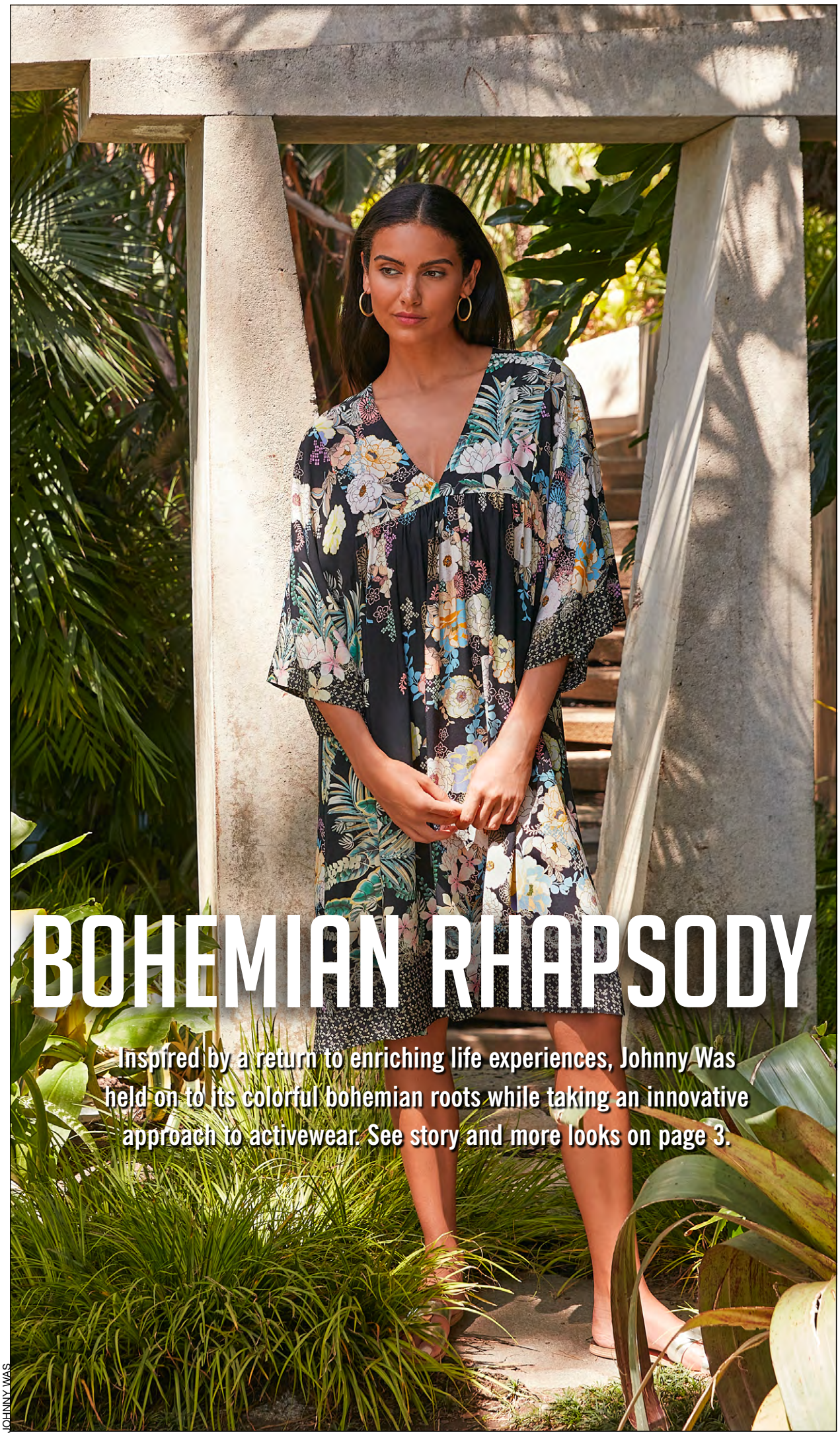
NEWSPAPER 2ND CLASS

CALIFORNIA Apparel News

THE VOICE OF THE INDUSTRY FOR 78 YEARS

$3.99 VOLUME 79, NUMBER 2 FEBRUARY 3, 2023 DOUBLE ISSUE



BOHEMIAN RHAPSODY

Inspired by a return to enriching life experiences, Johnny Was held on to its colorful bohemian roots while taking an innovative approach to activewear. See story and more looks on page 3.

