ABSTRACT

EDWARDS, ERICA RENEE. Licensing as a Component of Competitive Strategy: A Comparative Analysis and Case Study. (Under the direction of Michelle Jones.)

The purpose of this study was to investigate how licensing is used as a strategic tool within the apparel industry, to understand the relationship between licensing as a strategic tool and lifestyle branding, and to understand how license reacquisition impacts the competitive strategy of firms. Using a Three Phase methodology this study explored licensing, license reacquisition, and how the two relate to competitive strategy. Phase I was the creation of a major licensing studies taxonomy, which was used to gain insight into the strategic uses of licensing within other industries. Phase II, consisted of two components included case studies of three leading apparel firms that participate in licensing and interviews with individuals from these three firms and other apparel industry representatives. Phase II was essential in understanding licensing as a strategic tool and how licensing and reacquisition are used competitively within the apparel industry. Phase III was the creation and validation of a theoretical model which depicts the relationship between strategic licensing, lifestyle branding, and reacquisition within the apparel industry to gain a competitive advantage. This research provides a foundation for future research in an emerging area of study by establishing a framework and theoretical model relating to licensing within the apparel industry.

This study examines four research objectives. Phase I was used to satisfy Research Objective One and gain an understanding of licensing and how it is used as a component of competitive strategy. Licensing creates a competitive advantage to build the overall power of the brand, and differentiate the brand owner from its competitors. Within the apparel

industry licensing is used predominantly to extend the brand's presence beyond its core, and fulfill a particular niche or white space in the market.

Phase II helped satisfy Research Objective Two, which was to understand the relationship between licensing as a strategic tool, and lifestyle branding. The study found that licensing broadens the scope and appeal of the brand, and allows the brand to offer products beyond its core. Positioned strategically these products add to the lifestyle image and assortment of the brand owner, and aids in the progression of a lifestyle branding strategy.

Phase II was also instrumental in satisfying Research Objective Three, which was to investigate why and how firms reacquire license agreements, and how such a decision impacts the firm's competitive strategy. The rights granted in a license agreement can be reacquired for various reasons including protection of quality and brand image, and overcoming a compromised market position. Reacquisition can also be the result of a control strategy, as having 100% control makes the brand owner more competitive in terms of identity, direction, and positioning against competitors. It has made the apparel industry more competitive while challenging the industry to constantly improve.

The fourth research objective was to develop a theoretical model that depicts the relationship between competitive strategies, licensing as a strategic tool, and license reacquisition. The third phase visually depicts this relationship and presents the Competitive Licensing Theory, which states that: Apparel firms use Licensing as a Differentiation Strategy to extend the brands presence beyond its core, and License Reacquisition to gain a competitive advantage.

Licensing as a Component of Competitive Strategy: A Comparative Analysis and Case Study

by

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DEDICATION

This work is dedicated to all those who have believed in me, fought for me, prayed for me, and rejoiced with me during this journey. To my family and friends who undoubtedly love me when I am right, and when I am wrong, I can only hope that each and every one of you know how much I love you in return.

Love is patient, love is kind. It does not envy, it does not boast, it is not proud. It is not rude, it is not self seeking, it is not easily angered, it keeps no record of wrongs. Love does not delight in evil but rejoices with the truth. It always protects, always trusts, always hopes, always perseveres. Love never fails.

-1 Corinthians 13:4-8

BIOGRAPHY

Erica Renee Edwards was born on April 30, 1983 in Roanoke Rapids, North Carolina. Her parents are Mr. and Mrs. William and Lillie Edwards, and she has six brothers William Jr., Gary, Toby, Steven, Joshua, and Justin, and a sister Cheryl. Erica currently has four nieces LaKecia, Brianna, Shaquanda, Diamond, and three nephews Darius, Demonte, and Amir. Even though not biologically related, Erica has another brother Cornelius Jones.

She attended public school in Halifax County, North Carolina, and graduated in 2001 from Northwest Halifax High School. She enrolled at North Carolina State University in the fall of 2001, and graduated with a degree in Textile and Apparel Management on May 15, 2005. While enrolled as an undergraduate Erica was a member of Alpha Kappa Alpha Sorority, Incorporated, and served as a peer mentor. After obtaining her Bachelor's degree, she again enrolled at North Carolina State University as a graduate student the fall semester of 2005. She is currently working towards satisfying the requirements of the Master's Degree in Textile Technology and Management, and looks forward to graduating in 2007.

After completion of her Master's Degree at North Carolina State University, Erica looks forward to pursuing a PhD in Business.

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I would like to thank my family for all the love, support, and guidance that has been given to me over the years. I am most grateful to my parents for all that they have done and continue to do. To my daddy, thank you for being a provider and giving that security that only a father can give. To my mom, thank you for praying for me, even when I'm not praying for myself. I know that no matter how rough the real world gets I can always come home to loving and open arms.

I have to thank all of my friends who have been there for me when I needed to "take a break" and enjoy the beauty of life. To my closest and true friends, your love and your friendship mean so much to me, you are not obligated to love me, but you do, and I greatly appreciate it. More importantly, you never doubted me, always encouraged me, and were there to share in every triumph and trial with me.

I thank God for all of life's blessings, most importantly all the special people that have positively impacted my life. This thesis has been my greatest accomplishment to date. I leave this experience a better person, and I look forward to accomplishing greater things.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

Introduction

Over the years many brand owners have explored the hidden potential of their brand through extensions into other product categories via licensing. Licensing is defined as the process of leasing the rights to a legally protected entity, for a specific purpose, defined geographic area, and for a limited time, in return for a negotiated payment (Raugust, 2004). While the success of licensing has contributed to the profit margin of many firms, it has catapulted some brands to an iconic status wherein the brand not only has a loyal consumer base, but also represents a lifestyle.

The history of licensing dates back to the 19th century (Raugust, 2004) and has become multifaceted, spanning a diverse range of industries. To date, licensing has proven to be very lucrative for the participating parties. The maturation of the licensing business resulted in worldwide sales of over $107 billion in 2003 (Raugust, 2004), and combined sales of $71.25 billion in the United States and Canada in 2006 (Retail sales, 2007). Fashion licensing, a well established area in the licensing business, accounted for 14% of sales in the United States and Canada at $9.8 billion in 2006, down 2% from 2005 (Retail Sales, 2007).

Licensing has become increasingly one of the most powerful contemporary forms of marketing and brand extension (Revoyr, 1995). According to Henricks (1998), in good years and bad, licensing offers powerful benefits for apparel manufacturers well beyond the obvious benefit of increasing the price point of an otherwise undistinguished garment. Generically, these undistinguished garments in some cases could sell for an estimated 60% less than what the brand makes them worth. For example, in 1997

Haddad Apparel of New York claimed net sales of $250 million from marketing tops, bottoms, and outwear for such names as Barbie, Scooby Doo, Harley Davidson, NFL and others. Paradoxically, the apparel industry has seen slight declines in licensed sales from 2001 to 2004 (License, 2006). According to *The Licensing Letter*, "The merger of Federated and May Company in 2006 caused tremendous shrinkage of brands and is on track to develop more private label business, thus eliminating chances for licensed revenue" (Survey Results, 2007, p.3). Trends in celebrity branding have put traditional brands such as Polo, Tommy Hilfiger, and Nautica at a severe disadvantage as celebrity brands such as Rocawear, Phat Pharm and Sean Jean occupy half the retail estate in department stores (Towle, 2003). The growth opportunity presented by private label products and trends in celebrity branded apparel have resulted in increased flagship operations by national brands such as Ralph Lauren. While many apparel companies are actively participating in licensing, some industry leaders like Ralph Lauren, Tommy Hilfiger and Liz Claiborne have began reacquiring licenses, which were previously granted to manufacturers.

Previous research (Conner, 1995; Gallini, 1984; Shepard, 1987) on licensing as a strategic tool focuses on technologically innovative intellectual property such as patents, and addresses the following areas:

-Deterrence of New Market Entrants: (Gallini, 1984; Rockett, 1990)

-First Mover Advantage: (Eswaran, 1994)

-Information Sharing: (Gallini & Winter, 1985)

-Profit Maximization: (Conner, 1995; Farrell & Gallini, 1986; Shepard, 1987)

-R & D Rivalry: (Katz & Shapiro 1985; 1987)

-The Role of Competition: (Fosfuri, 2004)

-Situational Licensing: (Yi, 1999)

Past researchers (Raugust, 2004; Revoyr, 1995; Schlicher, 1996; Smith & Parr, 1998) have studied various aspects of the licensing business from how the business works to legal aspects and guidelines. These works, while not specifically related to the apparel industry have outlined the major aspects of the licensing business, such as contract negotiation, distribution, and legal rights, however they lack information as to how licensing can be used to compete strategically in the apparel industry. With an increasing number of new products being offered on the market via brand extensions, and the emergence of the lifestyle brand concept, it is important to understand licensing and its role in the apparel industry. As the practice of licensing continues to gain popularity and complexity, a growing importance is also placed on understanding licensing as a viable marketing tool and element of competitive strategy.

While much research has been done to date on licensing as part of competitive strategies, there has been no focus on the apparel industry, apparel brands, or related intellectual properties. Within the apparel industry, licensable intellectual property can be found in the form of patents applicable to innovations with textile fibers, machinery, and processes; trademarks, such as those of designer brand names and logos; and copyrights applicable to such slogans used by fiber and apparel marketers. Empirical research has not been conducted that examines how licensing is used strategically to gain a competitive advantage within the apparel industry. This research seeks to understand how licensing is used strategically to gain a favorable position within the apparel industry and to establish a profitable and sustainable position against forces of competition.

Purpose of Study

The purpose of this research is to investigate how licensing is used as a strategic tool within the apparel industry, the relationship between licensing as a strategic tool and lifestyle branding, and how license reacquisition impacts the competitive strategy of firms.

Research Questions

RQ1: What is the relationship between Porter's Five Forces, Porter's Generic Strategy and licensing as a strategic tool?

RQ2: How do apparel firms use licensing to gain a competitive advantage?

RQ3. How does license reacquisition impact a firm's competitive strategy?

Research Objectives

In order to answer the research questions specific research objectives have been formulated:

RO1: To understand licensing in general and how licensing has been used as a part of a competitive strategy.

RO2: To understand the relationship between licensing as a strategic tool and lifestyle branding.

RO3: To investigate why and how companies reacquire license agreements and the impact on a firm's competitive strategy.

RO4. To develop a theoretical model that depicts the relationship between competitive strategies, licensing as a tool, and the impact of license reacquisition.

Significance

With worldwide sales well over $100 billion (Retail sales, 2007) it is important for any firm (particularly those within the apparel industry due to its highly fragmented nature) to understand how licensing can be used strategically to remain competitive. This research is beneficial to the textile and apparel industry because no previous research exists that examines the role of strategic licensing in the industry. Many apparel firms who currently participate, or would like to participate in licensing can gain valuable insight from analysis of the industry's most successful firms. The knowledge gained from this research will not only benefit brand owners in the apparel industry but generally all brand owners with trademarks who wish to gain a competitive advantage via licensing. This research will also provide an understanding as to why firms choose to reacquire licenses. Understanding reacquisition also gives insight into exit strategies of participating licensors.

Scope

The scope of this research is on licensing of fashion brands as a component of competitive strategy. A qualitative study that consists of a taxonomy of strategic uses of licensing across industries will be created. A case study that examines the practices of select leading successful apparel firms will also be included. The firms in this study are U.S. apparel companies with a history of participating in licensing, license reacquisition, and have a portfolio of branded products.

Limitations

1. This study uses a qualitative research design. Due to the qualitative nature, this study is fundamentally interpretive (Creswell, 2003), and may include personal interpretation by the author. However, such a qualitative study avoids sampling error and bias normally associated with a quantitative study (Malhorta, 1999). In addition qualitative studies are exploratory in nature and provide the opportunity to observe and collect data not readily available through quantitative measures. Most quantitative studies do not allow the researcher to gain clarification or further insight into the answers given by respondents, which is also overcome by using qualitative methods.

2. This study includes the use of industry interviews. Industry representatives may be limited in the information that they can publicly disclose. However, this study will not rely solely on one industry representative, therefore reducing the dependency of one individual, and further increases the opportunity to gain information that is not private. While this study will not rely solely on one industry representative, it will include one individual per chosen firm. Limitations associated with such a decision include the risk of having one individual speak on behalf of an entire firm.

3. This study includes data on the licensing business. Many of the statistics reviewed by the author include sales figures for the United States and Canada combined. In addition the statistics are also reported in terms of property types (which include certain classifications that can be found in Chapter II). Due to the fact that some statistics do not solely examine the licensed sales in the apparel industry, some apparel related properties might be included in categories other than fashion.

4. As there are many aspects of the licensing business, this research is limited to the strategic uses of licensing. While the case study analysis of leading firms has limited generalizability, the data gathered will provide a foundation from which future researchers can use as a framework to examine other firms of different sizes, price tiers, and target markets. Further research can also be extended through quantitative analysis.

Conceptual Definitions

Brand – Name, term, sign, symbol or design or a combination of these intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition (Keller, 1998).

Brand Extension – When a firm uses an established brand name to introduce a new product, or is combined with an existing brand (Keller, 1998).

Brand Loyalty – A deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior (Chaudhuri & Holbrook, 2001).

Fashion Licensing – The licensing of the name of a kind of clothing or a product designer on a designer or apparel brand (Gockel, 1999/2000).

License Reacquisition – The act of withdrawing from a license agreement by the licensor (Author, 2007).

Licensee - The party that acquires the rights to utilize a property, usually for a retail product but sometimes for promotional use for a service (Raugust, 2004).

Licensing – A lease agreement in which a licensee rents the rights to a legally protected property from a licensor for use in conjunction with a product or service (Raugust, 2004).

Licensor – The property owner (Raugust, 2004).

Lifestyle brand – A brand that embodies the values, images and associations of an actual or aspired lifestyle of a customer segment (Moore, 1995).

Loyalty – A state or quality of being loyal, where loyal is defined as a customer's allegiance or adherence towards an object (Rundle-Theile, 2005).

CHAPTER 2

Review of Literature

The aim of this study is to examine how licensing is used as an element of competitive strategy for apparel firms, and how reacquisition is included in this strategy. This work seeks to identify connections between selected theories of licensing strategy through an exploration and identification of common assumptions. The literature review includes information that will aid in the understanding of licensing as a form of brand extension and the relationship of licensing to lifestyle branding. This chapter concludes by examining license reacquisition, and presents a model of license reacquisition within the apparel industry.

The Business of Licensing

"Licensing is the process of leasing the rights to a legally protected entity, for a defined geographic area and for a limited time, in return for a negotiated payment known as a royalty" (Raugust, 2004, p3). According to Keller (2003), licensing involves contractual arrangements whereby firms can use the names, logos, characters, and so forth of other brands to market their own brands for some fixed fee. The licensor creates and maintains the design and image of their properties as a guideline for licensees on the proper use of the allowable trademarks or copyrights to be licensed. Licensees lease the rights to a certain property for incorporation into their merchandise, but they do not share ownership in it. For the license to function successfully, the licensed property must be protectable under the copyright or trademark laws. Licensing strategies are often used by textile and apparel companies to create distinctiveness in a product (Park & Park, 2007). According to Battersby and Grimes (1999), the strong, favorable, and unique association

with an established brand, name, logo, or any other intellectual property is a key basis to create positive consumer response via licensing.

Through licensing, the licensor avoids many of the risks associated with developing a new product line in-house, as those risks are assumed by the licensee. The major risks are financial, including non-recoupable investments such as research and development, manufacturing, and marketing expenditures (Raugust, 2004). Licensors bear little financial risks including those costs associated with developing the property and financial fortunes of the licensee (Raugust, 2004). One of the most significant risks of the licensor is the threat of losing control of the property (Raugust, 2004). Potential loss of control can lead to dilution of brand image and value.

Each participating party has certain responsibilities to fulfill, as every agreement made between the licensing parties is unique in its specifics. Licensors are responsible for creating the property (if new) and for preserving its overall integrity and longevity and setting a strategy that maintains its attributes, while the major responsibilities of the licensee include the design and manufacture of the authorized products (Raugust, 2004). Some responsibilities can be shared by both the licensor and licensee including advertising and marketing.

When used effectively as a marketing tool, licensing can potentially benefit all parties, across various industries. The licensor benefits financially, with potential for the licensor to turn licensing into a profit center; according to Raugust (2004), some apparel companies such as Ecko and Mossimo have used licensing as a less risky and less investment-heavy way to reduce debt, improve margins and see greater sales. Other apparel firms have been able to license their entire business by creating brand marketing

plans and allowing licensed manufacturers to carry out the manufacturing and distribution. Licensing provides an avenue for new product categories to be tested, and allows a property's customer base to be expanded into new product categories.

A major benefit to the licensee is the consumer awareness to the product lines which can inherently translate into financial benefit. Licensing brings a manufacturer a built-in (existing) audience, and can enhance the licensee's property with positive attributes such as the quality associated with Ralph Lauren (Raugust, 2004). Additional marketing clout is also generated for the licensee. Raugust (2004) discusses how the advertising of Liz Claiborne apparel created demand for Bausch & Lomb's Liz Claiborne eyewear, and how NASCAR die-cast vehicles helped market NASCAR apparel.

As previously stated, there are risks associated with licensing. If one of the license parties files for bankruptcy, the impact for the other party can be pernicious. Due to the fact that both parties in a licensing agreement are inextricably tied, the consequences of bankruptcy are very pronounced, with the fate of each party being interdependent. Each, to a significant extent, relies on the good standing of the other, both rely on the value of the intellectual property, and each can affect the value and integrity of the property as well as the fiscal health of the other party (Ash & Danow, 2004). Under Section 365(n) of the US *Bankruptcy* Code, "intellectual property" is defined expressly to include patents and copyrights, but does not include trademarks. According to Ash & Danow (2004) this is presumably because trade mark licensing agreements depend in part on control of the quality of the product sold by the licensee, and the licensees must play an active role in approving the quality of the products bearing the licensed mark.

This is of particular concern in the apparel industry as many of these companies are exceptionally dependent on licensing relationships (Ash & Danow, 2004), and many large design houses do not manufacture non-core products themselves. Because these firms rely on other firms for manufacturing, the value of the brand rests in the hands of a licensee and is captive to the failures of that licensees business as a whole (Ash & Danow, 2004). If the licensing agreement does not safeguard the licensed asset in the event of licensee's bankruptcy, the value of the licensors brand, property, reputation, and integrity could be compromised (Ash & Danow, 2004). Particular steps that can be taken include separating different types of payment to the licensor, tying termination to the financial condition and not bankruptcy, and obtaining a security interest in the licensed property.

Over the years, there have been an increasing number of firms participating in licensing. With such a growing trend, licensing has become a $107 billion business (Raugust, 2004). In 2004 the worldwide licensing industry was worth approximately $170 billion at retail, with the US generating approximately $110 billion and approximately $5.805 billion in royalties (LIMA, 2006). More than 70% of Fortune 500 companies have a licensing program in place, while 80% of successful new products are brand extensions, indicating that licensing is recognized in building marketing strategies (Brand Strategy, 2004). The National Purchase Diary Fashionworld Consumer Panel estimated in 2003 the top licensed apparel brands were Nike, Old Navy, Disney, Tommy Hilfiger, and Polo/Ralph Lauren. Altogether the apparel brands had licensed sales of an estimated $21.38 billion (License! Research, 2005).

Success of licensing depends on consumers' desire for goods with a perceived difference based on brand name, trademark, or image (Burns, 2002). By creating a certain image, licensed products can generate consumer interest, patronage and loyalty, and most importantly, having the right license ultimately permits both parties to enter a market that they had been unable to reach before (Arnold, 2003).

Types of Licensing

There are a variety of sources in which licensable properties come from. Different types of products have been merchandised and marketed in various ways, in various market segments, acquiring unique elements and standards. Although every licensing program is unique, there are certain trends and similarities within each product type. According to Keller (2003), licensed product categories include apparel, corporate trademark, apparel and sports. Licensed Product classifications according to Raugust (2004) are listed in Table 1. Those categories in which apparel related products can be found are also summarized in Figure 1, and described below.

Table 1. Licensed Product Categories

Licensed Product Classifications
Art
Celebrities/Estates
Entertainment/Character
Fashion
Music
Non-Profit
Publishing
Sports
Trademark/Brands
Toys/Games
Other

Source: Adapted from Raugust, K (2001).

Figure 1. Apparel Related Licensed Categories

Source: Author (Edwards, 2007)

Art

Art licensors are relatively small and very fragmented, and includes museums, print houses, fine artists, and designers who create their art in order to exploit it commercially by selling their own properties for licensed art merchandise (Gockel, 1999/2000). Art has been among the fastest growing licensing sectors in the late 1990's and early 2000's, both in terms of cumulative sales and in the number of participants

(Raugust, 2004). The bulk of art licensing is attributable to individual artists, which can be classified into two categories from a licensing strategy perspective. Fine artists represent the first category and include artists who create art for art's sake (licensing is a secondary concern), and artists who create art with merchandise in mind, which represents the majority of the sector (Raugust, 2004). While some designers' names eventually become brands, the ultimate goal of most art licensing programs is to combine desirable artwork with a recognized name to maximize sales. Manufacturers and retailers equally benefit from licensed artwork and artist-brand properties because they allow them to tap into a marketplace where consumers are purchasing products that reflect their own senses of style, color and design (Battersby &Grimes, 1999, p. 136). Apparel related products associated with this licensed category predominately include accessories, such as the Metropolitan Museum of Art's silk scarves (Raugust, 2004). Textile products associated with this category include decorative accessories, furniture and home furnishings.

Celebrities and Estates

The licensing of living and deceased celebrities usually focuses more on promotional deals that usually involve the use of a famous person's name on packaging for premiums or advertising rather than on licensed merchandise (Raugust, 2004). Celebrities are associated with a range of product types such as action figures, cookware, home furnishings and apparel. Such licensing programs are also popular in international markets. However, licensing of living celebrities can be risky for licensees in some cases as there is no way to guarantee how they behave or whether they stay popular (Raugust, 2004).

"During recent years, the line between person and brand has blurred, and celebrities have begun applying techniques from the corporate world to their careers: marketing and protecting a brand identity, trademarking and licensing their names, launching their own product lines and embracing product endorsements to boost their perceived value to consumers (Towle, 2003, p1)." In 1984, the Babe Ruth estate became one of the first to trademark a deceased celebrity's name and litigate against its misuse, clearing the way for other (living and dead) public figures to protect their names and likenesses as intellectual property (Towle, 2003).

"A cornerstone of many recent celebrity brands has been a fashion line, which offers another opportunity for an artist to convey an image and a message to the consumer (and profit economically from the relationship) (Towle, 2003)." According to Towle (2003), the phenomenon started slowly, with Michael Jordan's Air Jordan Nikes taking the nation by storm in 1985. The next occurrence which has made the biggest impact on the merchandising world (Towle, 2003) came during the 1990's with hip-hop. "Def Jam Records founder Russell Simmons launched Phat Farm in 1992; the company earned $260 million in sales in 2002. In 1998, Sean Combs unveiled the Sean John clothing line, which rang up $450 million in 2002 receipts. In 1999, Jay-Z and Damon Dash debuted Rocawear, a $300 million retail business as of 2002. And in 2001, Lopez's fragrance and apparel line became an overnight sensation, bringing in $130 million during its second year (Towle, 2003, p1)." According to Towle (2003) traditional brands like Polo, Tommy Hilfiger, and Nautica are at a severe disadvantage as the hip hop community has had a tremendous amount of influence on celebrity branding, with half the real estate in department stores being converted to these brands.

Character and Entertainment Licensing

Generating billions of dollars in revenues each year, it is one of the most profitable types of licensing. It is difficult to measure the precise revenue from character licensing accurately, due to two recent trends in the industry: a trend towards long-term relationship agreements between the licensor and the licensee, and a trend towards structuring of partial payment of royalties in terms of equity in licensee operations (Gockel, 1999/2000). These trends make measuring revenue difficult because structured payments over a specified amount of time may or may not be reported on a yearly basis as are other products and categories. This sector contains two groups of properties with very different traits: "hot" or short-term properties and classic or long-term properties (Raugust, 2004). Short-term properties have a lifespan expectancy of three to five years, while long-term properties have a potential lifespan of decades (Raugust, 2004). This product type is also the most concentrated with just a few large players dominating the licensing activity, such as Disney and Warner Brothers.

The Walt Disney Company extends the Disney brand name to merchandise ranging from apparel, toys, home décor and books to interactive games, food and beverages, stationery, electronics and animation art. The company is routinely recognized as having one of the strongest brands in the world (Keller, 2003). According to Keller (2003), to protect and enhance the value of its brands, Disney issues a thick notebook of standards of brand identities for Disney licensing with specifics such as color treatment of logo, retail signage, and the Disney copyright notice, all to ensure that licensed products are faithful to the look and personality of Disney characters.

Disney continues to reign as the world's largest licensor with global retail sales of $23 billion for 2006 (Disney, 2006). Achieving more than $2 billion annually in global retail sales, Disney ranks as the world's 12th largest apparel brand (Disney, 2006). Disney began licensing its characters for toys made by Mattel in the 1950's, and is now responsible for some 3,000 contracts for 16,000 products with top manufacturers worldwide (Keller, 2003). In 2004, Disney introduced a couture line that started out as a collection of knit tops, and now includes accessories, sleepwear and apparel for toddlers. Most recently Disney lost a 16-year court battle regarding royalties to 25 name derivatives from Winnie the Pooh that contributes $6 billion yearly to the Disney Company (Lozito, 2007).

Fashion Licensing

Fashion licensing can be defined as the licensing of the name of a clothing or product designer on a designer or apparel brand (Gockel, 1999/2000). It consists of non-personality driven apparel labels, and designer names such as Ralph Lauren, Liz Claiborne, and Tommy Hilfiger (Raugust, 2004). In branded apparel, licensing has returned designing manufacturers like Calvin Klein and Donna Karan to fiscal health, while others like Ralph Lauren and Tommy Hilfiger have turned licensing into a highly successful mainstream strategy (Henricks, 1998). Within the fashion industry, licensing serves as a form of brand extension into categories in which the label owner either does not have skill, or licensing proves to be more profitable than in-house operations. Some of these merchandise categories include clothing, belts, ties and luggage (Keller, 2003). In the apparel industry most firms license their trademarks in non-core product segments; however some have began licensing their core businesses as well. According to Raugust

(2004), control over the brand is an important concern wherein some designers have purchased their licensees or taken licensed lines in-house when the felt they were losing control over marketing, merchandising, design or any other facet of the line. Thus future revenues from licensing may depend upon strategic decisions about production and line extension (Gockel, 1999/2000).

Due to the fact that the fortunes of fashion licensing tend to mirror those of the apparel industry, some fashion labels tend to shy away from licensing in response to financial difficulties and concentrate on core products controlled in-house (Raugust, 2004). Other trends relating to fashion licensing include private label agreements between fashion brands and retailers, granting exclusive rights to the retailer as a store brand. Such a deal gives the retailer a point of differentiations from its competitors and is lucrative for the designer or apparel label by reducing costs and increasing revenues (Raugust, 2004). According to Gockel (1999/2000), nearly all of the major fashion players are positioning themselves as a lifestyle brand, suggesting growth opportunities in the area of licensing.

Licensing is also used in the luxury fashion segment. Luxury fashion brands viewed licensing as last resort in the 1990's as control of manufacturing and distribution were of paramount importance (WWD, 2004). While some luxury designers are just beginning to see licensing as a means to diversify the business, others such as Gucci, Versace, and Jean Paul Gaultier say licensing in moderation and with strict control can fortify a business, and strengthen a brand, according to Women's Wear Daily (2004).

An example of licensing within the apparel industry is Phillips-Van Heusen (PVH), which owns or licenses 19 of the most successful apparel and footwear brands in

America (PVH website, 2007). The company relies on a multiple brand, channel, and price point strategy to provide stability amid shifting market trends and retail consolidation (Molaro, 2007). According to the PVH website, in 2004, one in every three dress shirts sold in the U.S. was a PVH product. PVH's portfolio of licensed brands include designer labels such as Geoffrey Beene, Kenneth Cole, and Chaps; celebrity labels including the Sean John and Donald J. Trump labels; and eight distinctive brands including Calvin Klein Collection, Calvin Klein, and Izod. The company's brands are offered at a variety of price points and in multiple channels of distribution—a strategy that is tailored to capture consumers at all levels and reduces the reliance on any one demographic group, merchandise preference or distribution channel (Molaro, 2007). PVH develops both domestic and international brand extensions, with over 150 licensees in more than 100 countries (Molaro, 2007).

Corporate Trademark and Brand Licensing

When company names, logos, or brands are licensed on products, this is referred to as corporate trademark or brand licensing; one of the fastest-growing segments of the licensing business, mainly because licensing provides enormous strategic, marketing and earning benefits. According to The Licensing Letter, this is the largest sector accounting for $18 billion in retail sales in the U.S. and Canada in 2003.

Firms have different motivations for licensing their corporate trademarks. According to Raugust (2004), a growing number of trademark owners are initiating licensing efforts, with strategies that are primarily promotional, lifestyle, and some extension, and for many different reasons including:

a.) to create brand awareness or “share of mind”

b.) to protect the company's trademarks

c.) to develop new revenue streams

d.) to enter new product categories in a relatively risk free and cost effective way

However, strategic concerns about brand extension and dilution of equity may arise. Inappropriate licensing can potentially dilute brand meaning with consumer's and marketing focus within the organization, as the risk that the product will not live up to the reputation established by the brand is always prevalent (Keller, 2003). According to Keller (2003), Eddie Bauer disappointed industry analysts for not focusing on their merchandise assortment when in late 2000 the firm entered into a two year licensing agreement with Compaq for special edition Compaq Presario 1400 notebooks.

Sports Licensing

Sports licensing has been transformed from the relatively small and fragmented industry it once was and has evolved into a highly sophisticated, $13 billion-plus industry (Gockel, 1999/2000). While there are many professional sports that have their respective licensing programs, professional sports licensing particularly refers to the licensing programs of the four major leagues: National Football League, National Basketball Association, National Hockey League, and Major League Baseball- accounting for a large proportion of the licensing revenue (Gockel, 1999/2000).

