PVH Underwear Powerhouse: post-merger integration of business operations of Calvin Klein Underwear and Tommy Hilfiger Underwear brands

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PREFACE

The PVH Underwear Powerhouse bachelor thesis assignment has become the final phase of my International Business and Management Studies degree program in Rotterdam Business School department of Rotterdam University of Applied Sciences and International Business Administration program in Institute of Business Studies-Moscow department of Russian Presidential Academy. The relevance of this research to IBMS/BBA degree competences cannot be underestimated, as it has been carried out in one of the largest global corporations in retail and fashion industries on highly professional level. The learning opportunities and ability to apply knowledge of various fields of management acquired while studying has been an amazing experience for me as a graduate student.

Apart from being an academic requirement of my bachelor degree, The PVH Underwear Powerhouse research has been an essential part of my Sales Internship at Calvin Klein Underwear division of PVH Corp. European Headquarters. This project is seen as a significant strategic step for both Calvin Klein and Tommy Hilfiger Underwear divisions since the acquisition of Warnaco Group was completed. As a matter of fact, my primary focus within job responsibilities from the very beginning has been on sales analytics and business performance of these departments, as well as forecasting and strategic planning. Consequently, these activities and the results have been implemented into the PVH Underwear Powerhouse thesis research and a great link between my placement and thesis experiences.

First of all, I would like to thank all those who have contributed to my successful completion of Double Degree International Business and Management Studies programs in both RBS HS Rotterdam and IBS-Moscow, namely the faculty staff, administration, student support and external affairs departments, my fellow students and all other people who dedicated their time and efforts to support me on this four-years-long journey. Secondly, I would like to express my deepest appreciation and gratitude to the ones who made it possible for me to work on and successfully finalize the PVH Underwear Powerhouse thesis research. Among them, I want to highlight the following:

- **PVH Corp., Calvin Klein Underwear and Tommy Hilfiger Underwear divisions**
  I would like to thank my internship manager and company thesis coach – Torsten Wulff (Senior Sales Director Europe – Calvin Klein Underwear) for his ultimate commitment and amazing professionalism that he invested in me over the months of my work in the company; I have been extremely happy to be able to learn from such an experienced and competent person as him; I would like to express my thankfulness to the Vice Presidents of Calvin Klein and Tommy Hilfiger Underwear divisions – Melanie Gallop and Merav Levi; Although they were very busy with ongoing organizational changes, their contribution, vision and insights have been of tremendous importance to my research; Moreover, I want to thank Calvin Klein and Tommy Hilfiger teams for their willingness to help me and share their opinions, experiences and ideas on deeper functional levels; I am thankful for having such a fascinating work environment and exceptionally competent colleagues whose support was essential for my success;

- **Rotterdam Business School**
  I would like to thank my thesis supervisors Anton Sugonyako and Koen van der Kooy for their guidance and academic support; Even though thesis research structure and process seemed to be very complicated, my tutors helped me understand it and flawlessly execute the study;

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**TOMMY HILFIGER**

**Calvin Klein**
Institute of Business Studies-Moscow

I want to express my appreciation to Irina Timonina – my thesis tutor on IBS-Moscow side, who despite the distances and inability to have physical meetings demonstrated her dedication and proficiency in guiding me; She is a true expert and her cooperation were very important for my research accomplishment.

The PVH Underwear Powerhouse thesis research has been beneficial for both me as a graduate business student and researcher and PVH Corp., Calvin Klein Underwear and Tommy Hilfiger Underwear divisions in particular. The value and benefits that this project delivers to the stakeholders are the success criteria which has been successfully passed. Keeping the balance between academic, learning and business case requirements is very important in bachelor thesis in management, that is why my strategy was to pursue the research in a way that would make it possible without compromising.

The research project as well as my internship started in the first week of March 2014 and has been finalized in the last week of June 2014, which took the total of four months. Even though combining full-time placement and research seemed to be a challenge, this was even more helpful in that I was constantly well-aware of most recent changes and developments which were relevant to the project.
EXECUTIVE SUMMARY

The PVH Underwear Powerhouse project is one of the most significant strategic steps for Calvin Klein Underwear and Tommy Hilfiger Underwear divisions of PVH Corp. European Headquarters based in Amsterdam, Netherlands since it has acquired Warnaco Group, Calvin Klein global business license holder.

PVH is one of the leading fashion companies in the world which markets its products globally though the combination of wholesale and retail channels in more than 90 countries. Company’s diversified brand portfolio drives the performance in various segment of the market and over the last decade, PVH has made several acquisitions that have redefined the identity, performance and long-term growth potential of the Company – first with the acquisition of Calvin Klein in 2003, then with the addition of Tommy Hilfiger in 2010, and most recently with our February 2013 acquisition of The Warnaco Group, Inc., which reunited the "House of Calvin Klein" and gave the company direct control over the two largest apparel categories for Calvin Klein, Jeanswear and underwear, and enables PVH to unify the global brand vision.

Consequently, Tommy Hilfiger Bodywear division was entitled to be integrated with Calvin Klein Underwear with a long-term goal of creating an underwear category expert and leader under the name of the PVH underwear Powerhouse, comprised by both brands. The major considerations and ideas that drove this project initiation have been opportunities for synergy, economies of scale, shared functioning, integrated operations and established customer and suppliers network. Despite the fact that both brands have their unique identity, history and image, the decision to “merge” world-class designer brands in a specific form of the powerhouse has been taken in order to seize new opportunities.

The main objective of this thesis was to develop the concept of The PVH Underwear Powerhouse and create strategic implementation plan, which would help Calvin Klein Underwear and Tommy Hilfiger Underwear divisions of PVH Corp. to achieve their common and individual strategic goals and seize new opportunities in order to become underwear category leaders. This rather long but comprehensive formulation explicitly describes what is the goal behind the Powerhouse establishment and recognition within PVH Corp. and underwear category on the whole. One of the key findings in this regard was that the Powerhouse does not aim to have the largest market share or top industry revenue. Instead, it aims to become an expert in global underwear category by revolutionizing the concept of body wear, changing the market mindset and taking a leading position as premium underwear designer brand.

The research questions to be answered in order to reach the set objective cover subjects related to underwear category, its specificity and role of both Calvin Klein and Tommy Hilfiger within it; background and key features of the brands, their business performance, long-term vision and goals; the Powerhouse in a nutshell, its identity and functions, structure and objectives; last but not the least, the integration process which would physically implement the idea of the Powerhouse – its scope, extent and timeline, as well as subjects and objects.

In order to answer these questions various primary and secondary research tools and sources have been used in order to collect the most relevant and meaningful information. CK and TH Underwear divisions top and senior management interviewing helped me understand the strategic vision of the divisions and Powerhouse, as well as their key priorities and long-term goals. Meetings and focus groups with various teams and departments gave me a lot of ideas and insights from a deeper functional perspective. Employees specializing in different areas
explained their vision of the integration and its capabilities in regard to their area of expertise. These findings were crucial for the research and they have immensely contributed to the conclusions and recommendations I made later on. Corporate sources, databases and archives provided me with a lot of quantitative data which I used for performance analysis. Oracle, corporate intranet, divisional reports and market recaps, different presentations and documents have been an extensive foundation of my analytics and conclusions.

After the data collection and analysis had been finished, I started looking for a structured way to approach the recommendations and implementation plan, which includes certain actions that would contribute to the success of the project and most importantly seamless integration of the divisions. Among the key recommendations for the Powerhouse the following can be highlighted:

- to change “the mindset” of the corporate governance and acknowledge the specificity of underwear category vs. apparel within PVH environment;
- to reinforce replenishment business, facilitate its development and create efficient business model that would drive desired volumes;
- to elevate the product range and develop in-house design expertise to become category leader by constantly innovating, understanding customer needs and setting trends in the market;
- to boost sales performance and penetrate key markets, achieve the targets and strengthen position on the market.

Implementation plan, on the other hand, provides an explicit program of actions suggested by both the Powerhouse board and members (divisional teams and employees) as well as by myself. This plan provides effective and realistic solutions for both divisions and the Powerhouse based on their performance, current issues, goals and objectives identified during the research phase. Therefore, the plan consists of the following parts:

- Tommy Hilfiger Underwear 5 Years Plan
- Calvin Klein Underwear 5 Years Plan
- Operational Integration Plan
- Replenishment Business Development
- Range planning & product development strategy

It is important to understand that the success of the Powerhouse solely depends on the progress the brands its comprised by. The integration is key to reinforcing resource, expertise and capabilities of both, that is why “merger” is not an appropriate title for this process. By integrating and sharing functions which would not affect brand competitiveness of each is the most optimal way of achieving success on the market thus not cannibalizing each other, and this is not seen as a threat at least since Calvin Klein is already a leading brand in underwear globally. Moreover, a relevant growth strategy will ensure that the divisions are operating in various segments and maintain high penetration without hindering each other.

The PVH Underwear Powerhouse has recently gained great awareness among PVH global corporate environment, which was highlighted at the latest big occasion: Spring 2015 Tommy Hilfiger Line Opening which took place in Amsterdam European Headquarters on 17th of June 2014. This fantastic event marked the new era for Tommy Hilfiger Underwear as a part of the PVH Underwear Powerhouse; the significance of the integration and its results was a focal point of THU and CKU Vice Presidents Merav Levi and Melanie Gallop, who announced the start of the PVH Underwear Powerhouse great success story.
# TABLE OF CONTENTS

PREFACE ........................................................................................................................................ 2

EXECUTIVE SUMMARY .................................................................................................................. 4

CHAPTER 1: INTRODUCTION CASE COMPANY .............................................................................. 8
  PVH Company Profile .................................................................................................................... 8
  Business groups & Brand portfolio ............................................................................................... 8
  Business ownership history .......................................................................................................... 12

CHAPTER 2: THEORETICAL FOUNDATION ...................................................................................... 17
  2.1 INTRODUCTION .......................................................................................................................... 17
  2.2 Mergers & Acquisitions ............................................................................................................. 17
  2.3 Post-Merger Integration .............................................................................................................. 19
  2.4 Operational Integration ............................................................................................................. 20
  2.5 Organization's Resource and Capabilities ................................................................................ 24
  2.6 Competitive Advantage & Strategic Management ...................................................................... 25

CHAPTER 3: METHODOLOGY .......................................................................................................... 27
  3.1 Introduction ................................................................................................................................ 27
  3.2 Research Questions ................................................................................................................... 27
  3.3 Unit of Analysis .......................................................................................................................... 28
  3.4 Unit of Observation ................................................................................................................... 28

