. They are devoting more space to this category and paying more attention to style than ever before. Popular designers not known for plus sizes in the past are beginning to enter the market.

Specialty apparel chains that cater to plus-sized women include Lane Bryant, Fashion Bug, Catherine's (all units of Charming Shoppes Inc.), and August Max (a unit of Retail Brand Alliance Inc.). Other traditional women's retailers, such as the Talbots Inc., are opening new stores just for this market. Designers like Dana Buchman, Liz Claiborne, Ralph Lauren, Anne Klein, Ellen Tracy, Jones New York, and Donna Karan have all discovered that full-size fashion means big business. Liz Claiborne operates a store, called Elisabeth by Liz Claiborne, to cater to plus-size women. In the spring of 2002, the company introduced Liz Claiborne Woman, a signature plus-sized line for department stores that features styles inspired by the core misses' collection. In the fall of 2001, Tommy Hilfiger launched its plus-size line, Tommy Hilfiger Woman, with sizes 14 to 22.

On the teen front, Hot Topic Inc., the teen lifestyle retailer, unveiled a new retail concept aimed at plus-sized teens and young women. Called Torrid, the first store opened in April 2001. The company operated 52 Torrid stores at 2003 year-end. Junior brands are now entering the plus-sized arena with merchandise that's as trendy as their core collections. Examples include Paris Blues Inc., Self Esteem (manufactured by All Access Apparel Inc.), and FUBU.

Manufacturers of men's apparel have also started to cater to the large-size men's market. Polo Ralph Lauren, Nautica Enterprises Inc., Tommy Hilfiger, and Perry Ellis International, among others, now provide more fashionable apparel for this segment.

Casual look is here to stay

The casual look has been on the rise since the early 1990s, when corporate America at large began to emulate the less-rigid dress policies of the high-tech industries. According to a 2001 poll by the Society for Human Resource Management, some 86% of US companies allow some form of casual dress. As a result, total sales of men's casual apparel grew to $44 billion in 2000 (latest available), up 10% from the 1999 total, while men's dresswear declined 1% to $13 billion, according to NPD Group.

Often, the philosophy behind the switch from suit and tie to casual attire is that if employees are working long hours, they should be allowed to do so comfortably. Generally, the policy does not allow for laid-back or sloppy dressing; rather, the clothing must be clean, neat, polished, and

professional. At the same time, formal businesswear, such as men's and women's suits, has not vanished, as there are occasions when it is still most appropriate. In fact, recent retail trends reveal that suits are selling. For women, the business suit has been tweaked to convey femininity, and for men, its construction has become more form fitting.

Another trend is the blurring of lines between casual clothes and performance activewear. In the past, athletic consumers were more concerned with the performance characteristics of the apparel they wore during physical activities rather than comfort and style. Increasingly, they are demanding activewear that is not only functional but also looks and feels good. Conversely, sports-inspired designs are finding their way into casual apparel. This is particularly true of young consumers who are very conscious of the brand and types of activewear they are sporting on and off the playing field. According to NPD Group, activewear accounted for 22.2% of total apparel sales in the first quarter of 2002, versus 19.0% in the comparable prior-year period.

HOW THE INDUSTRY OPERATES

Although apparel and footwear can be considered as two separate industries, they often overlap, with many companies selling goods in both categories. In addition, their consumer demand profiles are similar; apparel and footwear are both necessities, yet are partly discretionary as well.

At their most basic level, these industries supply people with utilitarian attire that is affordable and unlikely to change drastically in style from year to year. For more fashion-conscious consumers, the industries strive to update their assortments to reflect changing trends or to offer innovative styles or features that command a price premium.

While individual companies' sales trends depend on the specific products they offer, overall industry demand is driven by general economic trends, including changes in disposable personal income, consumer confidence, and consumer spending. During periods of prosperity, for example, consumers are more inclined to update their wardrobes, buy the newest fashions on a whim, or splurge on luxury items. During recessions, consumers tend to shy away from luxury goods, postpone apparel and footwear purchases that aren't absolutely necessary, or replenish their wardrobes with inexpensive items.

Demand is also driven by population growth and demographic trends. Obviously, when the number of people rises, so does overall demand for apparel and footwear. However, the US population is growing at only 1% per year, for which reason apparel and footwear companies are looking overseas for future marketing opportunities. According to the US Department of Commerce, the world's developing countries will grow much more rapidly than developed countries in the future. In 1950, approximately two-thirds of the world's population lived in developing countries. By 1990, that percentage had grown to 80%; by the end of 2002, it was expected to be nearly 85%.

Demographic trends within the United States can also affect the quantity and type of apparel and footwear demanded by consumers. For example, as baby boomers approach retirement, they have shifted their spending priorities to needs other than clothing, such as healthcare. They are also more likely to buy comfortable clothes and shoes rather than the latest fashions. (See also the "Industry Trends" section of this *Survey.)*

Changes in consumer attitudes and preferences also have an important impact on demand for apparel and footwear. Manufacturers must adapt to lifestyle and fashion trends by making the necessary alterations to their product lines. Many apparel manufacturers have added athletic styles to their mix to accommodate consumers' increasing emphasis on fitness and exercise. Preteen and teenage markets tend to be particularly fashion-driven, and apparel and footwear manufacturers have to closely monitor and anticipate the styles and items that will be "in" with these consumers.

Components of the industries

The apparel and footwear industries are diverse, with hundreds of product lines designed for men, women, and children in a wide range of styles and price points. Each line is designed specifically for a targeted group of consumers, based on its observed and anticipated trends and needs.

Apparel and accessories

Although the apparel industry is mature and slow growing, it exists in a dynamic and competitive environment. In order to improve profitability, many companies are adopting new technologies while restructuring to create leaner organizations. Consolidation has been prevalent in the industry in the past few years, as larger companies strive to lower their costs by gaining leverage in buying from suppliers and selling to customers and achieving economies of scale in manufacturing and marketing.

In the apparel industry, companies can operate as manufacturers (wholesalers), as retailers, or as both. For instance, Gap Inc., a vertical retailer, outsources the production of its apparel and accessories, which it then sells in its own stores. Some manufacturers, like VF Corp., sell almost exclusively to retail channels. Yet others, like Quiksilver, Tommy Hilfiger, and Liz Claiborne, distribute their products through multiple channels, combining traditional retail channels with their own retail stores. An apparel manufacturer may sell its products under its own brand name, a brand name that it has licensed from another company, or as a private-label product for a retail customer. Private-label manufacturing not only provides an additional source of revenue for a manufacturer, but it also allows the manufacturer to reduce the per-unit production costs of its own branded goods by running plants at greater capacity. Moreover, since the manufacturer does not have to support the marketing of private-label goods, such items can be almost as profitable as branded products. However, it should be noted that due to increasing diversification of operations, the roles of apparel manufacturer, retailer, brand manager, and licensee continue to overlap and blur.

Broad apparel categories include sportswear, career apparel (comprising both traditional and casual styles), dress, and athletic apparel. Price points in the apparel industry are, in ascending order: popular, moderate, better, bridge, and designer.

Fabrics play an important role in function and quality. In general, woolens and knits are high-quality fabrics that can command higher selling prices. Woven fabrics tend to be lower in both quality and price.

The women's segment traditionally has accounted for more than half of all apparel sales at retail. This segment's share was nearly 51.4% in 2002, according to research from the NPD Group, a market research and consulting firm. Men's and children's (including infants' and toddlers') apparel represented 31.8% and 16.8% of sales, respectively. In 2002, the children's segment grew 6.0% year on year. However, overall apparel spending contracted 1.8% due to declines in all other segments, led by the women's category.

Many traditional apparel vendors, aiming to diversify their assortments, offer complementary accessories like costume jewelry, handbags, hats, belts, watches, sunglasses, scarves, and gloves. A smaller number of firms are niche players in the accessories market, targeting different price points. For example, while Coach Inc. aims for the premium-priced segment, Fossil Inc. and Claire Stores Inc. focus on the moderate and popular-priced markets, respectively.

Footwear

Footwear styles include athletic, casual, dress, sandal, and sport/hiking. However, any given shoe design may combine categories. Footwear can be made out of leather, canvas, or other materials that are either natural or manmade. A footwear manufacturer must determine what is most important to its customers: fashion or function. Producers of athletic and sport/hiking footwear also develop technology to improve comfort and performance.

According to the American Apparel & Footwear Association, total US footwear consumption increased 5.0%, year to year, in 2002 (latest available), to 1.93 billion pairs. Imports from China accounted for about 80% of pairs purchased. Women's and men's categories comprised about 35% and 11% of the total US footwear market, respectively. The athletic category garnered 19% share of units, and children's claimed 12%. The remainder was allocated among work shoes (2%), slippers (5%), and rubber footwear (18%).

US production declined 25.8% in 2002, to 59.1 million pairs, accounting for only about 3.1% of domestic shoe purchases. It should be noted that US producers have a higher share — about 15% — of men's dress, casual, and work footwear. While the United States imports most of its soft-sole footwear, it is particularly strong in manufacturing protective or safety footwear (most of

which features steel safety toes). Interestingly, domestic footwear producers often import shoes to offer a diversified catalogue. About 50.7% of shoes produced in the United States were exported in 2001.

Athletic footwear accounted for nearly 39% of all 2002 US footwear purchases, according to SGMA International, a sporting goods and apparel trade group. (The SGMA defines the athletic category as including not only sneakers, but also "brown shoes" — boots, skater looks, and certain types of casual shoes.) This reflects the fact that rather than being used solely for athletic activity, this type of footwear is often worn for its overall comfort or to make a fashion statement; less than 30% of athletic shoes purchased are for use in sports or fitness activities.

In terms of sales, running shoes were the No. 1 category in 2002, accounting for 28.6% of overall athletic shoe sales, followed by basketball, cross-training/fitness, and walking categories.

Teenagers account for about 23% of athletic footwear spending, and theirs is the most likely of all age groups to make purchases at full price. To attract young buyers, designer and nondesigner brands have applied athletic-inspired looks to brown shoes. Aging baby boomers tend to go for basic or even "retro" looks that recall fashions of their youth.

Intense competition

Despite years of consolidation activity, the apparel and footwear industries are extremely competitive and highly fragmented. This is most likely due to low barriers to entry: all one needs are good clothing designs that attract department store and/or specialty store buyers. If a designer gets orders, he or she can contract the production of the item to a low-cost, independent manufacturer, usually outside the United States. In many areas, the barriers to entry are relatively insignificant. These industries are characterized by simple technologies, low fixed assets per employee, and ease of expansion through the use of contractors.

Although getting into the business may be relatively painless, staying in is much more difficult. Typically, small start-up companies are undercapitalized and lack broad-based global sourcing. In addition, many don't have the technology and systems infrastructure now being demanded by the major retailers. They also generally lack marketing muscle to give their products the exposure needed to build brand loyalty among consumers. These entrepreneurs often seek to be bought by larger companies as a way to expand sales of their designs.