In addition about 160 colleges and universities in the U.S. are involved in collegiate licensing, marketing their rights primarily to the apparel market with sometimes very respectable revenues, depending on the performance of their sports teams and the size of the university or college (Gockel, 1999/2000). While the success of a university's sports team may drive sales, licensing programs are being viewed by school

officials as part of a larger positioning effort that stretches well beyond arenas and stadiums (Collegiate Licensing, 2007). According to Pat Battle of Collegiate Licensing Company, higher level people within the universities are seeing licensing as an opportunity to present the University's brand in the marketplace; this is important as schools compete against each other for students, grants, funding and other scarce resources (Collegiate Licensing, 2007). "Sports licensing is primarily a fan-driven, seasonal phenomenon, with sales of products based on individual teams largely of regional interest (Raugust, 2004, p 35)."

As of 2005, collegiate licensing was a $2.8 billion industry, with the top selling product video games selling 1.8 million units of NCAA College Football property (Sosnowski, 2006). According to the Collegiate Licensing Company, the University of North Carolina ranked number one for five consecutive years as the top licensed product in terms of sales, with t-shirts accounting for the top selling product, and Nike accounting for the top collegiate apparel licensee (Sosnowski, 2006).

International Licensing

In today's global marketplace, revenue is generated and the brand is capitalized through licensing (Ash & Danow, 2004). Licensing is a common method of international market entry for companies with a distinctive and legally protected asset, which is a key differentiating element in their marketing offer. This asset might include a brand name, a technology or product design, or a manufacturing or service operating process. While licensing is a practice not restricted to international markets, the globalization of the

industry, and the leveling effect of the internet on the availability of information have led to the parallel growth of licensing worldwide.

Licensing offers a particularly effective way of entering foreign markets because it can offer simultaneously both a low-intensity (and therefore low risk) mode of market participation and adaptation of product to local markets (Arnold, 2003). In licensing agreements, the local licensee has considerable autonomy in designing the products into which it incorporates the licensed characters. The other major advantage of licensing is that, despite the low level of local involvement required of the international licensor, the business is essentially local and shares the same risks associated with those of the local business that holds the license. Therefore import barriers do not apply. There are two main disadvantages of licensing. First, although it facilitates the creation of localized product, licensing is characterized by very low levels of marketing control, with the licensee usually having to obtain approval from the international vendor for product design and specification. Second, licensing runs the risk of creating future local competitors, through the sharing of intellectual property. This could potentially lead to the local licensee retracting from the international licensor and imitating the technology. Over time the local firm is likely to develop into a position in which it can launch its own rival business. The best firms suited for participation in international markets via licensing are those who are innovators and can retain a competitive advantage.

Porter's Theory of Competitive Advantage

"The essence of strategy formulation is coping with competition, and the strongest competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation" (Porter, 1998, p23). Porter's model is a

framework that analyzes the five forces of industry competition that determines the attractiveness of a market.

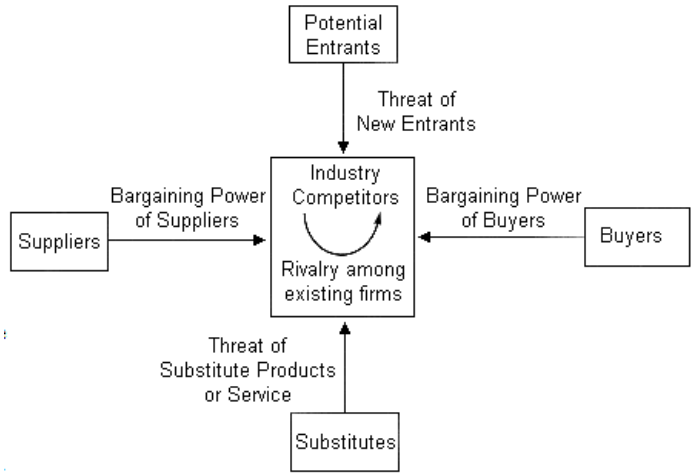
In any industry, the rules of competition are embodied in five competitive forces: the threat of new entrants, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors. See Figure 2. The collective strength of these five competitive forces determines the ability of firms in an industry to earn, on average, rates of return on investment in excess of the cost of capital (Porter, 1985). It is often used to analyze the attractiveness of an industry structure. Industry profitability as well as the strength of each of the five competitive forces are a function of industry structure and vary by industry. Firms have the power through their competitive strategies to influence the five forces.

One reason marketers have been forced to use so many financial incentives or discounts is that the marketplace has become more competitive, with both demand-side and supply-side factors contributing to the increase in competitive intensity (Keller, 2003). According to Michael Porter (1998), competition is at the core of the success or failure of firm that determines the appropriateness of a firm's activities that can contribute to performance. "Competitive strategy is the search for a favorable competitive position in an industry and aims to establish a profitable and sustainable position against the forces that determine industry competition. It is the act of aligning a company and its environment of which is subject to change along with the company's capabilities" (Porter, 1991). The two factors that underlie the choice of competitive strategy are industry attractiveness and competitive position. Neither of the two factors alone can sufficiently guide the choice of competitive strategy, as they are both dynamic

in nature and can be shaped by the individual firm. While industry attractiveness is partly a reflection of factors over which a firm has little influence, competitive strategy has considerable power to make an industry more or less attractive (Porter, 1985).

Many apparel firms use licensing as a component of their competitive strategies to gain a competitive advantage. Whether they participate as the brand owning licensor or manufacturing licensee, each party can potentially increase their competitive positions. Licensing in some cases has added an additional 60% markup to the retail price of generic apparel products (Henricks, 1998). Licensing has also been used successfully by some apparel firms to reduce debt, increase sales and improve profit margins (Raugust, 2004). Other firms have been able to employ a full time licensing strategy that focuses on brand marketing plans and allows for no in-house production. While these licensing strategies employed in the apparel industry vary, they have all been used to gain a competitive advantage, and strengthen a firm's competitive position.

Figure 2. The Five Forces that Determine Industry Profitability



Source: Porter, M (1985). Competitive Advantage: Creating and Sustaining Superior Performance. (p 5). New York: The Free Press.

Threat of New Entrants

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources (Porter, 1998). The severity of this threat depends on the existing barriers and the reaction from existing competitors. However, as these conditions change, so does the seriousness of the threat. Strategic decisions involving a large segment of an industry can have a major impact on the conditions determining the threat of entry (Porter, 1998).

Bargaining Power of Buyers

Customers have great bargaining power as they have the ability to force prices down and demand higher quality or more service. Customers also have an advantage and become a competitive force because they are able to play competitors off against each other. The power that each buyer has depends on a number of market variables and the relative importance of its sales to the industry compared with its overall business (Porter, 1998).

Bargaining Power of Suppliers

Suppliers pose a threat as they can exert bargaining power on industry participants through the reduction of quality of purchased goods and services or by raising prices. Powerful suppliers can thereby squeeze profitability out of an industry (Porter, 1998). The power that each supplier has depends on a number of market variables and the relative importance of its sales to the industry compared with its overall business. A firm can improve its strategic posture by finding buyers or suppliers who possess the least power to influence it adversely (Porter, 1998).

The bargaining power that buyers and suppliers have can increase and decrease, as the factors creating supplier and buyer power change with time or as a result of a firm's strategic decisions. In the apparel industry, retailers have become more concentrated and control has passed to large chains, the industry has come under increasing pressure and suffered falling margins. The industry has not been able to differentiate its products or cause switching costs that lock the buyers in enough to neutralize these trends (Porter, 1998).

Threat of Substitute Products

The threat of competition from substitute products occurs if multiple products are found to perform the same function (Porter, 1990). Substitution is seen as a threat in any industry as it places a ceiling on industry prices and therefore limits the industry's potential. The industry stands to potentially lose earnings and suffer in growth unless it can upgrade the quality or differentiate its product. Those substitute products that deserve the most attention strategically are those that are subject to trends improving their price-performance trade-off with the industry's product, or those products that are produced by industries earning high profits (Porter, 1998). A major reason why industries grow is due to penetration against substitutes, and likewise, a major reason why industries decline is the emergence of substitutes.

Rivalry among Existing Firms

According to McAfee (2002), rivalry is the extent to which firms compete on price, and of the five forces rivalry generally gets the most attention, perhaps because it is determined fully by factors within the industry. Rivalries among existing competitors often involve tactics such as price competition, product introduction, and advertising

battles. In principle, an industry could be so rivalrous that the market can support only one firm. The intensity of this rivalry depends on the saturation within the industry (Bruer, 2006). According to Porter (1990), rivalry may stem from a variety of sources including:

a.) numerous and equally balanced competitors

b.) slow industry growth

c.) high fixed or storage costs

d.) economies of scale and overproduction

e.) high exit barriers such as economic, strategic, and emotional factors

In addition to the identified sources of industry rivalry noted by Porter, other related variables have been identified in marketing literature. As seen below, Table 2 provides a listing of variables related to the forces of industry competition. Many of these variables are associated with more than one force, and can be manipulated by firms to overcome the threats posed by industry competition.

Table 2. Porter's Five Forces and Related Variables

Porter's Five Forces and Related Variables	
Force	**Related Variables**
Threat of New Entrants	Economies of scale
	Capital / investment requirements
	Customer switching costs
	Access to industry distribution channels
	Brand loyalty
	The likelihood of retaliation from existing industry players
	Government regulations
	Absolute cost advantages
	Learning curve advantages
	Proprietary product differences

Table 2. Continued

Rivalry Among Existing Firms	The structure of competition
	The structure of industry costs
	Degree of product differentiation
	Switching costs
	Strategic objectives
	Exit barriers
	Informational complexity and asymmetry
	Intermittent overcapacity
	Corporate stakes
	Brand Equity
Threat of Substitute Products	
	Quality
	Buyer willingness to substitute
	Relative price and performance of substitutes
	The cost of switching to substitutes
Bargaining Power of Suppliers	
	Concentration of suppliers
	Branding
	Profitability of suppliers
	Suppliers threaten to integrate forward into the industry
	Buyers do not threaten to integrate backwards into suppliers
	Switching costs
	Degree of differentiation of inputs
	Presence of substitute inputs
	Cost of inputs relative to selling price of the product
	Importance of volume to the supplier
	Impact of inputs on cost or differentiation
Bargaining Power of Buyers	Concentration of buyers
	Differentiation
	Profitability of buyers
	Role of quality and service
	Threat of backward and forward integration into the industry
	Switching costs

Table 2. Continued

	Bargaining leverage
	Buyer Volume
	Buyer information availability
	Availability of existing substitute products
	Buyer Price Sensitivity
	Price of Total Purchase
	Pull-through
	Brand Identity
	Decision Makers' Incentives

Source: Adapted from Porter (1985) and 12 Manage Rigor and Relevance Website (2007)

Differentiation

According to Porter (1985), there are three generic strategies that firms within any industry can use to gain a competitive advantage: cost leadership, differentiation, and focus. Although all three strategies can be observed within the apparel industry, not all apparel firms can achieve success via any generic strategy. Differentiation can be based on a number of factors including the product itself, and the marketing approach. Licensing is recognized in the building of marketing strategies, as evidence indicates more than 70% of Fortune 500 companies have a licensing program in place (Brand Strategy, 2004). Licensing is used within the apparel industry as a differentiation strategy

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers, thereby being able to charge a premium price. While the ultimate success of licensing depends on consumers' desire for goods with perceived difference based on brand attributes (brand name, image, trademark), licensing strategies are often used by textile and apparel companies to create

distinctiveness in a product (Park & Park, 2007). Firms pursing a differentiation strategy within the apparel industry include The Limited and Ralph Lauren (David, 2003).

Differentiation alone does not guarantee a competitive advantage. "A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than the cost of differentiating. A successful differentiation strategy however, allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features (David, 2003, p 176)." Positive consumer response can be created through licensing from the strong, favorable, and unique association with an established brand's intellectual property (Battersby & Grimes, 1999).

Licensing to Leverage Competitive Forces

Licensing is a business tool that can be used to overcome the threats posed by the forces of industry competition. The threat of new entrants can be leveraged through licensing in many ways. Licensing most often is used strategically as a tool to deter entry of new competitors, and in some proven cases choose the industry's competition. Consider for example a noted apparel brand with a well known and prestigious brand name that has the opportunity to license its name to an apparel manufacturer that wishes to gain entry into unexploited apparel areas. By licensing its brand name to the apparel manufacturer, the brand owner has deterred entry of a potential competitor, and has the opportunity to expand and strengthen its brand's presence. Similarly, the same noted apparel brand could seize this opportunity to license its brand name to a manufacturer of

non apparel related textile products looking to gain entry into the apparel industry. Such a situation could deter entry of potential apparel industry entrants as well as potential entrants from other industries.

Brand loyalty is an important variable related to the threat of new entrants. Firm's with brands that exhibit strong brand equity and have a high level of brand loyalty present a significant barrier for new entrants to compete with. If these firms choose to license their brand name and associated intellectual property, new entrants that do not have such an established history have less of a significant threat.

The bargaining power exerted by customers can also be leveraged via licensing. Buyers have the ability to force prices down and demand higher quality or more service. According to McAfee (2002), if the buyer does not value the good highly, the buyer can credibly threaten not to buy the good at all. Within the apparel industry licensed products have been shown to command price premiums. Apparel manufacturers participating in licensing have been able to use this to their advantage by offering licensed products that bear brand names synonymous with high quality. Presumably apparel manufacturers that participate in licensing do so because one of the main benefits is in the use of the licensors brand name.

While suppliers pose a large threat within any industry, licensing is a key way to reduce this threat. Suppliers pose a threat as they can exert bargaining power on industry participants through the reduction of quality of purchased goods and services or by raising prices. Relating to apparel licensing, the threat posed by manufacturers (licensees) with strong brand power is minimal at best. While it is important for apparel manufacturers to produce quality goods at consistent prices, most apparel consumers are

willing to purchase those brands with high equity, and a strong brand name. While powerful suppliers can squeeze profitability out of an industry according to Porter (1998), it is presumed that apparel manufacturers with such power would not need to acquire licenses, as all activities done by a firm should be those that create a sustainable competitive advantage.

While substitute products place a ceiling on industry prices, licensing can be used to leverage this threat in similar ways as the threat posed by suppliers. A major factor related to the threat posed by substitute products is the buyer's willingness to substitute. While substitute products are a threat, the severity of this threat largely depends on the buyer. Brands with high brand equity and a loyal customer base that license their products are more likely to have buyers who are less willing to choose substitute products; thereby greatly reducing the threat.

Due to the fact that rivalry is the extent to which firms compete on price, brand equity is a factor that is greatly related to leveraging this threat via licensing. Oftentimes rivalries involve strategic tactics. However, stronger brands have greater equity and therefore have a greater chance to use licensing to leverage such a threat. According to Aaker & Joachimisthaler (2000), strong brands have "brand equity which is defined as the brand assets (or liabilities) linked to a brand's name and symbol that add to (or subtract from) a product or service" (p.17). The assets that are associated with brand equity are (1) brand awareness, (2) perceived quality, (3) brand associations, and (4) brand loyalty (Aaker & Joachimisthaler, 2000). Because strong brands have these assets, it creates significant advantages over competitors. These advantages can have a

significant influence on suppliers, as suppliers can reap the benefits of these assets through licensing. This also creates extra barriers for competitors.

Whether centered on new competitors or the rivalry among existing ones, competitors are a threat, and are the basis of two of the five competitive forces. The right competitors however can strengthen rather than weaken a firm's competitive position in many industries serving a variety of strategic purposes that increase a firm's sustainable competitive advantage (Porter, 1985). Strategically, competitors can increase competitive advantage, improve current industry structure, aid in market development, and deter entry. More specifically, competition can be used to deter entry in the following ways:

-Increase the Likelihood and Intensity of Retaliation

-Block Logical Entry Avenues

-Crowd Distribution Channels

Licensing to Leverage Competitive Forces in Other Industries

Due to the fact that licensing can be used to take advantage of intellectual property and gain extra profits, many industries have realized the full potential of their intellectual property. Empirical research exists that shows how licensing is used within other industries to strategically compete against competitors and overcome forces of industry competition.

Previous literature related to licensing has examined the strategic uses of licensing to deter entry of new firms. Gallini (1984) asserts that an incumbent firm must make a decision to offer its technology to a rival or risk being pushed out of the market alluding to a theory of deterrence by inducement of entry. Gallini's (1984) model follows a

simple R & D model with competing technologies wherein access to the market is restricted to only two firms, who have sole capability for researching and developing processes for the production of the good. The study finds that under asymmetry in returns to research, reflecting an asymmetry in market positions, a successful researcher attempts to secure some of its market position by licensing some of its current technology to its rivals (Gallini, 1984). In other words, where there is a difference in market position (between the incumbent and rivals or possible licensees) which leads to and is reflected in the rate of return to research, the incumbents market position is not compromised through the act of licensing some of its technology, as the entrant may either buy a license or do research that is much more costly. Such a strategy could be used within the apparel industry as some firms such as Nano-Tex have spent millions on researching textile innovations such as nanotechnology.

Rockett (1990) contends that licensing can be used by an incumbent firm to choose the competition by showing that if entry of the latter (weaker competitor) firm prevents entry by the former (stronger competitor), the incumbent might opt to license to the weaker firm. In doing so the licensor succeeds at crowding the market, which possibly deters entry of stronger firms which would have been more formidable competitors. Rockett demonstrates that the incumbent can use a strategy of inducting firms that would have remained outside the industry in the absence of licensing to seriously change the nature of the gaming between the incumbent and its rivals (Eswaran, 1994). According to Porter (1985), competitor selection seeks not only to influence the pattern of entry, but to influence which competitors gain the market share necessary to be viable and which segments they compete in. Even though the apparel industry is highly

fragmented, such a strategy could still be used by a firm with high brand equity. If an apparel brand owner is licensing its brand name in a non-core product category, to a weaker firm (in terms of brand equity and name recognition), this could deter a stronger competitor. Furthermore, by licensing its brand name to the weaker competitor, the weaker competitor will represent that brand in the market, thus strengthening the brand owner's competitive position.

Eswaran (1994) also provides research contributing to the strategic uses of licensing to deter market entry. Eswaran argues that an incumbent firm in a market threatened by entry can exploit its first-mover advantage by licensing its technology not to a potential entrant but to firms that would have remained outside the industry. His work demonstrates how the incumbent may subsidize the variable costs of its licensees in order to deter entry by setting a royalty that is sufficiently low, and also by inviting licensees. Even when entry is not deterred the incumbent might opt to invite outsiders as licensees and lower their variable costs. While this strategy may not be as easy to emulate in the apparel industry compared to those previously mentioned, there are some apparel industry applications. Consider an apparel firm that wished to diversify their portfolio of branded products to include handbags. While there are some apparel firms that manufacture handbags, the apparel brand owner can choose a firm that does not currently have apparel industry applications to license to instead of those firms within the apparel industry that have such capabilities. By opting to not use an established apparel manufacturer with such capabilities, the apparel brand owner has created a new level of competition for its rivals via licensing.

According to Oster (1995), the bargaining power of innovators and potential licensees is affected by the early exclusive licenses introducing asymmetries into an industry. Early exclusive licensed create an unleveled playing field for the competition because they are not readily available to the competition, presenting an automatic disadvantage. Therefore the competition which is already behind on the technology must invest in research and development in attempts to remain competitive. Exclusive licenses that are introduced early in a technology's life cycle create a competitive advantage for the licensor that resists the bargaining power of buyers and suppliers. Such a strategy would again be applicable to a patentable textile innovation such as products including nanotechnology, and not as applicable to apparel trademarks and copyrights, due to the innovative nature of patents.

Unfortunately licensing can create unnecessary competitors, and potentially harm a licensor's competitive position. Apparel firms participating in licensing that have high brand equity have an advantage over competitors at overcoming such an obstacle. Having high brand equity allows a firm to create a differentiated product in which consumers are willing to pay a premium for, based on such an advantage. The second most common way that firm's manage to harm their competitive position is in the relinquishment of its competitive advantage in exchange for royalty (Porter, 1985). Previous researchers have also found that firms are often reluctant to license their technologies since they may be giving their rivals the knowledge necessary to develop a similar or even better technology (Gallini & Winter, 1985; Scherer, 1980;).

While previous research has proven that licensing is used strategically by firms, as it relates to technology, it also shows that licensing does not guarantee a competitive

advantage. Competitive advantage can result from a firm's ability to perform some activities in unique ways, which create and sustain intangible assets such as brand image and customer relationships. Porter argues that such intangible assets are not valuable in and of themselves, but become valuable when they fit industry structure and a particular business strategy.

Licensing via Brand Extension as a Competitive Strategy

In today's apparel industry, consumers are exposed to a proliferation of brand alternatives. As a type of intangible asset of a firm, brands are used to create awareness of the product, and for years brand extensions have been seen as a vital part of growing a brand. In the 1990's, 81% of all new products introduced in the market were brand extensions (Keller, 2003). According to Keller (2003), brand extension refers to using an established brand name identified with a product in one market for a new product in another market. Leveraging the brand name, which is one of the firm's most valuable hidden assets (Bhat & Reddy, 1994) can substantially reduce the risk of introducing a new product by building on consumers' familiarity with and knowledge of an established brand (Forney, Park and Brandon, 2005). A successful brand extension can change the meaning and image of a brand, by improving the strength, favorability, or uniqueness of its associations (Keller, 1998). According to Smith and Park (1992), the choice of brand strategy can play a significant role in the success of new products which are brand extensions.

Most actual cases of brand extension involve entry by an established brand name into a market where there are at least a few, and often many, existing incumbent firms (Pepall & Richards, 2002). The widespread occurrence of brand extension suggests that

a strong brand identity can facilitate entry, or more precisely, can enhance an entrant's ability to compete against incumbent rivals.

According to a study examining the evaluative criteria of fashion brand extension (Forney, et al, 2005), the strength of the branded products promotes brand loyalty when making purchase decisions in new product categories, even though purchase frequency may differ. When considering brand extension and its strategic use by a firm, it is important to understand the role of brand loyalty among the consumer base. By building on consumers brand loyalty, preference, and recognition, brand extension strategies seek to increase revenues by prompting consumer purchases across product categories (Keller, 1998). Branding is essential to building product image (Cleary, 1981) and it influences a product's perceived worth, increases the brand's value to the customer, leads to brand loyalty (Rooney, 1995), and enhances the effects of brand extensions (Smith & Park, 1992). Brands with high brand equity and a loyal customer base that license their products are more likely to have buyers who are less willing to choose substitute products.

When a consumer is first exposed to a brand extension, the extension is new and unfamiliar. When faced with an extension for the first time, the tangible and intangible attributes of the parent brand may be evoked in consumers' minds, and these attributes may then be inferred in the extension (Bhat & Reddy, 1999). The basic assumption regarding brand extensions are that consumers have some awareness of and positive associations about the parent brand in memory and that at least some of these positive associations will be evoked by the brand extension (Keller, 1998). Consumers have many different associations with a brand. One class of associations is brand attitude or

affect, that is, consumers' global or overall favorable or unfavorable evaluation of the brand, whereas another class of associations comprises beliefs about the brands product and non-product attributes (Keller, 1993).

Lane and Jacobson (1997) investigated the reciprocal impact of brand leveraging (influence of brand extensions on brand evaluations). The study involved 209 subjects who were asked to evaluate 4 brand names and the corresponding brand extensions (both congruent and incongruent). Results from this study indicated that extension evaluations do have an impact on brand evaluations. The results provided support for a reciprocal impact that flows from brand extension to brand evaluation, which is present across individuals and different types of attribute cues. The findings from this study indicated that reciprocal effects should be considered when firms leverage their brands as brands are not immune to extension induced attitude change.

Given the considerable positive impact of brand extensions on the market share and advertising efficiency of new products (Smith & Park, 1992), it is not surprising that many firms are developing explicit strategic plans for extending their brands (Dacin & Smith, 1994; Zangwill, 1990). According to a study done by Court, Leiter, and Loch (1999), many strong companies are using their brands to move quickly into industries with low intensity, thereby pursuing markets in which competition is fragmented and where their brands enjoy a competitive advantage. A study conducted by Reddy, Holak and Bhat (1994) examined the determinants of line extension success using data on 75 line extensions of cigarette brands over a 20 year period to investigate the relative effects of brand, extension, and firm characteristics on the incremental market share of brand line extensions. This study found that firm size and marketing competencies also play a

part in an extension's success; earlier line extensions have helped in the market expansion of the parent brand; and incremental sales generated by line extensions may more than compensate for the loss in sales due to cannibalization.

As a result of the widespread success of [brand extension] strategy, many brands are becoming affiliated with a portfolio of diverse products (Dacin & Smith, 1994). Dacin and Smith (1994) examined brand portfolio characteristics (number of products affiliated with the brand, variance in quality across these products, and degree to which the products are interrelated) on brand strength. The experiment based findings indicate that the number of products affiliated with a brand was positively related to consumers' confidence in and favorability of their evaluations of the quality of an extension of the brand. This study found that when portfolio variance and subjects' confidence in and favorability of their judgments of extension quality variance was low, there was a positive relationship between the number of products affiliated with a brand and consumers' confidence in their judgments of the quality of an extension of the brand. The strength of this relationship diminished considerably when portfolio quality variance was high. Finally the study also found that the effect of parent brand extension fit on consumers' confidence in and favorability of their quality evaluations of extensions decreased as portfolio relatedness decreased. This study concludes that the number of products affiliated with a brand does not automatically harm the brand and may even strengthen it.

Some brand extension strategies introduce lower priced versions of a product into the market for competitive considerations or various market reasons. The danger with such an extension strategy, however, is that the parent brand image could be cheapened

or tarnished in some way (Pepall & Richards, 2002). Even more difficult than the introduction of a lower priced extension is an upward extension with the introduction of a more expensive product. Generally, it is difficult to sufficiently change people's impressions of the brand to justify a significant upward extension (Pepall & Richards, 2002). According to Mininni (2006), a lack of understanding of the consumer and the marketplace can lead to failures, while the wrong category extension can create the perception of diminishment of the value of the brand. Ries and Trout (1986) contend that extensions are potentially ruinous because they dilute a brand's position in a consumer's mind.

Brand Dilution

In the textile and apparel industry intellectual property can be in all forms including patents, trademarks, and copyrights. While patents are more eminent in the textile sector, trademarks and copyrights are more prominent among apparel firms. According to the Federal Trademark and Dilution Act of 1995, trademark dilution is defined as the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of (1) competition between the owner of the famous marks and other parties, or (2) likelihood of confusion, mistake, or deception. When brand name accessibility decreases and is diluted, it is less likely that the brand will be recalled and enter the consumers' consideration set in decision making situations. Even more, when aspect accessibility decreases (and is diluted), even consumers who seek the benefits offered by the brand are less likely to consider and choose the brand (Alba, Hutchinson & Lynch, 1991).

While many firms enjoy success in their brand extension ventures, the strategy, however, is risky because the product may not always be accepted; 30-35% of new products fail (Booz, Allen & Hamilton 1982; Crawford 1979; Reddy, Holak & Bhat 1994). Prior research has examined the sensitivity of brands to the success or failure of extensions (Keller & Aaker, 1992; Loken & Roedder, 1993). In a study by the Association of National Advertisers in 1984 (as cited by Reddy, et al, 1994), it was found that 27% of line extensions across all industries fail. Even those extensions that are not classified as failures do not necessarily enjoy equal success, as an extension may cannibalize sales of existing products and dilute the image of the original brand over time (The Economist, 1990 as cited by Reddy et al, 1994). According to a study done by John, Loken and Joiner (1998), extensions carry the risk of diluting what the brand name means to consumers, especially in the case of extensions that are inconsistent with the brand's image or fail to meet consumer expectations. The results of three experimental investigations concluded that the risk of brand and line extensions does not stop at the parent brand level. Inconsistent extensions carry the risk of diluting important consumer beliefs about individual products that carry the parent brand name, with beliefs about flagship products being the most immune to dilution. Although Keller and Lehmann (2006) reported that parent brands are not particularly vulnerable to failed brand extensions, the risk of the parent brand potentially being damaged increases when there is a high degree of similarity or fit involved.

Lifestyle

Lifestyle trends are apparent in the fashion industry. According to Fornie et al. (2005), consumers often choose certain products, services, and activities over others

because they are associated with a certain lifestyle. This study also found the effect of brand extension on fashion products appears to involve cross-shopping behavior where consumers of a specific brand in one product category purchase products with the same brand in another product category. By offering a similar aesthetic appeal across product categories, designer, national, or private label apparel brands are extending into multiple product categories (Abend, 1997).

Lifestyle branding can be traced back as early as the 1920's in Paris at the House of Chanel (Fernie, Moore, Lawrie & Hallsworth, 1997). Packaging a lifestyle in the image of her collections, Coco Chanel created a lifestyle that became her brand identity and design signature, while other designers had historically been designing clothing to suit a particular lifestyle. While the concept of lifestyle branding may have started with Coco Chanel, Ralph Lauren has been crowned the king (Tungate, 2005). In 1980, Hanan defined lifestyle marketing as "a strategy for seizing the concept of a market according to its most meaningful, recurrent patterns of attitudes and activities, and then tailoring products and their promotional strategies to fit these patterns." (Hanan, 1980, p.2-3). Later in the 1980's when fashion became less important than lifestyle, Ralph Lauren was the perfect brand (Tungate, 2005). Currently, Polo/Ralph Lauren gives consumers access to a world modeled on an exclusive gentlemen's club and country house, where the purchase and consumption experience confer status on the individual (Helman & Chernatony, 1999). Having meticulously applied a sense of aristocratic style, every aspect of the brand including the brands logo symbolizes membership of an exclusive lifestyle.

According to Marshal Cohen of NPD, lifestyle marketing is an overused and misunderstood practice used today; however, he also states that it is the most important thing that a brand can do (personal communication, Fall 2006). A lifestyle brand is a focused retail brand targeted at a specific market segment defined by lifestyle (Helman & Chernatony, 1999). The goal of lifestyle marketing is to connect with the consumer through their lifestyle choices by assessing how individuals spend their time, what they consider important about their surroundings, their opinions on various issues, and their interests (Michman, 1991). O'Shaughnessy (1987) proposes that consumer buying follows an overall consumption system or lifestyle. According to Helman & Chernatony (1999), an inspiration for the good life generates goals, some of which result in demand for specific products that contribute to the desired lifestyle. As cited by Helman & Chernatony, Solomon (1994) suggested that lifestyle is not simply about allocating time and money; it embraces the symbolic nuances that differentiate groups, and is about shared values or tastes, particularly those reflected in consumption patterns.