JOHNNY WAS

INDUSTRY FOCUS: SUSTAINABILITY

It's Not Easy Being Green: Transparency Within the Textile, Apparel Industry

By Dorothy Crouch *Contributing Writer*

Sustainable commitments, manufacturing and offerings are now standard within the fashion industry as the once niche category of eco-friendly and ethical apparel has become an integral component of the garment business. While many companies make promises to include more-ecologically and -socially sound components of apparel making, their environmental, social and community commitments aren't always clear, which could result in accusations of greenwashing.

To relay an authentic commitment to sustainability, apparel businesses must not simply rely on a few green initiatives that can support an eye-catching marketing campaign. They must also continue to build a better industry through technology, investments in cleaner practices, support for workers throughout the supply chain and contributions to the development of a

➥ **Sustainability** page 4

TRADE-SHOW REPORT

L.A. Market Rings In 2023 With New Lines and Innovation

By Betsy Zanjani *Contributing Writer*

Art and fashion converged at **Los Angeles Market Week** with a burst of creativity Jan. 15–19. The creative energy uplifted spirits, and the mood was positive and buyers motivated as they prowled the market's primary venues. Here are some highlights of the buzz-generating brands.

In an exclusive event at **The New Mart**, Marisol California hosted a fashionable cocktails and catwalk-buying event entitled "The 1102 Experience." In addition to the special pieces from the designer, collections from **Victoria Mozgovaya** and couture-like nonbinary creations by **Cross for God** walked the runway.

Aaron Gomez, Cross for God spokesperson, said, "L.A. has responded so well to this line," which is priced from $100

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INSIDE

Where fashion gets down to business℠

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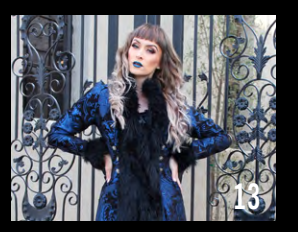

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As Manufacturers, Retailers, Consumers Enter With Caution, What Will 2023 Bring?

By Dorothy Crouch *Contributing Writer*

As inflation soared during 2022, speculation regarding an impending recession was rampant and consumers tightened their belts. Retailers hoped for a blockbuster holiday 2022 sales season to serve as an indicator of a healthier 2023, but projections missed the mark. Holiday 2022 sales totaled $936.3 billion—a 5.3 percent increase over 2021—but couldn't reach the **National Retail Federation**'s forecasted growth of between 6 and 8 percent.

Amid the Federal Reserve's .25 percentage point rate increase on Feb. 1 to between 4.5 percent and 4.75 percent, the U.S. central bank cautiously noted that inflation is slowly easing but emphasized significant challenges remain. With continued supply-chain issues, excess inventory, high customer-return rates and reduced consumer spending on goods, the apparel industry is facing additional challenges during the start of 2023. To prepare for the financial hurdles ahead, *California Apparel News* asked industry leaders: *With lackluster holiday 2022 sales signaling a slowdown in consumer spending on goods, what new challenges can the apparel industry expect, and how can businesses in this sector navigate the resulting economic hurdles?*

Darrin Beer
Western Regional Manager
CIT Commercial Services, a subsidiary of First Citizens Bank

Some apparel companies still burdened with higher inventory will probably discount product through the first half of 2023. Certain online businesses are also challenged with rising customer-acquisition costs related to heightened privacy laws and data-tracking limitations.

As apparel companies navigate these challenges and economic uncertainties, it's important to address slower-moving goods as the carrying cost is higher than a year ago. If you own a brand, this process will be more delicate as you will need to balance some discounting without diminishing perceived value.

It's also important to stay on top of the supply chain to ensure timely deliveries of new products. Being on-trend and managing expenses are equally critical. Despite these economic hurdles, apparel companies should collaborate strategically with trusted suppliers and committed financial partners and must continue to engage consumers, even if they are spending less. The apparel industry has always proven its ability to adapt to the economy and will do the same in 2023.

Mark Bienstock
Managing Director
Express Trade Capital

As a result of a difficult 2022 holiday-sales environment, apparel importers and manufacturers are facing dual issues going into 2023. First is bringing their inventory back to a more manageable level. Many companies were dealing with a logistical logjam of too many containers arriving at the same time as well as missing the current season. This forced the retail community to postpone or cancel many orders. The importing and manufacturing trades are still carrying elevated inventory, causing added margin compression to their bottom lines.