CHAPTER 4: RESEARCH FINDINGS ................................................................................................. 32
  4.1 Introduction ................................................................................................................................ 32
  4.2 European Underwear Market & Category ................................................................................ 32
  4.3 Calvin Klein Underwear & Tommy Hilfiger Underwear Divisions ............................................. 34
    4.3.1 Tommy Hilfiger Underwear .................................................................................................. 34
    4.3.2 Calvin Klein Underwear ....................................................................................................... 37
  4.4 The PVH Underwear Powerhouse ............................................................................................. 41

CHAPTER 5: CONCLUSIONS & RECOMMENDATIONS .................................................................. 45
  5.1 Conclusions ................................................................................................................................ 45
    5.1.1 Environment .......................................................................................................................... 45
    5.1.2 Organization .......................................................................................................................... 45
    5.1.3 Strategy .................................................................................................................................. 46
    5.1.4 Integration ............................................................................................................................. 47
  5.2 Recommendations ...................................................................................................................... 47

CHAPTER 6: STRATEGIC IMPLEMENTATION ............................................................................... 50
  6.1 Tommy Hilfiger Underwear 5 Years Plan ................................................................................... 50
    6.1.1 Channel mix ........................................................................................................................... 50
    6.1.2 Gender mix ........................................................................................................................... 51
    6.1.3 Order type mix ...................................................................................................................... 51
6.1.4 Countries........................................................................................................................................51
6.2 CALVIN KLEIN UNDERWEAR FORECAST 2019...............................................................52
6.3 OPERATIONAL INTEGRATION PLAN ....................................................................................53
6.4 REPLENISHMENT BUSINESS DEVELOPMENT ...........................................................56
   6.4.1 Replenishment Tool Implementation..................................................................................56
   6.4.2 EDI (Electronic Data Interchange) ...................................................................................56
   6.4.3 Space Management..............................................................................................................57
6.5 RANGE PLANNING & PRODUCT PORTFOLIO DEVELOPMENT ..................................58

CHAPTER 7: REFLECTION .................................................................................................................61
BIBLIOGRAPHY .................................................................................................................................63
APPENDIX 1: Tommy Hilfiger Underwear 5 Years Plan...............................................................64
APPENDIX 2: Calvin Klein Underwear Forecast 2019 ...............................................................67
CHAPTER 1: INTRODUCTION CASE COMPANY

PVH Company Profile
PVH Corp. is an American apparel company, largest shirt and the second largest clothing company in the world. The corporation employs more than 12,000 people worldwide, with its corporate headquarters located in Manhattan, New York and EMEA headquarters in Amsterdam, Netherlands.

PVH Corp. ("PVH") has grown exponentially from its 1881 roots of selling and mending shirts for miners in Pottsville, PA and its 1920's introduction of the Van Heusen "soft-folding" collar to become a global company with over $8.0 billion in estimated 2013 revenues through a combination of strategic acquisitions and by successfully growing its brands globally across the wholesale, retail, e-commerce and licensing channels throughout North America, Europe, Asia and Latin America. Company’s brands include Calvin Klein, Tommy Hilfiger, Van Heusen, IZOD, ARROW, Speedo, Warner’s and Olga. In addition, PVH licenses brands for dress shirts and neckwear offered in the United States and Canada.

Over the last decade, PVH has made several acquisitions that have redefined the identity, performance and long-term growth potential of the Company – first with the acquisition of Calvin Klein in 2003, then with the addition of Tommy Hilfiger in 2010, and most recently with our February 2013 acquisition of The Warnaco Group, Inc. ("Warnaco"). Through these transformative acquisitions, PVH has secured its position as one of the largest branded lifestyle apparel companies in the world, with a diversified portfolio of iconic designer lifestyle apparel brands, led by Calvin Klein and Tommy Hilfiger. The Calvin Klein and Tommy Hilfiger brands together represent close to 85% of our operating profits and are expected to continue to drive future revenue and profitability growth. (PVH Corp., 2014)

At present PVH Corp. holds 7.8% share of the total apparel & design industry ($61.54B industry revenue), where the company mainly competes with VF Corp and Ralph Lauren Corp in various segments of the market. Due to the latest acquisition of Warnaco, PVH Corp sales skyrocketed 35.5% and generated total of $8.1M gross in 2012. (Bloomberg Industry Leaderboard, 2014)

Business groups & Brand portfolio
Over the last decade PVH accumulated a world class brand portfolio, which gives the company access to various apparel, accessories, footwear and underwear market segments. PVH
leverages its best-in-class global infrastructure, supply chain, brand-focused management and marketing teams to support each of its three business groups — Calvin Klein, Tommy Hilfiger and Heritage Brands — through a strategic combination of wholesale, retail, e-commerce and licensing operations.

The company markets its brands at multiple price points and across multiple channels of distribution and geographies, which allows PVH to provide products to a broad range of consumers, while minimizing competition among its brands and reducing reliance on any one demographic group, merchandise preference, price point, distribution channel or geography.

PVH operates three business groups: Calvin Klein, Tommy Hilfiger and Heritage Brands.

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**Calvin Klein**: Calvin Klein consists of two operating segments – Calvin Klein North America and Calvin Klein International. Calvin Klein North America is operated from offices in New York, which oversee the United States, Canada and Mexico with local corporate offices servicing Canada and Mexico. Calvin Klein International segment has several regional hubs: Europe, which is headquartered in Amsterdam; Asia, where our commercial operations are based in Hong Kong, Shanghai and Seoul; and Latin America, with corporate offices in Brazil.

**Tommy Hilfiger**: Tommy Hilfiger is comprised of two operating segments – Tommy Hilfiger North America and Tommy Hilfiger International. Tommy Hilfiger North America is operated from our offices in New York, which oversee our businesses in the Americas (primarily the

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United States and Canada), while Tommy Hilfiger International is operated from our office in Amsterdam, which oversees Europe, Africa, the Middle East and Asia Pacific.

Heritage Brands: There are two operating segments within Heritage Brands – Wholesale and Retail. These businesses utilize our "heritage" brands – Van Heusen, IZOD and ARROW – plus the Speedo†, Olga and Warner’s brands we acquired in connection with the Warnaco acquisition, as well as numerous licensed brands. Operations are principally conducted in North America.

Calvin Klein
Calvin Klein is one of the best known designer names in the world, offering a modern design aesthetic. The Calvin Klein brands — Calvin Klein Collection, Calvin Klein platinum label, Calvin Klein white label, Calvin Klein Jeans and Calvin Klein Underwear — provide PVH with the opportunity to market products both domestically and internationally at higher price points, in higher-end distribution channels and to different consumer groups than most of its Heritage Brands business product offerings. Global retail sales of products sold under the Calvin Klein brands were approximately $7.6 billion in over 100 countries in 2012.

The Calvin Klein brands are powerful, influential and highly relevant, as evidenced by the fact that the Calvin Klein brand was ranked #1 by Women’s Wear Daily in its coveted top 10 list of most-recognized designer brands in December 2012. Innovative marketing and advertising campaigns continue to fuel the global growth of the Calvin Klein brands, highlighted by an expanded use of digital and social media marketing platforms, including the addition of our visually-driven, interactive Tumblr blog, which complements the brand’s editorial and celebrity wardrobing programs, to further consumer awareness and brand appeal.

In order to more efficiently and effectively exploit the development opportunities for each brand, a tiered-brand strategy was established to provide a focused, consistent approach to global brand growth and development. Each of the Calvin Klein brands occupies a distinct marketing identity and position that preserves the brand’s prestige and image. CK brand portfolio includes:

- Calvin Klein Collection – Calvin Klein Collection is the "halo" for all Calvin Klein product and advertising. Representing pure, timeless luxury, Calvin Klein Collection offers men’s and women’s high-end designer apparel and accessories, which are sold across the globe through the wholesale channel and through our own full price Calvin Klein Collection global retail flagship in New York City;
• *Calvin Klein platinum label* – "bridge" line, offers iconic, essential and fashion items, including apparel and accessories, which are sold in the wholesale channel through specialty and department stores, as well as in freestanding stores in Europe and Asia;

• *Calvin Klein white label* – positioned as a premium brand within the "better" tier of men’s and women’s sportswear, outerwear, suits, shoes and accessories, as well as women’s dress and performance wear, and men’s dress furnishings.

• *Calvin Klein Jeans* – The Calvin Klein Jeans line includes men’s and women’s jeans and related apparel, which are distributed worldwide, and denim accessories, which are distributed in Europe and Asia.

• *Calvin Klein Underwear* – As the world’s leading designer underwear brand for men and women, Calvin Klein Underwear is known across the globe for its sexy, cutting-edge products and groundbreaking visuals, consistently delivering innovative designs with superior fit and quality. Offerings include men’s and women’s underwear, sleepwear and loungewear, which are distributed worldwide.

PVH in-house design team designs all products and/or controls all design operations and product development and oversees a worldwide marketing, advertising and promotions program for the Calvin Klein brands. In 2012, over $300 million was spent globally in connection with the advertisement, marketing and promotion of the Calvin Klein brand, and these expenses are principally funded by Calvin Klein’s licensees and other authorized users of the Calvin Klein brands.

**Tommy Hilfiger**

With more than 1,200 stores and distribution in 90 countries, Tommy Hilfiger is one of the few globally recognized accessible designer lifestyle brands. The "classic American cool" spirit of the brand inspires a wide range of preppy, all-American designs that appeal to a diverse array of global consumers. Tommy Hilfiger has achieved strong global brand awareness and recognition and it occupies a unique position as a premium brand offering quality apparel, accessories and lifestyle products at accessible price points. Global retail sales of products sold under the Tommy Hilfiger brands were approximately $6.0 billion in 2012.

PVH designs and markets a premium lifestyle brand portfolio that includes Tommy Hilfiger, Hilfiger Denim and Tommy Girl. Each brand targets a different core customer and interprets the Tommy Hilfiger lifestyle for its relevant demographic audience in terms of styling, category offerings, price points and channels of distribution. This strategy attracts a diverse customer base and provides us with the opportunity to market products both domestically and
internationally at higher price points, in higher-end distribution channels and to different consumer groups than most of our Heritage Brands business product offerings.

TH Family brand portfolio includes:
- *Tommy Hilfiger* – core line, which embodies the brand’s "preppy with a twist" heritage and focuses on a 25 to 45 year-old consumer;
- *Hilfiger Denim* – line inspired by American denim classics with a modern edge that is more "fashion forward" and casual than the Tommy Hilfiger label, targeting 25 to 30 year-old men and women;
- *Tommy Girl* – focuses on 12 to 18 year-old females and offers youthful, spirited apparel such as denim, casual tops and sweaters, dresses, skirts and accessories.