Licensing and Lifestyle

From new and old properties to soon to be released properties, licensors are realizing the importance of creating lines that fit consumer's lifestyles and interests, which involves more than putting popular licenses on new products (Facenda, 2005). Proof of this fact was shown at the 2005 Licensing Show where almost every one of the attending licensors seemed to focus on appealing to consumers' lifestyles in one way or another.

Some observers of the licensing business refer to lifestyle licensing as a separate property type that includes products from any sector that can be positioned as lifestyle

products (Raugust, 2004). According to Raugust, the idea is that a property captures the essence of a lifestyle experienced or desired by its target audience. Art properties, fashion labels, and home furnishings brands are some of the many licenses that can be positioned as lifestyle properties. Driven by retailer's positive reception to lifestyle brands and cross merchandising, the demand for non-apparel items has increased dramatically (Scardino, 2005).

One lifestyle brand that has been maintained a constant presence in licensing is Barbie, which not only has a presence in dolls but apparel, fragrance, a collection of DVD's, an online component, and a Barbie Live show (Facenda, 2005). But since Barbie has a window of about five years with girls, the property has to be continually reinvented and refreshed. Mattel has also partnered with Benetton to create Barbie by Benetton, a line of four dolls exclusive to Benetton. Benetton, a high-end apparel chain, represents a new channel of distribution for Mattel (Facenda, 2005).

While consumers are continuing respond favorably to lifestyle brands, many well established mass apparel lines are extending their names to other categories. Ralph Lauren has built the company into a global luxury lifestyle brand that stretches from classic men's suits and women's wear to home goods, accessories and fragrances under the company's brand names: Polo Ralph Lauren, Ralph Lauren, Purple Label and Black Label (Much, 2007). The company also has current licenses with West Point Home for bed and bath, Yves Deloine for luxury linens, Bacova for bath rugs, a Town and Country division for table linens, and Heridon for furniture (Home Textiles Today, 2007). Lauren will go down in fashion history for introducing the concept of "lifestyle merchandising" in department stores, where each fashion brand was segregated in its own appetizing

ambiance (Agins, 2000). In January of 2007 Ralph Lauren formed a Global Brand Concepts group to create new lifestyle brands for specialty and department stores, which helps partner design, marketing and advertising for a full range of products. With the new group, Polo is drawing on its core skills to control the crucial aspects of the brand creation process, including product development and branding (Much, 2007).

While the company has fared well at high-end stores such as Saks, the new group gives Polo a chance to have a presence at mid-priced retailers, where it traditionally hasn't had a presence (Much, 2007). Polo announced on February 1, 2007 that they would be partnering with J.C. Penney to create a lifestyle brand. The brand which will be exclusive to J.C. Penney will be called American Living and will include moderately priced men's, women's and children's clothing, accessories and home products, and will be available Spring 2008.

License Reacquisition

In today's global economy licensing is used as a strategic tool by firms to contribute to the success of their business. The practice of extending a brand via licensing is prevalent throughout many industries. With the emergence and acceptance by consumers of lifestyle branding, there are ever increasing opportunities for licensing to be used to extend an apparel brand. Many empirical studies have concluded that brand extension and licensing are tools that can be used to successfully contribute to a firm's profit margin, growth strategies, and loyal customer base.

While the benefits of licensing have been proven in research and successes have been noted in the apparel and other industries, some apparel firms have began reacquiring licenses granted to manufacturers. "Some fashion licensors move in the other direction,

either to increase control over their brand activities or because they feel they can generate more profit by controlling manufacturing than through royalties" (Raugust, 2004, p10). In March of 1999, Ralph Lauren terminated a 19 year-old license agreement with Oxford industries for boy's clothing. Presumably, this decision came after Oxford's license agreement with Tommy Hilfiger and news of more potential licenses with Hilfiger. Firms have pulled out when the licensee is also producing products for a competitor, and this is most commonly caused by the competitor's license detracting from prospective sales, or manufacturing favoring the competitor (Henricks, 1998). According to Raugust (2004), in 2001, Tommy Hilfiger acquired its European licensee, T.H. International, and Nautica brought its childrenswear business in-house. Ralph Lauren also acquired its Italian licensee, PRL Fashion of Europe, which was one of a series of purchases of licensed manufacturers to complete Polo's strategy of directly controlling all of its European activities (Raugust, 2004).

Ralph Lauren has continued its reacquisition of licenses; recently the company reacquired its Lauren women's line from Jones Apparel in 2003. Again in 2005, Ralph Lauren made headlines when the company reacquired its footwear license for the Polo and Ralph Lauren names to establish full control over the brand (Gorman, 2005). The footwear license agreement was first reached with Reebok in 1996. Ralph Lauren reported paid $110 million to reassume such rights, and made investments to accommodate the footwear line, in which the firm saw the reacquisition of the footwear license as "a key element of a successful accessories strategy" (Gorman, 2005, ¶3). In 2006, Ralph Lauren reacquired its jeans unit from Jones Apparel for a reported $335 million (Murphy & Holman, 2006). According to Ralph Lauren (Murphy & Holman,

2006), the deal gives Polo Ralph Lauren the ability to develop the denim business to its fullest potential. The agreement with Ralph Lauren prohibited Jones apparel from selling certain competing products, and restricted Jones' ability to make acquisitions of products that could be seen as competitive to Polo Jeans.

In 2006, Perry Ellis reacquired its fragrance license from its licensee Parlux for $63 million (Prance, 2006). Similarly to Ralph Lauren, Perry Ellis' chairman and chief executive officer said that the company believes that taking back its fragrance brand will allow Perry Ellis to strengthen and further develop the product categories for future growth, and that the company envisioned a more-restrictive control over creative development (Prance, 2006).

Assuming that firms make all decisions in its best interest, presumably license reacquisition is a strategic decision. There are many assumptions that can be made as to why firms choose to reacquire licenses. Those who have participated in license reacquisition such as Ralph Lauren and Perry Ellis attribute their decisions to control of the brand name and related products. Most of Ralph Lauren's reacquisitions have been followed by a statement from the firm explaining how the particular decision was tied to a particular strategy. Those strategies have included direct control of activities, full control of the brand, and product development to its fullest potential.

There are many other assumptions that can be made as to why firms choose to reacquire licenses which include the following

a.) The licensor violated terms of the licensing agreement

b.) The firm wishes to gain more control over the use of its intellectual property

c.) The firm wishes to maintain exclusivity

d.) A growth strategy has been fulfilled

e.) A retrenchment strategy is needed response to a weak competitive position, as the product life cycle states that there is ultimately a decline in sales.

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits (David, 2003). Retrenching to a narrow diversification base is usually undertaken when corporate management concludes that the firm's diversification efforts have ranged too far afield and that the key to improved long-term performance lies in concentrating on building strong positions in a smaller number of businesses, and is accomplished by divesting businesses that (1) have little or no strategic fit with the business that management wants to concentrate on, or (2) that are too small to make a sizable contribution to earnings (Thompson & Strickland, 2003). According to David (2003), there are five guidelines when retrenchment may be an especially effective strategy to pursue.

1.) When an organization has a clearly distinctive competence but has failed to meet its objectives and goals consistently over time.

2.) When an organization is one of the weaker competitors in a given industry.

3.) When an organization is plagued by inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.

4.) When an organization has failed to capitalize on external opportunities, minimize external threats, take advantage of internal strengths, and overcome internal weaknesses over time; that is, when the organization's strategic managers have failed (and possibly will be replaced by more competent individuals).

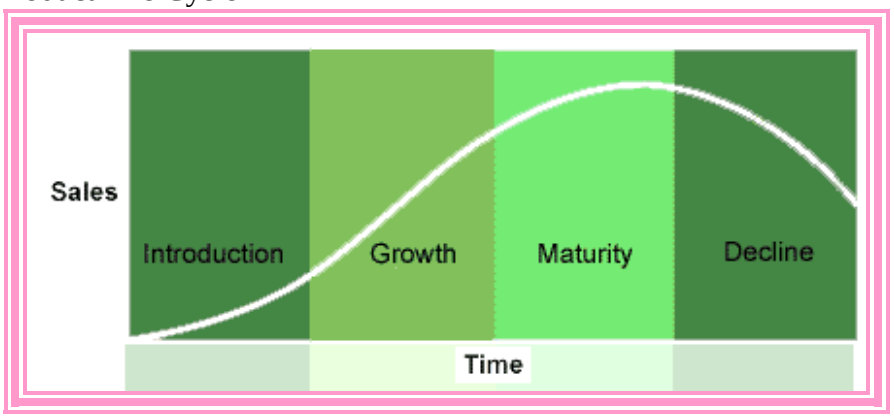
5.) When an organization has grown so large so quickly that major internal reorganization is needed.

Some of the most successful apparel firms have diversified their portfolio of products, gained additional profits, and chose to require the licenses, citing various reasons for the reacquisition, as previously mentioned with of Ralph Lauren. Whatever the underlying motivation may be, reacquisition is a decision made by a firm as a result of strategy. Strategy, regardless of its form is imperative for any company to improve its competitive position.

Product Life Cycle

In regard to the fulfillment of growth strategies for a license, in **Error! Reference source not found.** the Product Life Cycle is expressed as sales over time. As illustrated there are four stages of the life cycle which begin with introduction. The second stage of the product life cycle is growth, followed by maturity and ending with decline (some life cycles include a fifth stage of death). The product life cycle states that there is ultimately a decline in sales. In anticipation of a decline, strategic firms should have exit strategies and other viable options in which they can exercise if needed to maintain their competitive position.

Figure 3. Product Life Cycle



Source: Kotler, P. (1997). Marketing management: Analysis, planning, implementation, and control (9th ed). Upper Saddle River, NJ: Prentice Hall.

Figure 4 is an illustration of how the author perceives the reacquisition process within the apparel industry based on the review of literature. As illustrated, Licensing is used within the apparel industry as a differentiation strategy to overcome the forces of industry competition. Due to the highly fragmented nature of the apparel industry, gaining and sustaining a competitive advantage requires strategic actions. Michael Porter (1985) outline's three generic strategies (cost leadership, differentiation, and focus) that can be used to overcome the forces of industry competition (threat of new entrants, rivalry among existing competitors, threat of substitute products, bargaining power of suppliers and bargaining power of buyers). Because the apparel industry is highly fragmented, firms seeking to gain a competitive advantage must provide an element of uniqueness to their product. Firms that seek to be unique use the generic strategy of differentiation to do so while at the same time to overcome the forces of industry competition. Firms with brands that are trademarked and have high brand equity can capitalize on their intellectual property via licensing. Licensing negotiations are a result

of an apparel brand owner's decision to license their intellectual property as a generic competitive strategy. After such a strategic decision is made, licensing negotiations between the apparel brand owner and manufacturer are initiated. Licensing can be initiated for a number of reasons including brand extension and market entry. With the emergence of lifestyle branding, presumable licensing can be initiated to create a lifestyle brand. During negotiations the apparel brand owner agrees to grant rights to the intellectual property in return for specified royalty payments. The terms of the agreement between both parties are outlined in a contract and typically include the following (Raugust, 2004) as seen in Table 3.

Table 3. Terms of License Agreement

Grant of Rights
Description of the property
Products manufactured, sold or distributed
Distribution
Geographic territory
Exclusivity
Rights to newly created properties
Advertising and promotion materials
Payment and Auditing Procedures
Compensation
Definition
Auditing procedures
Product Development and Approvals
Term of Contract
Termination and breach
Options
Indemnifications and Insurance
Other provisions

Source: Adapted from Raugust (2003)

Once the agreement is made and contract approved, the manufacturer develops the specified products, and upon approval by the apparel brand owner the product is placed in the specified retail outlets. Simultaneously after product placement, the product life cycle begins and the apparel brand owner begins to monitoring and control of product performance and customer activity. The level of monitoring and control exercised by the brand owner will vary, this is depicted by the triangle, as some brand owners wish to exercise more control than others. Contributing factors that lead to the level of control exercised by the brand owner include the brand image that they wish to convey, the target

audience, and the level of exclusivity associated with the brand name. These factors along with the product life cycle will influence the decisions regarding what to do in terms of the licensing contract. The brand owner has several choices including: (1) extend the agreement, (2) make modifications to agreement and extend, and (3) end agreement and reacquire license.

Once the reacquisition decision is made, apparel firms typically have the choice to pull the product from the market or develop a strategy to bring production of the product in-house. The act of reacquisition of an apparel license to bring production of the product in-house, after using the license agreement to establish a market presence, monitor customer activity and sales, results in a sustainable competitive advantage for the apparel brand owner.

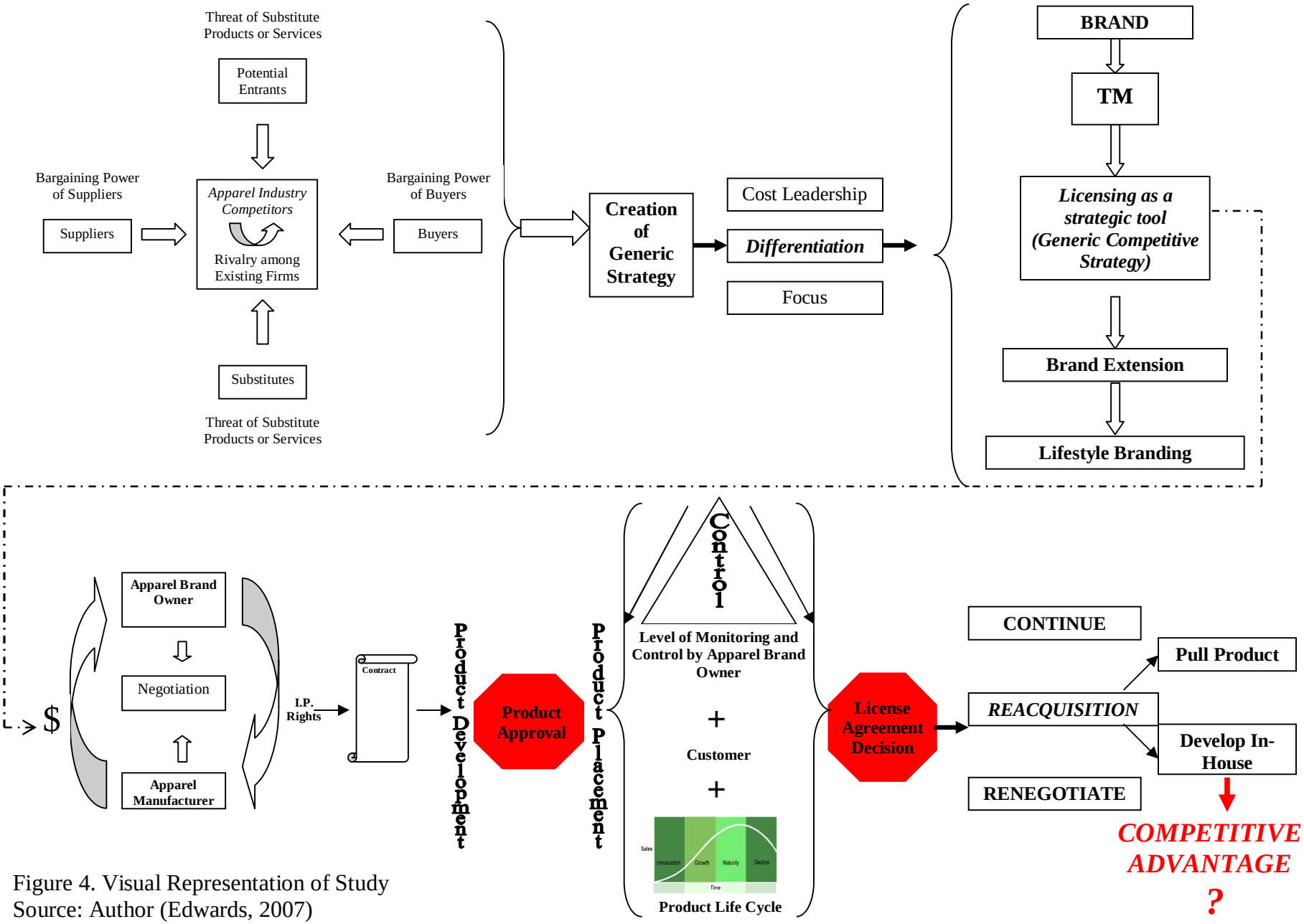


Figure 4. Visual Representation of Study
Source: Author (Edwards, 2007)

CHAPTER 3

Methodology

The methodology of this study followed the format provided by Yin (2003) for conducting case studies. The methodology of this study began with the statement of purpose, research question, and research objectives. The research design consisted of a Two Phase Methodology, which employs Creswell's (2003) Inductive Logic conceptual research design and Yin's (2003) Case Study theoretical framework. Due to the contemporary nature of this study, the case study method was deemed most appropriate. According to Yin (2003), a case study is defined as an empirical inquiry that (1) investigates a contemporary phenomenon within its real life context, especially when (2) the boundaries between phenomenon and context are not clearly evident. Preliminary hypotheses regarding the outcome of Phases II are also included.

Purpose of Study

The purpose of this research was to investigate how licensing is used as a strategic tool within the apparel industry, the relationship between licensing as a strategic tool and lifestyle branding, and how license reacquisition impacts the competitive strategy of firms.

Research Questions

RQ1: What is the relationship between Porter's Theory of Competitive Advantage and licensing as a strategic tool?

RQ2: How do apparel firms use licensing to gain a competitive advantage?

RQ3. How does license reacquisition impact a firm's competitive strategy?

Existing literature (Gallini, 1984; Eswaran, 1994; Fosfuri, 2004) confirms that licensing is used as a strategic tool within various industries. Specifically, research shows that licensing has been used by some firms to deter market entry (Gallini, 1984), overcome the threat of substitution (Rockett, 1990), and maximize profits (Farrell & Gallini, 1986; Shepard1987; Conner, 1995). According to Bhat and Reddy (1994) and Keller (1998) the brand's name is one of the firm's most valuable assets. Since no previous research exists that examines the strategic uses of licensing within the apparel industry, the goal of this study was to provide empirical research which will ultimately provide apparel firms with a better understanding of how to use licensing strategically to compete. According to the review of literature some firms that have reacquired licenses have done so to gain control of the brand. Based on preliminary findings used to create the methodology for Phase I, preliminary hypotheses have been constructed that relate to the overall research questions (RQ).

RQ1: What is the relationship between Porter's Five Forces, Porter's Generic Strategy and licensing as a strategic tool?

Ho: Licensing is used within the apparel industry as a differentiation strategy to overcome the forces of apparel industry competition.

RQ2: How do apparel firms use licensing to gain a competitive advantage?

H2: Licensing is used by apparel firms to create lifestyle brands as part of a competitive strategy.

RQ3. How does license reacquisition impact a firm's competitive strategy?

H3: License Reacquisition is used by apparel firms to gain full control of the brand as a part of competitive strategy.

Research Objectives

In order to answer the research questions specific research objectives were formulated:

RO1: To understand licensing in general and how licensing has been used as a part of a competitive strategy.

RO2: To understand the relationship between licensing as a strategic tool and its relationship to lifestyle branding.

RO3: To investigate why and how companies reacquire license agreements and the impact on a firm's competitive strategy.

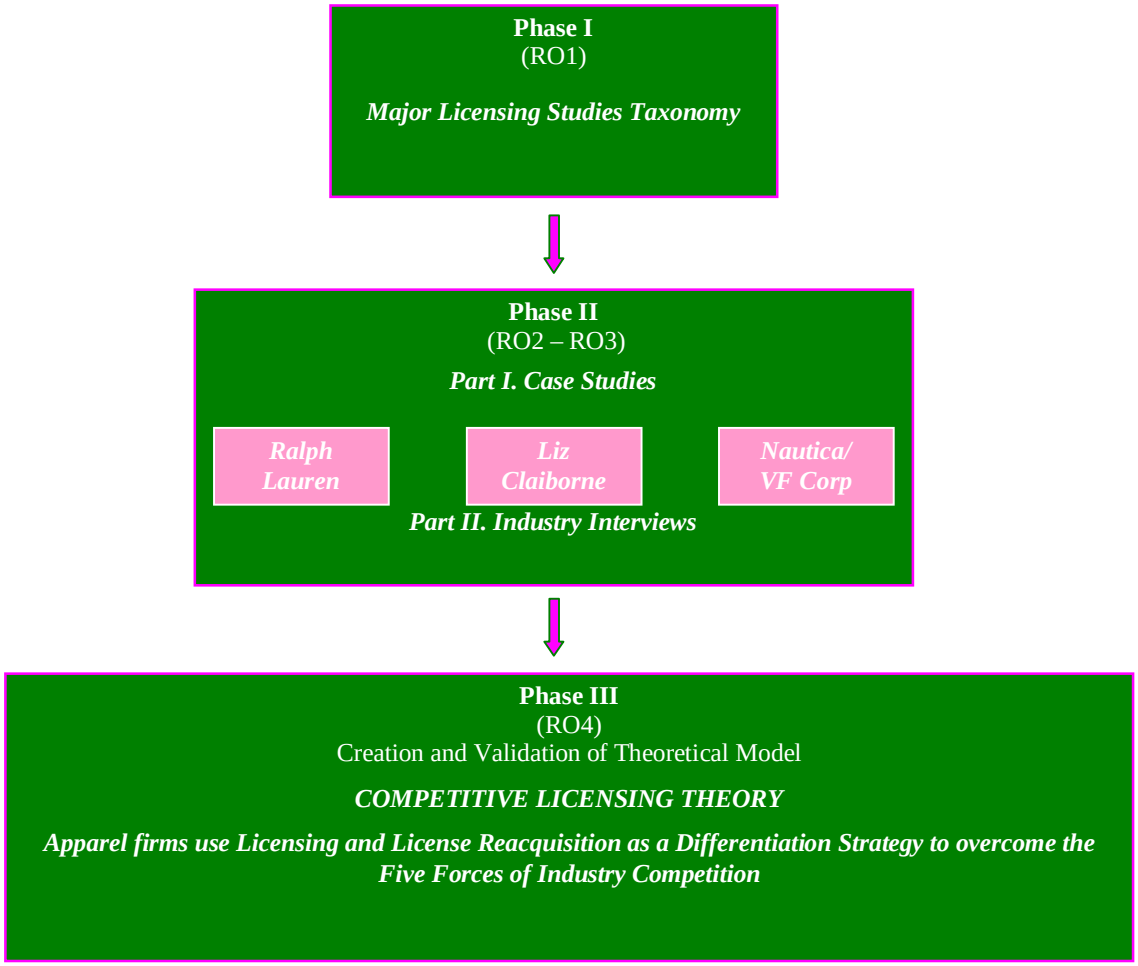
RO4. To develop a theoretical model that depicts the relationship between competitive strategies, licensing as a tool, and the impact of license reacquisition.

Research Design

The research design for this study consisted of three non sequential phases, as shown in

Figure 5. These phases were created in response to the theory proposed by the author. The author theorized that licensing was used by apparel firms as a differentiation strategy to overcome the five forces of industry competition.

Figure 5. Conceptualized Research Model



Source: Author (Edwards, 2007)

Phase I consisted of a comprehensive collection of examples of licensing strategies used in various industries. These works were used to develop the taxonomy of strategic licensing literature. Phase I was integral in the development of Phase II, as it provided a frame of reference in terms of the existing strategic uses of licensing. Phase II consisted of three separate case studies (Ralph Lauren, Liz Claiborne, Nautica), and an in-depth analysis of major apparel firms and their licensing activities. Interviews of industry representatives were used to gain information regarding licensing as a strategic

tool, the relationship between licensing as a strategic tool and lifestyle branding, and how license reacquisition impacts the competitive strategy of firms. The results from Phase II were compared with the results from Phase I to identify any differences and similarities in strategic licensing and reacquisition by apparel firms and firms in other industries. Phase III utilized information from Phase I and Phase II in the creation of a theory that depicts the relationship between Porter's Five Forces of Industry Profitability, Porter's Generic Strategy, the licensing process, and license reacquisition process. This theory was validated with data from both phases.

A mix of primary and secondary data sources were used, and have been summarized in Table 4 below.

Table 4. Data Sources

Primary Data Sources	
Industry Interviews	Ralph Lauren Liz Claiborne Nautica/VF Wrangler/VF National Hosiery Association Licensing Agency Marketing Firm
Secondary Data Sources	
Scholarly Journals	Journal of Brand Management Journal of Marketing Research Journal of Marketing
Search Engines	Google Scholar Data Monitor Business Source Premiere
Company Websites	Ralph Lauren Liz Claiborne Nautica VF
Business Periodicals	License Weekly License Magazine Women's Wear Daily Apparel Magazine
Organizations	Licensing Industry Merchandisers Association The Licensing Executives Society The Licensing Foundation, Intellectual Property Owners Association World Intellectual Property Organization Respect Rights Foundation
10K/Annual Reports	

Source: Edwards (2007)

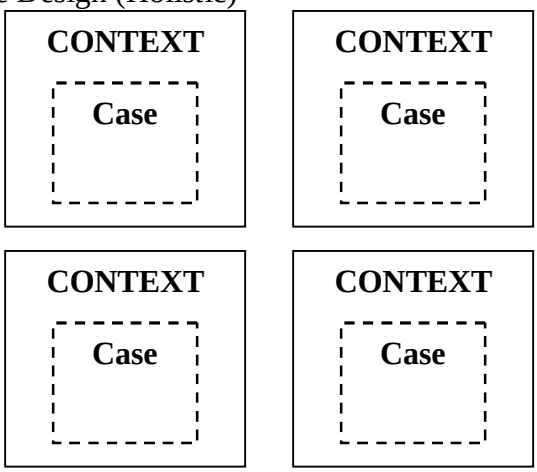
Phase I

Phase I consisted of a comprehensive collection and analysis of empirical research relating to the strategic uses of licensing, and uses a Multiple-Case Design (Yin,

2003) as a framework. Yin's Multiple-Case (holistic) Design essentially is a study that contains more than a single case. The holistic design is advantageous when no logical subunits can be identified or when the relevant theory underlying the case study is itself of holistic nature. As shown in

Figure 6, this design includes the desire to analyze contextual conditions in relation to the "case" (Yin, 2003). According to Yin, within a multi-case design, every case serves a specific purpose within the overall scope of inquiry. Each case is to be carefully selected so that it can either predict similar results (a literal replication) or predict contrasting results but for predictable reasons (a theoretical replication). The evidence from multiple case designs is often considered more compelling than single case designs, and the overall study is therefore regarded as being more robust (Herriot & Firestone, 1983; Yin, 2003).

Figure 6. Multiple Case Design (Holistic)



Source: Adapted from Yin (2003)

Yin's Multiple Case Study Method has been used as a methodology in many studies including the INLEI Project in which they used 20 case studies to examine the impact of the introduction of large-scale network learning on the administration and

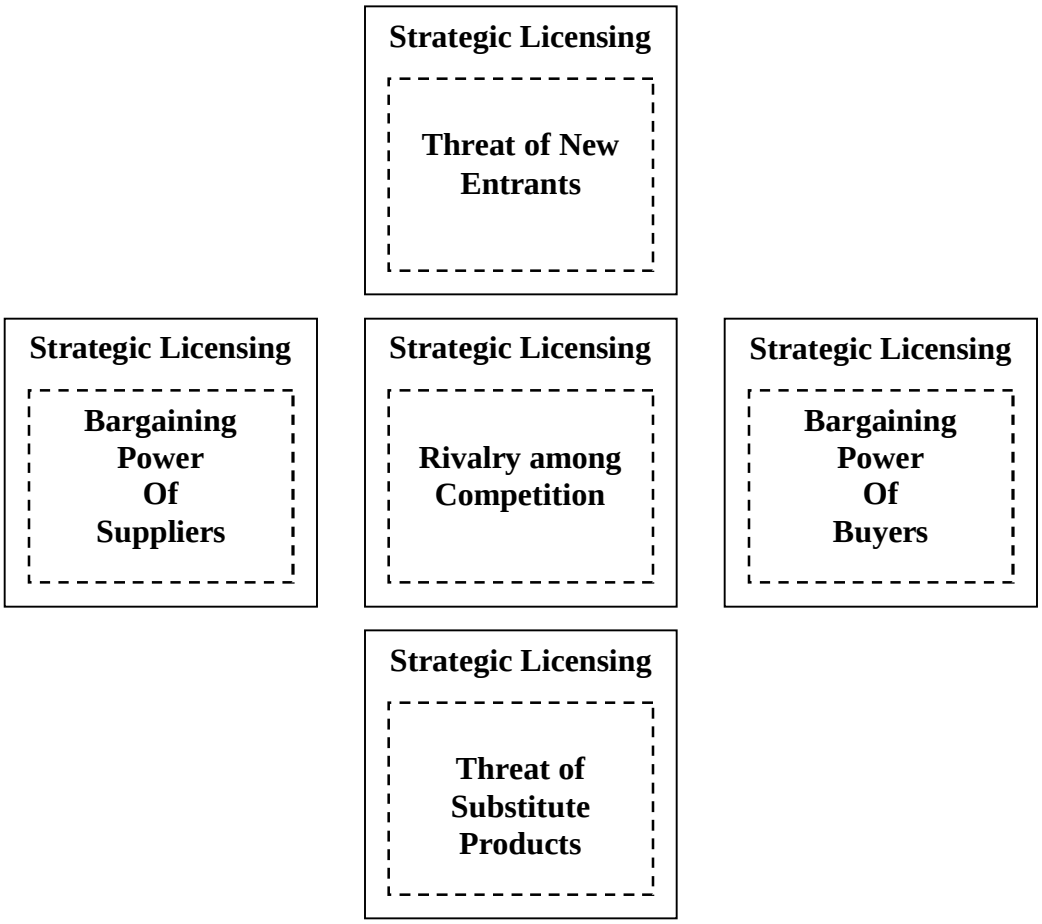
management of educational institutions (Bricheno, Higgison & Weedon, 2004). It was also used to link farmer organizations to dynamic markets in South Africa (Hopkins, Neven & Reardon, 2005), and to examine the nature of the role of design on the new product development process (Perks, Cooper & Jones, 2005).

Previous apparel related studies utilizing Yin's (2003) Multiple Case Study method include a study by Sheridan, Moore and Nobbs (2006), which "examined the contribution of category management in the development of a fast fashion positioning within the retail fashion sector" (Sheridan, et al, 2006, p. 313). "A multiple case study was adopted, comprised of three companies, Retailer A, a department store reliant on brand manufacturers for fast fashion. Retailer B and C, both own brand fashion retailers aiming to deliver fast fashion positioning (Sheridan, et al, 2006, p 313)". Buyers from each of the three retailers were interviewed. The results of the study provided evidence that there were collaborative relationships between case study companies and suppliers in the adoption of a CM approach. In the development of own brand merchandise this relationship was particularly important, as it explains the need to form close relationships in order to exploit market opportunities in efficient and cost effective ways within an area pivotal to the achievement of differentiation and profitability. The study found applications of category management to be very limited within the fashion industry as fashion companies adopted collaborative structures in order to implement a category management approach.