The power of big retailers is a major challenge to many manufacturers. As retailers shrink their inventories and order closer to the time that merchandise will be needed, manufacturers are forced to assume more inventory risk. In addition, their sheer size puts big retailers in a strong position to negotiate favorable terms with manufacturers, with regard to pricing, shipping, co-advertising (in which retailers and manufacturers share the cost of advertising), and product labeling.

Consumers also wield considerable power over apparel and footwear manufacturers, as they can readily switch from one product or brand to another. To dissuade them from doing so, manufacturers attempt to raise brand awareness and build brand loyalty among consumers. A strong brand image typically gives a manufacturer more pricing flexibility by creating perceived switching costs for the consumer. Of course, some segments, such as the popular-price segment, compete strictly on price, in which case the consumer is likely to purchase whichever product is the cheapest. Manufacturers in this segment must focus on obtaining low-cost manufacturing.

Manufacturing dynamics

Women's garments tend to dominate seasonal sales due to their higher fashion quotient, which are hard to predict and thus hard to plan for large-scale production. Generally, markets for men's and children's clothing are less subject to change from year to year and are therefore more suited to large-scale production.

Not all apparel companies are engaged directly in manufacturing. The three basic types of apparel companies are manufacturers, jobbers, and contractors.

Manufacturers perform the entire range of production, from designing to finishing.

Jobbers design their own garments, acquire the necessary fabric and related materials, and arrange for the sale of the finished product. However, they contract out most

production operations (that is, sewing and finishing), with the exception of cutting.

Contractors receive already-cut garment bundles from jobbers and process them into finished garments.

Manufacturers can readily expand and contract output by employing jobbers and contractors. By doing business this way, manufacturers reduce capital investment required for expansion and avoid carrying the cost of unused capacity during a contraction.

Manufacturing efficiency is critical to the long-term success of apparel and footwear companies. This efficiency shows up in the gross profit margins on a company's income statement. Firms are in a constant battle to lower their costs relative to their competitors. There are several factors involved in the cost basis of this industry, including labor, raw materials, shipping costs, import tariffs, and technological advancements.

Cutting labor costs with offshore sourcing

US labor costs tend to be relatively high, leading many manufacturers to turn to overseas sourcing for a majority of their products. Companies can establish overseas production in three ways. They can buy or build a plant, establish agents that have ties with factories in the foreign country, or contract directly with the owners of foreign factories. Typically, major US apparel and footwear companies establish overseas production in all of these ways. They also use domestic sources other than their own plants.

Using overseas manufacturers and/or outside domestic contractors benefits apparel companies in different ways. Overseas sourcing allows them to compete with less-expensive imports. Domestic sourcing allows companies to respond quickly to fashion changes and to retailers' needs for automatic inventory replenishment.

Generally, US companies go to Southeast Asia for production of more complicated apparel items. Many of the region's countries have large pools of skilled laborers who can create high-quality items. Although overseas labor rates have gone up in recent years, they are still significantly below those in the United States.

Notwithstanding the advantages, currency fluctuations are a concern for overseas manufacturing. At times, such fluctuations can benefit the domestic industry. For instance, when several Asian currencies declined sharply in value versus the US dollar in late 1997, manufacturing costs within affected countries dropped for US companies. Conversely, when foreign currencies unexpectedly appreciate against the US dollar, as many have done lately, it raises US manufacturers' costs. Nonetheless, overseas labor rates should remain significantly below those in the United States.

Reduced trade regulation

The shift of clothing jobs away from the United States has accelerated in the last decade with the expansion of free trade agreements. In 1995, the United States lowered tariffs on clothing imported from the Caribbean, and agreed to phase out the Multi-Fiber Agreement, which imposed quotas on imported clothing. When the North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994, it allowed US companies to ship fabric produced in the United States to Mexico for assembly, and to ship the clothing back to the United States without incurring import duties.

Apparel products that are simpler to make are outsourced to less developed countries, where labor rates are lower than in Southeast Asia. With the May 2000 passage of the Caribbean Basin Trade Partnership Act (CBTPA), a growing percentage of production is being sourced in that region, which offers the advantage of much shorter lead times because of its proximity to the United States. The African Growth and Opportunity Act (AGOA), also passed in May 2000, further promises to spur the level of apparel and footwear imports from sub-Saharan Africa.

In October 2000, the Trade Development Act (TDA) of 2000 took effect. The act gives duty and quota preferences to many countries in the Caribbean and in sub-Saharan Africa that export apparel to the United States, provided the goods meet certain content conditions. For the most part, apparel produced in these regions must include fabric made in the United States. With the TDA, apparel imports from these regions are expected to grow faster than they would have without the special legislation.

In July 2002, Congress granted final approval for the Trade Promotion Authority (TPA) that revives presidential "fast-track" authority to negotiate trade deals that

Congress can accept or reject but not alter. Such deals may include provisions to eliminate apparel duties for Andean countries (Bolivia, Colombia, Ecuador, Peru), the Caribbean Basin, and sub-Saharan Africa. In November 2003, Congress was formally notified of the administration's intent to initiate negotiations for free trade with Bolivia, Colombia, Ecuador and Peru, initially with Columbia and Peru in the second quarter of 2004. In addition, talks with Chile recently resulted in a free trade agreement to be phased in over 12 years, and could spur the creation of a Free Trade Area of Central America, though we expect terms will take a year or more to be ironed out. A just-completed agreement with Australia could serve as a model for the Asia-Pacific region. Other talks are progressing under the auspices of the World Trade Organization.

Volatile raw materials costs

Apparel is made by cutting and sewing woven and knit textile fabrics or by knitting with yarn. Apparel companies are susceptible to variations in commodity prices, especially for cotton. In times of rising cotton prices, profit margins will be squeezed unless other cost-cutting measures can be implemented to offset the raw material price increase.

For example, in 1995, the price of cotton reached record highs, as crop failures in other parts of the world induced sellers of US-grown cotton to export their product. At that time, cotton imports to the United States were still restricted by a federal law enacted some 60 years earlier.

To compensate for commodity price swings, companies can hedge their bets in the cotton futures market. In recent years, however, cotton price fluctuations have moderated, thanks to a more open trade system.

Footwear companies are similarly affected by fluctuations in the costs of their raw materials. Footwear is divided into three general categories classified by material: leather, rubber, and vinyl/plastic.

Vital role of technology

In both the apparel and footwear industries, technological innovations have facilitated global expansion and closer coordination between retailers and manufacturers while also cutting costs. For example, improvements in manufacturing processes — such as efficiencies in cut-and-sew operations in the apparel industry — are helping to reduce manual labor costs.

Rapid improvements in computer technology have helped to shorten the new product development phase from years to practically months, especially in the fashion/style/high-performance areas. In the athletic footwear industry, for example, computer-aided design (CAD) systems enable a manufacturer to reduce the design-to-production cycle to only a few months, so footwear companies can provide the marketplace with a steady flow of new products.

Apparel makers who are linked with retailers through quick-response programs and other electronic technologies go a long way toward making themselves indispensable to their customers. The goal of quick response is to maintain lean inventories and to avoid overstocking, while ensuring that retailers have the merchandise customers want to buy, when they want to buy it. By assuming responsibility for stocking the stores, apparel companies help to carry inventory costs, historically one of retailers' highest costs. They also alleviate many of the retailers' reordering headaches and help retailers buy as close to the selling season as possible. For manufacturers today, quick response has become key to survival.

One such system to link retailers and manufacturers is called electronic data interchange (EDI). An EDI system employs interconnected computer terminals throughout the entire manufacturing and sales systems. At the retailer's checkout counter, electronic point-of-sale scanners read the bar code attached to each item and record the product sold, its price, and even such details as its color and size. This up-to-the-minute report on a given store's sales is then relayed to the manufacturer.

With direct access to detailed sales information, the manufacturer can tailor its production to consumer demand. The data recorded by bar code scanners in the EDI system are also used for automatic (or just-in-time) reordering, enabling a manufacturer to restock a retailer's shelves quickly, using no more than a computer for communication. In addition to providing for automatic replenishment, EDI makes distribution and shipping information processing more efficient.

Quick response and EDI technologies have proven successful with basic goods,

which are relatively simple to produce, require shorter lead times, and are increasingly being manufactured in highly automated factories in the United States. These systems are more difficult to implement for seasonal and fashion apparel, however, as such goods require more labor input and tend to be made in the Caribbean or Southeast Asia.

Technology is also playing a crucial role in apparel procurement (or reverse auctions) through the rising popularity of business-to-business (B2B) exchanges — online marketplaces that allow trading partners to conduct real-time business communications with each other. This is changing the way retailers and vendors conduct business with each other, whether they are issuing requests for quotes, bidding for orders, sharing product forecasts, or collaborating on product development. These exchanges may be public, such as the GlobalNetXchange (GNX) and the WorldWide Retail Exchange (WWRE), or private, such as Wal-Mart Stores Inc.'s Retail Link and other portals that individual retailers, brands, and trading companies have established for B2B communications with their own networks of customers and suppliers.

Pivotal distribution channels

Of course, manufacturing a great product isn't enough — the product has to make its way to consumers. Thus, distribution is a key factor in the success of an apparel or footwear manufacturer. It is important for manufacturers to understand customer trends and attitudes toward different retail outlets. Retail distribution channels include department stores (Macy's, and Nordstrom Inc., for example), specialty stores (Gap, Foot Locker Inc., Claire's Stores Inc.), general merchandise chains (Sears, Roebuck & Co., Wal-Mart), discount stores (the Dress Barn Inc., Payless ShoeSource Inc.), and mail order (Lands' End Inc., J. Crew Group Inc.). Many manufacturers such as Jones Apparel Group and Liz Claiborne pursue multichannel distribution strategies. In recent years, several large retail chains — particularly in the athletic footwear sector — have developed formats called superstores, which dedicate more square footage to a particular product category than do stores of standard-size formats.

Manufacturers also seek to ensure that retailers price and sell their branded products in line with the brand's image. The main concern is that lower pricing and markdowns can dilute a brand's image in the minds of customers, making it difficult to command premium prices in the future. For example, in late 2002, Nike and Foot Locker disagreed about the pricing of certain marquee shoes made by Nike. As a result, Nike decided to launch these shoes through other footwear retailers.

Consumers buy apparel and footwear from a variety of retail outlets. In 2002, discount stores accounted for 31% of apparel sales; specialty stores, 25%; department stores, 19%; and national chains, 16%, according to data from NPD Group. The remaining 9% was sold through mail order, the Internet, factory outlets, and other means.

In the footwear industry, discount stores sell the largest volume of shoes. According to Footwear Market Insights, a market research firm that is a unit of the NPD Group, about 25% of all shoes were sold through discount stores in 2000 (latest available). Nearly 19% were sold through self-service stores, and about 11% through high-end shoe stores. Other distribution outlets include catalogues, mail order, sporting goods stores, and off-price outlets.

Differences exist in the distribution mix for men's, women's, and children's items. For example, more women's apparel than men's is purchased in specialty and department stores. Men's apparel is more prevalent in discount stores and general merchandise chains. In the children's segment, a considerably higher portion of apparel is purchased in discount stores. Because children quickly outgrow their clothing, parents are less inclined to spend a lot of money on a single item and therefore more inclined to shop at discount stores.

