
Yo Wear, Inc.

Standing in the doorway, Richard Crisler¹ looked out into his warehouse at the hundreds of bolts² of fabric and boxes of finished goods while the hum of several sewing machines filled the room behind him. Over the past 17 years, Crisler's company, with its line of kooky US-made activewear products, had ridden the apparel industry's roller coaster. At one time, he had 34 sales representatives tirelessly selling Yo Wear products in vacation areas throughout the United States. As he stood there pondering his sourcing dilemma, he could not help but wonder whether he would ever be able to get back up to \$890,000 in annual sales and profitability.

Yo Wear's History

Crisler received his BA in political science from Duke University in 1988. He was introduced to the apparel industry when he worked as a sales representative for University Screen Printing. For an independent study in his junior year, he started manufacturing and selling Duke-logo boxer shorts around campus under the brand name Statonwear. The underwear became so trendy that he was able to negotiate a deal with the university bookstore to supply it with boxer shorts for both in-store and catalog sales. The items were a hit. "They're popular because you can walk around school in your underwear, and people won't look at you in a funny way," said Crisler.³ Crisler decided to change the company's name to something more catchy and appropriate to the product line. Statonwear, after a brief stint as Yo Boxer, became Yo Wear, with its trademarked "Max Boxer" line of clothing (**Exhibit 1**).

A year later, after graduation, Crisler followed his girlfriend to Charlottesville, Virginia, so she could finish school. He expanded his product line, and opened a store on the popular Downtown Mall, a pedestrian mall located in Charlottesville's historic district and lined with a variety of locally owned shops and restaurants. He spent a year there trying to keep the store afloat, until one day someone suggested he enter the wholesale business. He closed up shop and rented a back office from one of his customers.

The wholesale opportunity seemed to be just what Yo Wear needed to become a sustainable business. Retail outlets at resorts, zoos, and museums placed large orders for his wild and colorful boxers and newly formed line of women's tops that matched the boxers so the items could be sold as a set. Matching hats and hair ties soon followed. Women's attire became the focus of the business as demand strengthened. Crisler hired 34 sales reps to keep up with demand. At its peak, Yo Wear's annual sales reached \$890,000. To support

¹ This is a field-based case. All information and quotations, unless otherwise noted, derive from author interviews with company representatives.

² In the textile industry, a bolt referred to a rolled length of woven fabric.

³ Jay Anderson, "Campus Life; Students Go for Pop Music, Pop Novels, Pop Tarts," *New York Times*, November 12, 1989.

the business, Crisler produced the clothing to stock based on his forecast of demand for each pattern of each item. Owing to rapid growth, inexperience, and lack of capital, Yo Wear was able to achieve only a 67% fulfillment rate on orders.

In 1999, however, everything changed. As Crisler observed, “The market started changing, but we didn’t. I knew boxer shorts and, to some extent, Hawaiian shirts, but our customer base wanted ladies’ fashion. I had no feel for ladies’ fashion. I couldn’t understand what we were making.” Yo Wear’s popular products also became the target of companies selling look-alike items outsourced from countries with cheaper labor markets. He continued, “The prices for our ‘look’ dropped, and we dropped prices again and again to try and hold on to our market share.” The strategy did not work. As business deteriorated, Crisler was forced to let everyone go and planned to shut down the business.

In 2000, Crisler was sitting in his office, intending to close the business, when purchase orders suddenly started pouring in. Mail-order catalogs, until then a small part of the business, began to provide a steady stream of business. He was able to start Yo Wear back up, this time with a more focused vision. He said, “I wanted to be able to wear everything that we made and sold.” In 2006, Crisler expected to continue a manageable growth rate of 30%, to \$430,000, with a fulfillment rate of more than 95%.

Marketing Yo Wear

In order to build sales and market his products, Crisler traveled to various trade shows throughout the United States, pushing his products to potential mail-order and retail customers. At one point, he was going to 16 shows a year. In 2000, however, he decided to focus on a twice-yearly Las Vegas trade show.