Figure 7 depicts a modified version of the Multiple Case Design (2003) as it relates to this work. In order to address research objective one (RO1), the context used in Phase I was strategic uses of licensing. In this study each case has been chosen to predict

similar results that are within the context of strategic licensing. Each of the cases (i.e., articles) demonstrated some form of strategic licensing, specifically in the areas of overcoming the Five Forces of Industry Competition.

Figure 7. Modified Multiple Case Design (Holistic) Utilizing Porter's Five Forces.



Source: Adapted from Yin (2003) and Porter (1985)

In order to address research objective one (RO1), a taxonomy of existing literature was composed by the author as shown in Table 5. Selection criteria for the inclusion of articles in Phase I include several factors. First, articles were reviewed for relevance in regards to the use of licensing strategically. Select articles also examine licensing from the aspect of gaining some type of competitive advantage as defined by Porter (1985). These articles are associated with the Five Forces that Determine Industry

Competition (i.e., Threat of New Entrants, Threat of Substitute Products, Bargaining Power of Buyers, Bargaining Power of Suppliers, and Rivalry among Existing Firms). However, article inclusion was not contingent upon its relevance to the apparel industry due to the preliminary scan of literature that revealed a lack of scholarly literature related to licensing by apparel firms. This taxonomy was used to gain insight into the uses of licensing strategically by reviewing existing empirical research and findings. Although the works studied are not apparel industry specific, observational knowledge was gained through analysis of other industry applications. Phase II built upon the foundation set forth in Phase I with existing literature that examines strategic uses of licensing.

Table 5. Preliminary Results for RO1

Study	Author, Date	Research Contribution
Deterrence by Market Sharing: A Strategic Incentive for Licensing	Gallini, 1984	Study shows that an incumbent firm may license its technology to reduce the incentive of a potential entrant to develop its own, possibly better technology.
Licensing in the Theory of Innovation	Gallini & Winter, 1985	Study examines information sharing through licensing in the context of the theory of innovation. Also examines the Ex Ante Incentive and Ex Post Incentive of licensing.
Licensing to Enhance Demand for New Technologies	Shepard, 1987	Examines the strategic uses of licensing to enhance the demand for technology.
Choosing the Competition and Patent Licensing	Rockett, 1990	Examines licensing as a means of choosing the competitors to be faced after the patent expires. Presents an example in which evidence suggests that "choosing the competition" was an important motivation of the licensor's behavior.
Licensees as Entry Barriers	Eswaran, 1994	Examines how incumbents in a market threatened by entry can exploit its first mover advantage by licensing its technology not to a potential entrant but to firms that would have remained outside the industry.
Obtaining Strategic Advantage From Being Imitated: When Can Encouraging Clones Pay?	Conner, 1995	Reports on factors that prove clone imitation to be more/less profitable for an innovative firm, and when cloning is in fact the best strategy of the innovative firm.
Entry, Licensing and Research Joint Ventures	Yi, 1999	Examines when, to whom, and under what conditions an incumbent firm should license its superior technology.
The Licensing Dilemma: Understanding the Determinants of the Rate of Licensing	Fosfuri, 2004	Study argues that competition in the market for technology may trigger a more aggressive behavior by potential licensors.

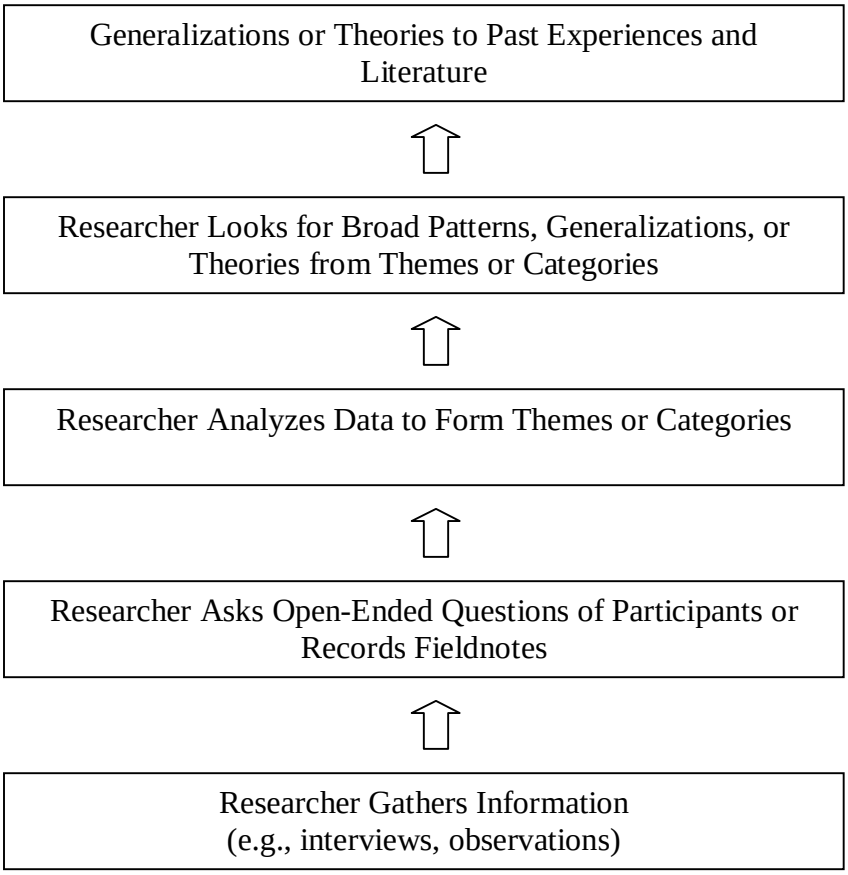
Source: Edwards (2007)

Phase II

Conceptually, Phase II followed the Inductive Logic of Research in a Qualitative Study (Creswell, 2003) seen in Figure 8. Operationally, Phase II employed Yin's (2003) Case Study Method in order to answer research objectives two (RO2) and three (RO3).

The inductive approach begins with the gathering of detailed information that is formed into categories or themes. These categories or themes are developed into broad patterns, theories, or generalizations that are then compared with existing literature on the topic (Creswell, 2003).

Figure 8. The Inductive Logic of Research in a Qualitative Study

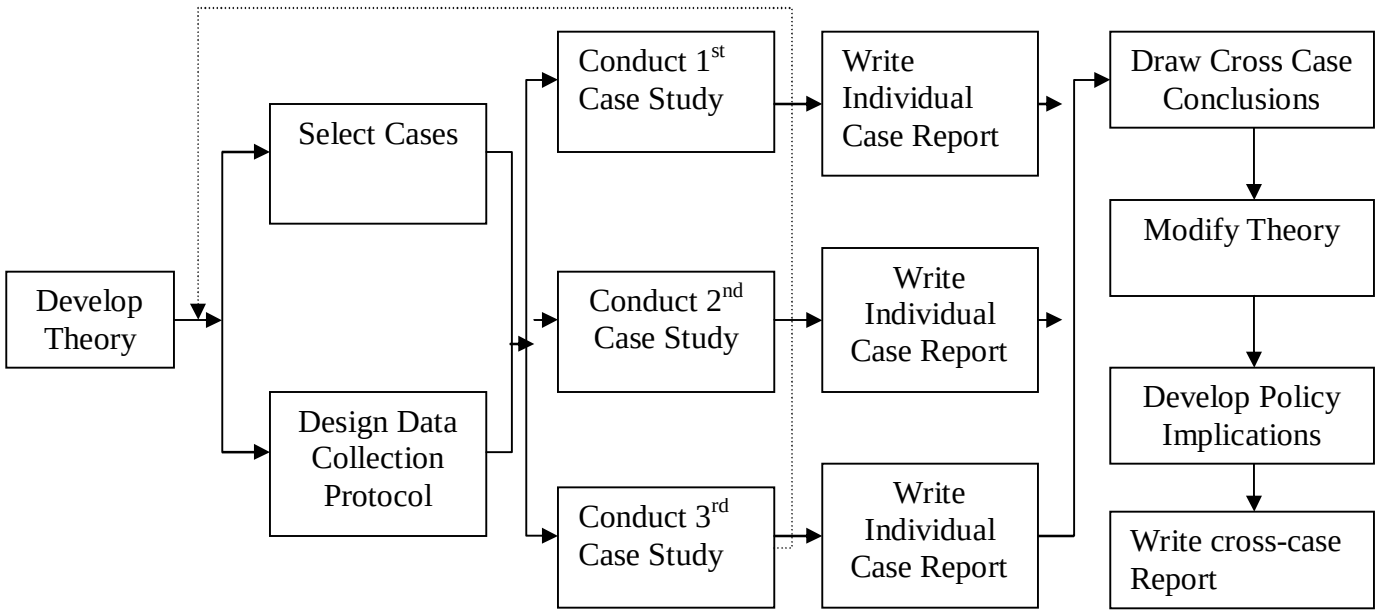


Source: Adapted from Creswell (2003)

The Case Study Method builds upon the multiple-case design and is illustrated in Figure 9 adapted from Yin (2003). Each individual case consists of a whole study, in which convergent evidence is sought regarding the facts and conclusions for the case; each case's conclusions are then considered to be the information needing replication by other individual cases (Yin, 2003). An important aspect of the Case Study Method is the

case study protocol. Unlike a survey questionnaire, the protocol contains the instrument as well as the procedures and general rules to be followed in using the protocol. While the case study protocol is desirable in all circumstances it is essential in a multiple case study. The protocol is a major way of increasing the reliability of case study research and is intended to guide the investigator in carrying out the data collection from a case study (Yin, 2003).

Figure 9. Case Study Method



Source: Adapted from Yin (2003)

Case Study Protocol

A. Overview of Case Study Project

This research was aimed at understanding the strategic motivations of licensing and impact of license reacquisition on apparel firms. The purpose of this research was to investigate how licensing is used as a strategic tool within the apparel industry, the relationship between licensing as a strategic tool and lifestyle branding, and how license reacquisition impacts to the competitive strategy of firms. There were two parts to the case study, the second part consisted of interviews with industry representatives.

The case studies chosen for analysis were based on preliminary review of existing literature which revealed three apparel firms (Ralph Lauren, Liz Claiborne, and Nautica) to have participated successfully in licensing their brand name. Additionally, these three firms were chosen based on their roles as successful "Leaders" within the apparel industry, in terms of market share. Each of the three are U.S. apparel brands that have a diverse portfolio of branded products that includes products in different price tiers, and in some cases under different names and each has participated in license reacquisition. Each company (case) was reviewed independently and analyzed in terms of company structure, financial performance, marketing strategies, portfolio of brands, licensing agreements, and SWOT analysis (strengths, weaknesses, opportunities, threats).

It was hypothesized that license reacquisition is used to gain control over use of the firm's intellectual property. Having strict control over the brand allows for more exclusivity and reduces the risk of dilution. Control can be sought to reduce or eliminate usage of the brand's name or logo on various products, or to control product development, production or distribution.

B. Field Procedures

Gaining access to key organizations or interviewees

Key individuals were identified through industry contacts and listings of employees via company websites and websites such as Hoovers. Industry representatives that visited the College of Textiles were also used. The individuals selected were those that managed the implementation of licensing strategy. According to the protocol, a letter was to be mailed to introduce the interviewer (See Appendix B). These individuals were then contacted via email to confirm that the most appropriate individual(s) had been selected and to further set up a telephone interview. If these key individuals were not available for an interview, the researcher asked to interview someone with a position most relevant to licensing within the company. After the interviewees were identified and expressed consent, the consent form was mailed, faxed, or emailed to them so they could provide their signature.

According to the protocol, a letter was to be mailed to potential participants to introduce the interviewer. Calling each firm by phone was found to be the most effective way to introduce the researcher and identify the proper potential interviewee. Once these individuals were identified, communication was attempted via telephone. If the researcher was unsuccessful at reaching the potential interviewee via phone, the introduction letter was emailed to them.

Having sufficient resources while in the field

Since most interviews were conducted over the telephone, the researcher was equipped with necessary tools needed to conduct an interview including a telephone, personal computer, recording device, writing instruments, paper, and folders.

Developing a procedure for calling for assistance and guidance

For each interview appropriate contact information such as email address and phone numbers for the faculty sponsor and the human subjects review board was available. In the event that assistance is needed, the researcher was equipped with a cell phone that could be used to call the relevant parties. The researcher also had internet access if it was needed.

Making a clear schedule of the data collection activities that are expected to be completed within specified periods of time

The scheduled data collection period was between the months of April and June 2007. Interviewees received a phone call or letter of introduction via email before each interview was conducted. This letter acquainted the interviewee with the interviewer's purpose, and therefore decreased the amount of time needed for introduction during the interview process. Interviewees were also given a link to the research website that outlined the all relevant aspects of the study, including interview questions, and contact information. The interview consisted of 9 major questions to be asked of each interviewee, and was anticipated to last approximately 30 to 45 minutes. Once the interview was conducted and summarized, all relevant data was stored in a locked file cabinet in the researcher's campus office. The information in the study records were kept strictly confidential. While company names and publicly available information about companies were included in Part 1 of the case study report, no reference was made in oral or written reports which could link individual participants to the study. In addition,

answers provided during the interview were reported aggregately as coded information in Part 2 of the case study report, as to preserve anonymity of the companies.

Providing for unanticipated events, including changes in the availability of interviewees as well as changes in the mood and motivation of the case study investigator

According to the protocol, in the event that the interviewee is unavailable the researcher would attempt to reschedule or request recommendation of someone else within the firm that had a position closely related to intellectual property licensing. In the event that the mood or motivation of the interview process changed due to unforeseen circumstances the researcher would attempt to reschedule on a later date.

C. Case Study Questions

On most levels these questions are the questions posed to the researcher to ensure comprehensiveness of the study. These Case Study questions do include questions to be asked of the interviewee, and are indicated at the appropriate levels.

Level 1

Questions at this particular level are those asked of the specific interviewees and can be found in Appendix A. These questions will be discussed in greater detail later in Phase II of the Methodology.

Level 2

Questions at this particular level are those asked of the individual case posed to the investigator during a single case. These questions include the following:

1. Was there anything in particular about this case that stands out?

Level 3

Questions at this level pertain to the pattern of findings across multiple case studies. These questions include the following:

1. Were there any similarities or differences between each firm in terms of licensing strategies, policies, or implementation?

Level 4

Questions at this level are asked of each individual company study.

1. Were there any surprising findings from this interview beyond findings or hypotheses from preliminary research and literature review?

Level 5

Normative questions about policy recommendations and conclusions going beyond the scope of the study.

1. What generalizations if any can be made regarding the nature of licensing within the apparel industry
2. What generalizations can be made about the most successful firms and their strategic uses of licensing and license reacquisition?

D. A guide for the report

The following is an outline that was followed for the individual case study report. The format will be as follows:

PART A. INDIVIDUAL CASE STUDY

I. Introduction

a. History of Company

b. Corporate Overview

II. Financial Performance

a. Revenue

b. Sales (over 5 year period)

c. Royalties

d. Market share / Market standing

III. Portfolio of Brands

a. Product Categories

b. Recent activity (Mergers, Acquisitions)

c. Licensing

i. Strategy

ii. Number of licensees

IV. Competitive Analysis

a. Competitors

b. Strategies

c. SWOT analysis

V. Industry Interview

PART B. AGGREGATE REPORT

I. Licensing Competitive Strategy and Reacquisition Analysis

Industry Validation

Industry analysts and apparel executives were interviewed for their assessment of strategic licensing within the apparel industry, and the competitive licensing theory proposed. Such interviews increased validity of findings, as each interviewee has diverse expertise. Some interviewees have apparel industry experience, while others work more directly with the licensing business. Each representative's assessment of licensing within the apparel industry was analyzed independently, then in aggregate to uncover any patterns or themes.

Draw Cross Case Conclusions

Since this study employed a multiple case design, cross case synthesis was especially relevant (Yin, 2003). In order to draw cross case conclusions word tables were used to display the data from the individual cases according to a strategic licensing framework. Since each firm participates in licensing, data was collected based on (1) licensing as a part of competitive strategy, (2) licensing in relationship to lifestyle branding, and (3) impact of reacquisition on such strategy. The data collected was used to see if overall patterns led to specific conclusions.

Modify Theory

Theory modification was based on industry interviews, recommendations given by industry representatives, and the use of word tables of overall themes. Data was analyzed for overall patterns, generalizations, and themes and compared to existing literature on strategic licensing for its relevance and applicability in the apparel industry.

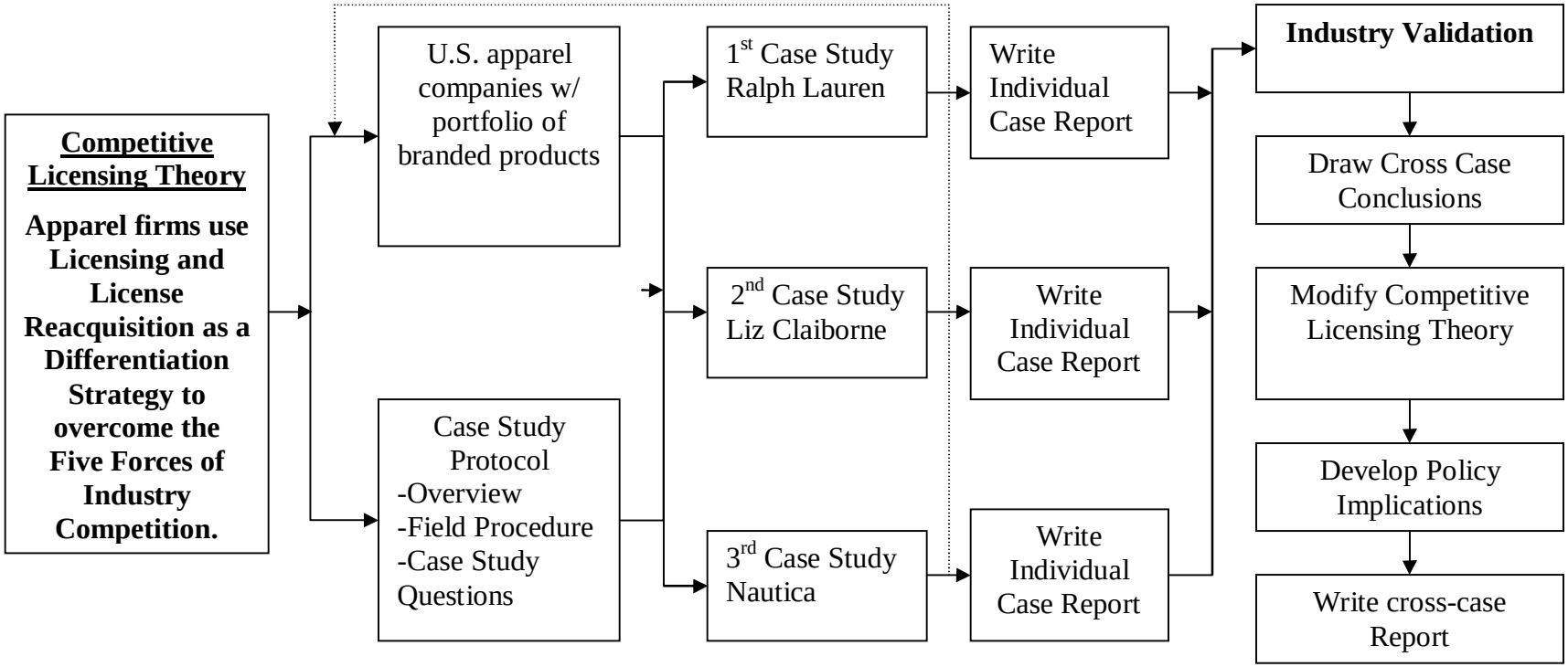
Develop Policy Implications and Write cross-case Report

After the theory was modified to reflect such changes from industry interviewees, and cross case conclusions, conclusions of the entire study were created. These conclusions were developed and written in chapter five. Cross case conclusions were based on any patterns or themes found between cases, as well as any patterns or themes found in interviews with industry representatives.

Operationally, Figure 10 is Yin's Case Study Method adapted by the author (Edwards, 2007). For this study, the Case Study Method was modified, and includes the development and modification of the Competitive Licensing Theory, as well as industry validation.

The intent behind performing the case study research was to gain a better understanding of and answer the research question regarding license reacquisition, through an in-depth analysis of leading apparel firms who have participated or currently participate in licensing. The questions asked in the interview are in Appendix A. Table 6 gives the nature of each question and the research objective that each question satisfies.

Figure 10. Case Study Method Modified



Source: Adapted from Yin (2003) and Edwards (2007)

Table 6. Interview Question Summary

Question Number	Topic	Research Objective
1	Demographic	N/A
2	Demographic	N/A
3	Demographic	N/A
4	Licensing Process	1,4
5	Lifestyle Branding	2
6a-g	Strategic Uses / Competitive Strategy	1,4
7	Strategic Uses / Competitive Strategy	1,4
8a-g	Competitive Strategy / Reacquisition	3,4
9	General	N/A

Source: Edwards (2007)

Operational Definitions

License Reacquisition – To no longer grant rights for the use of one's brand name

Lifestyle Brand – A brand that is designed to associate the consumer with a desired group, role or self image

Loyalty – Feeling or attitude of devoted attachment or affection

CHAPTER FOUR

Introduction

This study used three phases to examine how licensing is used in the apparel industry as a strategic tool, the relationship between licensing as a strategic tool and lifestyle branding, and how license reacquisition impacts the competitive strategy of firms. In Phase I, a taxonomy of existing literature was compiled to understand licensing in general, and how licensing has been used as a part of a competitive strategy. In Phase II, case studies of leading licensed apparel brands, and industry interviews were conducted to understand the relationship between licensing as a strategic tool and lifestyle branding. Phase II was also instrumental in understanding why and how firms reacquire license agreements, and its impact on a firm's competitive strategy. Phase III was the creation and validation of a theoretical model that depicts the relationship between competitive strategies, licensing as a strategic tool, and the impact of license reacquisition.

Data Collection Overview

Phase I

The Taxonomy of Existing Licensing Research is separated in columns by the study's title, researcher's name and date of publication, the researcher's contribution to the existing field of research, and lastly the force of industry competition (as defined by Michael Porter) to which the research relates.

For many years empirical research exploring the strategic uses of licensing had been underdeveloped. Today, research exists that examines the subject matter; however research within the apparel industry is not as pervasive. While the bulk of existing

research has been focused on patentable intellectual property, strategic uses of licensing have been found to be extendable to other forms as well.

The following taxonomy in Table 7 provides a listing of studies that have been conducted that examine licensing in some strategic manner. The table provides the study's contribution to the field of research as well as the related force of industry competition. While none of these articles specifically focus on the apparel industry, strategies presented are applicable to trademarked brands within the apparel industry.

Table 7. Licensing Research Taxonomy

Study	Author, Date	Research Contribution	Porter's Five Forces
Deterrence by Market Sharing: A Strategic Incentive for Licensing	Gallini, 1984	Study shows that an incumbent firm may license its technology to reduce the incentive of a potential entrant to develop its own, possibly better technology.	Threat of New Entrant
Licensing in the Theory of Innovation	Gallini & Winter, 1985	Study examines information sharing through licensing in the context of the theory of innovation. Also examines the Ex Ante Incentive and Ex Post Incentive of licensing.	Threat of New Entrant
Licensing to Enhance Demand for New Technologies	Shepard, 1987	Examines the strategic uses of licensing to enhance the demand for technology.	Threat of Substitute Products
Choosing the Competition and Patent Licensing	Rockett, 1990	Examines licensing as a means of choosing the competitors to be faced after the patent expires. Presents an example in which evidence suggests that "choosing the competition" was an important motivation of the licensor's behavior.	Threat of New Entrants
Licensees as Entry Barriers	Eswaran, 1994	Examines how incumbents in a market threatened by entry can exploit its first mover advantage by licensing its technology not to a potential entrant but to firms that would have remained outside the industry.	Threat of New Entrant
Obtaining Strategic Advantage From Being Imitated: When Can Encouraging Clones Pay?	Conner, 1995	Reports on factors that prove clone imitation to be more/less profitable for an innovative firm, and when cloning is in fact the best strategy of the innovative firm.	Threat of Substitute Products
Entry, Licensing and Research Joint Ventures	Yi, 1999	Examines when, to whom, and under what conditions an incumbent firm should license its superior technology.	Threat of New Entrant

Table 7. Continued

Strategic Licensing in the New Economy	Fernandez and Neuenschwander, 2003	Reports on how a firm's intellectual property can be profitable. Primarily focuses on patents but is applicable to other types of intellectual property. Gives reasons why smart companies patent, and discusses how intellectual property can pay off by weighing the pros and cons of strategic licensing	Threat of New Entrants, Bargaining Power of Buyers, Bargaining Power of Suppliers, Rivalry Among Existing Firms
The Licensing Dilemma: Understanding the Determinants of the Rate of Licensing	Fosfuri, 2004	Seeks to understand the role of competition on a firm's decision to license. Study argues that competition in the market for technology may trigger a more aggressive behavior by potential licensors when there are competing technologies available, they have a small market share, and the downstream product is relatively homogenous.	Rivalry Among Existing Firms

Source: Edwards (2007)

Phase II

Phase II consists of two components which include case studies of each of the three firms, and industry interviews with other apparel industry representatives. Part I of Phase II was the individual case studies that followed Yin's Case Study Method (2003). Following Yin's Case Study Method (2003) each case study is presented individually.

Part I. Case Studies

Ralph Lauren

Introduction

Ralph Lauren began his business with a line of ties, and is now a leading designer and distributor of lifestyle products. According the Ralph Lauren website (www.polo.com), Ralph Lauren is "The quintessential lifestyle brand". Products are offered in four divisions (apparel, accessories, fragrances, and home furnishings), and three segments (wholesale, retail, licensing).

History

Born as the son of a Russian immigrant in the Bronx, Ralph Lifschlitz was inspired by his father, who changed their last name to Lauren, to recreate himself in the image of a mythic upper class (Vintage Fashion Guild, 2007). As a high school senior Ralph Lauren's ambition in life was to become a millionaire (Agins, 2000). Not only has Ralph Lauren accomplished this goal, but he has created what has become a global lifestyle brand that many in the fashion industry look to as the leader.

His career in the apparel industry began in the early 1960's, in the garment district of New York, where he peddled ladies gloves and men's ties as a wholesaler (Agins, 2000). Ralph Lauren began his tie business in 1967 under the Polo label. In 1968 Ralph Lauren founded his men's wear company, followed by Ralph Lauren Womenswear in 1971.

According to a Hoover's company report (2007), Polo prefers licensing over manufacturing and manages many licensees, as well as more than 350 contract manufacturers worldwide. In 1971 the first licensed Polo store opened in Beverly Hills.

The womenswear line was licensed in 1973, followed by a fragrance line in 1978, and a home collection in 1983.

In addition to these, Table 8 provides a timetable of other Ralph Lauren additions to the firm's portfolio.

Table 8. Ralph Lauren Collections

Year	Collection
1968	Menswear
1971	Womenswear
1972	Accessories
1978	Westernwear
	Fragrance
	Childrenswear
1981	SantaFe Collection
1983	Home Collection
1993	Polo Sport
1994	Purple Label
1996	Polo Jeans Co
1998	Polo Sport RLX
1999	Ralph by Ralph Lauren
	Acquisition of Club Monaco
2000	Launches Polo.com
2001	Launches Polo Magazine
2002	Blue Label
2004	Rugby

Source: Author (Edwards, 2007)

In the 1970's Lauren won three Coty Awards for design and produced costumes for the movie "The Great Gatsby." Among Ralph Lauren's many accolades within the apparel industry, he is credited with being the first to introduce the concept of lifestyle merchandising in department stores (Agins, 2000), as he was able to have his men's product offerings merchandised together in Bloomingdales in 1970. He is also credited for being the first American designer to have a freestanding store, and European boutique (Polo.com website).

By 1980 Polo Fashions had become Polo Ralph Lauren. Ralph Lauren continued these changes in the 1990's, as the company went public in 1997, and restructured its divisions in 1998 in order to reduce expenses. Its restructuring efforts which included closing nine stores and cutting 4% of the workforce resulted in a $65 million charge (hoovers.com).

Corporate Overview

Ralph Lauren is headquartered in New York, and employs approximately 12,800 people. The firm designs, markets, and distributes luxury products in four categories: apparel, home, accessories, and fragrances. The firm has three major business segments which are classified into wholesale, retail, and licensing. The wholesale business consists of the design, sourcing, marketing, and distribution of the Collection Brands, Lauren, and Polo Brands. This segment primarily sells its products to upscale department stores, licensed stores, specialty stores, and golf and pro shops (DataMonitor Report, 2006).

The retail business consists of three complementary groups: Ralph Lauren stores, Club Monaco stores, and Polo Ralph Lauren outlet stores. This segment consists of over 130 full retail stores and over 140 outlet stores worldwide. Ralph Lauren stores feature all the designs of Ralph Lauren apparel, accessory and home product assortments, and are generally located in upscale regional malls and major upscale streets, in large urban markets. Ralph Lauren outlet stores operate under three names: Polo Ralph Lauren, Polo Jeans, and European, and are typically located in major outlet centers in 36 states and Puerto Rico (DataMonitor Report, 2006).

The firms licensing business consists of Product, International, and Home licensing alliances that each pay royalties based on sales of its product, and are generally

subject to minimum royalty payments. The company grants product and non US international licensing partners the right to manufacture and sell at wholesale, and also grant international licensees the right to sell at retail, specified categories of products under one or more of Polo's trademarks. (DataMonitor Report, 2006).

Financials

Revenue

For fiscal 2006, Polo Ralph Lauren recorded revenues of $3.7463 billion, which was a 13.3% increase over 2005 (DataMonitor Report, 2006). Accounting for 80.9% of total revenues, the U.S. and Canada were the firm's largest geographic markets. The following table summarizes the revenues recorded for each division within the firm.