The Tommy Hilfiger brand’s global awareness has been achieved through the consistent implementation of a global marketing and communications strategy, continued product enhancements and an improved in-store experience.

**Heritage brands**
Heritage Brands business encompasses the design, sourcing and marketing of a varied selection of prominent brand-label dress shirts, neckwear, sportswear, swimwear, intimate apparel and footwear, as well as the licensing of our owned brands (other than the Calvin Klein and Tommy Hilfiger brands), for an assortment of products. The Heritage Brands business also includes private label dress furnishings programs, particularly neckwear programs.

PVH distributes Heritage Brands products at wholesale in national and regional department, mid-tier department, mass market, specialty and independent stores primarily in the United States, Canada and Mexico. Company’s wholesale business represents our core business and we believe that it is the basis for our brand equity. As a complement to our wholesale business, we also market our products directly to consumers through our Van Heusen and IZOD retail stores, which are principally located in outlet malls throughout the United States and Canada. Global retail sales of our Heritage Brands business were approximately $3.2 billion in 2012.

**Business ownership history**
Over the years PVH Corp executed numerous mergers and acquisitions which have transformed and redefined company’s identity and elevated its position in global design & apparel market. Gradually the corporation has collected and adopted world top brands under the roof of one organization, generated synergetic power and extended its capabilities. The chain of M&A operations has been crucial for strategic development and growth of PVH and its current unique global structure.

The history of Phillips-Van Heusen (PVH) can be traced back in part to Dramin Jones, a Prussian immigrant who founded D. Jones & Sons, which became the largest shirt maker in the United States by the 1880s. Separately, in 1881, Moses Phillips and his wife Endel began sewing shirts by hand and selling them from pushcarts to local Pottsville, Pennsylvania, anthracite coal miners. This grew into a shirt business in New York City that placed one of the first ever shirt advertisements in the Saturday Evening Post. Jones merged with Phillips after Dramin Jones's death in 1903. Later Isaac Phillips met John Van Heusen, resulting in both their most popular line of shirts (Van Heusen) and the subsequent renaming of the corporation to Phillips-Van Heusen in the 1950s.
The Phillips-Jones Corporation received a patent for a self-folding collar in 1919, which was released to the public in 1921 and was successful. The first collar attached shirt was introduced in 1929. The Bass Weejun was introduced in 1936. Geoffrey Beene shirts were launched in 1982. In 1987, Phillips-Van Heusen acquired G.H. Bass. In 1995, the corporation acquired the Izod brand, followed by the Arrow brand in 2000, and the Calvin Klein company in 2002.

After acquiring Superba, Inc., in January 2007, PVH now owns necktie licenses for brands such as Arrow, DKNY, Tommy Hilfiger, Nautica, Perry Ellis, Ted Baker, Michael Kors, JOE Joseph Abboud, Original Penguin and Jones New York. The corporation began making men's clothing under the Timberland name in 2008, with women's clothing following in 2009, under a licensing agreement. (Reuters, 2014)

On March 15th 2010, Phillips-Van Heusen (PVH) announced that it would buy Tommy Hilfiger, a designer clothier, for $3 billion, from Apax Partners, a private-equity firm. The price tag is thought to be one of the highest yet paid for a clothing company. Adding Hilfiger to its brand portfolio will make PVH one of the largest firms in the rag trade, with around $4.6 billion in annual revenues. Before the acquisition most of PVH's existing brands specialized in dress shirts, ties, sportswear and shoes, adding Hilfiger's broad range of expensive casual wear—whose style is described as "classic American cool", by Fred Gehring, its boss, who remained in charge. According to analysts, PVH was drawn to Hilfiger because of its profitability. It managed to stay relatively healthy through the recession of 2008, particularly compared with other desirable brands. Hilfiger's global sales rose by 3.5% in the six months to September 2009, whereas other comparable labels, such as Abercrombie & Fitch, suffered steep declines. The downturn has taught luxury-goods companies not to focus on only one market Hilfiger also has something that American-based PVH desperately needs: global reach. Until 2010, only around 10% of PVH's sales had been outside the United States, reckons Eric Beder of Brean Murray, Carret & Co., an investment bank. In contrast, 50% of Hilfiger's sales are in Europe and 10% are in Japan. PVH also aimed to take advantage of Hilfiger's popularity and distribution channels in Europe and Asia to pursue growth for its other brands. (The Economist, 2010)

In the third quarter of 2010 it was decided on that the "Van Heusen" brand was making a loss and so the decision was made to pull it out of all European trading markets. As of March 2011 there are now no products under that name being sold by the company in Europe. The total sum of their European staff were made redundant as a result.

**MANAGEMENT ISSUE**

On February 13th 2013 PVH completed its acquisition of The Warnaco Group, Inc. in a $2.9 billion transaction, bringing all Calvin Klein-branded apparel under one roof in the largest clothing-industry deal announced in 2012. The deal came 15 years after the CK underwear and jeans businesses were licensed to Warnaco and the transition has brought the entire brand under the control of Tom Murry, who has been in charge of Calvin Klein at PVH. Coming two years after PVH bought Tommy Hilfiger for $3bn, the deal, at a 34% premium to Warnaco's last closing share price, also gave the US firm control of Warnaco-owned brands, including Speedo swimwear. Warnaco shares rose 40% on the New York stock exchange after the news and PVH shares gained 23%. PVH chief executive Emanuel Chirico said: "Having direct global control of the two largest apparel categories for Calvin Klein – jeans and underwear – will allow us to unlock additional growth potential of this powerful designer brand.” (The Guardian, 2012)
Looking back into history, January 1994 marked the turning point for Calvin Klein brand. Warnaco acquires the men’s underwear business and trademark as well as licenses for men’s accessories and women’s intimate apparel, for $64 million plus ongoing fees and royalties. Six years later, in April 2000 Calvin Klein rejected offers from Warnaco, Tommy Hilfiger, and Italian conglomerate HdP (owner of Valentino), Klein and Schwartz decide to take their company off the market. May: In a bitter dispute—mainly involving trademark violations and unauthorized designs and distribution—Calvin Klein sues Warnaco, seeking to terminate its license agreement. June: Warnaco counter-sues with its own breach-of-contract claims. The headline-making case is settled out of court early the next year, with Warnaco retaining its license through 2044.

This acquisition has given PVH the ultimate control over CK operations and sales, as well as marketing and branding functions which had been belittled. Since May 2013 Calvin Klein European Headquarters have been moved from London to Amsterdam under one roof with Tommy Hilfiger Family, bringing corporate and operations resource together in a single physical location. Systems integration process from Warnaco – CK platform onto the common PVH framework was executed accordingly, making the merger technically accomplished. Therefore, year 2013 became a milestone marking Calvin Klein Underwear business group renaissance within the walls of a brand-new organization – PVH Corp.

Meanwhile, PVH has been the owner of Tommy Hilfiger brand, including TH Bodywear since 2010. This division has always been underperforming compared to others in terms of sales volumes, growth rates, human resource and overall profitability. Over the years it was either standalone or supported by other branches without clear strategy and guidance, because the prospects for bodywear business were not prominent enough and little investment never gave chance for proper growth and development.

Nevertheless, since the two brands became a part of the same company, it has now been possible to consider cooperation in various aspects of business management and execution. Therefore, the idea of “The PVH Underwear Powerhouse” creation has been introduced as the call for CK and TH underwear divisions to integrate and share their best practices in order to elevate their performance and position on the market. However, it has been still quite unclear what the Powerhouse goal is and how the integration would in fact look like both technically and vision-wise. This is mostly due to a very early stage of the discussion and high level of uncertainty about the outcome of the project and overall strategy. Naturally, the brands are very individual and managed in different ways in terms of operations and business models, marketing and brand development, corporate culture and environment, organizational structure, resources and capabilities.

These considerations have been a ground for the idea of the powerhouse creation, however a thorough research has to be undertaken in order to analyze various factors of the background, objectives and process of this business case. PVH as the second largest fashion company in the world may now benefit from the reunion of Calvin Klein House and other strategic resource obtained within Warnaco acquisition. The corporation can create synergetic power that would
help it to overcome current issues and seize the opportunities that were not available to it before, specifically across underwear category in regard to this thesis project.

**THESIS OBJECTIVE**

The objective of this thesis is to develop the concept of The PVH Underwear Powerhouse and create strategic implementation plan, which would help Calvin Klein Underwear and Tommy Hilfiger Underwear divisions of PVH Corp. to achieve their common and individual strategic goals and seize new opportunities in order to become underwear category leaders.

**RESEARCH DESIGN**

The PVH Underwear Powerhouse research main objective is to develop the concept within the organization, based on the primary data collected from its stakeholders and key opinion leaders, whose vision of the project is crucial for the success of the Powerhouse. Naturally, this research is not grounded on any hypothesis or assumption, as there is no initial theory that has to be proven. Moreover, purposive sampling with selection of particular people will be used for carrying out in-depth interviews and focus groups, which drives the data collection in an inductive way, giving more room for flexibility and further adjustments. The Powerhouse case sufficiency does not depend on any external factors, instead the most important source of data are PVH employees, including different layers of management and expertise. Since there is no need to test a hypothesis and collect a large number of quantitative primary data, The PVH Underwear Powerhouse research strategy is determined to be a case study with elements of grounded theory. Firstly, in order to fulfil research objectives and most importantly, build the concept of the Powerhouse, combined qualitative data collection techniques have to be used. Secondly, the research context is rather open and subject to evolve because of relatively high level of uncertainty in terms of project scope and deliverables. Thirdly, the data collection will be undertaken in multiple observations and the initial theoretical framework will be shaped by the outcomes of these observations.