Currently, the majority of revenue was from sales to mail-order-catalog companies, which sometimes sat on a proposal for a year before putting a single item in print. Crisler was able to wholesale his shirts to the catalog companies for \$22 each, and they sold them at retail for \$48 each. Yo Wear also generated revenue through retail internet sales (\$48 each), allowing the company an even greater margin, though only 5% of the volume of total unit sales. “If we could just increase our internet business tenfold, we would be all right,” Crisler lamented. He held one major “outlet” sales event each year, on July 4, in an effort to help reduce excess finished-goods inventory, overstocked from past trends and stockpiled in hopes that demand would resume. Shirts sold for \$5 each at the outlet sale, although some unsold shirts remained in inventory for many years. “Having to deal with old inventory really encourages you to go to a just-in-time, low-inventory business model,” stated Crisler. Yo Wear’s cost of debt was 10% on \$160,000.

For fabric, Crisler traveled to New York’s Garment District, where he found the best variety and sometimes the best price for the niche-oriented designs he used. Several times, Crisler had tried to sell more-traditional mainstream designs to his customers. He discovered, however, that they were very particular and wanted to stick to the same design category they had always purchased. One buyer, when asked whether she wanted to try a new design, inquired, “Can I buy the same thing in the men’s section of a department store?” When told that she could, her response was, “Then I don’t want it!”

Crisler believed that his value propositions to his retail catalog customers were (1) the “kooky” patterns of his clothing, (2) the high quality of his sewing, and (3) his ability to respond quickly to rush orders. (See **Exhibit 2** for some product samples.)

Production at Yo Wear

Yo Wear operated in a 5,000-square-foot building in a light-industrial section of Charlottesville. A portion of the building was dedicated to 20 sewing machines. The warehouse held both raw and finished inventory and a 50-foot fabric-cutting table. A small section of the building was leased out for \$1,500 a month to help ease the \$2,500 monthly mortgage. The building, land, and equipment cost Crisler \$430,000, and were valued at approximately \$750,000. Crisler estimated his annual overhead costs at \$160,000, in addition to his mortgage payments.

The first step in manufacturing a Yo Wear shirt was to gather, spread, and cut the correct amount of fabric on the cutting table. The fabric content of a shirt produced by Yo Wear cost approximately \$7.00. Standard markers were used for each shirt size (S, M, L, XL, and XXL) to ensure that the exact amount of material was cut without any waste. Cut pieces were then given to machine operators, who stitched the cut fabric into a shirt. Six buttons were also added, at a cost of \$0.04 each. On average, a sewing-machine operator could produce two shirts an hour. Other costs included the label (\$0.08), the poly bag (\$0.03), interfacing for stiffening collars (\$0.02), thread, and shipping to the facility (\$0.12 per shirt).

Crisler used a flexible workforce to vary the number of sewing-machine operators throughout the year, owing to three different periods of demand. January through March was usually the slow period, when only a few employees were needed. From April to July, sales picked up because of the warmer weather. August to December saw peak demand for Yo Wear because retail customers put out catalogs for the upcoming holiday season. During periods of high demand, Crisler contracted out much of the work in order to meet the increased capacity needs. He often had trouble finding qualified sewing-machine operators in the Charlottesville area; many of his employees commuted as much as 45 minutes each way. The average wage was \$10.00 an hour.

Most shirts and boxer shorts were produced on a make-to-order basis. Crisler had limited bolts of fabric as raw material; his New York suppliers were able to provide him with fabric within a week. The clothing he sold during his annual July 4 sale resulted from his previous policy to make to stock rather than make to order. Shipping costs from Yo Wear to the customer were paid by the customer.

Sourcing from Hong Kong

Crisler had recently experimented with sourcing some of his shirts from Hong Kong. Several times in the past few years, he had sent material to Hong Kong for cutting and sewing. The quality of the work was just as good as, if not better than, the quality of the work produced in his Charlottesville plant. He found that the Chinese manufacturer's labor cost was significantly lower than what he paid his US workers. Shipping expenses were nominal: \$0.35 per shirt for standard shipping and \$1.00 per shirt for priority air. Minimum orders were high, forcing Yo Wear to take at least 500 shirts per style per order, and the lead time was longer. On occasion, it would take up to three months to get his orders from China, which made it difficult to stick to his value proposition of a short lead time. In the summer of 2005, however, for a special order, he had been able to negotiate a turnaround of two months, using express shipping.