Division	**Revenue**	**% Up From 2005**
Wholesale Division	1.9425 Billion	13.50%
Retail Division	1.5586 Billion	15.60%
Licensing Division	.2452 Billion	0.20%

Source: Adapted from Ralph Lauren Annual Report (2006)

The sales increase in the wholesale division is attributed to growth in all wholesale product lines, and includes the wholesale segments of the newly acquired Polo jeans and footwear businesses, while gains in the retail division reflects increases in all retail formats (Ralph Lauren Annual Report, 2006). In the licensing division, recent reacquisitions have adversely affected growth sustained in the international licensing business.

Five Year Summary

In the past five years, Polo Ralph Lauren has progressively increased its sales. The firm's net income and earnings per share values have also progressively increased during the five year period with the exception of fiscal 2004.

FIVE YEAR SUMMARY			
YEAR	SALES	NET INCOME	EPS
2006	3,501,100,000	308,000,000	2.96
2005	3,060,700,000	190,400,000	1.88
2004	2,380,900,000	169,200,000	1.71
2003	2,189,300,000	175,700,000	1.79
2002	2,122,300,000	172,600,000	1.77
5 YEAR GROWTH RATE	13.3	15.5	13.7

Source: Hoover's Company Profile (2007)

For the five years through 2006, Ralph Lauren had a revenue compound annual growth rate of 11%, a gross profit compound annual growth rate of 13% (Standard & Poor's Stock Report, 2007). Profitability improvements were driven by a gross margin expansion, reflecting the growing proportion of retail to overall sales volume, as well as an increased emphasis on higher margined accessories products (Standard & Poor's Stock Report, 2007). Over the past five years, Ralph Lauren has also invested $1.4 billion back into the company in support of acquisitions, retail expansion, wholesale shop-in-shops, and to upgrade infrastructure (Ralph Lauren Annual Report, 2006).

Licensing Revenue

Polo's licensing segment alliances each pay royalties based upon sales of its products, and are generally subjected to minimum royalty payments. Payments range from 5% to 8% of sales, and licensing partners must allocate 2% to 4% of sales to advertising (Standard & Poor's Stock Report, 2007). The licensing division recorded revenues during fiscal 2006 of $245.2 million, which was a .2% increase from 2005

(DataMonitor Report, 2006). This performance reflects increased revenue from international licensing business, and the Chap's men's business, as well as the adverse effects of lost royalty from recent footwear and jeanswear reacquisitions. Operating income in the licensing division was $154 million, down $6 million from 2005 due also to the loss of margin on royalty income from footwear, Polo Jeans, and Childrenswear (Ralph Lauren Annual Report, 2006). The acquisition of the Childrenswear business resulted in a decrease of $34.6 million in royalties in the domestic licensing business (Ralph Lauren Annual Report, 2006). The most recent agreement signed with Luxottica for prescription frames and sunglasses will provide the firm with higher royalty rates, and cash up front to cover projected minimum royalty payments.

Market Share

In the apparel market, national brands marketed by 20 companies account for 30% of total apparel sales, with the remaining 70% comprised of smaller or private label brands (Standard & Poor's Stock Report, 2007). In 2006 apparel sales in the U.S. rose 5.1% to $190.1 billion, according the NPD Group (Standard & Poor's Stock Report, 2007). Of that $190.1 billion, Ralph Lauren's revenue for 2006 represented $4.295 billion. In addition to the firm's revenue over the past ten years, Table 9 also summarizes other key financial variables of Ralph Lauren.

Table 9. Ralph Lauren Financials

Company Financials										
Per Share Data ($) Year Ended Mar. 31	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
Tangible Book Value	11.99	10.35	10.38	10.56	8.93	7.38	5.76	5.08	6.60	5.83
Cash Flow	5.07	4.06	2.83	2.52	2.55	2.60	1.41	2.16	1.37	1.75
Earnings	3.73	2.87	1.83	1.69	1.76	1.75	0.61	1.49	0.91	1.20
S&P Core Earnings	3.75	2.80	2.32	1.53	1.55	1.54	0.44	NA	NA	NA
Dividends	0.20	0.20	0.20	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Payout Ratio	5%	7%	11%	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Calendar Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Prices:High	83.15	56.84	42.83	31.52	30.82	31.34	23.25	25.38	31.38	33.00
Prices:Low	45.65	34.19	27.28	19.30	16.49	17.80	12.75	16.06	15.88	21.75
P/E Ratio:High	22	20	23	19	18	18	38	17	34	27
P/E Ratio:Low	12	12	15	11	9	10	21	11	17	18
Income Statement Analysis (Million $)										
Revenue	4,295	3,746	3,305	2,650	2,439	2,364	2,226	1,956	1,713	1,471
Operating Income	802	663	406	377	382	393	319	330	247	227
Depreciation	145	127	104	83.2	78.6	83.9	78.6	66.3	46.4	27.4
Interest Expense	21.6	12.5	11.0	10.0	13.5	19.0	25.1	15.0	2.76	0.16
Pretax Income	659	516	298	266	274	276	98.0	249	153	200
Effective Tax Rate	36.8%	37.7%	36.0%	35.7%	36.5%	37.5%	39.5%	40.8%	40.7%	26.1%
Net Income	401	308	190	171	174	173	59.3	147	90.6	148
S&P Core Earnings	403	299	242	154	154	151	43.1	NA	NA	NA
Balance Sheet & Other Financial Data (Million $)										
Cash	564	286	350	343	344	239	102	165	88.7	58.8
Current Assets	1,686	1,379	1,414	1,271	1,166	1,008	902	853	679	556
Total Assets	3,758	2,089	2,727	2,270	2,039	1,749	1,626	1,621	1,105	825
Current Liabilities	640	844	622	501	500	392	440	406	348	202
Long Term Debt	399	Nil	291	277	248	285	297	343	44.2	Nil
Common Equity	2,335	2,050	1,676	1,422	1,209	998	809	772	659	584
Total Capital	2,734	2,070	1,967	1,699	1,457	1,284	1,106	1,115	703	584
Capital Expenditures	184	159	174	123	98.7	88.0	105	122	142	63.0
Cash Flow	546	435	294	254	253	256	138	214	137	175
Current Ratio	2.6	1.6	2.3	2.5	2.3	2.6	2.1	2.1	2.0	2.8
% Long Term Debt of Capitalization	14.6	Nil	14.8	16.3	17.1	22.2	26.8	30.7	6.3	Nil
% Net Income of Revenue	9.3	8.2	5.8	6.5	7.1	7.3	2.7	7.5	5.3	10.0
% Return on Assets	11.7	12.8	7.6	7.9	9.2	10.2	3.7	10.8	9.4	21.1
% Return on Equity	18.3	16.5	12.3	13.0	15.8	19.1	7.5	20.6	14.6	34.9

Source: Standard & Poor's Stock Report (2007)

Portfolio of Brands

While Ralph Lauren first started with a line of ties, his business quickly expanded into other product categories (See Table 8). Over the past forty years his presence and product offerings in the apparel industry have continued to evolve. The following is a list of brands currently in the Ralph Lauren portfolio.

Table 10. Ralph Lauren Brands

Polo by Ralph Lauren
Ralph Lauren Purple Label
Ralph Lauren
Black Label
Blue Label
Lauren by Ralph Lauren
Polo Jeans Co.
RRL
RLX
Rugby
RL Childrenswear
Chaps
Club Monaco
Big & Tall
Golf
Tennis
Pink Pony
Lauren Jeans Co.

Source: Ralph Lauren Website, 2007

Product Categories

Table 11 summarizes the product offerings of Polo Ralph Lauren.

Table 11. Ralph Lauren Product Offerings

Products	
Apparel	Men's Clothing Women's Clothing Children's Clothing
Accessories	Eyewear Footwear Jewelry Leather goods
Home Furnishings	Bath Products Broadloom Fabric and wallpaper Furniture Giftware Paints Tabletops
Fragrances	Fragrance Skin Care Products

Source: Data Monitor Report, 2006

Recent Activities

In the past few years, Ralph Lauren has been involved in many brand strengthening activities. Most recently in April, Ralph Lauren announced that the firm would spend approximately $393 million to acquire total control of its Japanese licensees Impact 21. Ralph Lauren has been serving the Japanese market for over 25 years, and it has become the largest market after the U.S.

In March of 2007, Ralph Lauren acquired full ownership of Polo.com in addition to establishing the Polo Ralph Lauren Watch and Jewelry Company (Young, 2007). The firm has also been involved in exclusive partnerships with retailers this year. In

February, Ralph Lauren debuted an exclusive Chaps Home line, and also announced a partnership with JCPenney to debut an exclusive line called American Living (Much, 2007). This brand was the creation of Ralph Lauren's Global Brand Concepts group in which was established in January of 2007 to develop new lifestyle brands for specialty and department stores. The new group was established to work with partner stores seeking individuality in the marketplace by creating their own exclusive brand (Gorman, 2007). According to Ralph Lauren, the concept for the initiative is to build and elevate other brands as they have done with the luxury brand, as there is a strong need in the marketplace for individuality to drive traffic into stores (Polo.com website).

In addition to the Japanese reacquisition, Ralph Lauren settled litigation with Jones Apparel Group regarding the Polo Jeans Business license. The reacquisition cost the firm approximately $260 million (Ralph Lauren Annual Report, 2006). However, in May of 2006, the firm announced they would be extending its business and introducing new product offerings. Other reacquisitions that the firm has made include the purchase of Poloco, its European licensee in early 2000 for $230 million, and a 2001 acquisition of its Italian licensee PRL Fashions of Europe.

Licensing

Polo prefers licensing over manufacturing (as they have no manufacturing facilities) and manages many licensees, as well as more than 350 contract manufacturers worldwide (Hoovers.com Company Profile, 2007). The firm licenses over 100 retail stores worldwide, and has partnered with its top licensees to extend its reach into accessories. Table 12 summarizes Ralph Lauren's major licensing partners according to Hoovers.com Company Profile (2007).

Table 12. Ralph Lauren Licenses

Licensee Firm	Licensed Product Category
Authentic Fitness Products, Inc.	Women's and Girl's swimwear
Brownstone	Table linens, placemats, napkins
Carolee, Inc	Jewelry
Carole Hochman Design	Women's sleepwear and loungewear
Corneliani S.P.A	Men's Polo tailored clothing
Echo Scarves, Inc.	Scarves for men and women
Henredon Furniture Industries, Inc.	Upholstered furniture and case goods
Hot Sox, Inc.	Men's, Women's, and Children's hosiery
ICI/Glidden	Paints and stains
Jones Apparel	Men's and Women's Polo Jeans casual apparel and sportswear
Karastan	Broadloom carpets and area rugs
Lacy Mills	Bath rugs
L'Oreal S.A.	Men's and Women's fragrances and skin care products
New Campaign, Inc.	Belts and other small leather goods
P. Kaufman, Inc.	Fabric and wallpaper
Peerless Inc.	Men's Chaps and Lauren tailored clothing
Reed and Barton Corporation	Table and giftware
S. Schwab Company, Inc.	Infants', toddlers', and girl's apparel
Safilo USA, Inc.	Eyewear
Sara Lee Corporation	Men's personal wear
Seibu Department Stores, Ltd.	Japanese distribution
Warnaco, Inc.	Men's Chaps sportswear
Wathne, Inc.	Handbags and luggage
Westpoint Stevens, Inc.	Bedding and bath products

Source: Adapted from Hoovers.com Company Profile (2007)

In 2006 Polo Ralph Lauren partnered with Luxottica in a licensing agreement valued at more than $1.75 billion over a 10-year period, wherein Luxottica will design, manufacture, and distribute Polo Ralph Lauren-branded prescription frames and sunglasses (Hoovers.com Company Profile, 2007).

One of Ralph Lauren's most significant licensing deals is its partnership with the United States Tennis Association with the formation of a four year global partnership in which Ralph Lauren was designated the official apparel sponsor of the US Open through 2008. This deal was signed in 2005, and has also enabled Ralph Lauren to become the

first official designer and exclusive outfitter of Wimbledon through 2010. This is the first such partnership in Wimbledon's 129 year history.

Strategy

According to the Ralph Lauren website (2007), the firm seeks to expand the Polo Ralph Lauren brand into new markets, countries, and shopping environments, while staying true to its luxury lifestyle sensibilities and global brand vision. The key elements of the firm's strategy are three-fold: Continue to build and extend the brand, Focus on specialty retail, and Expand International presence (Polo.com website, 2007).

As one of the world's premiere brands, Polo Ralph Lauren is universally recognized and associated with design, luxury and quality. The firm's strategy is to expand and extend the Ralph Lauren lifestyle through new products, in new categories, and in new parts of the world.

Ralph Lauren's retail strategy begins with the production of the most sought after products in the marketplace. Ralph Lauren stores allow for an increase in the amount of exclusive products offered. There have been new stores opened in the U.S., Europe, and Japan. Most recently in 2007, plans for new stores in Moscow and Russia were announced. The firm's website (Polo.com) contributes to their retail focus and growth strategy.

The third key element to Ralph Lauren's growth strategy is to expand its international presence, as international expansion provides a wealth of opportunities. Polo Ralph Lauren's approach to each world region is specific to its business climate and structure, while the firm's common goal is to broaden its reach through increasing direct brand ownership and control with new specialty retail store openings (Polo.com, 2007).

Due to the fact that Polo Ralph Lauren has a strong and flexible infrastructure, they are able to capitalize on opportunities to grow their business around the world.

Competitive Analysis

Competitive Landscape

By channel, specialty stores accounted for the largest share of apparel sales in 2006 at 31%, followed by mass merchants at 20%, and department stores at 16% (Standard & Poor's Stock Report, 2007). As the primary channel, Ralph Lauren holds leading market shares in department stores. Ralph Lauren also sells directly to consumers through almost 300 specialty retail locations which span the luxury, mid-market, and factory channels.

Competitors

Ralph Lauren has products across many classifications and price tiers. Therefore, Ralph Lauren's list of competitors is quite extensive. Table 13 summarizes some of Ralph Lauren's major competitors.

Table 13. Ralph Lauren Competitors

Federated Department Stores	Jones Apparel Group, Inc.	Levi Strauss & Co
Liz Claiborne, Inc.	LVMH Moet Hennessy Louis Vuitton SA	Reebok International Ltd.
Campagnie Financiere Richemont AG	Springs Global US	The Gap, Inc.
Limited Brands	Tiffany & Co.	Abercrombie & Fitch
Estee Lauder Companies Inc.	Ann Taylor Stores Corporation	Kellwood Company
Ashworth, Inc.	Phillips-Van Heusen Corporation	Land's End, Inc.
Hartmarx Corporation	Timberland Company	Nautica Enterprises
Oxford Industries	Christian Dior SA	Benetton Group SpA
Tommy Hilfiger Corporation	Gucci Group	American Eagle Outfitters, Inc.
Coach, Inc.	Hugo Boss AG	Donna Karan

Source: Adapted from DataMonitor Report (2006) and Hoovers Company Profile (2007)

Strategies

In recent years, the Polo Ralph Lauren has invested $1.4 billion back into the company to support its acquisitions, retail expansions, wholesale shops, and infrastructure upgrades (Ralph Lauren Annual Report, 2006). These investments are made in conjunction with Ralph Lauren's strategy of gaining direct control of several of its major brands. Consistent with this strategy, several licenses have been brought in-house including the Polo Jeans license in 2006, footwear in 2005, childrenswear in 2004. Since reacquiring the childrenswear license, the firm has been able to extend the brand to multiple distribution points. Having reacquired the Polo jeans and footwear licenses, the firm is now able to elevate the quality of both the product and distribution, while maintaining strong inventory control, distribution management, and cost leverage. These are licenses in which the firm has design, merchandising, and sourcing expertise, which

enables the firm to leverage expenses while expanding these businesses (Ralph Lauren Annual Report, 2006).

SWOT Analysis

Table 14. Ralph Lauren SWOT Analysis

Strengths	Weaknesses
High brand equity	Dependence on licensing partners
Online presence	Supplier concentration
Range of offerings	Dependence on few customers
Opportunities	**Threats**
Partnership with USTA	Ongoing lawsuit
Baby boomers to boost apparel in 2005	Falling consumer spending
China a battlefield for the retailers	Intense competition

Source: DataMonitor Report, 2006

Strengths

As one of the world's premiere brands with universal recognition (DataMonitor Report, 2006), the Polo Ralph Lauren name enjoys high brand equity in the apparel industry. Associated with distinct design, luxury, and quality, this gives the firm a competitive edge, and a stronghold within the industry (DataMonitor Report, 2006).

In order to market its products, the firm employs multiple distribution channels. By the end of fiscal 2006, Polo Ralph Lauren products were sold in approximately 1,950 domestic department stores through its wholesale network, 137 full price retail stores and 145 outlet stores through its retail segment, and a number of websites to cater to customers (DataMonitor Report, 2006). In addition to polo.com, the firm has eight international websites, in local languages that cater to international customers. The company's multiple distribution channels allow it to optimize its distribution network, cut down costs and increase margins (DataMonitor Report, 2006).

Ralph Lauren designs, markets, and distributes a wide product portfolio of lifestyle products, that are offered in four categories previously listed in **Table 11**. A wide array of products gives the company an ability to leverage the advantage of an established brand across various product categories (DataMonitor Report, 2006).

Weaknesses

The firm is dependent upon independent third parties to manufacture its products because they do not own or operate any manufacturing facilities. During fiscal 2006, 25% of the firm's total production was handled by two manufacturers (DataMonitor Report, 2006). If either of these key manufacturers experience problems within their own business, Ralph Lauren business could be negatively affected.

In the past few years, the firm has experienced weak returns on assets, investments, and equity. In the past five years, these returns have been considerable lower than the industry averages for the same period. Weak returns reflect the inability of the management to deploy assets in profitable avenues, which could result in decreasing investor confidence (DataMonitor Report, 2006).

Opportunities

Perhaps the greatest opportunity that Ralph Lauren has is its association with prestigious tournaments. In March of 2006, Ralph Lauren entered into exclusive partnerships with The All England Club, and Wimbledon, and is currently in a 4-year partnership with the United States Tennis Association (USTA). Brand association with such prestigious tournaments gives the company unparalleled visibility and increases its brand equity (DataMonitor Report, 2006).

Over the past 30 years, the rich have been growing progressively richer in growing plutonomies (economies where growth is powered and largely consumed by few high net worth individuals) (DataMonitor Report, 2006). In these economies individuals are spending more and saving less.

Continual growth in the retail apparel industry also presents opportunities for the firm as there is a shift towards dressier apparel, sports clothing, and premium fabrics. With projected sales growth in both women's and men's apparel, the firm has a positive outlook as a significant percentage of its revenue is generated in those areas.

Ralph Lauren's online presence is a major strength of the firm. In addition to having millions of visitors each month, Polo Ralph Lauren websites provide a global consumer reach and significant opportunity for the firm. Online shopping has increased in popularity in recent years, and is expected to jump 19.1% in 2007 to $174.5 billion (Online sales, 2007). According to The National Retail Federation, online sales in 2006 rose 29% to $146.4 billion, with $18.3 billion of that total represented clothing, accessories, and footwear, also marking the first year ever that clothing was the most purchased online item (Online sales, 2007). A positive outlook in the US online and catalogue retail market would boost the company's revenue (DataMonitor Report, 2006).

Threats

According to the U.S. Department of Homeland Security, there was an 86% increase in the number of seizures of counterfeit goods during fiscal year 2006 (Counterfeit goods, 2007). Counterfeiting is more prevalent in fashion accessories. This was proven last year as 41% of all goods seized were footwear. As counterfeit trade

increases, the company stands to lose on its brand equity, and possibly result in dissatisfied customers (DataMonitor Report, 2006).

Increasing retail rents have the potential to increase operating expenses of a firm. Rising operating expenses would pull down the company's operating margins and adversely affect the company's overall profitability (DataMonitor Report, 2006).

High interest rates in the United States also threaten the firm, as the U.S. is the firm's largest geographic market. The United States has seen many successive interest rate hikes in recent years, which could potentially depress consumer spending and adversely affect the growth of the economy (DataMonitor Report, 2006).

The apparel industry is marked by intense industry competition. Although Ralph Lauren competes in different segments and different labels, there are numerous designers and manufacturers in each segment, some of which are larger and have significantly more resources. In order to remain competitive, the firm must keep track of consumer demands. A failure to do so could adversely affect retail and consumer acceptance resulting in a loss of sales (DataMonitor Report, 2006).

Liz Claiborne

Introduction

Liz Claiborne is one of the largest apparel companies in the country designs and markets branded apparel, accessories, and fragrance products in over 30,000 retail locations around the world via wholesale and direct-to-consumer channels (DataMonitor, 2006). The firm now sources its products in more than 40 countries around the world and routinely ships five million units per week in the U.S. alone (Liz Claiborne website, 2007). The firm has a sizable licensing division that holds the exclusive long-term license to produce and market apparel and other products for DKNY Jeans, DKNY Active, Kenneth Cole New York, and Reaction Kenneth Cole brand names.

History

For 25 years Liz Claiborne designed dresses in New York before founding the Liz Claiborne Corporation in 1976. Claiborne, along with her husband (apparel industry consultant) Art Ortenberg, and two partners Leonard Boxer (who contributed apparel production expertise and connections to overseas suppliers), and Jerome Chazen (contributed knowledge from the marketing side of women's sportswear) began Liz Claiborne Inc. with a starting capital of $250,000. In their first year of operation Liz Claiborne generated $2.2 million in sales, operating with a profit (Siggelkow, 2001). Beginning as a 100 percent domestic company, the firm was a pioneer in the global sourcing of production as they first produced a poet blouse overseas in Taiwan (Chazen, 1996). In 1981, five years after the company was founded it went public with revenues of $116 million. Five years later, the company became the first started by a woman to become a part of the Fortune 500. The firm continued to enjoy success achieving the

highest average return on year-end equity during the 1980's of all Fortune 500 companies (Siggelkow, 2001).

Claiborne's early success is attributed to the firm's identification and attention to a growing customer group of professional women. In terms of career clothing, professional women did not have much to choose from as there was a large void in the marketplace. In the late 1970's women were entering the workforce in large numbers, and Claiborne used this opportunity to provide women with versatile, fashionable wardrobes that were feminine, yet still was appropriate for work. Claiborne's apparel was designed to fit the shapes of her customers, as she pronounced that "the American woman is pear-shaped" (Hass, 1992 as cited by Siggelkow, 2001). Claiborne's collections were innovative in that each season's line was comprised of four to seven concept groups, and products were designed in clusters, and could be mixed and matched (Siggelkow, 2001). The concept was simple: Provide the ensemble driven sportswear that had been available for many years at designer level prices through the likes of Calvin Klein and Bill Blass, but make it affordable for the working woman (Liz Claiborne Website, 2007).

Liz Claiborne introduced the six season buying cycle, and was also one of the first to pioneer having merchandise presented together as a collection in department stores. Executives of the firm worked with retailers to test the concept of presenting all of the brand's related sportswear pieces in one department, streamlining the consumer's shopping experience (Liz Claiborne website, 2007). It was important for Liz Claiborne products to be positioned together for many reasons. Not only could Liz Claiborne designs be mixed and matched, they also kept the same sizes across styles, and colors

never changed (therefore a new item purchased would match an existing item in one's wardrobe bought in previous years). As the Liz Claiborne merchandise was housed together as a collection, additional measures were taken to assist with retailer and consumer knowledge, such as help in identifying matching pieces by attaching the names of groups to the hangers, sending consultants across the country to ensure products were displayed correctly.

Corporate Overview

Of the original founders, Leonard Boxer retired from the Company in 1985, and in 1989, after 13 years, Liz Claiborne and Art Ortenberg announced their retirement from active management, while Jerry Chazen became the company's Chairman that same year (Liz Claiborne website, 2007). In 1994, amid declining sales the company welcomed Paul Charron, who was VF Corporation's executive vice president, as the new chief operating officer. He became CEO the following year, was elected chairman in 1996, and after 12 years of service he retired in 2006. Liz Claiborne's current CEO is William McComb who is a Johnson & Johnson pharmaceuticals executive. Liz Claiborne is governed by a ten member board of directors.

Liz Claiborne Inc. designs and markets an extensive range of branded women's and men's apparel, accessories and fragrance products. The firm has a diverse portfolio of more than 40 brands that are available internationally via wholesale and direct-to-consumer channels. The firm has three segments: wholesale apparel, wholesale non-apparel, and retail. Wholesale Apparel consists of businesses that design, manufacture and market to the Company's wholesale customers women's and men's apparel under various trademarks owned or licensed by the Company (Liz Claiborne website, 2007).

Wholesale Non-Apparel consists of businesses that design, manufacture and market to Liz Claiborne Inc.'s wholesale customer's accessories, cosmetics and jewelry products under various trademarks owned or licensed by the Company (Liz Claiborne website, 2007). Retail consists of businesses that sell merchandise designed and manufactured by the Wholesale Apparel and Wholesale Non-Apparel segments to the public through Company-operated specialty retail and outlet stores, and concession stores where the Company's products are sold in third-party owned locations. In addition, the Company is also segmenting its results on a geographic basis between Domestic and International (Liz Claiborne website 2007). At the end of 2006, the firm had 399 specialty stores with intensions of opening 100-125 in 2007 (Liz Claiborne Annual Report, 2006).

Financial Performance

As a corporation, Liz Claiborne has seen its share of financial successes and financial hardships. The company soared in the beginning years being the first apparel firm to achieve various industry accolades. By 1991, Liz Claiborne sales reached more than $2 billion, however problems arose in 1992 as sales stagnated and net income declined. In the early 1990's the trend towards a more casual workplace hurt the firm as they had not yet responded to the growing consumer demand. Since 1992 the firm has continued to see spikes in its sales and revenues.

Revenue

Since 2001, Liz Claiborne's revenue grew $1.546 billion from $3.448 in 2001 to $4.994 in 2006. This growth is largely attributed to acquisitions and organic growth within the firm. In 2006, the U.S. accounted for 72% of total revues, down 2% from

2005, where the U.S. accounted for 74% of total revenues. This decrease shows the increasing opportunities outside of the domestic market. Domestic net sales increased by .4% (13.3 million) in 2006 compared to an increase of 10.6% (133.2 million) internationally (Liz Claiborne Annual Report, 2006).

The following Table summarizes Liz Claiborne's revenue by segment for 2006. The decrease in wholesale apparel primarily reflects a decline in domestic Liz Claiborne business, and the 2005 inclusion of a $12.3 million reimbursement from a customer (Liz Claiborne Annual Report, 2006). The increase in the wholesale non-apparel segment can mainly be attributed to a $32.9 million increase in the firm's accessories businesses, a $16.6 million increase in the firm's cosmetics business, and the inclusion of $1.1 million from the acquisition of the Kate Spade brand. Retail net sales increases are the result of the addition of specialty retail and outlet stores, the Kate Spade acquisition, and foreign currency exchange rates in the firm's international businesses. According to Liz Claiborne's Annual Report (2006), corporate net sales include licensing revenue, which increased as a result of new licenses.

Net Sales	**2006**	**From 2005**
Wholesale Apparel	$2.885B	(-62.2M)
Wholesale Non-Apparel	$.701B	50.6M
Retail	$1.362B	154.5M
Corporate	$.0458B	3.6M

Source: Adapted from Liz Claiborne Annual Report (2006)

Five Year Summary

In 2006, net sales increased 3% over net sales for 2005. Foreign exchange rates have contributed to this increase, as the Canadian dollar and the euro increased net sales

by approximately $28 million during the year (Liz Claiborne Annual Report, 2006). The following Table lists Liz Claiborne Inc.'s net sales over the past five year period.

(Billions U.S. Dollars)	2006	2005	2004	2003	2002
Domestic	$3.5994	$3.5861	$3.5026	$3.3046	$3.0373
International	$1.3949	$1.2617	$1.1302	$ .9365	$ .6802
Total Revenue	$4.9943	$4.8478	$4.6328	$4.2411	$3.7175

Source: Adapted from Hoover's Company Profile (2007)

For the five years through 2006, Liz Claiborne had a revenue compound annual growth rate of 7.7%, spent $1.19 billion on cash acquisitions, and also saw a 12.4% growth rate in total assets (Standard & Poor's Stock Report, 2007). Liz Claiborne's financial and operating metrics have deteriorated in tandem with a consolidating retail marketplace, growing maturity of many department store brands and as it invests in acquisitions and new distribution channels (Standard & Poor's Stock Report, 2007).

Licensing Revenue

In 2006, licensing accounted for 1% of net sales, and 8% of operating profits. Revenues increased $3.6 million dollars to $3.599 billion reflecting growth in the existing license portfolio as well as new licenses. Licensing operating income also increased $5.2 million in 2006 to $37.3 million, which was up from $27.4 in 2004. The firm has some long term licensing agreements, of which portions are subject to minimum guarantees totaling $78 million. As of December 31, 2006, the firm's deferred royalty income totaled $623 thousand.

Market Share

In the fragmented apparel market, national brands marketed by 20 companies account for 30% of total apparel sales, with the remaining 70% comprised of smaller or

private label brands (Standard & Poor's Stock Report, 2007). In 2006 apparel sales in the U.S. rose 5.1% to $190.1 billion, according the NPD Group (Standard & Poor's Stock Report, 2007). Of that $190.1 billion, Liz Claiborne's revenue for 2006 represented $4.994 billion. In addition to the firm's revenue over the past ten years, Table 15 also summarizes other key financial variables of Liz Claiborne.