For designing general concept and determining the goals of the project, top and senior management will be interviewed as many times as it takes to develop a comprehensive idea and determine project deliverables. After the strategic vision of the Powerhouse is defined, more narrow and specific aspects of the project have to be investigated, such as: marketing, merchandise, sales, operations and finance. Both quantitative and qualitative data will be collected by focus group interviews and plenary sessions with employees from certain departments and divisions. The goal of these department-level interviewing is to translate the strategic vision into an implementation plan, which will explain the roles of project participants on a more operational level and how each division can contribute to the project success. On the whole, it is essential to collect ideas and insights from different employees within the organization which would extend the Powerhouse functional and maximize its efficiency. Besides, top and senior managers are not always completely aware of divisions’ capabilities and consequently, they can not conclude if one or another idea is feasible or not. Therefore, instant communication and interaction between smaller departments of PVH Corp. during the research is essential for gaining complete and adequate knowledge about the Powerhouse concept.
GRAPHICAL SCHEME OF THE RESEARCH OBJECTIVES

- **Strategy**
  - To determine key business development priorities for CKU, THU
  - To define the Powerhouse identity, role, structure and functions
  - To identify strategic goals and long-term objectives of the Powerhouse
  - To find out stakeholders' strategic vision of the Powerhouse and other important ideas, insights
  - To set up the timeline and milestones within the Powerhouse

- **Organization**
  - To analyze the divisions' structure, background, outstanding features and brand DNA
  - To understand divisions' goals & objectives and how they relate to the Powerhouse strategy
  - To analyze divisions' sales performance and set growth targets for the short, mid and long-term
  - To understand divisions' current issues, their causes and how to solve them

- **Environment**
  - To analyze European body wear market
  - To understand underwear category specificity vs apparel
  - To define underwear category within CKU business model
  - To analyze PVH (CKU) position in underwear industry, market share and brand positioning

- **Integration**
  - To analyze compatibility of the divisions and their integration capabilities
  - To define integration structure, goals & objectives
  - To find out which functions/departments/teams are subject to integrate
  - To determine integration gains, synergies and desired outcome
  - To create and execute integration action plan, in regard to the strategic goals and sales

PVH Underwear Powerhouse is category expert and market leader
CHAPTER 2: THEORETICAL FOUNDATION

2.1 INTRODUCTION
This chapter has been based on a number of topics due to high complexity of the research scope and subject, however it is quite comprehensive and coherent. Despite the fact that no central or major area is outlined, this theoretical foundation was created with regard to the logical relationship of the topic units, analyzed in a consistent way.

Among the relevant subject fields covered and investigated for the literature review the following can be pointed out:

- Mergers & Acquisitions
- Strategic management & planning
- Post-merger integration
- Sales performance management
- Operations and Supply Chain Management

2.2 MERGERS & ACQUISITIONS
In today’s global market place mergers and acquisitions have become one of the most common options for business growth and development, and even more often – a necessity and the only meaningful strategy. “The Big Idea: The New M&A Playbook” article of Harvard Business Review reveals very contradictive statistics: companies spend more than $2 trillion on acquisitions every year. Yet study after study puts the failure rate of mergers and acquisitions somewhere between 70% and 90%. Clearly seen, mergers and acquisitions are quite risky deals and most companies underestimate those risks while considering the transaction. The authors of the same article give their own explanation of this trend: so many acquisitions fall short of expectations because executives incorrectly match candidates to the strategic purpose of the deal, failing to distinguish between deals that might improve current operations and those that could dramatically transform the company’s growth prospects. As a result, companies too often pay the wrong price and integrate the acquisition in the wrong way. (M. Christensen, 2011)

This idea is also supported by Robert Sher, the founding principal of CEO to CEO company, who indicates that most deals look great on paper, but few organizations pay proper attention to the integration process—that is, how the deal will actually work once all the paperwork is signed. (Sher, 2012)

Nevertheless, M&A drives global business development and vanishes geographical borders enabling companies to fulfill their strategic goals and apparently this opportunity is far too appealing. According to “The Complete Guide to M&A” book, despite the risks and horror stories, M&As are here to stay. Driven by globalization and economic or strategic barriers to organic growth, M&As have become the primary means by which companies attempt to grow revenues quickly.

If we look at M&A activity specifically in Retail and Consumer goods sector prospects, is poised for another year of vibrant deal activity. According to a recent BDO USA, LLP survey, an overwhelming majority of retail CFOs (96 percent) expect M&A activity to increase or remain consistent with 2013 levels in the coming year. These expectations come on the heels of a robust year for mergers and acquisitions. Though the total number of U.S. retail and consumer products deals fell last year from 2012 levels, total deal value grew by 26 percent to about $176
billion, according to S&P Capital IQ. Two-thirds of CFOs anticipate that the majority of deal activity will occur in the United States, followed distantly by Asia-Pacific (17 percent) and Europe (8 percent). Survey respondents also project that potential buyers can expect to see an average EBITDA (earnings before interest, taxes, depreciation and amortization) multiple of about 4.24, down slightly from last year's projection of 5.15. (Business Wire, 2014).

Fashion & Apparel industry has become another rapidly developing sector for mergers and acquisitions. Geoffrey Haydon, Vice President of Moss Adams Capital, gives a good overview of M&A activity in this market. According to his investigation, 2013 was a crazy year for mergers and acquisitions (M&A) in the apparel, accessories and footwear sector. Despite record stock prices and huge piles of cash, large apparel and footwear companies reined in their acquisition activity dramatically, mostly due to concern over the uncertain economic outlook. Deals announced by strategic buyers fell 34 percent to their lowest point in at least nine years. Strategic buyers made only 93 acquisitions globally in 2013, compared to 140 deals in 2011 and 151 in 2012. There also was a dearth of deals in 2013 by historically acquisitive companies such as VF Corporation, PVH, Perry Ellis, Deckers Outdoor, Wolverine World Wide and Steve Madden. In stark contrast, acquisition and investment activity by private equity groups and other financial sponsors increased 50 percent to their highest point since 2008, driven by large amounts of unspent and expiring capital. Financial buyers announced 51 acquisitions globally in 2013, up from 34 in 2012. Prominent deals include the announced acquisition of the Jones Group by Sycamore Partners, TowerBrook Capital’s agreement to purchase True Religion and the acquisition of Allen Edmonds by Brentwood Associates.

He claims that last year marked the first time in at least nine years that financial sponsor M&A activity has diverged from strategic buyer activity (i.e. sponsor activity grew while strategic activity decreased). Not only did activity diverge, it did so dramatically, with financial sponsors representing 35 percent of announced M&A deals in 2013, compared to 20-25 percent in the prior four years. Besides, he outlines a remarkable fact: the trend towards acquiring for growth reflects the fact that many public companies now need growth to increase stock valuations. One constant, however, has been the leading rationale for strategic buyer acquisitions: the desire to add a product to the acquirer’s portfolio that does not cannibalize existing products, and can be sold in existing or new channels of distribution. This rationale was stated as a key motivating factor in 52 percent of announced acquisitions of U.S. companies in 2013, up from 40 percent in 2012. (Haydon, 2014)

The number of M&A transactions is increasing every year, but in the past both objectives and transaction process took rather different form, mostly because the global M&A market lacked experience and the prospects were very uncertain. A very comprehensive explanation of major differences between M&A deals in the past vs. present is given by the authors of the same book. They suggest that in past decades, M&As tended to be primarily financial transactions aimed at gaining control of undervalued assets, which were then often resold or left to stand alone as independent entities. The target was often a dissimilar industry or a business line distinctly separate from the acquirer’s main business. Price premiums were less common, and integration was not a primary value driver; as a result, there was more room for mistakes. The main risk involved taking enough cost out of the business to ensure sufficient cash flow for debt service. Today, the typical merger or acquisition is quite strategic and operational in nature. Executives are buying an installed customer base as well as new and better distribution channels and geographical markets. They are buying organizational competencies and an infusion of talent that leverage and extend strategic opportunities, and they are gaining control over competitors’ products and services. They are also consolidating business units or industries in a down cycle,
to increase revenue and share price. Moreover, in contrast to the past, (when acquisitions normally could be integrated over a longer period, perhaps two or three years), today the business must be merger as quickly as possible – often within six or twelve months after the close.

2.3 POST-MERGER INTERGRATION

Indeed, post-merger integration has become a crucial success factor and more businesses worldwide have acknowledged this. Every deal presents different challenges, of course, and requires customized adaptations of generic integration processes. Nevertheless, a structured approach to integration, ad its skillful application by managers maximizes the value of their M&A deals. When a structured integration process is well managed, the organization can achieve significant results. Executives and integration managers who have worked with us to apply a disciplined, accelerated, results-oriented approach to their integration efforts cited several positive outcomes of well-managed integration, including the following:

- Faster integration
- Lower costs
- Executive alignment
- Achievement and surpassing of projected synergies
- Protection of productivity and maintenance of customer focus
- Smoother transition
- Faster and more effective response to workers (Timothy J. Galpin, 2007)

A more elaborate approach to the integration process in M&A is taken by Deloitte – a world expert in global strategic business operations. They believe that integration planning is rarely contemplated at the outset of an M&A transaction, yet poor planning can lead to harsh results. Deloitte’s global experience in merger integration has highlighted four best practices its strategy teams use to guide businesses through the crucial integration phase:

- Articulate the vision and business benefit of the merger or acquisition – clearly define the vision for the integrated organisation; identify each expected source of benefit; identify and communicate expected synergies; select strong integration sponsors.
- Develop an effective integration plan – identify, prioritise and measure synergies long before the deal goes through, preferably at the due diligence stage.
- Assign a dedicated integration team – avoid losing focus on day-to-day operations by allocating specific resources to manage the integration with a project manager, strong executive support and results based incentives, where appropriate.
- Overemphasise people – don’t overlook the effect M&A can have on employees; quickly implement a new organisational structure; prepare the HR team to recognise and resolve cultural issues early; communicate the impact of the transaction in depth and provide quick answers to questions regarding people’s ongoing roles and responsibilities.

Deloitte’s integration expertise straddles all of the major strategic priorities:

- Synergy discovery and tracking;
- Protecting human;
- Successful “Day One” launch;
• Addressing the people;
• Systems consolidation.

Another interesting perspective of M&A integration, which is very relevant to fashion industry is highlighted in the same report. Corporate culture and DNA, reflected in Deloitte’s Blueprints model looks into organization’s identity role within M&A framework. Apparently, companies often focus so intensely on structuring a deal that they don’t define the human objectives clearly. Deloitte has found that while getting the people issues right is vital in M&A, determining culture is paramount. The essentials are to understand the cultures of the transaction parties, to determine what it should be, articulate the new culture and inspire the necessary change.

It is common cause that mergers and acquisitions are often disrupted and sometimes fail as a result of corporate culture issues. Deloitte has brought a unique new dimension in business science to this area through its joint venture with Blueprints, an innovative technology which applies scientific methodology to determining, entrenching and monitoring corporate culture. The Blueprints model is based on the proposition that every organisation has a scientifically definable “DNA” – a genetic code that makes each organization unique. This corporate DNA can be reduced to a mathematical formula to show the aspirational state of the company into the future. The formula, in turn, is translated into an art gallery to visibly communicate the corporate culture, and the formula is then monitored over time to rate the degree of alignment to the DNA. Other culture assessment tools and methods, including our behavioural led strategy approach, are also available for mergers, acquisitions and divestitures.