Fashion is increasingly responsive to the styles sought by the preteen and teenage markets, whose influence is rising. But when promoting a product, manufacturers and retailers must take the user into account, but the shopper as well. For example, many men's apparel items are actually purchased by women.

Although the Internet accounted for less than 5% of total apparel sales in 2002, we believe that it has strong potential for growth as a distribution channel. The Internet permits consumers to shop from anywhere and at anytime they wish and to make easy price comparisons, conveniences that shoppers seem to

appreciate. Manufacturers use Internet sites for marketing and informational purposes as well as to make sales.

At present, however, shopping for apparel and footwear on the Internet faces several challenges, including consumer concerns regarding the speed, quality, security, and cost of Internet shopping. Another hindrance is the fact that consumers cannot see, touch, and try out products they are considering buying. Manufacturers who sell directly to consumers on the Internet also have to be mindful not to alienate their bricks-and-mortar retail customers. We expect that these issues will be resolved eventually, and that likely advances in hardware, software, and data pipelines will make the experience faster and more secure. Shopping for apparel and footwear on the Internet should continue to gain in popularity.

Selling by catalogue is another important method of distribution. Before the advent of the Internet, it was the primary way to shop at home. In 2000, 3.9% of retail apparel sales were conducted through direct mail/catalogues, down from 5.2% in 1999, according to NPD Group.

Enhancing customer loyalty

Apparel and footwear manufacturers go to great lengths to attract new customers and retain existing ones. In a market that bombards consumers with advertising campaigns and lifestyle and fashion messages, a brand name is a powerful weapon in these efforts.

Brands have become increasingly significant to apparel and footwear sales. Many consumers have less time to shop than previously, and are spending their disposable income more carefully. Established brand names, conveying an image of quality, make shopping easier and faster for many consumers. For manufacturers, brands build consumer loyalty, which translates into repeat business.

Many established brand manufacturers, such as Tommy Hilfiger, Polo Ralph Lauren, Jones Apparel, and Liz Claiborne are leveraging their existing brand names by adding accessory lines, such as sunglasses, watches, fragrances, wallets, and footwear. Some apparel makers, such as Polo Ralph Lauren, have even ventured into home furnishings, adding branded linens and dinnerware.

Footwear manufacturers too have capitalized on the strength of their brand names, with companies such as Nike and Reebok adding apparel, accessories, and sports gear to their product portfolios.

Licensing is a common means for companies to extend their product lines. For instance, in 2002, Tommy Hilfiger entered into licensing deals with other firms that wanted to market jewelry and hosiery under the Hilfiger name. The company also licenses its brands to watchmakers, including the Movado Group Inc. In March 2003, Liz Claiborne licensed certain women's dresses and suits under its Liz Claiborne, Liz Claiborne Woman, and Liz Claiborne Petites labels to apparel manufacturer Kellwood Co.

Manufacturers must support their brands through advertising campaigns and by delivering the right product in an appropriate retail setting. They must also establish and maintain good relationships with retailers and help them to effectively present and sell their goods. Some manufacturers supply retailers with an in-store shop, from concept to display, including fixtures. This allows the retailer to create an environment consistent with the brand's image. It also increases consumer product recognition and loyalty, as customers become familiar with a product's in-store presentation and location.

A manufacturer's merchandising team usually utilizes consumer focus groups to provide customer feedback on the company' products or generate new product ideas. This information is shared with designers and production staff. The merchandising team will also educate the retailer on the company's new products and servicing of customers. Increasingly, manufacturers will open a few retail stores as a way to test their products and gain direct feedback from their end customers. An example is V.F. Corp., which has opened the North Face stores in several cities, partly to gauge customer reaction to new products for this outdoor apparel and gear brand.

KEY INDUSTRY RATIOS AND STATISTICS

▶ **Gross domestic product (GDP).** Reported quarterly by the US Department of Commerce, GDP tracks the market value of all goods and services produced by labor and

capital in the United States, and is thus the broadest measure of aggregate economic activity. As the economy expands and contracts with the business cycle, economic growth is measured by changes in inflation-adjusted (or real) GDP. Two consecutive quarters of decline in real GDP generally signal that the economy is in a recession.

Real GDP grew 2.2% in 2002, after managing only a 0.5% gain in 2001. The economic recovery gained traction in the second half of 2003, with real GDP growing 8.2% in the third quarter and 4.0% in the fourth. Standard & Poor's currently estimates that GDP increased 3.1% in 2003 and projects a 4.5% rise in 2004.

▶ **Real disposable personal income.** This measure of consumers' after-tax personal income, adjusted for inflation, is reported each month by the US Department of Commerce. Disposable income influences the level of expected consumer spending. When incomes are rising, consumers are willing to spend more than previously, which bodes well for apparel and footwear sales. Conversely, when incomes are declining, consumers are more likely to defer spending and save their money.

Disposable personal income in the United States increased 5.2% in 2002, after gaining 3.8% in 2001 and 7.4% in 2000. For full-year 2003, Standard & Poor's currently estimates 4.4% growth, followed by 4.6% growth in 2004.

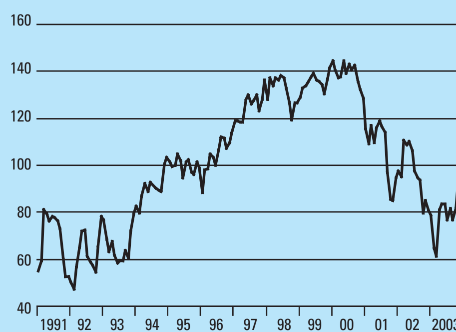
▶ **Consumer confidence.** The Conference Board, a private research organization, conducts a monthly poll of 5,000 representative US households to gauge consumer sentiment, and compiles an index of consumer confidence based on the results. The index represents a relative measure of how Americans feel about the strength of the economy, business trends, their job security or employment prospects, and their future earning prospects.

When consumer confidence is high, it's usually accompanied by increased spending and borrowing. Conversely, when it is low (usually due to uncertainty about the future), personal expenditures are likely to be cut back or postponed. Because consumer spending accounts for about two-thirds of the nation's economic activity, this measure is widely watched.

Consumer confidence hit a six-month high in May 2003 when the Conference Board's consumer confidence index rose 2.8 points to 83.8. In April, the index gained 19.6 points, after having fallen to a nine-year low of 61.4 in March. It peaked for the year in November, at 92.5, dropping slightly to 91.3 in December.

CONSUMER CONFIDENCE INDEX

(1985 = 100)



Source: The Conference Board.

▶ **The consumer price index (CPI).** Released monthly by the Bureau of Labor Statistics (BLS), this index measures changes in the prices of commodities, fuel oil, electricity, utilities, telephone services, food, and energy. The BLS also releases specific price indexes for both the apparel and footwear industries. These inflation rates reflect and influence pricing decisions of apparel and footwear companies and their suppliers.

Overall inflation has been moderate for several years. The CPI rose 1.6% in 2002 and 2.8% in 2001. Standard & Poor's currently estimates increases of 2.3% in 2003 and 1.4% in 2004.

▶ **Interest rates.** The level of interest rates influences management decisions regarding business acquisitions, new product introductions, capital expenditures, dividends, and stock repurchases. High or rising interest rates increase the cost of borrowing, making companies less likely to expand facilities or to make other capital expenditures. Apparel and footwear manufacturers may choose to postpone or cancel plans to upgrade or expand manufacturing capacity. The level of interest rates also affects consumers' purchasing decisions. Higher interest rates can result in lower consumer spending, as people begin to pay down their charges and reign in their expenses.

After slashing short-term interest rates 11 times during 2001 to prop up a recessionary

economy, the Federal Reserve did not change rates until November 6, 2002. At that time, it lowered both the discount rate and the federal funds rate by 50 basis points, to 0.75% and 1.0%, respectively, in response to sluggish economic recovery. Compared with the late 1970s and 1980s, interest rates today are low — near 40-year lows, in fact. In 2002, 10-year US Treasury notes yielded 4.6%, down from 5.0% in 2002. Standard & Poor's currently forecasts the average 10-year T-note yield at 4.0% in 2003 and 4.4% in 2004.

HOW TO ANALYZE AN APPAREL OR FOOTWEAR COMPANY

A good starting point for analyzing an apparel or footwear company is to assess the current macroeconomic environment, with emphasis on trends in consumer income and spending. The state of the general economy and these factors in particular can influence the amount of money consumers are willing or able to spend on clothing and footwear. Demographic and lifestyle trends can also be important determinants of consumer demand.

Some questions to ask include: Is the economy growing, or is it headed for a recession? Are consumer spending and overall retail sales contracting or expanding? Are consumer incomes rising? Are consumer debt levels too high relative to income? Are consumers spending more or less on apparel and footwear relative to other goods? Are apparel and footwear prices rising or falling relative to other discretionary goods? What are the dominant fashion trends in the apparel and footwear industries? How are the nation's changing demographics influencing demand for apparel, accessories, and footwear?

Once the industry's outlook has been evaluated, the analyst can then evaluate the prospects of a specific company. Doing so involves evaluating both qualitative and quantitative factors.

Qualitative factors

Analysts evaluating an apparel or footwear manufacturer have the added advantages of being able to test merchandise quality, compare it with alternatives, and assess the selling environment in terms of customer service, and visual accoutrements. When visiting a retail location, things to note include how much square footage a store devotes to selling particular products compared with its competitors, whether merchandise appears to be selling at full or discounted prices, merchandise display formats, overall traffic trends, and the average age of the typical shopper. Depending on distribution channel, one should also observe the degree of merchandise differentiation from competing products.

The following discussion explains several qualitative factors used to analyze an apparel or footwear manufacturer.

Evaluating a company's competitive stance

Because of the glut of apparel and footwear product offerings in the market, any characteristic that favorably distinguishes a company and its products gives it a competitive advantage in the marketplace. Such traits can include the following:

- **Brand names.** In the apparel and footwear industries, having a strong and recognizable brand name is the key to success. Through marketing efforts, companies try to create a well-known brand name that consumers automatically identify with a high-quality or fashionable product.

Brand loyalty can't be established overnight, however. Companies generally spend a lot of time and money on advertising and promoting brand awareness. For example, through meticulous positioning and aggressive promotional support over the years, Quiksilver has transformed its brand into a leader in the youth-oriented casual lifestyle apparel and accessories segment.

- **Product differentiation.** A company can also create competitive advantage by differentiating its product line from that of its competitors. In reality, a company does not actually have to create a markedly different product, but it must create a perception of difference. In this way, it can charge higher prices and generate brand loyalty among consumers. This practice is gaining in importance as basic merchandise becomes increasingly indistinguishable to consumers.

Companies can cultivate an aura of difference through marketing, whereby a brand image is created through advertising. For example, while Gap's basic tee shirts and khaki

pants are essentially similar to other makes, the company's ads have helped to differentiate its brand, creating strong demand for its goods.