Shirts manufactured in Hong Kong cost \$11.50 landed duty paid (LDP) per shirt for quantities of 500 to 1,700 per style. Quantities above 1,700 cost \$8.88 LDP. (See **Exhibit 3** for definitions of some common sourcing terms.) The unit price included the US duty on men's button-down shirts from Hong Kong of 19.5%.

One of the products he had been successful in sourcing from Hong Kong was his “Surfing Santa” line (**Exhibit 4**). In 2005, he had ordered 10,000 shirts from his Hong Kong source and had sold all but about 600 of them. Sourcing from Hong Kong would allow him to realize huge savings on variable costs. But how would his clients react if his products no longer had the label “Made in the USA”? Many of his smaller customers preferred to buy US-made goods. Would the catalog companies stop carrying his products if he sourced overseas? Would the money he saved be overshadowed by the loss of orders? How important was his ability to respond to customers’ requirements “just-in-time”? Crisler’s best estimate of anticipated demand for Surfing Santa for 2007 was 7,000 shirts. He was 99% confident that the number of Surfing Santa shirts demanded would be between 4,000 and 10,000. Crisler classified shirts in one of four categories: (1) high sales and high uncertainty, (2) high sales and low uncertainty, (3) low sales and high uncertainty, and (4) low sales and low uncertainty. See **Exhibit 5** for sales-forecast data for representative shirts in each category.

Other Decisions

Costs were the underlying issues driving Crisler’s dilemma. His largest fixed cost was the monthly mortgage payment on his facility and his permanent employees. He was already covering 60% of the payment on his building, renting out 40% to another entrepreneur. If he closed up shop, he could more than cover the mortgage and earn a profit just by renting out the remaining space. He would then have a great deal more time to devote to his real-estate projects, which had been far more profitable than his struggling clothing business. But was this a decision that would serve his entrepreneurial spirit? Given the great profit margins of the on-line retail business, was he focusing his efforts in the right direction? Should he try to find an energetic person who could return the company to profitability while allowing Crisler to pursue his real-estate projects? Perhaps he should close the Charlottesville facility and outsource all his work from other manufacturing facilities. He often sourced from a facility in Madison Heights, Virginia. There might be enough capacity there for his entire operation. Perhaps he should just source everything from Hong Kong and spend more time on marketing his product lines.

As Crisler stood in the doorway, he could not help but think how complex his 1986 Duke independent study had become.

Exhibit 1

Yo Wear, Inc.

Max Boxxer Trademark



Source: Yo Wear, Inc. Used with permission.

Exhibit 2

Yo Wear, Inc.

Product Samples



Source: Yo Wear, Inc. Used with permission.

Exhibit 3

Yo Wear, Inc.

Common Sourcing Terms

Sourcing Term	Definition
Ex-Factory	You own the goods at the foreign factory—meaning you’ve got to take responsibility for getting them to you in the United States.
FOB (Free-on-Board) Port of Exit	The supplier puts the goods on a ship or plane cleared to leave their country—the rest is up to you.
CIF (Cost, Insurance, Freight) US Port of Entry	The products are at the US Port of Entry—you pay to get it cleared through US Customs and onto a truck or train.
LDP (Landed, Duty Paid) US Port of Entry	The products are at the port ready to be picked up.
DDP (Delivered Duty Paid) Your Warehouse	The supplier delivers the products to your warehouse.

Data source: <http://www.sba.gov/library/successXV/14foreignaffairs.htm> (accessed October 12, 2006).

Exhibit 4

Yo Wear, Inc.

Surfing Santa Shirt



Source: Yo Wear, Inc. Used with permission.

Exhibit 5
YO WEAR, INC.
SKU Data Sample
(not necessarily representative of all SKUs)

	Low-Forecast Uncertainty	High-Forecast Uncertainty
Low-Forecast Sales	Monthly average sales = 50 shirts Monthly standard deviation of sales = 10 shirts	Monthly average sales = 50 shirts Monthly standard deviation of sales = 25 shirts
High-Forecast Sales	Monthly average sales = 200 shirts Monthly standard deviation of sales = 20 shirts	Monthly average sales = 200 shirts Monthly standard deviation of sales = 100 shirts

Source: Created by author.