One of the key findings of joint research of Deloitte and the Economist Intelligence Unit suggests that people clearly dominate the current strategic agenda of companies across the globe. The study alleges that in an M&A integration, critical organisational priorities include the following:

• harmonisation and alignment of job structures, roles and performance expectations
• change and transition management for leaders and managers
• interim incentive programmes
• retention and upgrading of skills
• re-design of governance processes and HR performance metrics
• harmonisation of cultures to ensure compatibility. (Deloitte, 2014)

2.4 OPERATIONAL INTEGRATION

One of the most challenging steps in M&A integration is operational alignment, as it involves technical transition and turns out to be one of the most time-consuming and complex processes. PricewaterhouseCoopers report on operational integration shares important aspects and success factors of this procedure. According to the document, a merger or acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Across all functions, setting the course involves establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including operations—to communicate effectively and take decisive action.

Developing a clear understanding of the strategic goals for the combined company is important for those managing operations integration. The operations integration team will want to begin
establishing liaisons with the many other functional specialists with whom they will be working. These include human resources, information technology, finance, legal, sales, marketing, and others. This cross-functional dependence is critical because decisions made by these functions often impact operations, and key value drivers in operations are often dependent upon work being done in these functional areas.

Setting the course for operations requires early and immediate attention to address critical matters important in the early stages of a merger or acquisition. PricewaterhouseCoopers experts determined the following common areas of focus for Operations:

• Manufacturing (in-house or contract)
The two companies may have manufacturing operations located in similar geographies, and these manufacturing plants may be under-utilized or perform similar types of operations. In addition, both companies may have different strategies related to outsourcing. It will be critical to determine the long-term consolidated footprint for manufacturing, and how to communicate to customers and suppliers that no disruption to supply will occur in the near term.

• Procurement/Sourcing
Procurement consolidation or leveraged purchasing efforts is a key area of synergy in many transactions. Companies often have overlap in direct materials (inventory), indirect materials (packaging supplies, maintenance supplies, office supplies), and services (benefits, freight, security, maintenance). It is important to identify and prioritize between “quick hit” opportunities requiring minimal effort and those that can only be accomplished over the longer-term.

• Distribution or Warehousing
Similar to manufacturing, both companies may have distribution facilities that serve similar geographies, or have available capacity. Rationalization of distribution operations by product or customer or geography is often a key area of operations synergy. Establishing a timeline and sequencing plan early in the integration is critical.

• Transportation/Logistic
Whether focused on international shipping or domestic fulfilment, companies often have multiple contracts with third-party transportation firms, ranging from long-haul freight carriers to overnight express shippers (i.e. FedEx, UPS). Consolidating contracts to recognize immediate cost reductions is often a focus area early in the integration.

• Quality
The two companies will have separate quality departments and different standards by which they evaluate their products. These quality specifications or operating procedures will need to be consolidated and standardized as a prerequisite for manufacturing or distribution consolidation to occur.

• Research & Development/Engineering
In many industries, particularly where new product development is critical to the competitive positioning of a company, better leverage in design and engineering expertise of the combined company is critical. Collaboration in new product development and design is often a long-term synergy, but quick coordination of these departments is often necessary when a label or packaging change is executed in the near-term.

After the deal closes, when substantially more is known about the acquired company, the operations integration team works to achieve synergies and process improvements that reflect the strategic goals of the new company. This requires careful and continuous cooperation with other integration teams and meticulous comparisons of the many options available. Operations works with HR team members on considerations such as union contracts, benefit costs, and
management skills. This is often a prerequisite when considering a consolidation of manufacturing or distribution operations, which are key cost saving synergies in many manufacturing industries.

The operations team will also work closely with engineering and product development on requirements presented by new offerings in the pipeline. This is an area where managing current levels of inventory and balancing customer demand with the desire to accelerate the introduction of new and improved products is critical. The operations team is also linked to key back-office and finance initiatives related to cost savings, vendor consolidation (procurement), or other support functions such as customer service and invoicing. Every aspect must come together to deliver the fundamental promise of Operations: the creation of value for customers through efficient and cost effective production and delivery of goods and services. (PricewaterhouseCoopers, 2014)

Nevertheless, operational integration requires high sufficiency of technical capabilities of the organization especially its IT and Business Intelligence framework, including systems, tools, software, networks and people. The importance of IT integration within M&A is analyzed in Deloitte report on this specific subject. The document suggests that the rationale behind prospective merger/acquisition transactions is the expectation of specific business benefits such as increased market share, reduced joint operating costs, and a more integrated value chain. These potential Mergers and Acquisitions (M&A)-related benefits are usually directly linked to anticipated synergies including, but not limited to, shared overhead, economies of scale, cross-fertilization and operational integration. What is sometimes overlooked or underestimated is the crucial importance of effective IT integration in achieving anticipated synergies.

Examples include:
- Shared Overhead—Reduction of IT support costs through consolidation of IT platforms
- Economies of Scale—Shared IT procurement
- Cross-fertilization—Mining of joint customer database information
- Operational Integration—Integrated production, forecasting and logistics systems

Synergy, defined as a mutually advantageous conjunction or compatibility of distinct business participants or elements (as resources or efforts) is highlighted as one of the key priorities of IT integration. Deloitte’s specialists believe that creating these advantageous conjunctions and compatibilities can have significant benefits for companies pursuing M&A activities. Some potential benefits include:
- Increased market share
- Expanded technical and management capabilities
- Reduced costs through economies of scale
- Improved market position
- Increased assets
- Diversification
- Integration along the value chain

These potential M&A benefits are linked to anticipated synergies. However, synergies are meaningless unless their source can be identified, and expensive to capture if they don’t add real economic value to the newly merged entity. Some synergies are produced by shared overhead through greater economies of scale. Others result from cross-fertilization of cultures.
and knowledge transfer. Still others come from operational integration and synthesized capabilities. These synergies can add value by producing the benefits discussed above—benefits such as reducing costs, increasing market share—as well as by enabling the newly created entity to enter or create new markets, thereby expanding their reach nationally or globally. These benefits have one thing in common: they are realized through effective planning and execution of pre-and post-merger activities—especially the integration of the merging entities’ IT processes and systems.

This straightforward approach starts with the recognition that IT activities must be closely aligned with business activities during the M&A process. As highlighted earlier, there are four dimensions to an M&A transaction:

- **Strategy**
- **Due diligence**
- **Post-merger IT integration planning**
- **Execution**

These dimensions apply to IT as well as business activities. How well companies navigate each of these dimensions during the M&A process—especially as they apply to IT integration—will play a large part in determining whether or not the merger or acquisition ultimately achieves the expected benefits.

Once due diligence is finished, the results can be used to push forward with post-merger integration planning. When two companies merge, or when one acquires the other, there are a myriad of scenarios in which the combination can occur. In general, there are four “models” or approaches that can be applied to post-merger integration of most M&A transactions.

They are:

- **Consolidation**—Calls for the rapid and efficient conversion of one company to the strategy, structure, processes and systems of the acquiring company;
- **Combination**—Means selecting the most effective processes, structures and systems from each company to form an efficient operating model for the new entity;
- **Transformation**—Entails synthesizing disparate organizational and technology pieces into a new whole;
- **Preservation**—Supports individual companies or business units in retaining their individual capabilities and cultures;

The approach a company chooses is dependent on its goals for the new entity. More specifically, M&A business objectives usually reflect the acquiring company’s acquisition profile and business agenda, as discussed in the “Strategy” section above. Each of the four post-merger IT integration approaches has associated execution priorities and management issues that must be addressed. The execution priorities focus on process and technology integration. The management issues include leadership and cultural blending challenges.

The M&A transaction process is not easy. It is fraught with pitfalls and roadblocks to achieving the expected benefits that must be carefully navigated and overcome with skill and care to achieve the goal of one new, (hopefully) improved organization from two separate, distinctly different companies. While there are many hurdles that must be surmounted in any M&A transaction, the one that most frequently poses a challenge is how to plan for and execute the post-merger IT systems integration. Consequently, proper selection and execution of a post-close IT integration plan in a timely manner can help achieve any anticipated synergies from the
2.5 ORGANIZATION’S RESOURCE AND CAPABILITIES
Since post-merger integration process can be seen from various perspectives, both functional areas and more abstract terms, analyzing organization’s resource which would eventually be the elements (objects) of the integration itself is essential for understanding the overall capabilities and areas where synergy can be created. Resource management and organization’s value chain are seen as a critical part of strategic planning in the “Strategic management” book, which suggests that analyzing resources and capabilities of an organization involves not only exploring the role and contribution of the main resources, but also developing an understanding of two main issues: first, how resources can deliver superior profits in private companies and provide the best services in publicly owned organisations – called the delivery of value added in strategy; second, which resources and capabilities deliver competitive advantage to the organization and how they can be improved over time. The resource and capabilities analysis therefore proceeds along two parallel and interconnected routes: value added route explores how the organization takes goods from its suppliers and turns them into finished goods and services that are then sold to its customers: essentially, adding value to the inputs from its suppliers is fundamental to the role of every organization. The competitive advantage route attempts to find the special resources that enable the organization to compete: how and why some resources deliver sustainable competitive advantage is crucial to strategy development.