Table 15. Liz Claiborne Financials

Company Financials										
Per Share Data ($) Year Ended Dec. 31	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Tangible Book Value	6.86	7.74	7.13	6.73	5.43	5.71	5.45	5.95	7.67	6.97
Cash Flow	3.82	4.12	3.95	3.51	3.06	2.79	2.43	2.11	1.71	1.64
Earnings	2.46	2.94	2.85	2.55	2.16	1.83	1.72	1.56	1.29	1.32
S&P Core Earnings	2.44	2.88	2.60	2.39	2.00	1.68	NA	NA	NA	NA
Dividends	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Payout Ratio	9%	8%	8%	9%	10%	12%	13%	14%	18%	17%
Prices:High	44.50	43.82	42.47	38.90	33.25	27.48	24.16	20.34	27.44	28.97
Prices:Low	33.40	33.70	32.09	26.23	23.55	18.00	15.47	15.44	12.50	19.06
P/E Ratio:High	18	15	15	15	15	15	14	13	21	22
P/E Ratio:Low	14	11	11	10	11	10	9	10	10	14
Income Statement Analysis (Million $)										
Revenue	4,994	4,848	4,633	4,241	3,718	3,449	3,104	2,807	2,535	2,413
Operating Income	576	652	628	575	493	780	402	368	340	323
Depreciation	140	128	116	105	96.4	101	77.0	67.8	55.8	46.0
Interest Expense	Nil	31.8	32.2	30.5	25.1	28.1	21.9	1.61	Nil	Nil
Pretax Income	407	491	480	438	362	300	288	302	267	293
Effective Tax Rate	37.4%	35.4%	34.7%	36.2%	36.2%	36.0%	36.0%	36.2%	36.5%	37.0%
Net Income	255	317	314	280	231	192	185	192	169	185
S&P Core Earnings	252	309	284	259	213	176	NA	NA	NA	NA
Balance Sheet & Other Financial Data (Million $)										
Cash	195	343	393	344	276	161	54.4	37.9	230	138
Current Assets	1,470	1,457	1,509	1,348	1,203	1,106	911	859	1,075	1,057
Total Assets	3,496	3,152	3,030	2,607	2,296	1,951	1,512	1,412	1,393	1,305
Current Liabilities	674	608	638	527	591	447	358	352	363	328
Long Term Debt	570	418	485	440	378	387	269	116	Nil	Nil
Common Equity	2,130	2,003	1,812	1,600	1,286	1,056	834	902	981	922
Total Capital	2,758	2,478	2,359	2,094	1,705	1,480	1,139	1,044	999	932
Capital Expenditures	169	140	134	96.7	80.0	82.2	66.7	75.1	88.5	34.0
Cash Flow	395	445	429	385	328	294	262	260	225	231
Current Ratio	2.2	2.4	2.4	2.6	2.0	2.5	2.5	2.4	3.0	3.2
% Long Term Debt of Capitalization	20.7	16.9	20.6	21.0	22.2	26.1	23.6	11.1	Nil	Nil
% Net Income of Revenue	5.1	6.5	6.8	6.6	6.2	5.6	5.9	6.9	6.7	7.7
% Return on Assets	7.7	10.3	11.1	11.5	10.9	11.1	12.6	13.7	12.6	13.7
% Return on Equity	12.3	16.5	18.4	19.3	19.7	20.3	21.3	20.4	17.8	19.0

Source: Standard & Poor's Stock Report (2007)

Portfolio of Brands

The firm's extensive brand and product portfolio was first expanded to include men's clothing in 1985. Cosmetics were then added in 1986 with a joint venture with Avon (DataMonitor Report, 2006). During the 1990's, under the leadership of Paul Charron, Liz Claiborne began to diversify beyond its core namesake brand, and target different consumer segments and price points via acquisitions. Such earlier acquisitions include Sigrid Olsen, Lucky Brand, Crazy Horse, and Russ Togs.

Product Categories

Today Liz Claiborne designs and markets an extensive range of branded women's and men's apparel, fashion accessories, and fragrance products, cosmetics and jewelry (DataMonitor Report, 2006). The following is a list of brands owned by the Liz Claiborne Corporation, and the associated product categories.

Table 16. Liz Claiborne Brands

Brand	Product Category				
	Women's Apparel	Men's Apparel	Children's Apparel	Accessories	Cosmetics/ Fragrances
Axcess	X	X		X	
Bora Bora					X
C & C California	X	X	X		
Claiborne		X	X	X	X
Concepts by Claiborne		X		X	
Curve					X
Dana Buchman	X				
DKNY Jeans/DKNY Active	X	X			
Ellen Tracy	X			X	X
Emma James	X			X	
Enyce	X	X	X	X	
First Issue	X			X	
Intuitions	X				

Table 14. Continued

J.H. Collectibles	X				
Juicy Couture	X	X	X	X	X
Kate Spade				X	
Kenneth Cole NY/Reaction					
Kenneth Cole				X	
Kensie	X		X	X	
Kensiegirl	X				
Laundry by Design	X			X	
Laundry by Shelli Segal				X	
LIZ					X
Liz & Co.	X			X	
Liz Claiborne	X		X	X	X
Lucky Jeans Brand	X	X	X	X	X
Mac & Jac	X	X		X	
Mambo					X
Marvella				X	
Mexx	X	X	X	X	X
Monet				X	
Monet2				X	
Prana	X	X		X	
Ratio	X	X		X	
Realities					X
Sigrid Olsen	X			X	
Soul by Curve					X
Spark					X
Stamp 10	X	X		X	
Tapemeasure	X				
Tint	X			X	
Trifari				X	
Villager	X			X	
Yzza	X			X	

Source: Liz Claiborne Annual Report, 2006

Recent Activities

According to the Liz Claiborne 2006 Annual Report, Liz Claiborne has become a strategic acquirer with many brands addressing different lifestyles and price points. Additionally the firm will seek to acquire companies that will deliver capabilities and/or

platforms that the firm can leverage across multiple businesses (Liz Claiborne Annual Report, 2006). Over the past few yeas via acquisitions, the firm has been able to enhance their focus on specialty retail and overseas markets. Since 1999, the firm has participated in seven acquisitions.

Table 17. Liz Claiborne Acquisitions

Acquisition	Date	Purchase Price	Brand Names	Ownership
Kate Spade LLC	12/13/2006	$124 million	Kate Spade, Jack Spade	100%
Westcoast Contempo Fashions Limited, Mac & Jac Holdings Limited	1/26/2006	$22.7 million	Mac & Jac, Kensie, Kensie Girl	100%
Skylark Sport Marketing Corporation	11/18/2005	$45.8 million	prAna	100%
C & C California, Inc.	1/6/2005	$29.2 million	C & C California	100%
Juicy Couture, Inc	4/7/2003	$53.1 million	Juicy Couture	100%
Mexx Canada, Inc.	7/9/2002	$48.7 million*	Mexx Canada	100%
Lucky Brand Dungarees, Inc.	6/8/1999	$85 million	Lucky Brand	85%

* = Cumulative Total

Source: Adapted from Hoovers Company Profile (2007)

Most recently in 2006 the firm participated in two acquisitions. On December 13, 2006, the firm acquired Kate Spade LLC. Kate Spade is a designer, marketer, wholesaler, and retailer of fashion accessories for women and men via two brands Kate Spade and Jack Spade, and is based in New York. The purchase price totaled $124 million. This acquisition further diversifies the firm's portfolio, and provides a considerable opportunity for growth in its direct to consumer business (Liz Claiborne Annual Report, 2006). In July of 2007, Kate and Andy Spade announced they would be stepping down from their respective roles as designer and chief executive officer at the close of spring market, and will transition into an advisory role at the company. The ongoing relationship that Liz Claiborne has with the Spades could result in other ventures according to Claiborne's CEO.

On January 26, 2006, Liz Claiborne Inc. acquired Westcoast Contempo Fashions Limited and Mac & Jac Holdings Limited, which both collectively design, market, and sell premium apparel under the Mac & Jac, Kensie and Kensiegirl lines. Mac & Jac was founded in 1985, and is based in Vancouver, Canada. This acquisition also compliments the firm's portfolio diversification strategy. In addition this acquisition also added to the firm's U.S. distribution in both department and specialty store channels. The purchase price totaled $22.7 million (26.2 million Canadian dollars).

Licensing

As a licensor Liz Claiborne licenses to third parties the right to produce and market products bearing certain company owned trademarks (Liz Claiborne Annual Report, 2006). Liz Claiborne's licenses are multi-brand, multi-category. Liz Claiborne's current licenses are summarized by product category and brand in Table 18.

Table 18. Liz Claiborne Licensees

Liz Claiborne Licenses	Axcess	Claiborne	Concepts by Claiborne	Dana Buchman	Ellen Tracy	Emma James	Enyce	First Issue	J.H. Collectibles	Juicy Couture	Kate Spade	Kensie	Laundry Shelli Segal	Liz & Co.	Liz Claiborne	Liz Claiborne Women	Lucky Brand Jeans	Mac & Jac	Mexx	Ratio	Sigrid Olsen	Villager
Category																						
APPAREL																						
Baby/Kids		X					X			X		X										
Dresses/Suits						X			X						X	X						

Table 18. Continued

Dress Shirts	X	X	X																			
Formalwear		X																				
Intimate Apparel/ Underwear	X											X			X				X			
Outerwear	X	X	X	X	X								X		X	X						
Pants		X	X																			
School Uniforms		X													X							
Sleepwear /Loungewear	X	X										X			X				X			X
Swimwear										X					X	X	X		X			
Tailored Clothing	X	X	X																			
NON-APPAREL																						
Baby Buggies											X											
Belts	X	X	X		X		X					X								X		
Cosmetics and Fragrances																			X			
Footwear	X	X			X	X	X			X	X	X	X		X				X			X
Hair Accessories							X												X			
Handbags							X					X										
Jewelry							X					X							X			
Legwear/Socks	X				X		X					X			X				X			
Luggage		X	X												X							
Men's Accessories	X	X	X				X															
Neckwear/Scarves	X	X	X				X					X										
Optics		X	X	X	X			X		X	X			X	X				X		X	
Slippers							X								X							
Stationary/Paper Goods											X								X			
Sunglasses	X	X		X	X					X	X	X			X			X	X		X	X
Watches										X		X							X			
HOME																						
Bed and Bath															X				X		X	X
Blankets/Throws															X							
Decorative Fabrics															X							
Flooring															X							
Furniture															X							
Hard Tabletop											X											
Home Fragrance															X							X
Table Linens															X						X	
Window Treatments															X							

Source: Liz Claiborne Annual Report (2006)

In addition to the above mentioned licenses, Liz Claiborne has also entered into licensing agreements and partnerships with various manufacturers and brand owners. Most recently in May 2007, Claiborne entered into a partnership with Narcisco Rodriguez, wherein Claiborne will own 50% ownership interest in name and trademarks. Liz Claiborne will form a new company to develop the Narcisco Rodriguez brand worldwide. Claiborne has also signed licensing agreements for the Enyce brand name to include footwear, hosiery, and accessories for juniors, and footwear and hosiery for girls. In 2006, Liz Claiborne licensed its brand names in such categories as area and accent rugs, footwear, and hosiery.

Competitive Analysis

Competitive Landscape

In 2006, department stores accounted for 16% of apparel sales followed by national chains at 15%, and off price retailers at 8% (Standard & Poor's Stock Report, 2007). Claiborne holds sizeable market shares in department stores and national chains.

Competitors

Liz Claiborne operates in global fashion markets that are intensely competitive. Specializing in design, manufacturing, and marketing of fashion apparel and accessories, Liz Claiborne's top competitors have been summarized in Table 19.

Table 19. Liz Claiborne Competitors

Jones Apparel Group
Polo Ralph Lauren
Hartmarx Corporation
Bebe Stores, Inc.
Tommy Hilfiger Corporation
French Connection Group, Plc
Espirit Holdings Limited
Limited Brands
Ann Taylor Stores Corporation
Benetton
Zara
Calvin Klein
Donna Karen
Nautica
Land's End

Source: Adapted from Hoover's Company Profile, 2007

Strategies

Under the leadership of former CEO Paul Charron, Liz Claiborne reduced its dependence on department stores, further expanded its business with discounters and moderate price chains, and began strategic acquisitions to diversify its portfolio. Liz Claiborne's strategies have been to identify strategic acquisitions, and grow their existing business including the creation of internally developed brands. Liz Claiborne's brand portfolio approach is aimed at diversifying risks, as key aspects of competition include quality, brand image, market share, and intellectual property protection. Liz Claiborne's size and global operating strategies allow them to position themselves to take advantage of synergies (in product design, development, sourcing, and distribution) throughout the world.

SWOT Analysis

Table 20. Liz Claiborne SWOT Analysis

Strengths	Weaknesses
Diverse brand portfolio Multi-channel network Strong cash position	Declining revenue growth Deterioration of flagship brand
Opportunities	**Threats**
Restructuring efforts Recent acquisitions Expansion to new markets	Counterfeit products Emergence of private labels Industry consolidation

Source: DataMonitor Report, 2006

Strengths

One of Liz Claiborne's best strengths is its diverse brand portfolio of over 40 brands. Each brand is defined and segmented according to market, price and fashion range. The brands within the Liz Claiborne portfolio represent a broad range of markets including active, better, bridge, contemporary. The Liz Claiborne flagship brand has weakened in recent years. However, because the firm has a diverse portfolio of brands, this was offset by the growth of other brands. A diverse range of brands allow the company to maintain a strong position in the apparel market (DataMonitor Report, 2006).

Liz Claiborne's multi-brand strategy also leads to a multi-channel strategy in marketing its products. Products are sold in both wholesale and retail distribution channels including over 300 specialty retail stores, over 300 outlet stores, and over 600 international concession stores throughout the United States, Canada, and Western Europe, and through 20 company owned websites. A multi-channel distribution strategy reduces business risk and enables the company to reach out to multiple customer

segments and geographies, in addition to increasing the bargaining power of Liz Claiborne relative to wholesalers (DataMonitor Report, 2006).

Liz Claiborne also has a strong cash flow, which over a four year period (2001-2005) rose over $100 million. In addition to the operating cash flow, cash and short term investments also increased similarly. These cash flows have allowed the firm to make acquisitions that have a total value of about $1 billion, and reward shareholders (DataMonitor, 2006).

Weaknesses

Although Liz Claiborne has a strong market position, the firm's revenue growth has declined in recent years. The company's average revenue growth has been lower than the industry average. According to the 2006 Data Monitor Report, lower than average revenue growth indicates a decline in competitiveness.

For the past ten years, the firm's flagship Liz Claiborne brand has suffered declining sales. Since its peak of nearly $1.7 billion in 1997, sales have flattened to around $1.1 billion in 2005 (DataMonitor, 2006). The company's overall growth is restricted as flagship brand sales continue to decline.

Opportunities

In order to streamline its operations, Liz Claiborne has undertaken a restructuring program, wherein each brand will function as a separate unit with its own design and marketing staff. Under this restructuring program the brands would share services such as planning, sales, sourcing, and consumer research. Liz Claiborne is restructuring its brands and operations by consumer product and distribution channel and moving away from a brand-specific model. The company says that the move is necessary to make it

more nimble, to increase operating efficiencies, and to provide "for more growth opportunities" (Hoovers.com). Employing such a new structure will cost the firm 500 positions (4% of its global workforce), with significant reductions at the senior level. Restructuring woos margins and enables it to strengthen its core brand (DataMonitor, 2006).

Recent acquisitions have also provided Liz Claiborne with more opportunities. With the January 2006 acquisition of Mac & Jac and Kenzie Girl brands, Liz Claiborne has increased its operations in the specialty and department store markets of the U.S. and Canada, and in China. With the November 2005 acquisition of Prana, Liz Claiborne was able to extend its brand portfolio with outdoor active lifestyle apparel in specialty retail markets throughout the U.S. and internationally. Both acquisitions provide increased exposure to specialty retail markets in the U.S. and in other countries (DataMonitor, 2006).

In January 2006, Liz Claiborne entered into a partnership with MAF Fashion which granted exclusive distribution rights to certain Liz Claiborne brands, in the Middle East region. This is an opportunity for Liz Claiborne as consumers in the Middle East have high disposable incomes and have become more fashion conscious. Consumer spending in this area has grown 10% annually over the past five years (DataMonitor, 2006). This partnership makes Liz Claiborne well placed to benefit from the Middle East's booming retail industry.

Threats

According to a 2006 Data Monitor report, the market for counterfeit products is forecast to reach the $2 trillion mark by 2026. This is posing a major problem for

manufacturers as sales of counterfeit goods are around $500 billion per year. Juicy Couture is one of Liz Claiborne's most counterfeited brands, with counterfeit products being sold regularly on eBay. Counterfeits have very negative impacts on the brand as low quality counterfeits can reduce consumer confidence in the products of the company, and reduce exclusiveness of the Liz Claiborne brand. Counterfeits not only deprive the company of revenues, but also dilute its brand image (DataMonitor Report, 2006).

An emerging threat within the apparel industry is the emergence of private label products. In order to increase their profit margins, many department stores have expanded their private label business. In addition, department stores are also looking at carrying more niche brands and reducing their reliance on the larger brands such as Liz Claiborne, while mass retailers such as Target are increasing their offerings of private label premium goods at affordable prices. The push of private labels in the premium apparels segment could result in loss of business, and lower margins of the company (DataMonitor Report 2006).

In recent years the apparel industry has seen several major consolidations, most recently with May and Federated. Consolidations adversely affect wholesale businesses in both apparel and non-apparel, which could have a substantial impact on the company's revenue (DataMonitor Report, 2006).

Nautica Enterprises

Introduction

Nautica Enterprises is a wholly owned subsidiary of VF Corporation. Catering predominantly to men's apparel (ages 25-55), they focus on designing and marketing sportswear, outerwear, and sleepwear for men, as well as jeans, and children's wear. In addition to these products the firm also licenses a range of products within its portfolio. VF Corporation's principal activities are to design, manufacture and market branded jeans wear, intimate apparel, occupational apparel, knitwear, outdoor apparel and equipment, children's playwear and other apparel in five segments which include: Jeanswear, Outdoor, Imagewear, Sportswear and Intimate apparel (Hoover's Company Profile, 2007). The Sportswear segment, where Nautica is housed operates in fashion sportswear. Nautica operates a wholesale business wherein they sell Nautica branded apparel primarily to leading department and specialty stores in various locations throughout the U.S. The firm also operates outlet stores that provide an additional sales channel for Nautica products, and allows for the organized distribution of excess and out of season merchandise (DataMonitor Report, 2006). Nautica opened its first freestanding stores in Bangalore and New Delhi, India in May 2006.

History

Nautica was founded in 1983 by David Chu, and began as a collection of men's outerwear. Nautica was acquired by State-O-Maine, which was a bathrobe and activewear company in 1984 for $500,000. In 1993, the firm went public and also changed its name from State-O-Maine to Nautica Enterprises (DataMonitor, 2006). In 2000, the John Varvatos collection was launched followed by the establishment of the

Nautica Children's Company in 2001 (DataMonitor Report, 2006). Nautica acquired the Earl Jean brand in 2001, and in 2003announced plans to relocate the headquarters of its Earl Jean subsidiary from Los Angeles to New York City (Hoovers Company Profile, 2006). After its merger with VF Corporation in 2003, Nautica began operation as a wholly owned subsidiary. In 2004 the company closed its New York flagship.

Corporate Overview

Nautica designs, sources, markets and distributes apparel under the Nautica brand, and globally licenses products such as accessories and home furnishings. While Nautica is headquartered in New York, it is owned by VF Corporation, which is headquartered in Greensboro, North Carolina. Nautica is the principal component of VF's sportswear category. In addition to operating through over 2300 retailers in the US, 1500 in-store shops, direct retail and outlet stores, the firm also operates approximately 160 stores outside the US (Hoovers Company Profile, 2006).

The firm, which employs over 52,000 individuals primarily operates in North America, Latin America, Europe, and Asia, with approximately 305 full-price stores, and 110 outlet stores around the world that sell specific brands (DataMonitor Report, 2006).

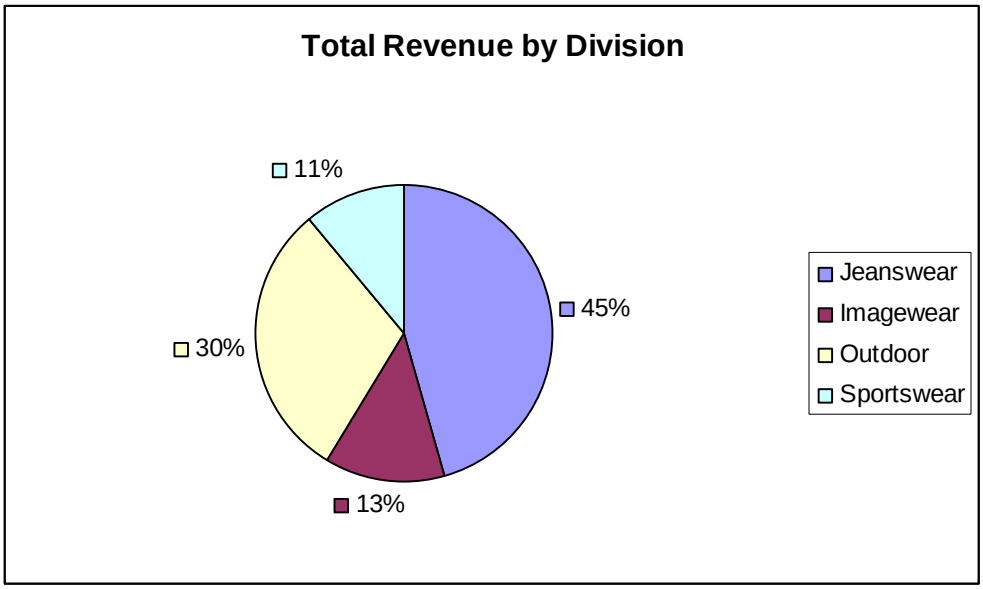
Financials

Due to the fact that Nautica is a subsidiary of VF, it does not release any financial data, and therefore the financial data for VF Corporation has been summarized.

Revenue

For fiscal 2006, VF Corporation recorded revenues of $6.216 billion, which decreased from $6.502 billion in 2005 (Standard & Poor's Stock Report, 2007. The following chart illustrates the revenue breakdown by division for fiscal 2006. Jeanswear

and Outdoor account for the largest amounts of total sales with 45% and 30% respectively.



Source: Adapted from VF Corporation Annual Report (2006)

Five Year Summary

In 2006, VF's international revenues reached 26%, which is a 6% increase from 2002 (VF Corporation Annual Report, 2006). In the past five years, VF has also exhibited a revenue compound annual growth rate of 5.8%, as a gross profit compound annual growth rate and an increase in total assets by 5.9% (Standard & Poor's Stock Report, 2006). The following Table summarizes VF's sales, net income and earnings per share for the past five years.

FIVE YEAR SUMMARY			
YEAR	**SALES**	**NET INCOME**	**EPS**
2006	6,215,794,000	533,516,000	4.82
2005	5,654,155,000	506,702,000	4.54
2004	5,218,066,000	474,702,000	4.30
2003	4,413,354,000	397,933,000	3.67
2002	4,267,068,000	-154,543,000	-1.49
5 YEAR GROWTH RATE	9.8	-	-

Source: Hoover's Company Profile (2007)

VF's sales over the past five years have been progressively increasing over the past five years, with a five year growth rate of 9.8%. VF suffered losses in 2002, which negatively affected income and earnings per share; however the firm has been making progressive strides in both areas since.

Market Share

In the fragmented apparel market, national brands marketed by 20 companies account for 30% of total apparel sales, with the remaining 70% comprised of smaller or private label brands (Standard & Poor's Stock Report, 2007). In 2006 apparel sales in the U.S. rose 5.1% to $190.1 billion, according the NPD Group (Standard & Poor's Stock Report, 2007). Of that $190.1 billion, VF Corporation's revenue for 2006 represented $6.216 billion. In addition to the firm's revenue over the past ten years, Table 21 also summarizes other key financial variables of VF Corporation.

Table 21. VF Financials

Company Financials										
Per Share Data ($) Year Ended Dec. 31	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Tangible Book Value	13.18	8.78	7.56	8.61	10.91	9.97	9.71	10.08	9.36	8.69
Cash Flow	5.74	5.56	5.53	4.64	4.35	0.00	3.73	5.71	4.39	3.87
Earnings	4.73	4.54	4.21	3.61	3.24	1.19	2.27	2.99	3.10	2.70
S&P Core Earnings	4.82	4.67	4.36	3.70	2.75	0.77	NA	NA	NA	NA
Dividends	1.94	1.10	1.05	1.01	0.97	0.93	0.89	0.85	0.81	0.77
Payout Ratio	41%	24%	25%	28%	30%	78%	39%	28%	26%	29%
Prices:High	83.10	61.61	55.61	44.08	45.64	42.70	36.90	55.00	54.69	48.25
Prices:Low	53.25	50.44	42.06	32.62	31.50	28.15	20.94	27.44	33.44	32.25
P/E Ratio:High	18	14	13	12	14	36	16	18	18	18
P/E Ratio:Low	11	11	10	9	10	24	9	9	11	12
Income Statement Analysis (Million $)										
Revenue	6,216	6,502	6,055	5,207	5,084	5,519	5,748	5,552	5,479	5,222
Operating Income	935	944	874	718	729	516	683	820	845	761
Depreciation	108	116	141	104	107	169	173	335	161	156
Interest Expense	57.3	70.6	76.1	61.4	71.3	93.4	88.7	71.4	62.0	50.0
Pretax Income	777	771	712	599	562	263	432	596	631	585
Effective Tax Rate	31.2%	32.7%	33.3%	33.5%	35.1%	47.6%	38.1%	38.5%	38.5%	40.0%
Net Income	535	519	475	398	364	138	267	366	388	351
S&P Core Earnings	544	532	490	406	303	84.6	NA	NA	NA	NA
Balance Sheet & Other Financial Data (Million $)										
Cash	343	297	486	515	496	332	119	79.9	63.0	124
Current Assets	2,578	2,365	2,379	2,209	2,075	2,031	2,110	1,877	1,848	1,601
Total Assets	5,466	5,171	5,004	4,246	3,503	4,103	4,358	4,027	3,837	3,323
Current Liabilities	1,015	1,152	1,372	872	875	814	1,006	1,113	1,033	766
Long Term Debt	635	648	557	956	602	904	905	518	522	516
Common Equity	3,265	2,808	2,513	1,951	1,658	2,113	2,192	2,164	2,046	1,841
Total Capital	3,901	3,479	3,096	2,938	2,297	3,062	3,145	2,733	2,622	2,439
Capital Expenditures	127	110	81.4	86.6	64.5	81.6	125	150	189	154
Cash Flow	643	635	615	502	472	304	437	698	549	503
Current Ratio	2.5	2.1	1.7	2.5	2.4	2.5	2.1	1.7	1.8	2.1
% Long Term Debt of Capitalization	16.3	18.6	18.0	32.6	26.2	29.5	28.8	18.9	19.9	21.1
% Net Income of Revenue	8.6	7.9	7.8	7.6	7.2	2.5	4.6	6.6	7.1	6.7
% Return on Assets	10.1	10.2	10.3	10.3	9.6	3.3	6.4	9.3	10.8	10.4
% Return on Equity	17.6	19.5	21.3	22.1	19.3	6.3	12.1	17.1	20.0	18.3

Source: Standard & Poor's Stock Report (2007)

Portfolio of Brands

As a subsidiary of VF Corporation, Nautica is one of many brands within VF's portfolio. Other brands owned by VF are listed in Table 22.

Table 22. VF Corporation Brands

Category	Brand
Jeanswear	Wrangler
	Lee
	Riders
	Rustler
	Brittania
	Timber Creek by Wrangler
	Chic
	Gitano
	20X
	Lee
	Hero by Wrangler
	Maverick
	H.I.S.
	Old Axe
Imagewear	Red Kap
	Bulwark
	The Force
	Lee Sport
	CSA
	Chase Authentics
	NFL Red
	NFL White
	Majestic Athletic
	Sentinel
	First Call
	Chef Designs
Outdoor	The North Face
	JanSport
	Eastpak
	Napaijri
	Kipling
	Vans
	Reef
	Eagle Creek
Sportswear	**Nautica**
	John Varvatos

Source: VF Corporation Website, 2007

Product Categories

Table 23 summarizes the product offerings of Nautica and other products categories of VF Corporation.

Table 23. Nautica/VF Product Categories

Brand	Product Category
Nautica	Children's wear
	Men's outerwear
	Men's sleepwear and robes
	Men's sportswear
	Women's denim apparel
	Women's robes
	Belts
	Dinnerware
	Eyewear
	Fragrances
	Home furnishings
	Hosiery
	Neckwear
	Rainwear
	Small leather goods
	Swimwear
	Tailored clothing
	Umbrellas
	Watches
VF	Backpacks
	Corporate image uniforms
	Daypacks
	Footwear
	Intimate apparel
	Jeanswear
	Occupational apparel
	Outdoor and sports apparel
	Outdoor and sports equipment

Source: Data Monitor Report, 2006

Recent Activities

For the past few years, VF has spent millions studying consumer responses to its marketing efforts in order to transform its business from a domestic enterprise to a marketer of global lifestyle products (O'Loughlin, 2007). As a result of this research, the

firm has decided to increase the marketing budget for Nautica. The study's findings were also relied on in Nautica's release of the Deck shirt, which is the centerpiece of the Spring 2007 collection. The Deck Shirt, which is anticipated to differentiate Nautica from its competition will also e the new official shirt of the Association of Volleyball Pro Beach Volleyball tour and the U.S. Sailing Team (VF Annual Report, 2006).

In 2006, VF Corporation entered into a majority owned joint venture with Arvind Mills, Ltd. to market the firm's brands in India, which is one of the fastest growing economies in the world (VF Annual Report, 2006). The joint venture, which builds upon a successful licensing relationship, is intended to drive the expansion of the Lee, Wrangler, Nautica, Jansport, and Kipling brands that not only have name recognition but communicate the allure of the Western lifestyle throughout India (VF Annual Report, 2006).

Licensing

Nautica has a global licensing business that plays a key part in generating revenue. In early 2005, Nautica signed a deal with fragrance firm Coty, to develop, make, and market fragrance and beauty products under the Nautica brand name including Nautica Classic, Latitude Longitude, and Nautica Competition (Hoover's Company Profile, 2007).

Table 24 provides a listing of product categories that are licensed under the Nautica brand name.

Table 24. Nautica's Licensed Product Categories

Licensed Product Categories
Dinnerware
Eyewear
Fragrances
Home furnishings
Rainwear
Swimwear
Watches

Source: Hoover's Company Profile, 2007

In 1998, Nautica reacquired its denim business from license Seattle Pacific Industries, and launched the Nautica Jeans Company brand a year later. In April 2001, Nautica ended its licensing agreement with Hampton Industries to market children's wear under the Nautica label; Nautica then established a subsidiary, Nautica Children's Company, to bring the line in-house (Hoover's Company Profile, 2007).

Competitive Analysis

Competitive Landscape

According to a Standard & Poor's Stock Report (2007), the athletic apparel and footwear markets are highly fragmented domestically and abroad, with significant competitors such as Timberland, Wolverine Worldwide, and major sports companies such as Nike. VF Corporation's heritage brands compete both in the mass and moderate channels. The contraction of the traditional better department store channel serves as an opportunity for VFC.

Competitors

Table 25 summarizes the major competitors of Nautica and VF.