Second, the rising interest-rate policy of the Federal Reserve to tame inflation is causing many in the apparel community to resize their respective entity structures as we are potentially heading into a recession. Cost containment throughout the entire manufacturing and selling ecosystem will be paramount to come out stronger once economic recovery is underway.

Sydnee Breuer
Executive Vice President and Western Regional Manager
Rosenthal & Rosenthal

The new challenges facing the apparel industry are actually the old challenges many companies faced pre-pandemic, primarily building more demand among consumers. Gone are the pandemic days when shelves were bare and retailers were happy to take any inventory they could get their hands on.

With the supply chain now normalizing and a slowdown in consumer spending, apparel companies need to rethink their inventory purchases and quantities, right-sizing them to the current economic environment to be more aligned with projected sales levels for the coming seasons. While inventory is the lifeline of our industry, it is also the kiss of death if there's too much of it or the wrong product. Apparel businesses must control and continuously monitor their inventory. Additionally, expenses must be controlled, and the overhead structure must be in line with current sales levels.

We also are seeing and continue to expect to see a worsening credit environment in the retail sector. Now is not the time to take undue risk on retailers with weak capital structures.

Tae K. Chung
Senior Vice President, Business Development
Republic Business Credit

As the U.S. came out of COVID-19 restrictions, people started switching their spending habits to dining, experiences and long-awaited family vacations that were nonexistent during the pandemic. Our clients faced supply-chain issues, increases in oil prices, inflation and interest-rate hikes. In turn, people were spending more on essential needs.

We will face similar challenges in 2023 as we did at the end of 2022. While oil prices, inflation and interest rates still play a major role, people will continue to tighten their belts and only shop for essential products. Additionally, new, growing COVID concerns and natural-gas prices have been hitting all-time highs, and people will be forced to choose between heating their homes, putting food on the table or fueling their cars. Inventory management is going to be a big component in navigating through upcoming economic challenges.

Gino Clark
Executive Vice President and Managing Director, Los Angeles Region
White Oak Commercial Finance, LLC

Manufacturers and importers can expect high returns and increased markdowns as retailers wrap up their year-end financial statements. It is important to remain diligent in reconciling markdowns and recovering any unauthorized deductions.

There are signs that the Federal Reserve's increased interest rates have been effective, but we still anticipate additional increases this year. Consumers will continue balancing their discretionary income on competing items: higher grocery bills, dining out, vacations and soft goods, such as apparel.

Companies must efficiently manage their assets to ensure maximum performance. By focusing on narrowing the cash-conversion cycle, companies should be able to quickly react to performing trends. They may face balancing existing inventory and ensuring the correct inventory mix. As a rule, the first loss is generally the best loss if rebalancing is required. Ensure you maximize equity and liquidity to take advantage of emerging trends. This can be leveraged by securing a flexible lending relationship, one that understands your business and can help finance these growth opportunities.

Eric Fisch
Senior Vice President, National Sector Head, Retail and Apparel
HSBC Bank USA N.A.

Everyone is motivated to reduce inventory, but retailers need to avoid the impression of stale product. Last year's product needs to be gently woven into new styles to keep shoppers engaged.

Marketing spend is always a tempting target for cost reductions, especially as the costs of social-media ads continue to rise. Shifting some of this to tried-and-true methods such as catalogs and email can have immediate results at a lower cost.

Expansion and strategic growth in a period of uncertainty can propel a brand to the forefront and differentiate it from the competition. It can also stretch a company's resources when they are most needed. It's a delicate balance, but an eye on opportunistic growth when others are playing defense can accelerate a company's development.

Ron Friedman
Partner
Marcum LLP

During the second half of last year, apparel manufacturers were faced with supply-side challenges and high costs of containers to bring goods to the ports in Los Angeles and Long Beach, Calif. In 2023, last season's merchandise must be liquidated to provide cash flow to produce and deliver new merchandise. Gross profits will not be the primary concern for manufacturers; moving older inventory at any margin is their top priority.

Projections and business plans are essential, and staying on-plan is mandatory for your business to succeed. A projection should provide you with the roadmap to move old inventory and bring in fresh goods. Your accountants should be guiding you through this process as you will need someone to challenge your assumptions for reasonableness and feasibility.