Richard Lynch defines the resources as of an organization as those assets that deliver value added in the organization. The capabilities of an organization are those management skills, routines and leadership that deploy, share and generate value from the resources of the organization. The author divides them into tangible – the physical resources of the organization that contribute to its value added and intangible - those that have no physical present real benefit to the organization, like brand names, service levels and technology; Organizational capabilities are considered to be the skills, routines, management and leadership of the organization. (Lynch, 2012) Furthermore, we can see a deeper view over resources in Essentials of Strategic Management book, which distinguishes between:

- a skill, specialized expertise, or competitively important capability – examples include skills in low-cost operations, proven capabilities in creating and introducing innovative products, cutting-edge supply chain management capabilities, expertise in getting new products to market quickly, and expertise in providing consistently good customer service.
- Valuable physical assets – such as state-of-the-art plants and equipment, attractive real estate locations, or ownership of valuable natural resource deposits.
- Valuable human assets and intellectual capital – an experienced and capable workforce, talented employees in key areas, collective learning embedded in the organization, or proven managerial know-how;
- Valuable organizational assets – proven quality control systems, proprietary technology, key patents, and a strong network of distributors or retail dealers;
- Valuable intangible assets – a powerful or well-known brand name or strong buyer loyalty
- Competitively valuable alliances or cooperative ventures – alliances or joint ventures that provide access to valuable technologies, specialized know-how, or geographic markets.
The author claims that one of the most important aspects of identifying resources and capabilities that can become the basis for competitive advantage has to do with a company’s competence level in performing key pieces of its business – such as supply chain management, R&D, production, distribution, sales and marketing, and customer service. A company’s proficiency in conducting different facets of its operations can range from merely and ability to perform an activity to a competence (internal activity an organization performs with proficiency), core competence (a proficiently performed internal activity that is central to a company’s strategy and competitiveness), or distinctive competence (a competitively valuable activity that a company performs better than its rivals). (Gamble, 2011)

2.6 COMPETITIVE ADVANTAGE & STRATEGIC MANAGEMENT

Furthermore, competitive advantage is in the heart of strategic management of an organization and this subject is highlighted in numerous academic and business sources. There are only two (or maybe three) flavors of competitive advantage as far as, one of the most influential thinkers on strategic management, Michael Porter is concerned: cost advantage and differentiation. Cost advantage instructs you to have lower costs than any other competitor. That advantage allows you to either price your products lower than anyone else or just to match prices and take the difference in profits. Differentiation just means meeting some customer need better than any competitor and getting a premium price in return. Unlike cost advantage, there can be multiple firms in an industry that each have their own unique kind of differentiation (Porter, 1998). Richard Lynch, on the other hand, defined a sustainable competitive advantage - an advantage over competitors that cannot easily be imitated. He suggests that the main reason for analyzing competitors is to enable the organization to develop competitive advantages against them, especially advantages that can be sustained over time. SCA – involves every aspect of the way that the organization competes in the market place – prices, product range, manufacturing quality, service levels and so on. Lynch also defined broader range of sources of a competitive advantage, such as differentiation, low costs, niche marketing, high performance or technology, quality, service, vertical integration, synergy, culture leadership and style an organization. Among main elements of a SCA he highlights prior or acquired resources, imitability, durability, appropriability, substitutability, truly competitive and innovative capability.

Any competitive advantage is generated within a company’s value chain, which identifies the primary activities that create customer value and related support activities, according to Mr. Gamble and Mr. Thompson. They believe that a company’s cost-competitiveness depends not only on the costs of internally performed activities (its own company value chain), but also on costs in the value chains of its suppliers and forward allies, which comprise industry’s value chain together with all other stakeholders. A very relevant to this research analysis was performed by Richard Lynch. He investigated luxury goods/fashion industry value chain, which is he finds complex and with many interlocking parts on the example of LVMH – French luxury company. His conclusions explain that the key activity most companies in apparel industry is the preparation and display of a new collection for its bi-annual fashion show. Besides, competitive advantage in this sector includes brand reputation. Therefore, value chain in fashion is very dependent on the brand power and aesthetic quality and experience that is transformed into a commodity – clothing item.

Competitive advantage considerations inevitably lead us on to the topic of competitive strategies, which company’s employ and execute in order to reinforce their position on the
market and achieve strategic objectives. According to Essentials of Strategic Management book, there are five generic strategies: low-cost provider, broad differentiation, focused low-cost, focused differentiation and best-cost provider strategy. These classification is very common to many academic sources and writers, but the authors mention another type of strategies: strategic alliances and collaborative partnerships and merger & acquisition strategies, which help companies achieve operating economies and strengthen their competencies and competitiveness as well as opening up avenues of new market opportunities by combining their operations. Therefore, the key conclusion to be made in this regard is that M&A can be seen as a company's strategy and this demonstrates the link between contemporary strategic management and M&A operations in the global context.
CHAPTER 3: METHODOLOGY

3.1 INTRODUCTION
This chapter gives a detailed overview of the research in terms of its scope (units of analysis and observation), data collection methods and most importantly – research questions, which will serve as the foundation for further conclusions and recommendations.

Research questions are the crucial preliminary part of the research, as they determine the success of the project and how valuable and relevant will be the conclusions. In regard to this thesis assignment, research questions were formulated in the way that the research outcome will drive a comprehensive result that would contribute to reach the destination – thesis objective.

The unit of analysis and observation are of a great value for structuring the scope of the research and identifying relevant areas of the study. Personally, I found it rather hard to understand the relevance of certain fields; nevertheless, with the help of MindMap technology I categorize and prioritized these areas, which helped a lot in further actual data collection.

On the whole, research methodology of this report is well-organized and I found it quite useful to better navigate myself while collecting data and relating the topics to each other, as well as understanding the logical sequence of the research phases and steps.

3.2 RESEARCH QUESTIONS

Question 1: European Underwear market and underwear category
• Underwear category overview: underwear vs apparel business practices, specific features and background;
• Underwear category from CKU perspective: business model;
• European underwear market: background, size, saturation, trends; CKU position, share and brand power

Question 2: Divisions (background, structure, performance, goals)
• What is the history and main characteristics of the Calvin Klein Underwear and Tommy Hilfiger Bodywear divisions? What is their brand vision and positioning (current vs. desired)? How well do the divisions perform and what are their key issues, growth priorities and targets?
• Which resources and capabilities the divisions posses? What is their market position and share? How extensive are the experience and expertise of the divisions? How can all these aspects contribute to the integration and success of the Powerhouse?

Question 3: The PVH Underwear Powerhouse
• Which implications, events and circumstances have driven the idea of the Powerhouse? What is the project context and background?
• What are the identity and structure, main goal and objectives, mission and vision and strategy of the Powerhouse? What are the functions, capabilities and competencies?
• Is this project relevant to the Europe, Middle East and Africa region or it will be rolled-out globally?

Question 4: Integration
- To what extent the divisions are subject to integrate? How does the structure of the integration process look like? Which functional areas of the business will the integration process involve?
- How does the integration process address current issues and contributes to the achievement of the goals? Which actions have to be undertaken in order to integrate particular dimensions and elements of the divisions’ structure and departments?
- What are the timeline and milestones within the integration? Who are the key participants and which resource will be used/created?

3.3 UNIT OF ANALYSIS
The unit of analysis within the Powerhouse research is divided into functional / subject areas, which consist of field elements in either logical order or inter-relation link:

1) PVH Corp.: Company profile, brand portfolio, Calvin Klein (Underwear), Tommy Hilfiger (Underwear);
3) Fashion & Apparel industry / Underwear market: market size & capacity, competition, trends & opportunities, global & EMEA levels, PVH Corp. position;
4) Integration: goals & objectives, process overview & structure, divisions’ compatibility, internal competition (cannibalization), synergy.
5) Business performance management: Powerhouse KPIs overview, Sales performance Calvin Klein Underwear, Tommy Hilfiger Underwear; marketing, merchandising, account management, finance, operations of the divisions.

3.4 UNIT OF OBSERVATION
The unit of observation within the Powerhouse research is ultimately based on the unit of analysis, revealing the sources of data and more narrow layers of the project scope.

- PVH Corp.: Company profile – PVH history, number of employees, mission & vision, products, corporate structure, global structure, financial & performance statistics, brand portfolio – number of brands, characteristics, market access, licensing, distribution channels; Calvin Klein (Underwear), Tommy Hilfiger (Underwear) - brand history, structure and vision, positioning, global exposure, financial & performance statistics.
- Fashion & Apparel industry / Underwear market: market size & capacity, competition, trends & opportunities, global & EMEA levels, PVH Corp. - underwear market reports & other data sources.
- Integration: goals & objectives, process overview & structure - top/senior management interviewing & focus groups; divisions’ compatibility – operations department interviewing & focus groups; internal competition (cannibalization) – marketing/central merchandise department interview & focus groups; synergy – overall primary data analytics.
- Business performance management: Powerhouse KPIs overview, Sales performance Calvin Klein Underwear, Tommy Hilfiger Underwear – sales records, reports, recaps: by order type, channel, country; country performance (actuals vs. budget) FY13/RE14; marketing – market recaps & reports, merchandising, account management – customer databases; finance, operations – Profit & Loss statements, order intake / fulfilment reports and other.

### 3.5 PRIMARY DATA COLLECTION

Primary data collection is crucial for success of the research, as the corporate sources such as reports, plenary departmental meetings, conference proceedings, presentations and, most importantly, employees own relevant information to be discovered and analysed. Consolidation of key take-aways, opinions, insights and decisions is seen as a framework of primary data analysis. In other words, it is essential to bring experts and problem holders together and blend the outcomes and findings into a comprehensive common vision in regard to the research questions and objectives.

The initial questionnaire, which will be used for interviewing top and senior managers and later on for developing questionnaires for other departments and division consists of the following questions:

- What is in fact “The PVH Underwear Powerhouse”?
- What is the background of this idea?
- What are the main reasons for creation of this entity from the “problem-solution” perspective?
- What is the ultimate goal of this project? What are the sub-objectives (short/mid/long-terms)?
- To what extent is this project significant to PVH Corp., Calvin Klein Underwear and Tommy Hilfiger Underwear? What is the added value to the company and divisions in particular?
- To what extent will divisions integrate? How considerably this project will (or has to) shape divisions’ business practices and performance?
- What are the primary and secondary functions of the Powerhouse?
- What is the timeline for this project? In what time does it have to be accomplished?
- Who are the primary stakeholders of the project? Which layers of management will be directly involved into the project implementation / execution on short and long terms?
- What are the main aspects of the operational side of the project?
- What kind of resource are required for the project briefing / implementation / maintenance?
- What is the desired deliverable / outcome of the project execution? What is the “best-case scenario”?

As it has been already pointed out in the research design chapter, specific people will be selected for interviewing, therefore purposive deviant sampling will be applied. It is very important to identify the sources of required information within the company, in other words to find out who is the most suitable and knowledgeable person for particular subject.

The following employees and members of divisions will be interviewed on different subjects, depending on their filed of expertise and general competences. These people have already been informed about the primary research process and their role within it; they have confirmed their willingness to participate and time availability for the interviewing. These arrangements are
flawless because of the physical location of the employees (they work together with the researcher) and importance of the Powerhouse project on the whole.

The top/senior management informants: (put all in a single paragraph)

- Chief Creative Director Calvin Klein Underwear Global: Bob Mazzoli
- Senior Vice-President Calvin Klein Europe: Melanie Gallop
- Senior Sales Director Calvin Klein Underwear Europe: Torsten Wulff
- Vice-President Tommy Hilfiger Underwear Europe: Merav Levi

Other informants may be included into this list depending on the necessity and availability of the researcher and interviewees. If there is an opportunity to interview another top/senior management representative, this shall be executed.

