



## Demystify the Merchandising Strategy for “Made in the USA” Apparel in the U.S. Retail Market

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Recent studies suggest that sourcing “Made in the USA” apparel is growing in popularity among U.S. fashion brands and retailers (Harris, 2008; Lu, 2018). While existing studies have attempted to understand U.S. consumers’ purchasing behaviors for domestic made clothing or the possibility of moving apparel manufacturing back to the United States, the academic literature on retailers’ specific merchandising strategy for “Made in the USA” apparel remains limited (Bhaduri, 2017; Yu & Kim, 2018; Rashid & Byun, 2018).

To fulfill the research gap, this study intends to investigate retailers’ product assortment and pricing practices for “Made in the USA” apparel in the U.S. retail market. Findings of the study will “demystify” the merchandising strategy for “Made in the USA” apparel and significantly enhance our understanding of the interconnection between a firm’s merchandising and sourcing strategies.

Reviewing the existing literature shows that two factors are related to fashion brands and retailers’ choice of merchandising strategy for “Made in the USA” apparel. First, while fashion brands and retailers source apparel from overseas mainly for cost considerations, particularly those low-wage countries, sourcing “Made in the USA” apparel typically offer advantages in speed to market and flexibility (Yu & Kim, 2018; Lu, 2018). Second, numerous studies suggest that consumers, in general, are willing to pay a premium price for “Made in the USA” apparel for reasons ranging from supporting the local economy to demonstrating awareness of social responsibility in apparel production (Sletten & Schwer, 2001; Ha-Brookshire & Norum, 2011). Related, because consumers overall are less price-sensitive towards “Made in the USA” apparel, theoretically fashion brands and retailers may use price promotions less frequently for “Made in the USA” apparel than imported ones (Raturi & Parekh, 2012). Therefore, this study proposes *H1*: Regarding product assortment, “Made in the USA” apparel concentrate more on items with a higher demand for speed to market and flexibility than imported apparel. *H2*: Regarding pricing strategy, “Made in the USA” apparel are priced higher and sold with fewer discounts than imported apparel.

For the research purpose, we collected data from EDITED, a database and business analytics tool which tracks real-time pricing, assortment and inventory information of over 90,000 fashion retailers and 300,000,000 apparel items at the stock-keeping-unit (SKU) level around the world (EDITED, 2019). To make the samples representative of the population, we randomly selected 2,000 apparel items that explicitly mentioned “Made in the USA” in their product description and another 2,000 apparel items that were imported (Patten & Newhart, 2017). All the samples

were at the SKU level and sold in the U.S. retail market between January 1 and December 31, 2018. For each sample, we collected their full product assortment and pricing information.

Logistic regression was performed to explore retailers' specific merchandising strategy for "Made in the USA" apparel in comparison with imported items. The logit model uses *Origin* ("Made in the USA" apparel =1 and imported apparel =0) as the binary dependent variable and includes five independent variables that measure different aspects of retailers' product assortment and pricing practices, namely:

- *gender* (womenswear=1 and menswear=0)
- *price* (if the full selling price is at least 20% higher than the average selling price of the same product category<sup>1</sup> in the U.S. retail market during the examined period=1; otherwise=0)
- *discount* (the item was ever sold at a discounted price during the examined period=1; otherwise=0)
- *markdown%* (the highest markdown percentage offered during the examined period)
- *reorder* (the total number of replenishments during the examined period)

The regression was statistically significant (likelihood ratio (LR) statistics =507.2,  $p=0.00$ ).

The results show that, first, regarding product assortment, "Made in the USA" apparel are 393.5% more likely to be womenswear (Wald  $X^2=134$ ,  $p=0.00$ ) and 180.4% more likely to be reordered at least once during the examined period (Wald  $X^2=35$ ,  $p=0.00$ ) than imported apparel when holding other variables constant. This result overall supports *H1* given the fact that fashion-oriented womenswear and products reordered in the season typically require high speed to market and flexibility (Burns, Mullet & Bryant, 2016). Second, regarding pricing practices, "Made in the USA" apparel are 150.1% more likely to be priced at least 20% higher than the average selling price of the same product category in the U.S. retail market (Wald  $X^2=27$ ,  $p=0.00$ ) and 43.2% less likely to be sold at a discounted price during the examined period (Wald  $X^2=29$ ,  $p=0.00$ ) than imported ones. This result supports *H2*. However, interesting enough, the result also suggests that if sold at a discounted price, the *markdown%* for "Made in the USA" apparel is 105.0% more likely to be higher than imported apparel when holding other variables constant (Wald  $X^2=129$ ,  $p=0.00$ ). The specific reasons can be explored further.

Findings of the study have several important implications. First, the findings concur with the view that "Made in the USA" apparel are still relevant today (Yu & Kim, 2018). Notably, it does not seem to be the case that "Made in the USA" apparel and imported ones are necessarily competing with each other in the U.S. retail market given their different product assortment and pricing practices. Second, the findings also reveal the close interconnection between retailers' sourcing and merchandising strategies. Particularly, with apparel sourcing increasingly requiring

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<sup>1</sup> These product categories include dresses, tops, bottoms (such as skirts, jeans and trousers), outerwear, all in ones (such as playsuits and dungarees), underwear, hosiery, nightwear, swimwear and suits sets as categorized by EDITED (EDITED, 2019).

speed to market and flexibility other than low cost, it is hopeful that “Made in the USA” apparel will continue to have its unique role to play in U.S. fashion brands and retailers’ sourcing portfolios (Harris, 2018).

Future studies can continue to investigate how retailers manage “Made in USA” apparel in aspects such as stock availability, inventory turnover, and the depth and breath of product assortment. It will also be interesting to explore further if retailers in different segments of the retail market (such as luxury, mass and value markets) may adopt any unique merchandising strategies for “Made in the USA” apparel.

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