A final suggestion: Review your overhead and especially your payroll costs. We discovered during the pandemic that most companies are able to work with fewer employees and still get the job done.

Joshua Goodhart
Executive Vice President, National Sales Manager
Merchant Financial Group

Wholesalers and retailers are still navigating bloated inventory levels and production challenges from supply-chain issues. Retailers have taken a conservative stance in placing orders, which requires manufacturers to hold inventory much longer than they would like. This has created issues across the entire supply-chain cycle with continued working-capital pressure for many.

We see this trend continuing in the near future. There is a long way to go before we reach pre-pandemic levels of shoppers returning to the stores. People still prefer to buy goods online, but that trend is also slowing exponentially, which has caused issues with many DTC businesses. Consumers have reacted to this extremely uncertain economic time by taking a more conservative approach and keeping money in their pockets.

The apparel industry must take a conservative approach in response to the slowdown in consumer spending. It is imperative that businesses manage inventory accordingly and navigate supply-chain issues effectively. Now is not the time to take huge risks. Having a diversified channel of distribution and product sources is the best plan for success.

Rob Greenspan
President and Chief Executive
Greenspan Consult, Inc.

During Q1 and Q2, the apparel industry should expect continued slowing of shipments and a lack of significant orders from retailers for delivery. Optimistically, Q3 and Q4 will be better as eventually retailers will need new inventory for the back end of the year.

Apparel-industry importers and manufacturers need to continue to minimize their overhead with cost reductions, whether in numbers of personnel or decreases in line size and product development. Apparel companies should manage their overhead so, at worst, they are operating at a breakeven level until business picks up.

During difficult times, managing inventory becomes a top priority. Managing goods that are placed into production is critical. Inventory speculation should be nonexistent. Turn your inventory, stay as liquid as you possibly can, and position your company to take advantage of opportunities when they arise.

Richard H. Kwon
Executive Vice President, Portfolio Manager
Finance One, Inc.

As the Fed continued its monetary policy to slow demand and reduce inflation, average U.S. consumers saw values of their assets decline and pandemic savings dwindle. While wage increases and a strong job market allowed consumers to keep up with higher prices until now, consumers can become price-conscious and pull back if unemployment goes up and recession fears take hold.

Retailers that can analyze and identify desirable products in advance and have the products available on time by arranging with capable apparel manufacturers will stay relevant to the customer and thrive.

Companies must have liquidity and maintain a strong balance sheet. For apparel manufacturers, production and financing costs have been unavoidably increasing, impacting their bottom line. To protect profits, apparel companies can identify and capitalize on best-selling products for continuous sales, lower customer-risk tolerance to minimize losses from buyer insolvencies, and minimize compliance-violation charges or other frequent deductions from buyers by scrutinizing and updating procedures.

Thomas Novembrino
Executive Vice President
Gateway Trade Funding

Vendors, distributors and retailers that serve the apparel industry need to develop action plans to reduce their inventory stocks. When the economy is robust, controlling inventory is just a good business practice; however, over the years, retailers have relied on apparel vendors and distributors to maintain relatively high inventory levels to augment retailers' stocking needs to fulfill customer demand. In the long run, this is just not sustainable.

Cyclicality is generally a reality of our economy and the apparel industry. For example, retailers reacted to the decline in demand during the COVID-19 pandemic by reducing their inventory stocks. When the economy normalized, retailers responded to augmented consumer demand by cautiously increasing the amount of inventory on their shelves, and apparel vendors cautiously augmented their production while distributors cautiously augmented their orders. Apparel firms need to stay lean with lower inventory but be ready to ramp up production quickly.

Dave M. Reza
Senior Vice President, Western Region
Milberg Factors, Inc.

The average consumer spent the last quarter of 2022 under economic pressure—more expensive staples, higher interest costs and job layoffs. These negative metrics translated into less disposable income and discretionary spending. Many American households are already experiencing their own personal "recessions."

With an economic slowdown—if not a recession—looming, apparel will face reduced demand, order deferral or cancellations and increased requests for markdown support from retailers. These challenges will require greater focus on asset management and operating discipline. Make sure your design, product and delivery conforms with or exceeds customer requirements. Enhance relationships with management above the buyer level. Tighten up your supply chain to bleed out extraneous costs.