◆ **Distribution.** What channels of distribution does the company use — does it sell its products through its own retail chain, or through mail order catalogues, department stores, specialty chains, off price outlets, the Internet, or other methods? Has it recently expanded or narrowed its distribution system? Or, if it has consolidated its distribution infrastructure, has it realized any operating synergies by doing so?

Expanding the channels of distribution can reduce an apparel or footwear manufacturer's reliance on any particular channel. If a company's profitability is showing improvement over time, it would appear to have chosen the right channels of distribution. Of course, no company should feel obligated to sell through every type of outlet. Channels must be chosen with some thought to the targeted consumer groups, and desired price points and brand images. For example, a company trying to sell first-quality designer clothes in a mass-market outlet could irreparably dilute its brand.

◆ **New product development.** For footwear companies, new products are crucial to drive growth in the short run. Demand for nonathletic footwear and some outdoor footwear, particularly those made of leather, is driven by a combination of looks and comfort. Manufacturers must try to bring a steady stream of products to market, while balancing these factors according to consumers' tastes. In the athletic footwear segment, new product development mainly centers on technology, with manufacturers aiming their extensive research and development efforts at improving the performance and endurance of athletic sneakers.

For apparel, sales drivers are new fashion trends and new fabrications, which may better meet consumer needs than existing designs.

Long-term product development is also important. Apparel companies often try to expand their potential market by offering new categories such as petites or children's wear; by entering into other lines of apparel, like sportswear or performance apparel; or by extending their brand name into nonapparel product categories, such as accessories, handbags, and costume jewelry. Product development cycles can benefit if fashion trends are correctly anticipated, such as a shift from youth-inspired fashion to more conservative looks.

◆ **Manufacturing costs.** A company can control manufacturing costs in a number of ways. It may purchase newer, more efficient machines, improve factory floor layout, use machine time more productively, deploy just-in-time labor, reduce overtime wages, seek sources of lower cost materials, and/or improve product design.

Another way to cut costs in the apparel and footwear industries is to manufacture products in low labor-cost countries outside the United States and Western Europe. Labor costs are significantly lower in the Far East, Caribbean basin, Latin America, and in other less-industrialized regions.

Being the industry's low-cost producer gives a company a powerful competitive advantage. A low-cost producer is able to reduce its sales prices on merchandise to gain market share, while still maintaining healthy profit margins. However, to remain competitive, a cost-focused operator must achieve a certain amount of differentiation parity, and the quality of its products must compare favorably to those of its competitors.

◆ **Customer demographics.** It's important to identify the firm's target customers and assess whether the company is successfully addressing their needs and wants from both a marketing and a design standpoint. If the firm targets a narrow demographic group, such as senior citizens or teenagers, it's also crucial to evaluate the potential ramifications of expected changes in the segment's population growth.

At the same time, attempting to be all things to all people can alienate a company's traditional customer constituency and lead to fashion misses. Gap discovered as much in 2001, when its merchandise strategy incorporated a significantly higher fashion quotient. It took three years to right the merchandise, re-establish a connection with its customers, and restore store traffic and profitability.

Assessing management

In the apparel and footwear business, as in most industries, a company with a superi-

or management team can distinguish itself from its peers by creating successful competitive strategies. The history of a management team reflects its ability to recognize, analyze, and act on market opportunities.

Questions to ask when evaluating a management's proficiency include: What is management's financial and operating philosophy? How long have the senior managers been with the company? What are the managers' track records individually and working as a team? Has the company been adept at integrating acquisitions? If managers have recently taken control, what was their previous experience? Do their growth strategies make sense in light of the current environment and the company's particular situation? Are management's interests aligned with those of shareholders?

In the apparel and footwear industries, in addition to top management, the company's lead designers and merchandising and procurement officers should also be evaluated.

Quantitative factors

After getting a grasp on the company's competitive position, the next step is to analyze its financial statements — the income statement, the balance sheet, and the statement of cash flows, and various components of each. Although these are three separate financial statements, they're very much interrelated and need to be analyzed together. The analyst should also scrutinize the company's earnings quality.

Income statement

The income statement records the financial operations of a firm over a given time period. Among the major items on an apparel or footwear company's income statement that the analyst should examine are trends in revenues, gross profit margin, and operating margin.

◆ **Revenues or sales.** As in most other industries, an income statement analysis for apparel and footwear companies begins with the top line: sales. Obviously, revenue growth is a good thing, but it's also relative. A company's sales growth should be compared with that of its competitors and the overall market. It's also important to determine what's driving any sales growth. Is it pricing, volume gains, or acquisitions? Is the sales growth broad-based or driven by only a few categories? Is the company gaining market share or just riding the market's overall growth? All things being equal, a more conservative revenue recognition policy is desirable. With apparel and footwear manufacturers, any trends in discounts and allowances given to retailers should also be considered.

◆ **Gross profit margin.** A company's gross margin is calculated as net sales minus the cost of goods sold, expressed as a percentage of gross sales. It generally reflects a company's sales volumes, product mix, pricing, sourcing, and operational (including manufacturing) efficiency. The cost of goods sold line may comprise a number of items other than merchandise, including costs of purchasing, warehousing, distribution, freight, occupancy, and insurance.

Gross margin should be evaluated on both an absolute and a relative basis. If a company's gross margin is high compared with its peers, the company may possess some degree of competitive advantage.

An analyst should also look for trends in gross margin. Are any industrywide factors, such as overcapacity, cutting into gross margins? Excessive merchandise inventories and competitive pressures tend to induce a higher level of promotional selling and markdowns, which in turn will reduce gross margins. Conversely, does a particular company have a product in high demand, allowing it to charge a premium price as demand exceeds supply? If possible, determine what is causing fluctuations in gross margin and whether those trends will persist.

For manufacturers that operate company-owned retail stores, comparable-store sales (sales at units open more than one year) can explain gross margin trends. Other relevant indicators for apparel and footwear companies include average selling prices (ASPs), initial markups (IMUs), units per transaction (UPT), average ticket (AT), and inventory turns (discussed below).

◆ **Operating profit margin.** This figure is derived by dividing the operating profit (gross profit minus selling, general, and administrative expenses) by sales revenues. The operating margin indicates the efficiency and profitability of the entire enterprise — not just the manufacturing operations but also the corporate, selling, and distribution operations. Nonrecurring

items should be excluded from margin calculations to give the analyst a baseline for comparing results going forward.

Because the operating margin reflects costs that can be managed to some degree (salaries, commissions, advertising, and so forth), it is usually easier to control than the gross margin is. The company may derive a certain degree of expense leverage from increased activity levels, thereby improving operating margins. Consequently, an increase in the operating margin typically indicates that management is using its resources more efficiently, allowing fixed costs to be spread across greater volumes. Conversely, a trend of narrowing operating margins may be a warning sign that management is not operating at its most efficient level.

Balance sheet

The balance sheet reports major categories and stated values of assets, liabilities, and stockholder's equity at a specific point in time.

◆ **Cash and equivalents.** A company's cash position needs to be analyzed concurrently with its ability to generate cash. If a company continually operates with net cash outflows because of working capital needs and capital spending, one should look at the level of cash and marketable securities on the balance sheet to determine how long the company can fund operations before it will need to tap the capital markets.

◆ **Inventory.** Inventory management is crucial to retailers and manufacturers alike. They must have on hand the right products in the right amounts; failure to do so could lead to fashion misses or being caught short during an important selling season. Conversely, having too much inventory raises costs and ties up capital. It may also signal impending gross margin declines, in cases where the products must be discounted in order to sell them before they go out of style.

Inventory levels are generally available from a company's balance sheet. The effectiveness of inventory management can be measured by the inventory turnover ratio. This ratio, calculated by dividing the cost of goods sold by its average inventory, should be reviewed for trends and compared with peer averages.

Inventory turnover ratios for apparel and footwear companies, while generally comparable, could vary widely from company to company. A high turnover rate indicates that goods are selling well relative to the average amount of inventory kept in stock. Conversely, a low turnover rate indicates that goods aren't moving rapidly. Inventory build-up is less of a concern for basic merchandise, which can be sold throughout the years, than it is for fashion-oriented products.

Statement of cash flows

It is necessary to estimate cash inflows (or sources) and outflows (uses) to determine the net cash flow generated (or used) by a company's operations. How does the company plan to raise and utilize its cash? The cash flow statement has three sections: operating, investing, and financing.

The operating section reflects cash generated from, or used in operations, after adjusting for noncash items like depreciation and amortization, and including changes in working capital components. For example, if a manufacturer anticipates higher sales from seasonal activity, it may need cash to build inventory levels.

The investing and financing sections capture other sources and uses of cash outside of the company's operations. Possible sources include the issuance of debt or equity capital and dividends received from affiliated companies. Potential uses include repurchasing shares of common stock, paying dividends, reducing debt, or reinvesting in the business via either capital expenditures or acquisitions.

Other factors

In addition to the income statement and balance sheet items outlined above, several other factors are important to consider when analyzing an apparel or footwear company.

A company's order backlog indicates what its sales will be like over the next few months. Although this information is not included in the financial statements, some apparel and footwear companies report it separately.

Certain companies in the athletic footwear and apparel segment report worldwide "futures orders." This measure covers products scheduled for delivery between certain dates,

usually over the next three to six months, and is another way to project revenues. In the apparel industry, deliveries scheduled for future seasons are reported as "bookings."

Earnings quality

In May 2002, Standard & Poor's, concerned about the arbitrary and often confusing and misleading nature of operating earnings reports, announced a new methodology for calculating companies' earnings that will enable investors to make apples-to-apples earnings comparisons. The computation of Standard & Poor's Core Earnings™ excludes certain nonrecurring items: goodwill impairment, gains/losses from asset sales, pension gains, unrealized gains/losses from hedging activities, merger and acquisition charges, and litigation settlements. Included as valid costs of doing business are employee stock option expense, restructuring charges, writedowns of depreciable or amortizable operating assets, purchased research and development, and pension costs. (A detailed explanation of Core Earnings can be found at www.standardandpoors.com, in the Analytical Methodology section of Equity Research.)

For companies in the apparel industry, the most notable difference between reported earnings and Core Earnings comes from employee stock option expense, restructuring charges, and gains/losses from asset sales, which are described below.

◆ **Employee stock option expense.** Stock options are granted to employees as part of their compensation packages. Other components of compensation include salaries, cash bonuses based on individual or corporate performance, medical and other employee benefits, and defined benefit and/or defined contribution pension plans. When calculating Core Earnings, all parts of employee compensation, including stock options, are used.

Employee stock option reporting is subject to specific regulations under FASB Statement 123. This rule gives companies the choice of reporting employee stock option expense annually in the income statement or as a footnote in the annual report. Most companies in the S&P 500 do not include employee stock option grants as an expense in their income statements. Furthermore, this information is often released after the press release with fiscal year-end earnings information. Companies determine the cost of employee stock option grants with an option pricing model and report those costs together with the factors used in the calculations.