Senior/junior management and divisions’ informants:

- Calvin Klein Underwear Demand Planning & Operations: Director Demand Planning - Ed Jones, Charis Young, Judith Eksteen, Paola da Costa, Chantal Saya;
- Calvin Klein Underwear Merchandise: Alexandra Gruchalski, Olivier Quintin, Samantha Soldera, Anna Chang;

3.6 SECONDARY DATA COLLECTION

One of the most important and reliable sources of data and pillars of the Powerhouse research scope are company databases, records, reports and financial statements. They are vital for developing implementation plan, which will include various forecasts and planning frameworks for actualizing business growth objectives into sales targets. This type of data is mostly numeric and requires financial and sales performance analytics of past and present periods, which the projection will be based on.

Apart from that, annual and quarterly corporate reports and information letters indicate major events and announcements that can give a good overview of PVH strategic goals fulfilment, overall direction and future perspective. These aspects are quite important for the Powerhouse case, since after the acquisition of Warnaco Group various integration processes have already taken place across company’s operations, which are currently going through a chain of changes.

The process of secondary data collection does not have a fixed timeline because the access to organization documentation and necessary data sources is not limited. Different sages of the research may require different type of information, therefore multiple entries will be undertaken and no concerns about its accessibility have to be considered.

3.4 Assuring credibility of the research

As far as data reliability is concerned, no measurement activities are needed to ensure it, since almost all input data is corporate and no other entity can assess it. Fortunately, this fact means less dependency on external data that has to be checked in order to prevent errors, insufficiency and inadequacy. In a nutshell, we assume that all data extracted from company’s sources is valid.
and reliable and does not need to go through any additional approval besides the systems manager’s and according department manager’s one.

3.5 Planning and execution of the research.

Taking into consideration project risks is very important for realizing various issues that may have impact on the research process and outcome. As far as PVH Underwear Powerhouse project risks are concerned, their likelihood is rather low and the majority of them depend on the researcher’s performance and timing.

Among the Powerhouse project risks the following can be highlighted:

• Inability to finish the research before the 31st of May (thesis research deadline);
• Insufficient quality of the project report / implementation plan / outline deliverables;
• Lack of primary / secondary data to make reliable conclusions;
• Dependency on key stakeholders and project negotiation within the company;
• Issues related to data access / processing / analysis;
• Researcher / key research stakeholders unable to participate;
• Force-majeure and other unpredicted circumstances;

These risks have been carefully analyzed and the researcher will make sure their likelihood remains as low as possible and none of them will occur and/or have negative impact on the research results.
CHAPTER 4: RESEARCH FINDINGS

4.1 INTRODUCTION
Primary and secondary research process has been essential for accumulating relevant data and blending into a coherent and well-structured vision of the project.

The data collection process turned out to be rather plain in terms of identifying the sources and being able to reach/access them due to the fact that the researcher is also an employee of the organization. Therefore the communication within the organization was very easy to maintain; the level of formality and accessibility of documentary and secure corporate sources was not restricted; all people (interviewees, plenary session participants, opinion leaders, regular employees and management) who were required for interviewing needs were a part of the organization which simplified primary data collection and saved a lot of time.

However, some interview informants, especially senior and top managers (executives) were quite busy and some focus-groups were accomplished later than expected, which fortunately did not cause any timing complications. Besides, while appointing the interviews and arranging meetings, it became clear that bringing employees of different field of expertise/background/responsibilities/departments in order to discuss particular common issue is the best way to obtain general picture (vision) of that problem. Matching and managing time for in-depth interviews and management meetings was worth doing compared to the outcomes and gathered insights and information. Another remarkable aspect of the primary research was that while interviewing people on certain issues a lot of other important facts were discovered which made the overall result very compelling and comprehensive.

Secondary data sources were of an immense value to the research, as they provided me with essential numeric arguments that helped to justify, back-up and complement my own assumptions as well as ideas that were generated/explored meanwhile both by myself and all research participants. Being able to access consolidated analytical financial and sales reports, market recaps, historical data and other important documents made secondary research systemized, well-structured and credible. Business intelligence tools and other IT systems employed within PVH information management framework were a great way to access necessary records and documentary materials.

On the whole, the combination of above mentioned factors have made the research process meaningful and even exceeding the expectations. Besides, none of the risks were the case.

4.2 EUROPEAN UNDERWEAR MARKET & CATEGORY
Naturally, underwear slips into Design & Apparel industry category similarly to clothing, accessories, footwear and other types of fashion items. However, it turns out to be totally different in terms of product mix and concept, customer behavior and marketing.

First of all, depending on brand/company business practices and internal management, body wear products can be generally categorized into basic and fashion items, which is not applicable to apparel. The table below provides comparison between these two categories on major aspects from CKU perspective and internal consideration.
<table>
<thead>
<tr>
<th></th>
<th>Basics</th>
<th>Fashion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concept &amp; identity</td>
<td>Mass market products, high convenience and short lifecycle, stable demand</td>
<td>Sophisticated and outstanding, targeting another need</td>
</tr>
<tr>
<td>Frequency of sales</td>
<td>Items are replenished on regular (daily, weekly, monthly) basis</td>
<td>Items sold on seasonal basis (twice a year)</td>
</tr>
<tr>
<td>Pricing &amp; margins</td>
<td>Lower price point, relatively high margins</td>
<td>Higher price point; Margins vary depending on product design complexity and fabric quality</td>
</tr>
<tr>
<td>Design</td>
<td>Remains original and subject to change in case of obsolescence or re-engineering</td>
<td>New styles and design concepts</td>
</tr>
<tr>
<td>Colors &amp; options</td>
<td>Mostly fixed number of basic colors (white, black, grey, blue); Limited options</td>
<td>Seasonal variety of colors and consequently high options number</td>
</tr>
<tr>
<td>Order intake</td>
<td>Orders may be placed any time</td>
<td>Orders may be placed only within sales campaign and limited with deadlines and market close terms</td>
</tr>
<tr>
<td>Order fulfillment</td>
<td>According to order intake time/date – usually fulfilled within 72 hrs.</td>
<td>On ‘monthly drops’ basis – various types of new fashion items can only be delivered after certain month</td>
</tr>
<tr>
<td>Volumes &amp; profitability</td>
<td>Drives volumes and profits due to low risks and consistency</td>
<td>Drive volumes based on success of the collection or other market conditions</td>
</tr>
</tbody>
</table>

Secondly, due to their nature and function, underwear products require different marketing and sales approach. Underwear products’ lifecycle is shorter than of an average apparel item, they are not supposed to be visible thus subsume personal, intimate component. These products have to be both comfortable and functional, as well as appealing, fashionable and deliver sex appeal, which is one of the most important aspects of customer needs and expectations. Thirdly, underwear products have lower average retail price and thus are more affordable, the market demand is less elastic and stable, making the business generally less risky. However, the global recession had affected underwear market just as any other retail sector and the recovery started in 2010. (Just-style, 2010).

According to the Bain underwear market study, total European underwear market turnover accounted for € 43,7 billion, which equals to the one of 2008 due to the world economic recession. Women represent almost 80% of the total market, led by the UK, France and Germany. As for the average spending on underwear per-capita, the UK and Italy are the top contributors with € 107 and 104 respectively, compared to Russia (€ 23) on the other extreme.

Looking into the market structure in underwear, the following segments are generally classified: mass market, branded mass, premium and luxury. The last two are referred to as
“reference market” for both Calvin Klein and Tommy Hilfiger brands, which accounts for € 3 billion (7%) of the total European. Besides, the reference market is expected to grow faster than overall European with CAGR of 4-5%, according to the Bain study. Besides, women share of reference market (65-70%) is lower than the one of the total. Among the key trends for this prospects we can find growth of branded vs. unbranded products, polarization of customers spending towards high-end market segments, growing number of lifestyle players developing underwear segment and increasing average spending for underwear in emerging economies.

4.3 CALVIN KLEIN UNDERWEAR & TOMMY HILFIGER UNDERWEAR DIVISIONS

4.3.1 Tommy Hilfiger Underwear

“The Tommy Hilfiger Corporation is dedicated to the living spirit of the American dream. We believe the spirit of youth is our greatest inspiration. Resourcefulness is the key to value and excellence. In making quality a priority of our lives and products. By respecting one another we can reach all cultures. By being bold in our vision we continually expand our boundaries. Live the Tommy Spirit.”

History and overview
Tommy Hilfiger Underwear products have been launched in 1994 as the new product category introduced by Mr. Hilfiger. Since then THU have become very common and well-penetrated in the home North-American market and its exposure started growing in other parts of the world. However, taking into account the fact that Tommy Hilfiger Corporation has been growing primarily as an apparel designer brand, relatively little development was seen in underwear category, especially in basics (never out of stock items), which are supposed to be on the shelves at all times available to customers. “Apparel business mindset” which drove exponential growth of the brand over the years has been the main reason for body wear division slowdown and limited expansion opportunities. These considerations were discussed in detail on in-depth interview with Vice President Tommy Hilfiger Underwear Europe – Merav Levi. She started managing body wear division three years ago and shared her experience and gave numerous insights in regard to THU performance in Europe.

Mrs. Levi explained that the division has always been the smallest and least prominent one within the TH Family (2% of the total sales in EMEA). All seven divisions were managed individually with low degree of cross-functional communication and supply chain management. Volumes of sales and revenues never let THU to be self-sufficient and get rid of the “step-brother” status. According to her, top-performing and high turnover/ASP (Average Sale Price) divisions have always been prioritized, that is why THU had been largely laid back.

THU was temporarily supported by Hilfiger Denim in order to bring the experience and resources, which created more clarity and increased the KPIs. Besides, it helped to handle standstill inventory, change the line construct, elevate loungewear and manufacturing processes by extending vendor base in a short time. However, the success could never be reached due to major differences in apparel and bodywear business management and structure. The major conclusion was that underwear category can not be treated the same way as other divisions.

As far as brand positioning and communication is concerned, Mrs. Levi concluded that Tommy Hilfiger had always been perceived as an apparel brand, whereas Calvin Klein – underwear
brand, that is why it had always been challenging to build strong brand image in underwear category.

**Business performance**

According to Tommy Hilfiger Bodywear Profit & Loss FY’13-14-15 statement and Oracle sales reports database, in 2013 THU division demonstrated 38% growth vs. 2012 and the total wholesale revenue was 21.25 million euros. According to the latest sell-in data, in 2014 the division has generated 27M in total (total sold, shipped and booked), with the following distribution channel breakdown:

- Wholesale: 24.5 M
- Retail: 1.5 M
- E-commerce: 1 M

However, there are some major concerns in various aspects of the performance if we look into internal KPIs. First of all, the total 2013 turnover was largely driven by sales of Men’s undergarments, which reflected in gender mix of 78% (16.5 M) men’s and 22% (4.77 M) women’s. This results demonstrate that women’s underwear segments is underpenetrated and overall business has dependency on Men’s sales. In 2013

Mrs. Levi explained why THU had little success in ladies’ products, saying that in the past THU had been selling bras with “not a good fit” at a high price-point without any marketing back-up. In the market with a wide range of premium brands offering worth-the-money lingerie products THU has not been able to overcome competition.