Table 25. VF Corporation's Major Competitors

Major Competitors of Nautica	Major Competitors of VF
Levi Strauss & Co.	Intimate Brands
Liz Claiborne, Inc.	Russell Corporation
Nike, Inc.	Sara Lee Corporation
Reebok International, Ltd.	Kellwood Company
The Gap, Inc.	American Eagle Outfitters
Limited Brands	Ansell Limited
L.L.Bean, Inc.	Billabong International Ltd.
Warnaco Group	The Gymboree Corporation
Ashworth, Inc.	OshKosh B Gosh Inc.
Phillips-Van Heusen Corporation	Levi Strauss & Co.
Polo Ralph Lauren Corporation	Liz Claiborne, Inc.
Lands' End, Inc.	Nike, Inc.
Harmarx Corporation	Warnaco Group
Oxford Industries Inc.	Phillips-Van Heusen Corporation
Tommy Hilfiger Corporation	Reebok International, Ltd.
Benetton Group SpA	The Gap, Inc.
The Wet Seal, Inc.	Oxford Industries Inc.

Source: Adapted from Nautica and VF Corporation DataMonitor Reports, 2007

Strategies

As a corporation, VF has five core strategies in which they focus on. Those strategies include:

-Build a portfolio of strong brands that deliver great value to consumers.

-Target brands to reach a variety of consumer segments across all retail channels.

-Grow international presence.

-Lead the industry in responsive service.

-Maintain conservative financial policies.

In addition to these strategies, VF also has six growth drivers that direct their initiatives. Those growth strategies include the following:

1.Build More Growing, Global Lifestyle Brands

(focus: younger, more female brands)

2.Expand Share with Winning Customers

(focus: new-cross-coalition team organization)

3.Stretch Brands and Customers to New Geographies

(focus: rapidly-expanding economies, including the Far East)

4.Fuel the Growth

(focus: leverage VF supply chain capabilities)

5.Build New Growth Enablers

(focus: leadership development)

6.Expand Direct-to-Consumer Business

(focus: owned mono-brand retail stores and e-commerce)

SWOT Analysis

Table 26. VF Corporation SWOT Analysis

Strengths	**Weaknesses**
Strong brand image Economies of scale Robust performance of outdoor apparel	Dependence on few customers Slowdown in key segments Low returns
Opportunities	**Threats**
Increase in dedicated retail stores International expansion Lifting of the import quota by WTO Increasing online retail spending	Consolidation in the retail industry Emergence of private labels Counterfeit goods

Source: DataMonitor Report, 2007

Strengths

VF is one of the leading branded apparel companies in the world that enjoys the largest jeanswear market share worldwide (DataMonitor Report, 2007). The company

has a significant presence in outdoor apparel with The North Face. Through a recent acquisition VF also has the right to manufacture and market under the Harley Davidson brand name. Presence of these strong brands ensures customer loyalty, and enables the firm to command a premium price for its products and easily expand into new lines (DataMonitor Report, 2006).

With revenues in excess of $6 billion, VF derives substantial economies from its scale operations in procurement, finance, logistics, marketing, research, new product development, innovation, technology, and other functions (DataMonitor Report, 2007). The scale of operations gives VF a significant competitive advantage against smaller unorganized players in the local markets (DataMonitor Report, 2007).

VF Corporation's outdoor apparel division recorded a revenue growth of 43.8% in 2005, which greatly added to the firm's strong financial performance that fiscal year (DataMonitor Report, 2006). Such growth has been the result of both organic growth and recent acquisitions that have been made, and also serves as a driving force for overall performance of the firm.

Weaknesses

For most of its revenue, VF Corporation depends on few customers, which are primarily department stores, retail chains, specialty and discount stores in the US and international markets. With such a small number of customers accounting for such a large portion of the firm's business, they risk being affected adversely when customers experience hardships. Such a situation also increases the bargaining power that the buyer has in dealing with VF.

For the fiscal year ending 2005, there were declines in revenue in the jeanswear and intimate apparel segments, which are both key divisions. Continued weak performance of these divisions would adversely affect the financial performance of the company.

In addition to declines in revenue, the firm has also experienced low returns in recent years. VF's return on average assets, return on investments, return on average equity for the period of 2001-2005 were significantly lower than industry averages for the same period, indicating the inability of the management to deploy assets profitably which decreases investor confidence (DataMonitor Report, 2007).

Opportunities

Retail stores are of increasing importance to the firm's lifestyle brands growth strategy, and strategy for expanding distribution of products in all regions of operation. Retail stores add visibility, availability, and commercial success, as they compliment the company's wholesale business (DataMonitor Report, 2006). VF's strategy is to open more stores in the next few years, which would help in the firm's growth plans.

Another opportunity for VF is international expansion. Having such strong brands as Nautica and The North Face, VF has the opportunity to expand in the international market. VF's joint venture with Arvind Mills, gives the firm a presence in India, which is one of the fastest growing consumer markets. Also looking to expand in other areas such as China and Europe, the company is well placed to benefit from the lucrative retail industry markets in developing economies.

In 2005 all quotas on imported textile and apparel goods were lifted. Since that time, VF has shifted its product procurement strategy towards outsourcing, and

purchasing from contractors. With the abolishment of textile and apparel quotas VF has increased its procurement of high quality low cost outsourced goods. This opportunity provides VF's operations with a higher degree of flexibility in terms of locations and nature of production (DataMonitor Report, 2007).

Online retail spending has progressively increased in recent years. With 2006 being the first year that apparel and apparel related products were the most purchased items online, apparel retailers with an online presence seek to gain tremendously from this opportunity. VF Corporation has 30 websites that enable access to product information and online sales of products, and reported a 30% increase in its e-business (DataMonitor Report, 2007). Increased online retail spending provides an opportunity for increased revenues and profits for the firm.

Threats

Increasing consolidation of major retailers within the apparel industry serves as an increasing threat. As more retailers consolidate, stronger and larger entities are formed, leading to greater bargaining power on behalf of the suppliers, which could adversely affect margins. As a result of industry consolidation, there is also a trend of retailers increasing their private label offerings (DataMonitor Report, 2007).

An increasing number of department stores are increasing their private label and niche brand offerings in order to improve gross margins. Retailers have been looking to reduce reliance on larger brands, while offering premium private label goods at affordable prices. The emergence of private labels into the premium apparel segment could result in loss of business for VF, and lower margins (DataMonitor Report, 2007).

Counterfeit goods pose a major threat to apparel firms with recognizable and prestigious brand name, as counterfeiting is more prevalent in apparel and apparel related categories. Counterfeits have a very negative impact on brands, as low quality counterfeits can reduce consumer confidence in the products of the company, reduce exclusiveness of the brand, and also dilute the brand image.

Part II. Interview Summaries

The second part of Phase II was the interview phase, which followed the Case Study Protocol (Yin, 2003) presented in Chapter Three. A total of seven interviews were conducted. Four interviews were conducted with individuals from U.S. apparel brand owning firms. Three apparel industry representatives were included in the study for validation of data and were chosen based on the recommendations of industry experts.

Initial Contact

Once potential interviewees were identified, the first form of communication attempted by the interviewer was a telephone call. This method was successful for reaching three of the seven interviewees. For those individuals who were not available via telephone a message was left on their voicemail to introduce the interviewer. The second form of communication used to reach potential interviewees was email. This method proved successful for the remaining four interviewees.

Once initial contact was made, and each interviewee agreed to be interviewed, an interview method (in-person or telephone) was chosen based on the interviewee's preference. A total of three interviews were conducted via telephone, while four interviews were conducted on-site (Greensboro, NC on May 11, 2007 and in New York, NY on May 17-18, 2007). Participants were emailed a link to the researcher's website where they could view the interview questions, background information relating to Porter's Five Force's, a visual of the Competitive Licensing Theory, and read the consent form before the interview. For those interviews that were not going to be conducted in person, each interviewee was asked to read the consent form and express their consent

via email. Individuals that were interviewed in person were asked to read and sign the consent form before the interview began.

Interview Process

Interviews began with a brief introduction period by the researcher regarding the researcher's background and interests. Each interview consisted on nine main questions. To preserve the anonymity of interviewees and their respective firm, responses is presented in aggregate form with such identifiers as Respondent A, Respondent B, and Respondent C.

Interview Summary

Respondents were first asked to restate their official job title (Question 1), and give information regarding their years of experience within the apparel industry. These answers have been summarized in Table 27 below.

Table 27. Interviewee Demographics

Respondent	Title	Firm Type	Years of Experience
Respondent A	Manager, Licensed Business	Firm A	5
Respondent B	Director, Licensing	Firm B	14
Respondent C	Vice President, Licensing Division	Firm C	23
Respondent D	Senior Director, Retail Development	Firm D	10
Respondent E	Vice President, New Business Development	Licensing Agency	16
Respondent F	President	Trade Organization	17
Respondent G	Chief Executive Officer	Marketing Firm	25+

Source: Edwards (2007)

Table 28 further summarizes key demographic information from the respondents, and to maintain anonymity responses are listed in no particular order. The remaining questions, Questions 4 to 9, are available in Appendix A.

Table 28. Question2 and Question 3

Question 2. How many years of experience do you have?
Background in merchandising and sales
Diverse background in sales and merchandising
Does brand extensions for apparel brands already on the market
Indirectly involved with the licensing process
Market research and management consulting
Moved from licensing assistant to licensing manager
With retail buying background, gives retail perspective

Question 3. In what ways are you involved in managing or implementing intellectual property licensing
Acts as a liaison between brand managers, merchandisers, and marketing
Brand Strategists involved in many ways on many different levels
From a retail perspective responsible for making sure brand is upheld in areas that protect brand health
Gets involved in all areas of the brand.
Involved in contract negotiation process
Responsible for individual aesthetic and DNA for each brand
Serves as a conduit in licensing

Follow-Up

At the end of the interview, respondents were asked if they would be willing to participate in a follow-up interview. After all interviews were completed, participants were sent a thank you letter from the researcher on official NCSU letterhead.

Data Analysis

Interview data was analyzed according the case study protocol. Five levels of questions were used as a guide to uncovering themes and generalizations.

Level 1

The first level of questions are those that were asked of interviewees and have been summarized according to each individual question and respondent.

Level 2

Questions at this level are those asked of the individual case posed to the investigator during a single case. At this level, that question was: Is there anything in particular about this case that stands out?

One case stood out in particular because the respondent declined to answer questions relating to reacquisition (All respondents were given the right to decline answering any of the interview questions). This respondent felt the nature of the questions were invasive. The reacquisition questions were the only questions that the respondent declined to answer. Other participants candidly spoke regarding reacquisition. Although only an assumption, this lead the researcher to believe that reacquisition was a large component of the firm's strategy.

Level 3

Questions at this level pertain to the pattern of findings across multiple case studies: Are there any similarities or differences between each firm in terms of licensing strategies, policies, or implementation?

In looking at the similarities and differences among apparel firms studied, there were more similarities in licensing strategies than differences. All firms a) participate in licensing because the licensed product is not their core competency, b) stressed the

importance of researching and choosing the right partner for the particular licensed category, c) had different licensing strategies, but their licensing process are similar as they all follow the same major steps of identifying the proper opportunity in terms of product and partner, contract negotiations, and monitoring product development and performance, and d)make sure that licensed products will tie into the brands image and lifestyle.

The firms also differ in their licensing strategy. There are various reasons for participating in licensing and a firm's reason will dictate their strategy. Each firm studied has a portfolio of brands. Within these portfolios some of the brands have varying licensing strategies, even though they are owned by the same corporation. Licensing contracts are also firm specific. Each firm negotiates differently, as there may be more articles within a contract that are negotiable in one firm, and less that are negotiable at another firm. While each of these brands has a high level of interest in their licensing activities, specific objectives and goals are brand specific.

Level 4

Questions at this level are asked of each individual company study, and include the following: Are there any surprising findings from this interview beyond findings or hypotheses from preliminary research and literature review?

There were some surprising findings within some of the individual cases. The most emergent was the trend of retailers wanting exclusive agreements and merchandise in their outlets. This fact was brought up by three respondents, who felt that such a trend is growing within the apparel industry, and the trend contributes to the rate of licensing.

Most recently Vera Wang partnered with Kohl's to create a fashion and lifestyle brand exclusively for the retailer's 749 retail locations. This licensing deal creates an opportunity for Vera Wang to expand her presence to middle income shoppers. The strategy to enter Kohl's is conceptually similar to the partnership between Isaac Mizrahi and Target.

Another finding that was perhaps the most surprising was the reason why some licensees approach brand owners and agents. Some licensees desire to enter into licensing because of the retailer. Many apparel retailers only want and accept branded products in their outlets. This causes licensees to go in search of brands that are willing to lend their name to the licensee to differentiate a generic product and gain acceptance from retailers. Retailers want and need this branded merchandise to drive store traffic.

Level 5

Normative questions about policy recommendations and conclusions going beyond the scope of the study are the focus of level five questions, and include the following two questions: (1) What generalizations if any can be made regarding the nature of licensing within the apparel industry? (2) What generalizations can be made about the most successful firms and their strategic uses of licensing and license reacquisition?

Several generalizations regarding licensing within the apparel industry can be made:

- Within the apparel industry licensing is done in non-core product categories.
- It is important to do preliminary research to find the right partner.

- The licensor and licensee must both work to make the license successful.
- All licensing activities should be carried out in the best interest of the brand.

Because reacquisition is a growing trend seen in the apparel industry, generalizations can not be made about the nature of it. Several firms have reacquired licenses, however not all have been successful. The following generalizations can be made about the nature of license reacquisition within the apparel industry:

-Reacquisition is not always done for the purpose of bringing production in-house.

-There must be a strategy in place for production of the new category.

-Reacquisition for the purpose of in-house production does not guarantee success.

-Reacquisition makes the apparel industry more competitive.

Phase III.

The third phase of the research was to create a conceptual of model of licensing within the apparel industry. This model was then validated through the use of industry interviews.

The original model established via information obtained during the review of literature, theorized that licensing and license reacquisition was used in the apparel industry as a differentiation strategy to overcome the forces of industry competition. A visual representation of the model was created to reflect the licensing process within the apparel industry. After all industry interviews were conducted the theoretical model was then revised based on the information gathered in industry interviews, recommendations from industry representatives and themes uncovered in the data collection and analysis

phase. The modified version of the Competitive Licensing Theory can be found in Figure 4.

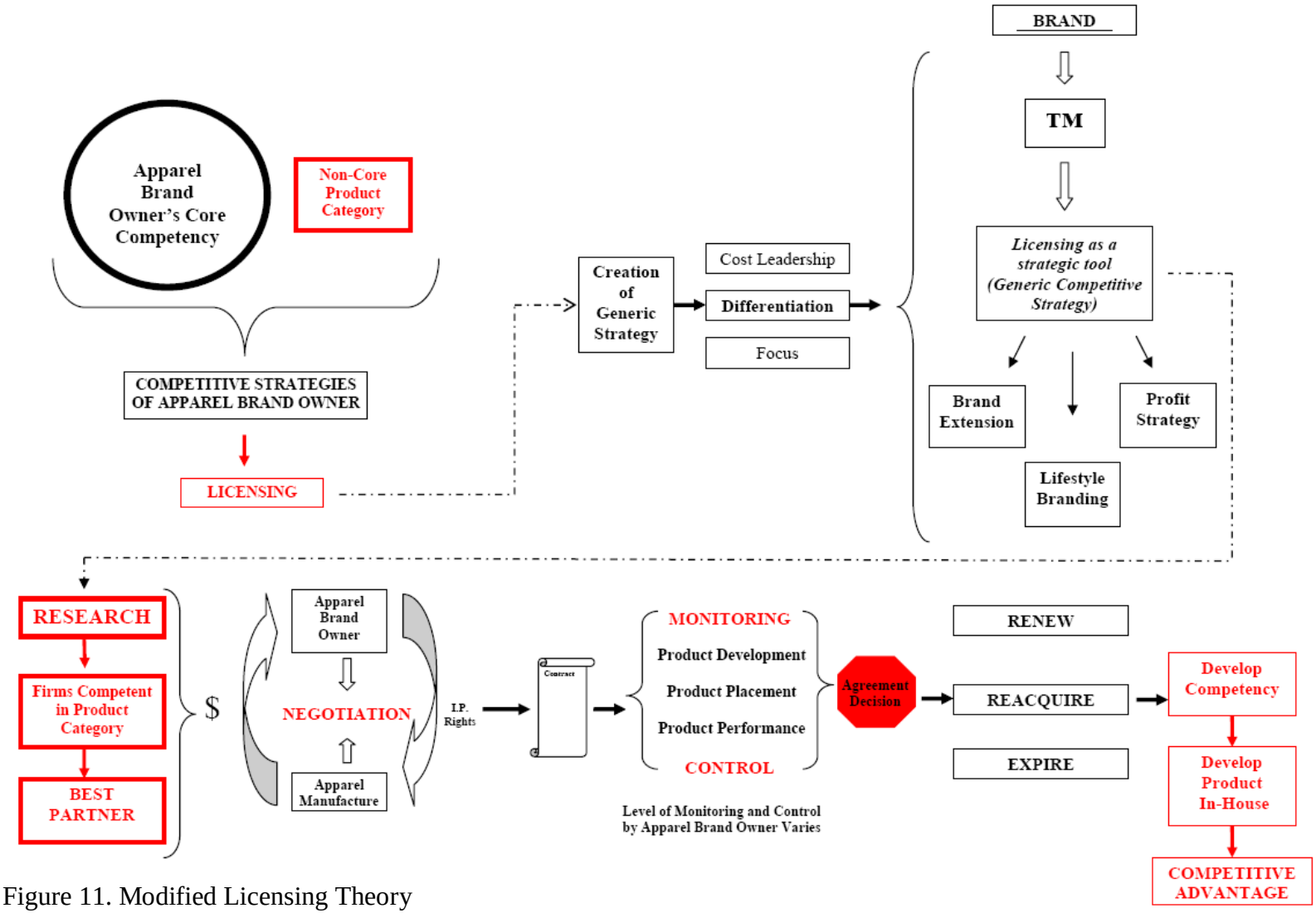


Figure 11. Modified Licensing Theory
Source: Author (Edwards, 2007)

Competitive Licensing Theory

Based on interviews and other data collected during the data collection process it was found that apparel firms use licensing as a part of their competitive strategy because the potential product category is not a part of the firm's core competency. Because the brand's name is such a highly valued asset, it serves as an immediate differentiator in the mind of the consumer. With licensing, brand owners are able to focus on their core competency, while using their brand name to differentiate themselves in a new product category. Entering into a new product category via licensing allows the brand owner to broaden their product portfolio and enhance their lifestyle assortment.

The decision to enter a new product category via licensing can be in response to different factors. In the apparel industry, it is common for licensee manufacturers to request to manufacture products under the brand's name that is performing well in the market. In some cases licensing is in response to the brand owners/managers deciding to extend their presence into a particular product category. Once the decision is made to extend the brand's name into a new product category the first and most critical step in the licensing process is research. In doing research it is important to find a partner that has a solid reputation, thriving business, and core competency in the product category that is to be licensed. It is most imperative to find a partner whose goals and strategies are similar to those of the brand owner. Having the best possible partner helps ensure the licensing process is as flawless as possible for both parties.

Once a partner is identified, contract negotiations begin. For most apparel firms this is a lengthy process that can take months. The contracts are firm specific, very

confidential, and spell out all specifics of the deal. Items included in the contract can be found in Table 29.

Table 29. Modified Terms of License Agreement

Grant of Rights
Description of the property
Products manufactured, sold or distributed
Distribution
Geographic territory
Exclusivity
Rights to newly created properties
Advertising and promotion materials
Payment and Auditing Procedures
Compensation
Minimums
Royalties
Marketing Contribution
Definition
Auditing procedures
Product Development and Approvals
Social Compliance
Term of Contract
Length
Termination and breach
Options
Indemnifications and Insurance
Other provisions

Source: Adapted from Raugust (2003) and Edwards (2007)

Contract negotiation is another critical component of the licensing process. It is most important to be thorough in the contract to avoid misunderstandings and legal action.

Once the contract is signed by both parties, the product development phase begins. Apparel brand owners share their story lines and concepts with the licensee to ensure the licensed product is in line with the brands image and other products. In the apparel industry, the licensor is involved throughout the process, monitoring product development, placement, and performance. Not all brand owners are involved to the same degree. Some brand owners are more controlling over the image of their brand, and will therefore be more involved in such processes. Other brand owners give the licensee the responsibility of product design and give final approvals.

Brand owners have many avenues that they can use to monitor product performance including sell-through information, inventory turns, and various other reports received from the licensee and retailers. It is typical in the apparel industry for licensors to go out in the marketplace for observations, or speak with retailers, and customers. Over the life of the agreement, specifically as the contract expiration date nears, the decision must be made regarding what to do with the agreement. Typically the options are to (1) renew the contract, with or without some modifications, (2) reacquire the rights granted for the purpose of developing in-house, finding another partner, or discontinuing product, or (3) let the contract expire to discontinue the product, or find a new partner.

When the choice is made to reacquire the rights, for the purpose of developing in-house several factors are important. It is important to have a strategy in place that deals with product development and distribution prior to making such a decision. As an apparel brand owner it is important to have a continued presence in the market for two major reasons; customers and competitors. Apparel customers are less loyal than they

have been in the past, and they also do more cross shopping in different tiers. If a particular product is unavailable, there are a wide range of alternatives. Therefore, having a strategy in place to continue production and distribution will ensure that the product has a consistent presence in the marketplace. Similarly, the competition is also a major factor because if there is not a strategy in place for continued production and distribution, the brand is out of the marketplace, and could possibly be replaced by a competitor. In such an industry, retail floor space is in high demand, and any void left by one brand can be quickly filled with another.

Another important factor in the decision to reacquire a license is if the brand owner has the competency to do so. The initial decision to license a particular category is because the brand owner does not have the competency to manufacture the product in-house, or wishes to focus on their core competency. In order to successfully bring the product category in-house the brand owner must be certain that they have the capabilities to do so, including capital, infrastructure, distribution systems, and skills. If the brand owner is lacking in any of these areas, the results can be detrimental. However, if such mechanisms are in place, the brand owner has the opportunity to be successful. Reacquisition of an apparel license for the purpose of in-house production, after using the license agreement to: establish a market presence and monitor performance while developing the competency results in a sustainable competitive advantage for the apparel brand owner.

Findings

Research Objective One

The first objective was to understand licensing in general and how licensing has been used as a part of competitive strategy.

Within the apparel industry licensing is used predominantly to extend the brand's presence beyond its core, and fulfill a particular niche. Licensing allows the brand owner to have a presence in other product categories and sustain a competitive advantage by having other firms with core competencies in those areas to manufacture the product. By creating partnerships with manufacturers with core competencies in the specific areas, the brand owner becomes more competitive. It is simply not enough to have a brand name on a product, because the product must also be able to stand up to those same associations of quality, and functionality as the brand name does. Licensing creates a competitive advantage to build the overall power of the brand, and differentiate the brand owner from its competitors.

Licensing gives the brand a broader spectrum which helps in the creation of a lifestyle brand strategy. It also gives the brand a stronger presence and awareness with retailers and consumers that can create more opportunities for the brand. Licensing helps make sell-through and product placement more practical when there is a presence in other product categories. This also adds to the consumer awareness making the brand more compelling and legitimate. Licensing allows the brands lifecycle to be extended which adds to the longevity of the brands products. Income is generated with considerably less overhead, which generates more profit for the brand owner, and contributes to the advertising campaigns.

Licensing to Overcome Forces of Industry Competition

Within the apparel industry brand owners license out non-core product categories to those firms that specialize in those areas. This allows brand owners to focus on their core competency while also being able to fulfill a niche in a product category that enhances the brands portfolio. While firms do not specifically focus on overcoming the forces of industry competition when participating in licensing, it is a net result.

Threat of New Entrants

While a brand owners licensing strategy may not specifically be to deter new entrants, licensing creates a situation where the quicker one is to enter a particular category, the more market share there is to be captured. While such a situation may not stop entry, it creates a barrier to be overcome by the new entrant. New entrants are at a disadvantage when having to fight with established firms to gain market share. It may make the potential entrant slower to enter, but may not deter entry completely. A competitive advantage is gained when a brand owner is the first to enter into a particular niche. However, doing so also raises the competitive set.

Because licensing makes a brand appear bigger and stronger in the market, this too serves as a deterrent to new entrants, as it is a positive incentive for the established brand in regards to consumers, competitors and potential entrants. The existing competition is perhaps the biggest entry barrier to overcome. The stronger these existing firms appear, the greater the threat they pose to a new entrant.

Rivalry Among Existing Firms

Raising the competitive set among a brands competition via licensing makes the brand owner more competitive from a retail standpoint also. When a brand has name

recognition in multiple product categories, that brand is stronger and more important to a retailer, which also results in a competitive advantage. Such a brand commands more retail floor space, and becomes more attractive to customers. The competition must work harder to compete against such a firm in the retail environment, and with customers. Customers who do not have much brand knowledge or limited brand experience may rely on associations they have with the brand name in a different product category. Customer based brand equity is then very important in overcoming competition, and also increases the likelihood that a licensed product will be chosen over the competition. If there is no knowledge about the product category, consumers may rely on other factors when making a purchase, such as brand popularity and prevalence throughout the retail outlet.

Licensing can also be used to fight the competitive tactics of existing rivals, as it allows brand owners to introduce products in different price tiers, minimizing the threats posed by competitors who compete on price. An increased product portfolio via licensing also decreases the threats posed by competitors who stage advertising battles. More products in a portfolio add to the brands visibility in the market and its marketing campaign. With established brand names consumers can more readily identify the brand, which can also increase favorable word of mouth marketing.

Threat of Substitute Products

Using licensing to command more retail floor space is also a way that the threat of substitute products is leveraged. The more retail floor space a brand utilizes, the greater the brand's competitive advantage. The brand is more visible to consumers and may come across as more important not only to the customers, but to the retail buyers as well.

Today's consumer has many time constraints, and consequently they desire shortcuts to understanding quality and value. After experiencing brands, they give consumers that assurance.

Licensing also allows brand owners to extend their brand into other price tiers while minimizing the risk of harming the brand's image. The brand is therefore able to gain market share in price tiers where substitute products competed on price. When multiple products are found to perform the same function, licensing can be used as a tool to overcome the threat posed by competitors, as consumers tend to draw from previous knowledge and associations with familiar brands. Familiarity with a brand also leads to price premiums, which eliminate price ceilings set by substitute products. Apparel firms that are able to charge premium prices for prestigious brand names improve the price-performance trade-off in the industry. Such firms enjoy greater margins, and are highly sought after by licensees.

Bargaining Power of Suppliers

Licensing allows apparel manufacturers to use established brand names to differentiate generic products. The advantages for the licensee that are associated with using an established brand name include brand recognition, brand image association, and customer loyalty to that brand name. These associations are transferred to the supplier, as the goal in licensing is to not be able to distinguish between the core and licensed product categories. For these reasons many licensees approach apparel brand owners requesting partnerships. Licensing presents an opportunity for apparel manufacturers to command higher prices, access greater distribution channels and retail outlets. Being associated with a brand that has a strong brand identity, makes the licensed product stronger, and the

apparel manufacturer more competitive, therefore reduces the threat they pose to the brand owner. A strong brand has many positive associations to a consumer that are transferred to each product that bares the brand name. In a licensing relationship these benefits offset the suppliers bargaining power.

Bargaining Power of Buyers

Consumers also play an important role in licensing. One of the goals of licensing for any apparel firm is to make sure all products (licensed and core) flow evenly together. This ensures that licensed products are in line with the brands image, and consumers are not able to distinguish licensed products. Because consumers are not aware of which products are licensed and not, the brand becomes more significant, and there is a greater chance for loyalty. Many consumers are also more interested in trends, and that which is popular. Licensing allows firms to again focus on their core, while being able to offer trendy products that may have shorter lifecycles but greater sales. Licensing also presents an opportunity for product differentiation based on many variables including popularity in themes, designs, and current or historic events. Ultimately many licensees desire to get into licensing to benefit from manufacturing a product with a well known brand name because many consumers desire the social associations of strong and prestigious brands.

Because consumers have higher quality associations with brand names, the ability that they have to force prices down diminishes as there is a trade-off associated with price and quality. Consumers in search of a quality product are willing to pay a premium price.

Apparel manufacturers are able to transform generic products with brand names that consumers are willing to pay premiums for via licensing.

Research Objective Two

The second objective was to understand the relationship between licensing as a strategic tool and lifestyle branding.

In addition to the strategic uses identified in RO1, licensing is also used in the apparel industry to generate revenue. Typically in haute couture designers do not make much if any profit. Licensing allows these high end designers to generate a revenue stream from ready-to-wear products and accessories that allow them to continue high end designing, and adds additional product categories.

Within recent years, the apparel industry has seen a trend in retailers wanting their own brands via private label or exclusive agreements with brand owners. This trend has also increased the strategic uses of licensing within the industry, and has aided in the creation of lifestyle brands (As seen with Vera Wang).

Licensing broadens the scope and appeal of the brand, and allows the brand to offer products beyond its core. It is the intent that if a brand owner can win over a new customer in a licensed product category, that the customer will continue to come back to the core product. Ultimately it can also aid in the development and progression of a lifestyle branding strategy, if the brand owner uses licensing strategically. For apparel firms, licensing has been the best way to extend the brands presence in relevant product categories. As long as products are developed around what the brand is and stands for, each new product category in lifestyle branding adds validation that the brand is right for

the consumer. A firm's success with licensing to create a lifestyle brand depends on the product itself as well as the connection it creates with the consumer.

Ultimately the particular strategy of the brand will dictate the licensing strategy to be employed. A licensing strategy to generate revenue will vary greatly from a lifestyle branding strategy. Licensing can be used to accomplish lifestyle branding strategies, but the broader a brand expands the harder it becomes to stay holistic. It is a great tool that allows brand owners to try new product ideas with low risk and moderate to good profitability, and also reach different types of consumers.

Research Objective Three

The third objective was to investigate why and how companies reacquire license agreements and the impact of such on a firm's competitive strategy.

The rights granted in a license agreement can be reacquired for many different reasons. Many firms have chosen to do so to protect the quality and image of their brand. If the brand owner's market position is being compromised because of the licensee reacquisition may be a critical move to protect the brand's prestige.