Standard & Poor's believes that information on employee stock option grant expenses is important and should be available on a complete and timely basis. The information should be reported quarterly as part of the quarterly earnings release and filing, instead of once a year. In addition, the release should provide all the data necessary for an analyst to review the calculation of stock option expenses. This includes the number of options granted, their maturity, strike price, stock dividend rate, stock price at the time options were granted, and the assumptions required (risk-free rate and volatility) for an option pricing model, such as Black-Scholes. Finally, these data should be presented in a tabular form so that they are understandable.

◆ **Restructuring charges.** Standard & Poor's believes restructuring charges from ongoing operations should be included in the calculation of Core Earnings because they relate to the costs and expenses of activities involved in the process of creating products or services.

Restructuring charges from ongoing operations are generally defined as those expenses (such as employee layoffs, maintenance costs, or early lease terminations) that arise when a company decides to close plants or other facilities. Since these assets would have been used up in the process of creating operating revenues, charges for restructuring these assets should be included in the calculation of Core Earnings. Large-scale employee layoffs and plant closings may suggest that the company doesn't expect current and future levels of business to support current staffing levels and/or the operation of plants and their attendant machinery and equipment.

The calculation of Core Earnings should not make certain expenses vanish. Restructuring charges are real expenses. The benefit comes in future years: after the plant closings, employee reductions, lease terminations, and other adjustments, the business's operating costs are lower. If there had been no restructuring activity and no restructuring costs or expenses, there would have been larger costs charged against future revenues in later years.

◆ **Gains/losses from asset sales.** Gains and losses from sales of assets, including machinery and equipment, real estate, and salable intangible assets, should be excluded from the calculation of Core Earnings. Although the ultimate purpose of these assets is to create revenues and income, most companies are not in the business of buying and selling their own operating assets.

Recalculating the 2002 results of Liz Claiborne Inc. using the Core Earnings definition shows the following changes. Including option expense and restructuring reversals would have reduced per-share earnings by 17 cents. When Liz Claiborne's financials are recalculated using the Core Earnings definition, the result is a $1.99 earnings per share. In contrast, the company reported a per-share operating earnings of $2.16.

The analyst should make appropriate pro forma adjustments to isolate these factors and evaluate their future impact on the company's earnings potential. Low earnings quality — earnings that are the result of manipulated accounting practices or are derived from something other than a company's operations — should be a cause of concern for the analyst, and all things being equal, translate into lower relative valuation. ■

Glossary

Basic item — Apparel whose style and demand are generally constant, and which must remain in stock to satisfy customers.

Brand — A name that identifies the goods of one seller.

Business-to-business (B2B) exchanges — Online marketplaces that enable trading partners to conduct real-time business transactions.

Carryover merchandise — Goods left over from a preceding season that are offered for sale in the following season.

Co-op money — A vendor's contribution to a retailer for the promotion of merchandise.

Electronic data interchange (EDI) — A computer network linking retailers, manufacturers, and the entire retail distribution pipeline.

Fashion cycle — The life span of a clothing style, from its rise in popularity to its decline.

Fashion trend — A style that has moved from limited to wide acceptance.

Jobber — A middleman who buys from a manufacturer and sells to a wholesaler.

Knockoff — An item that is an exact or similar reproduction of goods made by another manufacturer.

Markdown — A reduction in the retail price of an item, expressed as a percentage of the original price of the merchandise.

Markon — The difference between the cost as billed (before deductions for cash discount) and the retail price.

Markup — An increase in an item's price.

Out of stock — The absence of merchandise in certain styles, sizes, and/or colors in a store's inventory.

Point-of-sale (POS) terminal — Electronic devices at store checkout counters that read the universal product code (UPC) on product labels in order to tally each customer's sale. POS terminals collect other data that enable stores to track sales trends and to assess the effectiveness of promotions.

Price point — The price range at which a line of merchandise is offered for sale.

Ready-to-wear — Any article of apparel manufactured for sale in a retail store (that is, not custom made).

Shrinkage — Loss of inventory due to accounting errors, misdirected shipments, mistakes in ringing up charges or pricing goods, bookkeeping errors, spoilage, breakage, and thefts by employees, vendors, or customers.

Stockkeeping unit (SKU) — A single item of merchandise, as measured for inventory management purposes.

Stock turnover — The number of times during the year that inventory is sold out. The figure is derived by dividing total cost of goods sold by average inventory value.

Industry References

PERIODICALS

Apparel
VNU Business Publications USA
1500 Hampton St., Ste. 150, Columbia, SC 29201
(803) 771-7500
Web site: http://www.apparelmag.com
Monthly aimed at apparel industry executives, with a focus on technology, new products, and business strategy. Formerly called *Bobbin.*

Apparel News
CaliforniaMart, 110 E. 9th St., Ste. A-777
Los Angeles, CA 90079
(213) 627-3737
Web site: http://www.apparelnews.net
Weekly; online apparel newsmagazine and fashion trade portal for manufacturers and retailers.

The Apparel Strategist
P.O. Box 406, Fleetwood, PA 19522
(610) 944-5995
Web site: http://www.apparelstrategist.com
Monthly and annual; publication containing apparel industry statistics, news, and trends.

DNR
Fairchild Publications Inc.
7 W. 34th St., New York, NY 10001
(212) 630-3600
Web site: http://www.dnrnews.com
Weekly; magazine focusing on the men's apparel industry.

Footwear News
Fairchild Publications Inc.
7 W. 34th St., New York, NY 10001
(212) 630-3800
Web site: http://www.footwearnews.com
Weekly; newspaper covering current trends and issues in the footwear industry.

WWD (Women's Wear Daily)
Fairchild Publications Inc.
7 W. 34th St., New York, NY 10001
(212) 630-4000
Web site: http://www.wwd.com
Daily; newspaper focusing on the women's apparel industry.

TRADE ASSOCIATIONS

American Apparel & Footwear Association (AAFA)
1601 N. Kent St., Ste. 1200, Arlington, VA 22209
(800) 520-2262
Web site: http://www.apparelandfootwear.org
Provides apparel and footwear manufacturers with industry statistics and information.

US Association of Importers of Textiles & Apparel
13 E. 16th St., New York NY 10003
(212) 463-0089
Web site: http://www.usaita.com
Nonprofit industry association representing textile- and apparel-importing firms before Congress, the administration, US Customs, the business community, and the public.

National Sporting Goods Association (NSGA)
1601 Feehanville Dr., Ste 300, Mt. Prospect, IL 60056
(847) 296-6742
Web site: http://www.nsga.org
Represents more than 22,000 sporting goods retailer/dealer outlets and 3,000 product manufacturers, suppliers, and sales agents.

SGMA International
200 Castlewood Dr., N. Palm Beach, FL 33408
(561) 842-4100
Web site: http://www.sgma.com/index.html
Formerly called the Sporting Goods Manufacturers Association, this group provides manufacturers, producers, and distributors with information and statistics related to the global sports apparel, athletic footwear, and sporting goods equipment industries.

MARKET RESEARCH FIRMS

The Conference Board
845 Third Ave., New York, NY 10022
(212) 339-0345
Web site: http://www.conference-board.org
A not-for-profit, nonadvocacy business membership and research organization that calculates and disseminates leading economic indicators and an index of consumer confidence.

The NPD Group Inc.
900 W. Shore Rd., Port Washington, NY 11050
(516) 625-0700
Web site: http://www.npd.com
A market research and consulting organization providing global sales and marketing perspectives; combines consumer information with point-of-sale data collected from retailers and other distribution channels.

Planalytics Inc.
1325 Morris Dr., Ste. 201, Wayne, PA 19087
(800) 882-5881
Web site: http://www.planalytics.com
A consulting firm that helps companies make more effective and profitable decisions by forecasting weather-driven changes in supply, demand, and prices for products and services.

GOVERNMENT AGENCIES

Bureau of Labor Statistics (BLS)
Postal Square Building
2 Massachusetts Ave. NE, Washington, DC 20212
(202) 691-5200
Web site: http://stats.bls.gov
This division of the US Department of Labor is the principal fact-finding agency of the federal government in the broad fields of labor, economics, and statistics. Its major programs include the consumer price index, the producer price index, the employment cost index, and the national compensation survey.

US Department of Commerce
1401 Constitution Ave. NW, Washington, DC 20230
(202) 482-4883
Web site: http://www.doc.gov
This cabinet-level department is responsible for various government agencies that monitor and regulate US commerce. Among its many divisions is the Census Bureau, which publishes population statistics and projections.

CORPORATE INFORMATION

Many corporate filings with the federal Securities and Exchange Commission, including 10Ks and 10Qs, are available through its Edgar Web site:
http://www.sec.gov/cgi-bin/srch-edgar
In addition, most apparel and footwear manufacturers operate their own Web sites.

Definitions for Comparative Company Analysis Tables

Operating revenues

Net sales and other operating revenues. Excludes interest income if such income is "nonoperating." Includes franchised/leased department income for retailers and royalties for publishers and oil and mining companies. Excludes excise taxes for tobacco, liquor, and oil companies.

Net income

Profits derived from all sources, after deductions of expenses, taxes, and fixed charges, but before any discontinued operations, extraordinary items, and dividend payments (preferred and common).

Return on revenues

Net income divided by operating revenues.

Return on assets

Net income divided by average total assets. Used in industry analysis and as a measure of asset-use efficiency.

Return on equity

Net income, less preferred dividend requirements, divided by average common shareholder's equity. Generally used to measure performance and to make industry comparisons.

Current ratio

Current assets divided by current liabilities. It is a measure of liquidity. Current assets are those assets expected to be realized in cash or used up in the production of revenue within one year. Current liabilities generally include all debts/obligations falling due within one year.

Debt/capital ratio

Long-term debt (excluding current portion) divided by total invested capital. It indicates how highly "leveraged" a company might be. Long-term debt are those debts/obligations due after one year, including bonds, notes payable, mortgages, lease obligations, and industrial revenue bonds. Other long-term debt, when reported as a separate account, is excluded; this account generally includes pension and retirement benefits. Total invested capital is the sum of stockholders' equity, long-term debt, capital lease obligations, deferred income taxes, investment credits, and minority interest.

Debt as a percent of net working capital

Long-term debt (excluding current portion) divided by the difference between current assets and current liabilities. It is an indicator of a company's liquidity.

Price/earnings ratio

The ratio of market price to earnings, obtained by dividing the stock's high and low market price for the year by earnings per share (before extraordinary items). It essentially indicates the value investors place on a company's earnings.

Dividend payout ratio

This is the percentage of earnings paid out in dividends. It is calculated by dividing the annual dividend by the earnings. Dividends are generally total cash payments per share over a 12-month period. Although payments are usually calculated from the ex-dividend dates, they may also be reported on a declared basis where this has been established to be a company's payout policy.

Dividend yield

The total cash dividend payments divided by the year's high and low market prices for the stock.

Earnings per share

The amount a company reports as having been earned for the year (based on generally accepted accounting standards), divided by the number of shares outstanding. Amounts reported in *Industry Surveys* exclude extraordinary items.