Review your total SKUs and eliminate categories with lower order activity. Restructure jobs to allow for downsizing staff quickly and to enhance profitability. Expect orders to be deferred and canceled, especially in view of excess retailer inventory. Retailers under pressure to report better results will increase their request for pricing support. Take reserves even on current orders and sales.

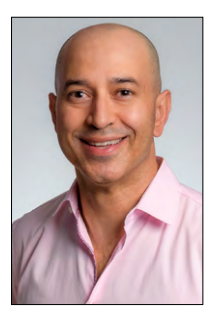
Kevin Sullivan
Senior Vice President, Regional Credit Manager, Commercial Services Group
Wells Fargo Capital Finance

In general, we saw large inventory build-ups due to deferrals, which has resulted in higher financing needs to support slower-moving inventories. We've stepped up to help many of our clients get through a somewhat challenging Q1, but the good news is that freight costs are beginning to normalize and margins appear to be coming back into line as we head into 2023.

What COVID-19 has clearly taught many companies is the inherent risk of having supply chains concentrated in one country. Many have successfully diversified supply chains to mitigate that risk. Operating expenses also remain a large focus. Whether it's right-sizing staff, seeking alternative sources of production or shifting from company-owned facilities to a 3PL model to provide greater financial flexibility, management teams throughout the industry are having to consistently rationalize all costs in an effort to maximize profitability in 2023.

Finally, it's never been more important to have solid consultants in the form of the right accounting firm, law firm and lending institution.

Marco Vinicio Valverde
Partner
Moss Adams



Apparel companies will be challenged to operate more efficiently and better understand the needs of their customer base more than ever. Companies will need to be able to manage the supply-chain issues, manage their production cycles, cut back on discretionary spending and manage the increasing number of product returns. The pandemic caused a spike in direct-to-consumer shopping but also an increase in the dilution percentages mostly due to higher return rates.

Companies can navigate these challenges by analyzing return data to better understand the customer behaviors and characteristics driving the issue. This will be beneficial in managing the production-cycle and supply-chain issues facing the industry. It will also better position companies to manage their inventories and maintain them at an adequate level throughout all of 2023. As companies look to minimize disruption, they should rethink their sourcing strategies and build more flexibility into their supply chains.

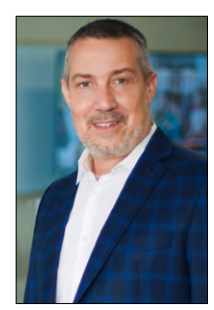
Kenneth L. Wengrod
Vice President of Global Trade & Foreign Investment
Los Angeles Area Chamber of Commerce

An important factor that may facilitate business challenges is artificial intelligence to learn shoppers' behavior patterns, potentially reducing returns and chargebacks. Additionally, AI gathers data on shopper preferences and how often they make certain purchases. Businesses can anticipate shopper demand to create market opportunity. AI may help businesses reduce the potential for excess inventory.

Also, the purchasing strength of buyers over 50 may have been unfairly overlooked. This consumer base's confidence is due in large part to their disposable income and proves to be an attractive market for expanded sales for the right merchandise.

Additionally, 95 percent of potential customers are outside of our boundaries. Exporting is a great solution to expand market size and reduce the competitiveness of the U.S retailer. Economic reports for 2023 indicate Western Europe will fare better than the U.S. in terms of a potential recession. The industry needs to understand the nature of these changes and find solutions to mitigate them and expand their profitability.

Michael Wildeveld
Director of Veld Mergers & Acquisitions
The Veld Group



For more-sustainable solutions, I'd look to the formation of strategic partnerships with participants in the value chain that stand to also benefit by leveraging one another's capabilities, client base, product line or distribution channels. The Holy Grail is for participants to tap into one another's strengths and convert each partner's loyal followers.

Nike and Foot Locker's initial partnership to make Air Jordan their "house brand" may be a wildly successful example of this. Nike and Foot Locker dramatically reduced their customer-acquisition costs while Michael Jordan's celebrity and legacy expanded. Each company's lifetime-customer value went through the roof with the frenzy of fanatical repeat customers. Ultimately, Nike's inordinate leverage allowed them to pivot to more of a direct-to-consumer strategy once their mission was accomplished. Their strong following of loyal collectors allowed them to take a page out of Rolex's book by creating an environment of scarcity to elevate their brand and maximize their average ticket on a pair of shoes.

Responses have been condensed.