Reacquisition can also be the result of a control strategy. In reacquisition, the brand owner has the opportunity to control all aspects of the product including those areas that were originally responsibilities of the licensee. Brand owners who typically participate in reacquisition for the purpose of bringing production in-house gain more control over the brand. Having 100% control makes the brand owner more competitive in terms of identity, direction, positioning, and against competitors. In the apparel industry, licensees typically manufacture products for the licensor's competitors, essentially making the licensee a competitor of the licensor as well.

Some apparel companies have also chosen reacquisition after licensees have entered into licensing agreements with their competitors. It is not always the licensor that makes the decision. Sometimes licensees may feel that the license is no longer healthy for their business. If the strategies of the licensor and licensee are not aligned, reacquisition may be the best option. Within the apparel industry, manufactures may choose to promote their own brands more aggressively, which takes away from the attention paid to the licensor's brand.

An alternative to reacquisition often used in the apparel industry is to let the agreement expire. This is typically done to bring the product in-house as a new category, or to find another licensing partner to handle the product category. Such a strategy of bringing the product category in-house as a new product category typically helps top line sales. Such an initiative adds to the bottom line profitability of a firm. Partnerships are a critical aspect in licensing because so many valuable aspects of the brand (image, associations) are entrusted to someone else. Although apparel firms conduct initial research to find the best potential licensee, sometimes the partnerships are not amicable, and a better partner is identified.

It is important for an apparel brand owner to understand all aspects of the licensed product category if the reacquisition decision is made. The key to successful reacquisition as the brand owner is having the product knowledge and expertise. Some apparel firms have attempted to bring production of a licensed product in-house after reacquiring it, and have been unsuccessful. Before deciding to reacquire a license, it is important to understand the initial reason for entering into the license agreement. If the licensed product category was not a core competency, a firm must assess whether or not

they have developed that competency over the lifecycle of the agreement. In order to be successful it is imperative to have an understanding of that particular product category and industry. As the brand owner it is also important to evaluate your own business. An apparel brand owner must consider the following:

(1) Is the brand strong enough?

(2) How does this tie into the brands overall strategy?

(3) Do I want to stay with this partner long term?

(4) Has the firm developed the competency?

(5) Does the firm have the required infrastructure?

(6) Is there enough critical mass for the new division?

(7) Will we be prepared to ship product for the next season?

(8) Is there a potential licensee that could do a better job?

(9) Will this ultimately make us profitable?

Brand strength is crucial because reacquisition can only work if the brand is established, important to retailers, and has consumer awareness. Not taking any of these questions into careful consideration could result in an unsuccessful venture from a brand, cost, and profitability perspective. If the decision is made to reacquire for in-house production the brand owner must have a strategy in place to have products out in the marketplace for the next season. If there is no strategy in place and there is not product in the marketplace, the brand risks losing potential sales, customers and retail floor space.

License reacquisition has impacted the apparel industry and licensing participants. It has, in some ways eroded the trust factor between the licensor and licensee, which

could possibly affect the length of the contract and relationship between both parties. Reacquisition has forced licensees to become more cautious, and possibly focus more on growing their core business. Licensees are also realizing that licensing a brand name is essentially renting, which is a temporary ownership that results in a competitive disadvantage. Therefore licensees are realizing the importance of brand ownership.

Reacquisition does happen in the apparel industry. It can be done strategically, but it is not always done with the intent to try new product categories for the purpose of bringing them in-house. Reacquisition is a growing trend that has strengthened the industry, while making the industry more competitive. As reacquisition becomes more prevalent within the industry, some speculate there will be less licensing and more reacquisition.

It has made the apparel industry more competitive while challenging the industry to constantly reevaluate and improve. Licensors have the ability to build great value from the margins from reacquisition, and forecast future performance after reacquisition based on how the product is performing at retail. In order to be successful a brand owner must be confident as a brand, in the brand name, as a company, and as a lifestyle.

Research Objective Four

The fourth and final objective was to develop a theoretical model that depicts the relationship between competitive strategies, licensing as a tool, and the impact of license reacquisition.

Table 30, (which was previously presented in chapter 2) has been updated to highlight those variables related to each of Porter's Five Forces that are most likely to be leveraged via licensing.

Table 29. Porter's Five Forces and Related Licensing Variables

Porter's Five Forces and Related Licensing Variables		
Force		**Related Variables**
Threat of New Entrants		Economies of scale
		Capital / investment requirements
		Customer switching costs
	*	**Access to industry distribution channels**
	*	**Brand loyalty**
		The likelihood of retaliation from existing industry players
		Government regulations
		Absolute cost advantages
		Learning curve advantages
		Proprietary product differences
Rivalry Among Existing Firms		The structure of competition
		The structure of industry costs
	*	**Degree of product differentiation**
		Switching costs
		Strategic objectives
		Exit barriers
		Informational complexity and asymmetry
		Intermittent overcapacity
		Corporate stakes
	*	**Brand Equity**
Threat of Substitute Products		Quality
	*	**Buyers willingness to substitute**
		The relative price and performance of substitutes
		The cost of switching to substitutes
Bargaining Power of Suppliers		Concentration of suppliers
	*	**Branding**
		Profitability of suppliers
		Suppliers threaten to integrate forward into the industry
		Buyers do not threaten to integrate backwards into suppliers
		Switching costs
		Degree of differentiation of inputs
		Presence of substitute inputs
		Cost of inputs relative to selling price of the product
		Importance of volume to the supplier
		Impact of inputs on cost or differentiation

Table 30. Continued

Bargaining Power of Buyers		Concentration of buyers
	*	**Differentiation**
		Profitability of buyers
	*	**Role of quality and service**
		Threat of backward and forward integration into the industry
		Switching costs
		Bargaining leverage
		Buyer Volume
		Buyer information availability
		Availability of existing substitute products
		Buyer Price Sensitivity
		Price of Total Purchase
		Pull-through
	*	**Brand Identity**
		Decision Makers' Incentives

Source: Adapted from Porter (1985) and 12 Manage Rigor and Relevance Website (2007)

Licensing Variables Related to Porter's Five Forces

During the contract negotiation stage of a license agreement, channels of distribution are among the most pertinent aspects to be discussed. Licensees in most cases are limited to only distributing in the same channels or only those approved by the licensor. One benefit to the licensee is in the exposure gained from access to existing distribution channels and customer base. When licensees are putting licensed products out in the marketplace via the same distribution channels as the licensors, potential entrants are faced with more competition, and therefore may choose not to enter. If this does not deter entry, it does present a barrier to be overcome by the new entrant.

"Brand loyalty is a key consideration when placing a value on a brand that is to be bought or sold, because a highly loyal customer base can be expected to generate a very predictable sales and profit stream" (Aaker, 1996, p21), and also represents a substantial

entry barrier to competitors in part because the cost of enticing customers to change loyalties is often prohibitively expensive. Loyalty leads to certain marketing advantages such as reduced marketing costs, more new customers, and greater trade leverage, as well as other advantages such as favorable word of mouth, and greater resistance among loyal customers to competitive strategies. For brand owners, the management of brand loyalty is a key to achieving strategic success. As a licensee, being able to use the brand name of a highly valued brand creates more competition in the market, and strengthens the brands presence.

Most brand owners agree that licensing is used as a differentiation strategy within the apparel industry. The branding of clothing has been found to function as a "communicative short-hand" that acts as an immediate and public device to denote group membership, and signifies the values and aspirations of the brand wearer (Evans, 1989 as cited by Fernie et al, 1997). Because licensed products bear prestigious brand names they immediately stand out against lesser known competitors. Some licensees have been known to enter into license agreements because retailers only want branded products in their stores. Even though differentiation via licensing can prove to be as simple as putting a label and logo on a generic product, consumers have associations with a more recognizable brand name. Therefore diminishing the threat posed by existing rivals.

There is a wealth of apparel manufacturers both domestically and globally. With the technological capabilities of the present day, substitute products can literally come from anywhere around world. The severity of the threat posed by substitute products largely depends on the buyer's willingness to substitute. Leveraging this threat becomes easier when the brand is identifiable and highly equitable. According to Alvarez (2000)

many studies have shown that loyalty to a brand is one factor that has a strong influence on purchase decision. According to an international survey conducted by Kurt Salmon Associates, approximately 62 percent of US consumers and 67 percent of UK consumers would go to another store if the brand they were looking for was not available at the first place they shopped (Reda, 1996). This statistic validates the idea that the threat posed by substitute products can be minimal or perhaps even nonexistent if the licensed product has a desirable brand name.

While suppliers pose a large threat within any industry, licensing is a key way to reduce this threat. An important factor that relates to the threat posed by suppliers is branding. A firm's brand name is one of the firm's most valuable hidden assets (Bhat & Reddy, 1994). While suppliers can exert bargaining power on industry participants through the reduction of quality or by raising prices, this threat can be leveraged through branding. In the apparel industry especially, brand equity is of monumental importance. According to Keller (1998), through branding and the development of a loyal consumer franchise, value is created that translates into financial profits for the firm. "A brand with a small but intensely loyal customer base can have significant equity" (Aaker, et al, 2000, p17). Those brands with high equity enjoy a competitive advantage over its existing rivals.

Although buyers (e.g. consumers) have perhaps the greatest amount of bargaining power, the threat that they pose can in some ways be leveraged via licensing. One of the most important variables related to the threat posed by buyers is the role of quality and service. Licensors choose the firm's in which they wish to license their intellectual

property to, and in most cases use strict application processes. Choosing licensees that are associated with quality products and ensuring that licensees adhere to specifications set in terms of quality and service will decrease the threat posed by buyers. In order to protect the integrity of the brands name and image, licensors typically do research on potential licensees to ensure they are matched with the right partner.

Originally the theoretical model introduced in Figure 4 proposed that licensing was used in the apparel industry to overcome the forces of industry competition. During the data collection process, it was found that the most important factor in the licensing decision is whether the proposed product category is a core competency of the firm. If the brand does not have a competency in the specific product area, they will not be competitive, and therefore will not have a competitive advantage. While the forces of industry competition are not a direct reason for licensing within the apparel industry, overcoming these forces is considered a net result. Licensing is used as a form of differentiation within the industry. Licensing allows a brand owner to add a level of uniqueness in the product category, and differentiate themselves from competition in that area. Apparel brand owners conduct business in the best interest of the brand, because the brand is a very precious asset that also adds to the competitiveness of the firm. Focusing on the brand and not competition allows firms to stay true to the brand image, which is of paramount importance to apparel consumers.

There are different reasons why apparel brand owners participate in licensing. Those reasons dictate the licensing strategy to be employed. Within the industry it can be used for general brand extension, to create a lifestyle portfolio, or to generate profit. The

licensing activities are going to differ tremendously depending on the brand and the brand's overall strategy and licensing strategy.

While all stages of the licensing process are important finding the right partner is the first, and most crucial. Because the licensor and licensee entrust so much into each other, it is imperative to work with a partner who has similar visions, goals, and strategies. Both parties bear many risks associated with a licensing deal, and having the right partner can result in a more successful venture for both parties.

The Competitive Licensing Theory has been revised to reflect data collected during the study and can be found in Chapter 5.

CHAPTER FIVE

Summary

The purpose of this study was to investigate how licensing is used as a strategic tool within the apparel industry, to understand the relationship between licensing as a strategic tool and lifestyle branding, and to understand how license reacquisition impacts the competitive strategy of firms.

Using a Three Phase methodology this study explored licensing and license reacquisition as it relates to the competitive strategy of apparel firms. Phase I was the creation of a major licensing studies taxonomy, which was used to gain insight into the strategic uses of licensing within other industries. Phase II, which consisted of two components included case studies of three leading apparel firms that participate in licensing and interviews with individuals from these three firms and other apparel industry representatives. Phase II was essential in understanding licensing as a strategic tool and how licensing and reacquisition are used competitively within the apparel industry. Seven apparel industry representatives participated in interviews in which they were asked to questions relating to licensing, lifestyle branding and license reacquisition. The data was analyzed for emerging themes and generalizations according to Yin's Case Study Method (2003). Phase III was the creation and validation of a theoretical model which depicts the relationship between strategic licensing, lifestyle branding, and reacquisition within the apparel industry to gain a competitive advantage. This research provides a foundation for future research relating to how apparel manufacturers are affected by reacquisition, and consumer research evaluating consumer perception of licensed products, and the effects of brand loyalty on licensed products.

Conclusions

Research Question One

Apparel firms license their brand name in product categories in which they do not have a core competency. There are various strategies in which a firm can use licensing as a strategic tool including general brand extension, lifestyle branding, and profit strategies. The strategy of the firm will dictate the strategic use of licensing. While the forces of competition are relevant in the apparel industry and to apparel firms that participate in licensing, they do not drive licensing strategies. Brand owners participate in licensing and handle all business from the perspective of what is best for the brand. In doing so overcoming the forces of industry competition is a net result.

Although this study found apparel firms to not use the five forces of industry competition as the driving force behind their licensing strategies, the five forces do serve as an important component in licensing. In practice, apparel industry licensing executives understand this concept, focusing solely on the brand, and brand building activities in the development of licensing strategy. However, the concept is not fully exploited in theory. Licensing strategies that are solely focused on the brand create opportunities for licensed products that are a better extension of the brand and its image. This type of strategy succeeds at creating a product extension that accurately reflects the brand, and promoting the new product category to an existing customer base. Since not all potential customers will be existing customers it is important to consider all aspects of industry competition. Apparel firms can use licensing to successfully overcome all five forces of competition, in addition to fulfilling particular strategies set forth by specific firms. Licensing executives should craft licensing strategies from a macro perspective,

looking not only at how licensing can help build the brand, but also how licensing can overcome outside forces. Licensing strategies that are developed after analyzing all aspects of industry competition, and focus on the brand will be most successful at strengthening the brands health while overcoming competitive forces.

While a brand owners licensing strategy may not specifically be to deter new entrants, it may cause a potential entrant to be slower to enter, and it creates a barrier to be overcome by the new entrant. A competitive advantage is gained when a brand owner is the first to enter into a particular niche. When a brand has name recognition in multiple product categories, that brand is stronger and more important to a retailer, which also results in a competitive advantage. Such a brand commands more retail floor space, and becomes more attractive to customers, and also combats substitute products. This raises the competitive set among the brands competition, and makes the brand owner more competitive from a retail perspective.

Licensing allows apparel manufacturers to use established brand names to differentiate generic products, which increases the products worth, licensee's revenue, and leverages threats posed by licensee. Licensing enables brand owners to provide popular merchandise that may have shorter lifecycles but resonate with the consumer and garner greater sales.

Research Question Two

Licensing is used by apparel firms as a component of their competitive strategies. Licensing non-core product categories to firms that have the competencies in those areas allows apparel firms to broaden their portfolio of products, and expand their consumer reach. Licensing also allows apparel brand owners to strengthen its presence with

retailers and consumers, by commanding more retail floor space. Revenues generated from licensing add to the firm's profitability, and allow brand owners the opportunity to allocate more funds to other areas of the business. Overall licensing allows a brand to focus on their core competency and still put other products on the market, which allows continued focus on their core business and loyal customers.

Research Question Three

Reacquisition gives a firm complete control over the brand and its relevant activities. Having 100% control makes the brand owner more competitive in terms of identity, direction, positioning, and in gaining a competitive advantage. Reacquisition for the purpose of in-house production as a new category helps top line sales and adds to the firm's bottom line profitability. Licensors have the ability to build great value from the margins generated from reacquisition. Apparel brand owners are also able to forecast future performance in the product category after reacquisition based on how the product performed at retail over the life of the license agreement. Ultimately within the apparel industry, in order to be successful a brand owner must be confident as a brand, in the brand name, as a company, and as a lifestyle.

These findings have aided in the development of an amended theory and theoretical model of licensing within the apparel industry that is stated below and is visually depicted on the following page:

> *Revised: Competitive Licensing Theory*: Apparel firms use Licensing as a Differentiation Strategy to extend the brands presence beyond its core, and License Reacquisition to gain a competitive advantage.

Competitive Licensing Theory

Apparel firms use Licensing as a Differentiation Strategy to extend the brands presence beyond its core, and License Reacquisition to gain a competitive advantage.

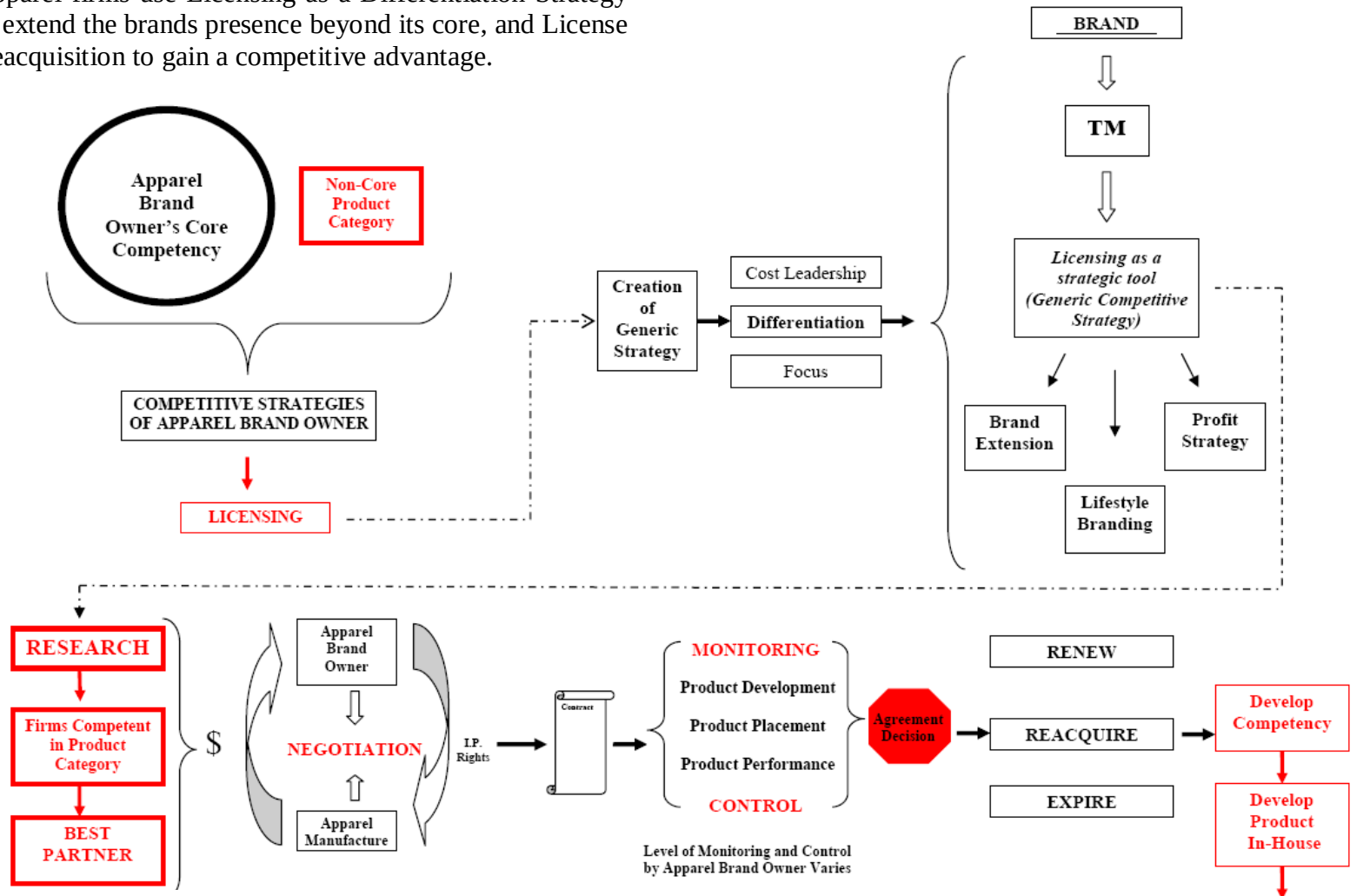


Figure 12. Competitive Licensing Theory
Source: Author (Edwards, 2007)

Implications

Results of this research provide advancement in the understanding of licensing as a strategic tool within the apparel industry to gain a competitive advantage. This research is beneficial to the textile and apparel industry because no previous research exists that examines the role of strategic licensing and reacquisition in the industry.

While licensing may not be the core business unit of most apparel firms, its prevalence within the industry indicates that it is a viable means of brand extension and lifestyle branding. The popularity of licensing within the apparel industry indicates that firms recognize the benefits of licensing. However, trends in license reacquisition also indicate that apparel firms acknowledge the risks associated with licensing, and the potential detriment that can be done to the brand's health.

Apparel firms can use licensing to successfully overcome all five forces of competition, in addition to fulfilling particular strategies set forth by specific firms. Licensing strategies should be developed from a macro perspective, looking not only at how licensing can be used to build the brand, but also how licensing can overcome outside forces. Licensing strategies that are developed after analyzing all aspects of industry competition, and focus on the brand will be most successful at strengthening the brands health while overcoming competitive forces.

As reacquisition for the purpose of in-house production is a fairly new practice, apparel firms are finding that reacquisition does not automatically guarantee success in any industry or product category. Firms who engage in reacquisition without having researched, and prepared a reacquisition strategy will find that reacquisition is not as easy

as it seems. All firms should have exit strategies, and should recognize that their partners and competitors do as well. Preparation of a reacquisition strategy can be likened to a strategy that would be prepared in response to a licensing partner's premature exit from the license agreement. If apparel firms interested in reacquiring licenses have done adequate research, and developed the competency, they stand a better chance of gaining a competitive advantage.

Industry Recommendations

1. Any apparel firm choosing reacquisition as a component of their competitive strategy should prepare a reacquisition strategy with the understanding that if a license is reacquired the firm must be prepared, and able, to have the new product on the market in time to avoid a lapse in market presence. A reacquisition strategy that fails to deliver products to the market on time will be unsuccessful, as retail floor space within the apparel industry is in high demand.
2. In preparing a reacquisition strategy, an apparel brand owner must first conduct proper research into learning the new competency, and understanding all facets of the product and consumer. All information gained from the licensee during the licensing process regarding the business plan, marketing campaigns, and products performance at retail should be carefully analyzed.
3. For apparel manufacturers reacquisition can contribute to a decline in business. Apparel manufacturers should concentrate on building their core business, and strengthening their brand name. Much preliminary research is done by the brand owner (licensor) to find the apparel manufacturer that is the best partner. This indicates that apparel manufacturers that participate in licensing not only have the competency, but could possibly be among the leaders in the category. Because licensors find licensees based on the best fit with their goals, visions, and needs, the assumption that these licensees are the leaders in the specific category cannot be made. Apparel manufacturers with core competencies that currently license products, should consider vertical integration if they are capable of building an equitable brand.

Future Research

1. Future research exploring how license reacquisition affects the competitive strategies of apparel manufacturers would benefit the industry and bring research relating to reacquisition full circle. Such research could focus on the measures that apparel manufacturers are taking to circumvent the effects of reacquisition. The contract negotiation process should be explored to see if reacquisition affects the length of contract, or specific terms within the contract. As an importance is being placed on brand ownership, research should also focus on vertical integration feasibility for apparel manufacturers. Finally, research can be done to examine ways of creating brand equity, and implementing brand equity building techniques for apparel manufacturers.

2. Further research can also explore how reacquisition is affecting the licensor-licensee relationship. Healthy relationships between licensing parties increase the likelihood of a successful venture. With reacquisition becoming more prevalent, it is important to understand if and how this has changed the dynamics of the licensor-licensee relationship. Changes in the relationship between both parties can alter many aspects of the licensing process including terms and conditions of the licensing contract. This research should focus on providing strategies to be implemented and preventative measures that can be taken by both parties to decrease any negative effects of reacquisition for both parties.

3. Research exploring consumer knowledge and perception of licensed products would aid in the advancement of knowledge relating to brand loyalty. Understanding

consumer behavior is important for any apparel firm, including those with a licensed component. In licensing it is important for all products to look as if they were all manufactured together, so consumers can not differentiate between licensed and non-licensed. It is important to have insight as to whether consumer perception of the brand is subject to change if the consumer knows that a product is licensed. Such research could seek to find if there are positive or negative associations with licensing. If such research uncovers a link to customer perception, and/or loyalty and licensed products, marketing variables such as advertising and packaging may be hugely affected. Such a study could also lead to increased internal research by apparel firms seeking to understand more about their consumers, which could also lead to new licensing ventures in other product categories.

4. A broader study including international brands or brands in other areas of the textile and apparel pipeline can be done to enhance the breadth of knowledge.

5. Replications of any component of this research with quantifiable data and analysis examining apparel firms of different sizes, price tiers, and target markets would further contribute to the current body of knowledge relating to licensing within the apparel industry.

6. With the practice of licensing becoming more prevalent, the business of licensing is continually evolving. Licensing is used across industries for various strategic purposes. This study has laid a foundation regarding strategic licensing within the apparel industry. Other studies should be conducted to further understand the art and

science of licensing. This will also further enhance the existing literature relating to licensing.

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APPENDICES

Appendix A

Interview Questionnaire

Phase II Interview Instrument: Questionnaire

NCSU College of Textiles

Researcher: Erica Edwards

Topic: Licensing and Reacquisition as Components of Competitive Strategy

Introduction

The textile and apparel industry is highly fragmented with many firms competing against each other. In order to gain a competitive advantage firms must have a competitive strategy in place to overcome the forces of industry competition. This study aims to analyze licensing and license reacquisition as they relate to the firms competitive strategy. Information provided by companies will be used to establish a conceptual framework that depicts how and why apparel firms use licensing and reacquisition strategically. With this knowledge brand owners will better understand how to leverage their licensing activities to better manage the forces of industry competition.

Demographics

Interviewee Name:

Company:

1. What is your job title?

2. How many years of apparel industry experience do you currently have? How many years of experience do you have related to licensing? What role or positions have you held within your years of experience?

3. In what ways are involved in managing or implementing intellectual property managing. What responsibilities within your position do you hold related to intellectual property licensing? Do you oversee the licensee selection process? Do you manage

4. Can you describe the licensing process? Who is responsible for making the decision to license? How is the decision made? Once the decision is made, what is the first step? How many people are involved (departments/positions) in the process?

    a. What are the reasons for participating in licensing?

    b. Can you describe the negotiation process? What challenges are there to overcome in the negotiation process?

    c. Who signs the licensing contract?

    d. To what extent does your firm participate in the product development of licensed products? Who grants approval to licensed products?

    e. Once the product is in the market what level of control do you use to monitor product development

    f. Once the licensed product is introduced into the market and the company is monitoring performance?

    g. Once the product is on the market, do you monitor market conditions?

    h. While you are monitoring the market conditions, what factors are used to gauge a licensed product's success in the market or not?

    i. How do market conditions affect the decision of what to do at the end of an agreement?

5. How different is licensing for general brand extension versus licensing as a part of lifestyle branding strategy? How would you define lifestyle branding? How

successful has your firm been at using licensing to create a lifestyle brand? What impact does licensing have on lifestyle brand strategies? What effect does reacquisition have on lifestyle branding?

Strategic Licensing

6. Would you consider licensing to be a part of your company's competitive strategy? How does _____ use licensing as a strategic tool? Have these strategies have been effective overall? Do these strategies fully exploit the potential of licensing?

    a. In what ways would you say licensing has been used by _____ to compete against competitors?

    b. In what ways would you say licensing has been used by _____ to prevent new competitors?

    c. How is licensing used by your firm to leverage the bargaining power of suppliers?

    d. How is licensing used by your firm to leverage the bargaining power of buyers?

    e. To gain a low cost leadership position within the industry?

    f. In terms of competing with rivals, would you consider that your firm uses licensing to be used to achieve a low cost structure or to differentiate your product

    g. Are most of your licenses catered to a mass market or niche market?(Reference Porter's Generic Competitive Strategies Figure)

7. Overall, based on your experience in the apparel industry and with licensing, how is licensing used as a strategic tool? What other ways have you seen licensing be used as a strategic tool?

Reacquisition

8. A poll conducted by License Magazine, asked the following question: Do you think brand owners will utilize a strategy of fewer licensees (and perhaps more master licensees) and longer-term deals in 2007? How would you answer this question?

    a. While the final results have not been released, at the time when the results were viewed, 61% answered yes, 20% answered no, and 20% answered maybe, how would you interpret these results?

b. How does reacquisition fit as a part of a firm's competitive strategy?

c. Under what circumstances if any would your firm pull a license prematurely before the end of an agreement? Are there other reasons that a firm may have for reacquiring a license? What factors are most important in the decision to reacquire a license?

d. Has your company ever done that? If so, what was the process? If so, how did that impact the market? Once pulled how did this impact your firm? Were there any strategic implications of this decision? If so, what were they? How does that impact your competitive advantage in the market? Did it this aid in advancing your competitive position? Who makes the decision to reacquire a license? What happens with the product once the license is reacquired (Is it pulled/discontinued, or is it developed in-house?

e. What is your perspective on license reacquisition? Do you think it is a common practice, trend, or new phenomenon?

f. Do you think other firms participate in reacquisition as a part of their competitive strategy?

g. What impact does license reacquisition have on apparel branded products? And the apparel industry?

9. Do you have any concluding thoughts that you would like to share?

Once again I wish to express gratitude for your time, assistance, and cooperation. Your participation has been greatly appreciated!

Appendix B

Researcher Introduction Letter

November 27, 2007

To Whom It May Concern:

I would like to introduce myself. I am Erica Edwards, a graduate student in the College of Textiles at North Carolina State University, and currently conducting a research study on *Licensing as a Component of Competitive Strategy* within the apparel industry under the direction of Dr. Michelle Jones. Using a case study approach, I hope to identify and document the strategic uses of licensing as part of apparel firms' competitive strategy. In addition I am analyzing the decision making factors for license reacquisition and licensing as it relates to lifestyle branding.

Your company has been identified as one of the leading licensed U.S. apparel brands. You have been identified as someone who works closely with licensing within your firm; therefore I am requesting an opportunity to discuss my research topic with you via a telephone interview. Acquiring data from industry is an essential component in understanding the dynamics and nature of licensing and license reacquisition within the apparel industry. Therefore data is also being collected from other apparel firms and industry analysts.

Thank you in advance for your cooperation in this timely study. Should you wish to receive a copy of the executive summary, I will be glad to make to proper arrangements. The completed thesis will be available via the NCSU library webpage upon completion of my graduate studies.

If you have any questions I can be contacted via email at eredward@ncsu.edu, or you may contact the faculty sponsor Dr. Michelle Jones via email at Michelle_Jones@ncsu.edu. I will follow-up with a telephone call within the coming days.

Sincerely,

Erica Edwards