Tangible book value per share

This measure indicates the theoretical dollar amount per common share one might expect to receive should liquidation take place. Generally, book value is determined by adding the stated (or par) value of the common stock, paid-in capital, and retained earnings, then subtracting intangible assets, preferred stock at liquidating value, and unamortized debt discount. This amount is divided by the number of outstanding shares to get book value per common share.

Share price

This shows the calendar-year high and low of a stock's market price.

In addition to the footnotes that appear at the bottom of each page, you will notice some or all of the following:

NA—Not available.

NM—Not meaningful.

NR—Not reported.

AF—Annual figure. Data are presented on an annual basis.

CF—Combined figure. In this case, data are not available because one or more components are combined with other items.

COMPARATIVE COMPANY ANALYSIS — APPAREL & FOOTWEAR

Operating Revenues

			Million $							Compound Growth Rate (%)			Index Basis (1992 = 100)				
Ticker	**Company**	**Yr. End**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1992**	**10-Yr.**	**5-Yr.**	**1-Yr.**	**2002**	**2001**	**2000**	**1999**	**1998**
APPAREL, ACCESSORIES & LUXURY GOODS‡																	
ASHW	§ ASHWORTH INC	OCT	127.5	124.7	125.9	107.9	107.3	89.1	28.6	16.1	7.4	2.3	447	437	441	378	376
COH	† COACH INC	JUN	719.4	616.1	548.9	507.8	NA	NA	NA	NA	NA	16.8	**	**	**	**	NA
FOSL	§ FOSSIL INC	DEC	663.9	546.3	505.1	419.1	304.8	244.9	73.8 A	24.6	22.1	21.5	899	740	684	568	413
HGGR	§ HAGGAR CORP	SEP	483.2	446.4	435.3	437.6 A	405.4	408.1	382.8	2.4	3.4	8.2	126	117	114	114	106
JNY	* JONES APPAREL GROUP INC	DEC	4,340.9 A	4,097.2 A	4,142.7 A	3,150.7 A	1,685.2 A	1,387.5	438.1	25.8	25.6	5.9	991	935	946	719	385
KWD	§ KELLWOOD CO	# JAN	2,204.7 A	2,281.8	2,362.2 A	1,565.3 H	2,151.1 A	1,781.6	1,077.7 A	7.4	4.4	(3.4)	205	212	219	145	200
LIZ	* LIZ CLAIBORNE INC	DEC	3,717.5	3,448.5 A	3,104.1	2,806.5	2,535.3	2,412.6	2,194.3	5.4	9.0	7.8	169	157	141	128	116
GOSHA	§ OSHKOSH B'GOSH INC -CL A	DEC	437.0	463.1	453.1	429.8	423.2	395.2	346.2	2.4	2.0	(5.6)	126	134	131	124	122
OXM	§ OXFORD INDUSTRIES INC	# MAY	764.6	677.3	812.5	839.5	862.4	774.5	572.9	2.9	(0.3)	12.9	133	118	142	147	151
PVH	§ PHILLIPS-VAN HEUSEN	# JAN	1,405.0	1,431.9	1,455.5	1,271.5	1,303.1	1,350.0	1,042.6	3.0	0.8	(1.9)	135	137	140	122	125
ZQK	§ QUIKSILVER INC	OCT	705.5 A	620.6 A	519.4 A	445.9	317.6	233.2	89.3 F	23.0	24.8	13.7	790	695	581	499	356
RML	§ RUSSELL CORP	DEC	1,164.3	1,160.9 C	1,217.6 A	1,142.2	1,180.1	1,228.2	899.1	2.6	(1.1)	0.3	129	129	135	127	131
VFC	* VF CORP	DEC	5,083.5 D,F	5,518.8 F	5,747.9 A,C	5,551.6 A	5,478.8 A	5,222.2 A	3,824.4 A	2.9	(0.5)	(7.9)	133	144	150	145	143
FOOTWEAR‡																	
BWS	§ BROWN SHOE CO INC	# JAN	1,841.4	1,755.8	1,684.9	1,594.1	1,539.9	1,569.3	1,791.2	0.3	3.2	4.9	103	98	94	89	86
KSWS	§ K-SWISS INC -CL A	DEC	290.4 C	236.1	221.6	285.5	161.5	116.2	127.8 C	8.6	20.1	23.0	227	185	173	223	126
NKE	* NIKE INC -CL B	# MAY	10,697.0	9,893.0 C	9,488.8	8,995.1	8,776.9	9,553.1	3,931.0	10.5	2.3	8.1	272	252	241	229	223
RBK	* REEBOK INTERNATIONAL LTD	DEC	3,127.9	2,992.9	2,865.2	2,899.9	3,224.6	3,643.6	3,022.6	0.3	(3.0)	4.5	103	99	95	96	107
SRR	§ STRIDE RITE CORP	NOV	532.4	529.1	548.3	572.7	539.4	515.7	585.9	(1.0)	0.6	0.6	91	90	94	98	92
TBL	† TIMBERLAND CO -CL A	DEC	1,190.9	1,183.6	1,091.5	917.2	862.2	796.5	291.4	15.1	8.4	0.6	409	406	375	315	296
WWW	§ WOLVERINE WORLD WIDE	DEC	827.1	720.1	701.3	665.6	669.3	665.1 A	293.1 D	10.9	4.5	14.9	282	246	239	227	228
OTHER COMPANIES WITH SIGNIFICANT APPAREL OPERATIONS																	
COLM	COLUMBIA SPORTSWEAR CO	DEC	816.3	779.6	614.8	470.5	427.3	353.5	NA	NA	18.2	4.7	**	**	**	**	NA
HMX	HARTMARX CORP	NOV	570.3 F	601.6 A,F	680.6 F	726.8 A,F	725.0 A,F	718.1 F	1,053.9 F	(6.0)	(4.5)	(5.2)	54	57	65	69	69
RL	POLO RALPH LAUREN CP -CL A	# MAR	2,439.3	2,363.7	2,225.8	1,955.5 A,C	1,726.9	1,470.9 C	NA	NA	10.6	3.2	**	**	**	**	NA
TOM	TOMMY HILFIGER CORP	# MAR	1,888.1	1,876.7 A	1,880.9	1,977.2	1,637.1 A	847.1	138.6	29.8	17.4	0.6	1,362	1,354	1,357	1,426	1,181

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E - Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

Net Income

Ticker	Company	Yr. End	Million $							Compound Growth Rate (%)			Index Basis (1992 = 100)				
			2002	2001	2000	1999	1998	1997	1992	10-Yr.	5-Yr.	1-Yr.	2002	2001	2000	1999	1998
APPAREL, ACCESSORIES & LUXURY GOODS‡																	
ASHW	§ ASHWORTH INC	OCT	2.5	2.8	6.6	3.8	5.3	4.8	2.0	2.2	(12.3)	(11.3)	124	140	327	189	262
COH	† COACH INC	JUN	85.8	64.0	38.6	16.7	NA	NA	NA	NA	NA	34.0	**	**	**	**	NA
FOSL	§ FOSSIL INC	DEC	58.9	43.7	55.9	51.8	32.2	18.9	10.7	18.6	25.5	34.9	551	409	523	485	301
HGGR	§ HAGGAR CORP	SEP	8.0	(8.7)	9.3	9.4	8.0	3.7	12.4	(4.3)	16.4	NM	64	(70)	75	76	65
JNY	* JONES APPAREL GROUP INC	DEC	332.3	236.2	301.9	188.4	154.9	121.7	41.3	23.2	22.2	40.7	805	572	731	456	375
KWD	§ KELLWOOD CO	# JAN	42.0	37.7	60.8	41.0	2.0	42.7	28.7	3.9	(0.3)	11.3	146	131	212	143	7
LIZ	* LIZ CLAIBORNE INC	DEC	231.2	192.1	184.6	192.4	169.4	184.6	218.8	0.6	4.6	20.4	106	88	84	88	77
GOSHA	§ OSHKOSH B'GOSH INC -CL A	DEC	32.0	32.8	32.2	32.4	29.3	22.6	15.7	7.4	7.3	(2.3)	204	208	205	206	186
OXM	§ OXFORD INDUSTRIES INC	# MAY	20.3	10.6	15.3	23.4	26.4	24.6	14.8	3.2	(3.8)	92.3	137	72	104	159	178
PVH	§ PHILLIPS-VAN HEUSEN	# JAN	30.4	10.7	30.1	16.9	12.9	(66.6)	37.9	(2.2)	NM	185.0	80	28	79	45	34
ZQK	§ QUIKSILVER INC	OCT	37.6	28.0	31.8	26.6	18.0	12.6	0.4	NM	24.3	34.2	NM	NM	NM	NM	4,842
RML	§ RUSSELL CORP	DEC	46.9	(55.5)	14.5	8.4	(10.4)	54.4	82.2	(5.5)	(2.9)	NM	57	(67)	18	10	(13)
VFC	* VF CORP	DEC	364.4	137.8	267.1	366.2	388.3	350.9	237.0	4.4	0.8	164.4	154	58	113	155	164
FOOTWEAR‡																	
BWS	§ BROWN SHOE CO INC	# JAN	45.2	0.9	36.4	35.5	23.7	(20.9)	4.7	25.5	NM	4,660.0	969	20	780	761	507
KSWS	§ K-SWISS INC -CL A	DEC	28.7	23.3	21.1	34.3	12.5	4.2	9.8	11.3	47.1	23.1	293	238	215	350	128
NKE	* NIKE INC -CL B	# MAY	740.1	668.3	589.7	579.1	451.4	399.6	365.0	7.3	13.1	10.7	203	183	162	159	124
RBK	* REEBOK INTERNATIONAL LTD	DEC	131.5	102.7	80.9	11.0	23.9	135.1	114.8	1.4	(0.5)	28.0	115	89	70	10	21
SRR	§ STRIDE RITE CORP	NOV	24.1	19.0	25.2	26.4	21.1	19.8	61.5	(8.9)	4.0	27.0	39	31	41	43	34
TBL	† TIMBERLAND CO -CL A	DEC	90.2	106.7	124.1	75.2	59.2	47.3	12.9	21.5	13.8	(15.5)	698	826	961	582	458
WWW	§ WOLVERINE WORLD WIDE	DEC	47.9	45.2	10.7	32.4	41.7	41.5	4.6	26.4	2.9	5.9	1,037	979	231	701	902
OTHER COMPANIES WITH SIGNIFICANT APPAREL OPERATIONS																	
COLM	COLUMBIA SPORTSWEAR CO	DEC	102.5	88.8	58.6	33.0	32.7	39.3	NA	NA	21.1	15.4	**	**	**	**	NA
HMX	HARTMARX CORP	NOV	3.4	(13.9)	8.6	1.6	14.6	25.2	(220.2)	NM	(33.0)	NM	NM	NM	NM	NM	NM
RL	POLO RALPH LAUREN CP -CL A	# MAR	174.2	172.5	59.3	147.5	90.6	147.6	NA	NA	3.4	1.0	**	**	**	**	NA
TOM	TOMMY HILFIGER CORP	# MAR	(83.6)	134.5	131.0	172.4	173.7	113.2	14.6	NM	NM	NM	(572)	921	897	1,180	1,189

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available.

Ticker	Company	Yr. End	*Return on Revenues (%)*					*Return on Assets (%)*					*Return on Equity (%)*				
			2002	2001	2000	1999	1998	2002	2001	2000	1999	1998	2002	2001	2000	1999	1998
APPAREL, ACCESSORIES & LUXURY GOODS‡																	
ASHW	§ ASHWORTH INC	OCT	2.0	2.3	5.2	3.5	4.9	2.6	3.1	7.9	4.7	7.0	3.3	3.8	9.3	5.6	8.8
COH	† COACH INC	JUN	11.9	10.4	7.0	3.3	NA	24.5	23.1	13.3	NA	NA	42.0	35.5	18.6	NA	NA
FOSL	§ FOSSIL INC	DEC	8.9	8.0	11.1	12.4	10.6	13.6	12.7	19.4	22.4	19.3	19.5	18.0	27.1	31.8	27.9
HGGR	§ HAGGAR CORP	SEP	1.7	NM	2.1	2.1	2.0	3.1	NM	3.5	3.6	3.1	5.4	NM	5.7	5.7	4.9
JNY	* JONES APPAREL GROUP INC	DEC	7.7	5.8	7.3	6.0	9.2	9.2	7.4	10.5	9.5	17.5	15.8	14.0	22.2	20.5	30.1
KWD	§ KELLWOOD CO	# JAN	1.9	1.7	2.6	2.6	0.1	3.7	3.3	5.1	3.8	0.2	8.3	8.5	13.9	9.2	0.5
LIZ	* LIZ CLAIBORNE INC	DEC	6.2	5.6	5.9	6.9	6.7	10.9	11.1	12.6	13.7	12.6	19.7	20.3	21.3	20.4	17.8
GOSHA	§ OSHKOSH B'GOSH INC -CL A	DEC	7.3	7.1	7.1	7.5	6.9	20.2	20.5	22.4	22.2	17.4	38.6	55.5	94.9	51.3	27.1
OXM	§ OXFORD INDUSTRIES INC	# MAY	2.7	1.6	1.9	2.8	3.1	5.5	4.1	5.1	7.0	8.2	11.2	6.1	9.2	14.7	16.8
PVH	§ PHILLIPS-VAN HEUSEN	# JAN	2.2	0.7	2.1	1.3	1.0	4.1	1.5	4.3	2.5	1.9	11.3	4.0	11.8	7.2	5.7
ZQK	§ QUIKSILVER INC	OCT	5.3	4.5	6.1	6.0	5.7	8.6	7.2	10.3	11.2	9.9	15.4	14.2	19.3	19.7	16.9
RML	§ RUSSELL CORP	DEC	4.0	NM	1.2	0.7	NM	4.8	NM	1.3	0.7	NM	10.2	NM	2.7	1.4	NM
VFC	* VF CORP	DEC	7.2	2.5	4.6	6.6	7.1	9.4	3.1	6.3	9.2	10.7	18.9	6.1	12.1	17.0	19.4
FOOTWEAR‡																	
BWS	§ BROWN SHOE CO INC	# JAN	2.5	0.1	2.2	2.2	1.5	6.4	0.1	5.2	5.4	3.5	16.3	0.4	14.0	15.2	11.4
KSWS	§ K-SWISS INC -CL A	DEC	9.9	9.9	9.5	12.0	7.8	16.7	14.6	13.8	26.1	11.6	21.7	19.1	18.1	35.1	15.8
NKE	* NIKE INC -CL B	# MAY	6.9	6.8	6.2	6.4	5.1	11.2	10.9	10.1	10.4	8.5	18.9	18.2	17.8	17.9	13.7
RBK	* REEBOK INTERNATIONAL LTD	DEC	4.2	3.4	2.8	0.4	0.7	7.7	6.8	5.3	0.7	1.4	16.4	15.5	14.2	2.1	4.6
SRR	§ STRIDE RITE CORP	NOV	4.5	3.6	4.6	4.6	3.9	7.0	5.4	7.2	7.8	6.2	9.4	7.4	10.1	10.7	8.6
TBL	† TIMBERLAND CO -CL A	DEC	7.6	9.0	11.4	8.2	6.9	17.3	21.8	25.6	15.6	13.3	24.6	31.6	42.1	27.9	24.6
WWW	§ WOLVERINE WORLD WIDE	DEC	5.8	6.3	1.5	4.9	6.2	8.9	8.7	2.1	6.1	8.6	12.9	12.7	3.2	10.2	14.3
OTHER COMPANIES WITH SIGNIFICANT APPAREL OPERATIONS																	
COLM	COLUMBIA SPORTSWEAR CO	DEC	12.6	11.4	9.5	7.0	7.7	19.2	20.9	17.2	11.5	14.8	24.8	29.5	27.0	19.8	25.2
HMX	HARTMARX CORP	NOV	0.6	NM	1.3	0.2	2.0	0.7	NM	1.9	0.3	3.1	1.9	NM	4.4	0.8	7.3
RL	POLO RALPH LAUREN CP -CL A	# MAR	7.1	7.3	2.7	7.5	5.2	9.2	10.2	3.7	10.8	9.4	15.8	19.1	7.5	20.6	14.6
TOM	TOMMY HILFIGER CORP	# MAR	NM	7.2	7.0	8.7	10.6	NM	5.5	5.5	7.5	12.3	NM	9.5	10.0	14.5	21.6

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Ticker	Company	Yr. End	Current Ratio 2002	2001	2000	1999	1998	Debt / Capital Ratio (%) 2002	2001	2000	1999	1998	Debt as a % of Net Working Capital 2002	2001	2000	1999	1998
APPAREL, ACCESSORIES & LUXURY GOODS‡																	
ASHW	§ ASHWORTH INC	OCT	4.0	5.0	6.6	9.5	6.7	3.6	4.0	4.3	3.8	4.8	4.6	5.6	5.5	4.8	6.1
COH	† COACH INC	JUN	1.8	1.5	1.7	1.7	NA	1.3	2.4	1.7	1.8	NA	2.8	7.8	6.9	7.3	NA
FOSL	§ FOSSIL INC	DEC	3.1	2.5	3.0	3.1	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HGGR	§ HAGGAR CORP	SEP	2.2	2.6	2.9	2.2	3.0	12.9	24.5	22.1	11.4	13.1	21.0	42.3	39.5	23.0	20.2
JNY	* JONES APPAREL GROUP INC	DEC	3.1	3.0	1.3	1.7	3.6	28.9	33.0	27.9	40.2	41.1	109.8	128.0	195.4	177.8	90.5
KWD	§ KELLWOOD CO	# JAN	2.7	3.2	2.5	3.3	2.4	32.4	39.3	46.2	41.5	31.9	47.3	57.0	75.5	60.1	48.9
LIZ	* LIZ CLAIBORNE INC	DEC	2.0	2.5	2.5	2.4	3.0	22.2	26.0	23.6	11.1	0.0	61.7	58.8	48.7	22.9	0.0
GOSHA	§ OSHKOSH B'GOSH INC -CL A	DEC	2.4	2.5	1.8	1.4	2.6	0.0	24.6	43.3	55.3	0.0	0.0	31.8	62.3	106.1	0.0
OXM	§ OXFORD INDUSTRIES INC	# MAY	2.5	3.1	2.5	2.3	2.2	51.2	0.1	0.2	19.5	20.4	132.9	0.1	0.3	24.9	26.3
PVH	§ PHILLIPS-VAN HEUSEN	# JAN	3.5	3.5	3.2	3.4	2.8	47.8	48.4	48.1	50.7	52.1	76.9	85.6	83.4	82.5	105.7
ZQK	§ QUIKSILVER INC	OCT	2.2	1.8	2.0	2.3	2.4	13.7	17.6	24.4	13.9	19.0	27.0	35.0	47.9	22.4	30.0
RML	§ RUSSELL CORP	DEC	3.3	3.3	3.8	4.0	3.9	35.9	39.5	40.2	39.1	33.2	68.8	77.4	81.5	82.1	74.1
VFC	* VF CORP	DEC	2.4	2.5	2.1	1.7	1.8	26.2	29.5	28.8	19.0	19.8	50.2	74.2	82.0	67.8	64.0
FOOTWEAR‡																	
BWS	§ BROWN SHOE CO INC	# JAN	1.9	1.7	1.9	2.2	2.0	25.8	31.8	35.4	38.5	43.5	42.4	54.8	57.0	60.0	68.6
KSWS	§ K-SWISS INC -CL A	DEC	5.3	6.4	6.5	7.5	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NKE	* NIKE INC -CL B	# MAY	2.3	2.3	2.0	1.7	2.3	12.1	14.0	11.1	13.0	10.4	20.7	27.0	23.7	32.3	21.2
RBK	* REEBOK INTERNATIONAL LTD	DEC	2.8	2.9	2.5	2.0	2.2	28.6	32.8	36.2	41.2	49.2	34.3	41.5	46.8	59.8	74.0
SRR	§ STRIDE RITE CORP	NOV	3.6	3.2	2.6	2.8	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TBL	† TIMBERLAND CO -CL A	DEC	2.8	3.2	2.6	3.7	4.0	0.0	0.0	0.0	26.2	26.8	0.0	0.0	0.0	33.1	34.3
WWW	§ WOLVERINE WORLD WIDE	DEC	4.5	5.0	6.0	7.2	6.7	13.5	16.4	20.2	28.1	33.9	20.4	25.2	32.4	44.8	54.2
OTHER COMPANIES WITH SIGNIFICANT APPAREL OPERATIONS																	
COLM	COLUMBIA SPORTSWEAR CO	DEC	4.7	3.8	3.0	2.6	2.2	4.2	6.6	9.4	12.4	15.1	5.7	9.2	13.6	18.5	24.9
HMX	HARTMARX CORP	NOV	2.5	2.6	2.6	3.0	3.5	36.5	43.9	35.7	45.1	44.6	63.6	73.0	54.6	67.6	65.5
RL	POLO RALPH LAUREN CP -CL A	# MAR	2.3	2.6	2.1	2.1	2.0	17.1	22.2	26.8	30.7	6.3	37.3	46.3	64.3	76.7	13.3
TOM	TOMMY HILFIGER CORP	# MAR	2.2	3.0	3.3	2.7	2.7	21.8	25.1	25.5	28.1	31.3	69.7	97.3	89.5	107.7	137.5

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

			Price / Earnings Ratio (High-Low)					***Dividend Payout Ratio (%)***					***Dividend Yield (High-Low, %)***				
Ticker	**Company**	**Yr. End**	**2002**	**2001**	**2000**	**1999**	**1998**	**2002**	**2001**	**2000**	**1999**	**1998**	**2002**	**2001**	**2000**	**1999**	**1998**
APPAREL, ACCESSORIES & LUXURY GOODS‡																	
ASHW	§ ASHWORTH INC	OCT	52-24	43-20	16-8	22-12	50-11	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
COH	† COACH INC	JUN	37-18	27-13	32-18	NA-NA	NA-NA	0	NA	NA	NA	NA	0.0-0.0	NA-NA	NA-NA	NA-NA	NA-NA
FOSL	§ FOSSIL INC	DEC	19-10	16-9	15-6	22-11	20-8	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
HGGR	§ HAGGAR CORP	SEP	13-6	NM-NM	11-7	12-8	18-11	16	NM	14	16	21	2.6-1.2	2.0-1.5	1.9-1.3	2.1-1.4	2.0-1.2
JNY	* JONES APPAREL GROUP INC	DEC	16-10	25-12	14-8	22-13	25-10	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
KWD	§ KELLWOOD CO	# JAN	19-12	15-10	9-5	19-11	NM-NM	37	39	25	43	914	3.2-2.0	3.7-2.5	4.7-2.8	3.9-2.2	2.8-1.7
LIZ	* LIZ CLAIBORNE INC	DEC	15-11	15-10	14-9	13-10	21-10	10	12	13	14	17	1.0-0.7	1.2-0.8	1.5-0.9	1.5-1.1	1.8-0.8
GOSHA	§ OSHKOSH B'GOSH INC -CL A	DEC	19-10	16-6	8-5	11-6	16-9	10	8	11	10	11	1.0-0.5	1.3-0.5	2.3-1.3	1.5-0.9	1.2-0.7
OXM	§ OXFORD INDUSTRIES INC	# MAY	11-7	19-11	11-7	10-6	12-7	31	60	41	28	26	4.3-2.8	5.5-3.2	6.1-3.7	4.4-2.8	3.6-2.2
PVH	§ PHILLIPS-VAN HEUSEN	# JAN	15-9	48-21	13-5	17-9	32-14	14	38	14	24	32	1.4-0.9	1.8-0.8	2.6-1.1	2.8-1.4	2.3-1.0
ZQK	§ QUIKSILVER INC	OCT	18-11	24-9	17-7	26-11	25-10	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
RML	§ RUSSELL CORP	DEC	13-9	NM-NM	51-27	NM-49	NM-NM	11	NM	124	224	NM	1.2-0.8	4.2-2.2	4.6-2.4	4.6-2.2	3.1-1.7
VFC	* VF CORP	DEC	14-10	36-24	16-9	18-9	17-11	30	78	39	28	26	3.1-2.1	3.3-2.2	4.3-2.4	3.1-1.5	2.4-1.5
FOOTWEAR‡																	
BWS	§ BROWN SHOE CO INC	# JAN	11-5	NM-NM	7-4	11-6	15-9	15	667	19	20	30	2.9-1.4	3.9-2.0	4.7-2.6	3.2-1.8	3.2-2.0
KSWS	§ K-SWISS INC -CL A	DEC	18-10	15-8	14-5	19-3	14-7	2	2	3	2	3	0.2-0.1	0.3-0.2	0.6-0.2	0.6-0.1	0.5-0.3
NKE	* NIKE INC -CL B	# MAY	23-14	24-14	26-12	32-18	33-19	19	19	22	23	30	1.3-0.8	1.4-0.8	1.9-0.8	1.2-0.7	1.5-0.9
RBK	* REEBOK INTERNATIONAL LTD	DEC	14-10	20-11	20-5	NM-39	79-30	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
SRR	§ STRIDE RITE CORP	NOV	16-11	22-13	15-8	24-9	35-15	34	44	34	35	44	3.1-2.2	3.4-2.0	4.2-2.3	3.9-1.5	3.0-1.3
TBL	† TIMBERLAND CO -CL A	DEC	19-11	27-9	23-6	15-6	17-5	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
WWW	§ WOLVERINE WORLD WIDE	DEC	16-11	18-11	67-33	18-11	31-8	15	14	54	15	11	1.4-0.9	1.3-0.8	1.6-0.8	1.4-0.8	1.4-0.4
OTHER COMPANIES WITH SIGNIFICANT APPAREL OPERATIONS																	
COLM	COLUMBIA SPORTSWEAR CO	DEC	18-11	22-9	24-7	17-9	19-7	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
HMX	HARTMARX CORP	NOV	30-12	NM-NM	14-7	NM-65	21-9	0	NM	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
RL	POLO RALPH LAUREN CP -CL A	# MAR	17-9	18-10	38-21	17-11	34-17	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
TOM	TOMMY HILFIGER CORP	# MAR	NM-NM	12-6	16-4	23-12	19-9	NM	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Ticker	Company	Yr. End	Earnings per Share ($) 2002	2001	2000	1999	1998	Tangible Book Value per Share ($) 2002	2001	2000	1999	1998	Share Price (High-Low, $) 2002	2001	2000	1999	1998
APPAREL, ACCESSORIES & LUXURY GOODS‡																	
ASHW	§ ASHWORTH INC	OCT	0.19	0.22	0.49	0.27	0.37	5.99 J	5.70 J	5.49 J	5.04 J	4.77 J	9.91-4.54	9.38-4.34	7.88-3.81	6.00-3.13	18.38-4.13
COH	† COACH INC	JUN	0.49	0.39	0.23	NA	NA	1.33	0.85 J	NAJ	NAJ	NA	17.85-8.60	10.69-5.00	7.34-4.00	NA-NA	NA-NA
FOSL	§ FOSSIL INC	DEC	1.28	0.97	1.17	1.09	0.69	7.34 J	5.81 J	4.88 J	3.98 J	2.88 J	24.61-13.17	15.57-9.17	17.83-7.00	24.39-11.50	13.61-5.78
HGGR	§ HAGGAR CORP	SEP	1.25	(1.34)	1.38	1.26	0.94	20.92	19.89	20.99	18.89	20.55	16.59-7.61	13.50-10.05	15.00-10.31	14.50-9.56	16.63-10.19
JNY	* JONES APPAREL GROUP INC	DEC	2.59	1.92	2.54	1.65	1.52	0.66	0.03	0.16	(0.77)	2.33	41.68-26.18	47.43-23.75	35.00-20.13	35.88-21.50	37.75-15.88
KWD	§ KELLWOOD CO	# JAN	1.71	1.66	2.57	1.49	0.07	15.58	14.85	13.37	14.43	15.98	32.50-19.70	25.50-17.30	23.25-13.75	28.88-16.25	36.69-22.50
LIZ	* LIZ CLAIBORNE INC	DEC	2.19	1.85	1.73	1.57	1.29	5.43	5.71	5.45	5.69	7.32	33.25-23.55	27.48-18.00	24.16-15.47	20.34-15.44	27.44-12.50
GOSHA	§ OSHKOSH B'GOSH INC -CL A	DEC	2.59	2.69	2.61	2.01	1.54	7.73	6.03	3.65	1.86	5.75	48.51-26.60	43.00-17.00	21.44-12.00	22.75-13.00	24.88-13.63
OXM	§ OXFORD INDUSTRIES INC	# MAY	1.35	0.70	1.03	1.52	1.58	12.06	11.27	11.41	10.74	9.73	15.13-9.75	13.05-7.63	11.25-6.88	14.88-9.50	18.84-11.25
PVH	§ PHILLIPS-VAN HEUSEN	# JAN	1.10	0.39	1.10	0.62	0.47	5.73	5.53	5.67	5.79	4.23	16.46-10.35	18.74-8.32	13.88-5.81	10.63-5.38	15.13-6.50
ZQK	§ QUIKSILVER INC	OCT	0.80	0.61	0.71	0.60	0.42	4.06	3.27	2.56	2.98	2.30	14.26-8.45	14.57-5.68	12.28-4.63	15.42-6.47	10.42-4.29
RML	§ RUSSELL CORP	DEC	1.46	(1.74)	0.45	0.25	(0.29)	14.52	14.19	15.57	16.39	16.95	19.55-13.14	20.84-11.02	22.94-12.13	25.13-12.13	33.88-18.00
VFC	* VF CORP	DEC	3.26	1.19	2.31	3.04	3.17	10.91	9.97	9.71	10.08	9.33	45.64-31.50	42.70-28.15	36.90-20.94	55.00-27.44	54.69-33.44
FOOTWEAR‡																	
BWS	§ BROWN SHOE CO INC	# JAN	2.60	0.06	2.06	1.99	1.34	15.72	14.68	15.46	13.69	11.95	28.10-13.80	20.50-10.25	15.19-8.44	21.75-12.69	20.00-12.44
KSWS	§ K-SWISS INC -CL A	DEC	0.78	0.61	0.51	0.78	0.29	3.64	3.14	2.91	2.51	1.84	13.88-7.84	8.97-5.00	7.13-2.50	14.95-2.70	3.91-2.00
NKE	* NIKE INC -CL B	# MAY	2.80	2.50	2.18	2.10	1.59	14.44	12.78	11.53	10.11	10.30	64.28-38.53	60.06-35.50	57.00-25.81	66.94-38.75	52.69-31.00
RBK	* REEBOK INTERNATIONAL LTD	DEC	2.21	1.75	1.42	0.20	0.42	13.57	10.90	9.45	9.40 J	9.27 J	30.25-21.25	35.75-18.50	28.33-6.94	22.75-7.81	33.19-12.56
SRR	§ STRIDE RITE CORP	NOV	0.58	0.45	0.59	0.57	0.45	6.35	6.20	5.93	5.54	5.20	9.30-6.49	9.99-5.80	8.69-4.81	13.44-5.19	15.75-6.63
TBL	† TIMBERLAND CO -CL A	DEC	2.42	2.73	3.09	1.75	1.29	9.77	9.00	7.60	6.17	5.56	45.95-25.80	74.25-25.65	71.00-18.13	27.06-10.38	21.94-7.02
WWW	§ WOLVERINE WORLD WIDE	DEC	1.19	1.11	0.26	0.80	1.00	8.38	8.64	7.77	7.65	6.88	19.25-12.55	19.56-12.25	17.50-8.56	14.25-8.88	30.94-8.06
OTHER COMPANIES WITH SIGNIFICANT APPAREL OPERATIONS																	
COLM	COLUMBIA SPORTSWEAR CO	DEC	2.60	2.27	1.52	0.87	0.92	11.72	8.82	6.48 J	4.85 J	3.94 J	47.80-27.46	51.00-19.95	36.46-11.33	14.46-7.67	17.13-6.42
HMX	HARTMARX CORP	NOV	0.10	(0.46)	0.29	0.05	0.42	4.57	6.19 J	6.69 J	6.43 J	6.06 J	3.02-1.18	3.90-1.30	4.00-2.13	6.00-3.25	9.00-3.94
RL	POLO RALPH LAUREN CP -CL A	# MAR	1.77	1.77	0.61	1.49	0.91	8.93	7.38	5.76	5.08	6.60 J	30.82-16.49	31.34-17.80	23.25-12.75	25.38-16.06	31.38-15.88
TOM	TOMMY HILFIGER CORP	# MAR	(0.92)	1.50	1.44	1.82	1.88	2.09	1.20	1.60	0.39	(1.94)	16.65-6.10	17.25-8.35	22.63-6.31	41.06-22.13	35.19-17.13

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. J-This amount includes intangibles that cannot be identified.

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