Another big issue for the division has always been dominance of fashion (seasonable) products over basic (replenishment). In 2013 KIR/SIR (Key/Season Item Replenishment) accounted for only 30% of the total turnover, needless to say that an uncertain portion of fashion is included into this number because of irregular order intake practices adopted by local sales forces: they could place KIR orders on forward order basis, which resulted in inconsistency of sale-though reporting. Looking into gender mix within direct/forward sales, in 2013 basics represented tiny 13% of total Women’s business and moderate 38% for Men’s.

Among all countries, Germany and Germany+ Group made the largest contribution to the total business. They have generated 8.9 M and 11.2 M, representing 42% and 53% of the total THU 2013 revenue respectively. Clearly seen, there is huge dependency on G+ market for the brand, especially when it comes to product and assortment development: range is planned based on German consumer demand and the rest of the countries in EMEA “have to follow” this strategy. Other important markets were Benelux (2.5 M – 12%), Nordics (1.8 M – 8%), Italy, Spain and France individually contributed to 7% of the total business.

As far as account management is concerned, division between A,B (key) accounts and C & D customers is made in order to cluster them by the annual revenue. Therefore, in 2013 2.5% of the customers (A-accounts) generated 50% of the turnover; on the other extreme, C and D accounts (91% of total number) contributed to only 30% of the turnover. The average order purchase value was 9.9 K for all customers consolidated.

The detailed sales analysis can be found in Appendix 1.
Operations Framework Analysis
Currently TH Underwear is running comparatively inefficient overall operational system (order intake – fulfillment – forecasting – demand planning – warehousing – shipment & delivery), which has caused various supply chain breakdowns, resulting in late order deliveries, and overall order fulfillment inconsistency. The main characteristics and aspects of TH Underwear operations are outlined below:

• Irregular order intake framework: Key Item Replenishment orders may be placed by sales representatives onto Forward orders, which means that random KIR booking is allocated in both Direct and Forward order systems;

• Inexistence of proper Demand Planning and stock level control system: A3 Demand Solutions platform which operated stock level updates on monthly basis, making it impossible to monitor stock in an effective way and resulting in regular under/overstocking;

• Manual Production (Purchase) Order data input and inexistence of automatized Weeks on Shelf tracking system;

• Low degree of Demand Solutions (A3) platform integration with SAP and Oracle, causing flaws in information exchange and overall communication;

• Inconsistency in Merchandise Hierarchy coding system and poor integration with Demand Solutions platform.

Long-term vision; Goals & objectives
Among the key priorities for future business development the following can be highlighted, based on the meeting proceedings, in-depth interviews and other strategic corporate sources:

- Basics business development
Merav Levi is convinced that basics business for THB has to be defined, as at the moment there is no focus and clear strategy for the replenishment business. She argues, that judging by the experience of line openings and adoption meetings, the division does not have best-in-class sales people, and the existing teams are shared functions, which means lack of focus. Besides, there is limited communication with the countries which poses risk for the business, in that local sales forces have to be aligned and dedicated to the divisional goals and strategy.

- THU brand growth
First of all, products should become available on the market, otherwise marketing support would not contribute to brand and sales growth. Mrs. Levi claims that as a brand, we should make an announcement, statement that would create a buzz, reach our target customers and consumers and change their mindset. When you do it, you only got one chance to make an impression, to communicate your message and we have to take this very seriously. In the past, THB had various issues that caused loss of trust from the customers and one of the most important objectives is to get it back and make sure that our message remains consistent. In a nutshell, THU has to develop as underwear category expert.

- Range planning & product development
THU team has to build the product structure that would fit consumer needs,
enhance the processes that would lead the division to having better operational excellence. In other words, by the end of the day be a category expert which will connect better with the consumers. The mix of fundamental business aspects: product – processes – team will drive that.

**- Building a strong team**
Mrs. Levi believes that building the dream team that will be part of the journey to build powerful underwear brand, great underwear category within the brand. Hiring key roles in merchandising, product development and sales are essential for achieving division's goals. Moreover, the current human capital is already a great foundation, which will be accomplished by aligning the management and fulfilling new positions.

**- International Licenses**
One of THU key investments will be to become global, hence that fact that the division will also invest into international licensing, which means prospective distribution channels and points outside Europe. According to Mrs. Levi, 20% of THU business accounts for sales outside Europe, and this figure is even higher for Men’s segment – 40%, therefore there is no reason not to be able to double these numbers;

4.3.2 Calvin Klein Underwear
“we stand for being modern, contemporary, sophisticated, pure, natural, and often minimal. Consistent...
And we stand for sex in a very big way. We are a brand that can affect youth and people of any age.”

**History & overview**
Calvin Klein Underwear is the world’s leading designer underwear brand for men and women, under which men's and women's underwear, sleepwear and loungewear are sold worldwide through specialty and department stores, as well as freestanding stores.

Underwear birth within Calvin Klein Brand dates back to 1982 when men underwear was launched, the first designer-branded undergarments. The following year Women's underwear introduced; the models include men’s-style undershirts, bikini briefs that bear a passing resemblance to jockstraps, and boxer shorts with a fly. Calvin Klein was the first designer underwear brand and therefore underwear category can be associated with this brand name which explains the nature of strong and successful brand image that the fashion house had built over years.

In January 1994 the turning point for the brand brings huge organizational change: Warnaco acquires the men's underwear business and trademark as well as licenses for men's accessories and women's intimate apparel, for $64 million plus ongoing fees and royalties. Six years later, in April 2000 Calvin Klein rejected offers from Warnaco, Tommy Hilfiger, and Italian conglomerate HdP (owner of Valentino), Klein and Schwartz decide to take their company off the market. Later in May in a bitter dispute—mainly involving trademark violations and unauthorized designs and distribution—Calvin Klein sues Warnaco, seeking to terminate its license agreement. In June Warnaco counter-sues with its own breach-of-contract claims. The headline-making case is settled out of court early the next year, with Warnaco retaining its license through 2044 (Voguepedia).
As it has been already explained, in 2013 PVH completed acquisition of Warnaco group which marked another era of the House of Calvin. All corporate, administrative and operational functions were moved to the Netherlands and company had to go through integration with PVH platform. However, due to the fact that Warnaco operated the business in a very specific and customized way, integration outcome was not totally satisfying. For example, various operational technologies employed within Warnaco environment were rejected by PVH board, such as entirely automated warehousing plants and advanced replenishment system tool. The reasonability of these decisions is questionable, but it is important to understand that any integration process is followed by loss on one or another side.

Unlike THU, Calvin Klein Underwear division has always been the most productive and prominent within the House of Calvin: in 2012 CKU accounted for 47% of total CK EMEA sales, followed by CK Jeans (40%) and CK Accessories (13%). Besides, Warnaco group was substantially investing into brand’s operations and business development, as it had direct effect on the performance and it was crucial to maintain its leading position in European market. Besides, with a great marketing support of global team from HQ in New York and other resource and efforts, brand has always been developing internationally, which is not true for Tommy Hilfiger Bodywear. Moreover, Warnaco Calvin Klein team consisted of high-skilled professionals who have been successfully managing the division. Key employees were selected to join the brand-new organization in Amsterdam together with new staff members recruited both newly and from other TH departments and functions.

Another important remark about Warnaco integration is that PVH runs an apparel-driven business model, which could not be applied to underwear category. In a nutshell, apparel brands work on seasonal basis, whereas body wear operates high replenishment volumes and “monthly drops” of seasonal (collection) items. This determines operational scheme of the business and it should not be replaced or replicated, simply because these systems are not compatible and the best solution is to keep them separately. According to senior management of CKU, communicating these aspects to a broader level of PVH Corp and Tommy Hilfiger is still a challenge, because overall the corporation is ultimately apparel-driven and there is low awareness about special nature of underwear business practices. Consequently, one of the objectives is to change this mindset and distinct underwear category.

**Business performance**
Despite the fact that Calvin Klein Underwear has been a market leader in EMEA region in terms of both market share, brand awareness & power, as well as revenues, the turnover has been declining mostly due to the world economic crisis which has largely affected European consumer purchasing power. According to the interview with Torsten Wulff, who started as Germany+ Sales Director back in the time, in 2007 CKU generated turnovers of approximately 115–120 million euros and after the recession started in 2008 South-European markets, primarily Spain and Italy made a huge loss. These key CKU countries used to be worth 15 million euros alone before the crisis, compared to 5 million in 2013.

According to Calvin Klein Underwear Profit & Loss FY’13-14-15 statement and Oracle sales reports database, In 2013 CKU division demonstrated 11% decline in wholesale turnover vs. 2012, and the total wholesale revenue was 91,45 vs. 101,2 million euros. The downturn was mostly caused by migration of Warnaco and general situation on the market. On the other hand, retail sales decreased by 4%. According to the latest sell-in data, in 2014 the division has generated 180M in total (total sold, shipped and booked), with the following distribution channel breakdown:

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38
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One of the strongest aspects of CKU performance in general is consistent and substantial replenishment business that has always been in the focus of wholesale strategy. In 2013 Direct sales represented 45% (38,9 M) of the total wholesale net revenue, compared to Fashion 55% (52,5 M). Order type mix KPI is an essential sales performance metric for the division and is closely monitored, because low-risk replenishment business, operated within efficient supply chain framework is a very lucrative segment that shall not be underpotentialized.

If we look at the sales performance on the countries’ level, the turnover distribution among the markets is rather adequate, where in 2013 UK accounted for 27% of the total CKU sales in EMEA, followed by Germany (15%), Exports group and France (9% individually), Spain (7%), Italy (7%) and Russia (5%). Therefore, we can see big demand dependency on the UK, however the gender split for the market is quite controversial – 22% of Women’s and 78% of Men’s business. Very similar situation is seen in Italy and Spain, where the customers are fashion-driven and prefer up-premium level brands such as Armani and D&G. Aftermaths of world economic recession and inability to recover quickly have caused huge decline in South-European markets which are still seen as a challenge for the brand. Exports markets have been growing rapidly with the help of the largest distributor – Jashanmal company, which operates extensive network of branded CKU franchisee stores in the Middle East. Russia and CIS are also very prominent countries in terms of sales growth and prospects.

Even though all the pre-merger preparatory procedures of Warnaco acquisition were successfully handled and all necessary processes were complete in order to ensure seamless integration, Warnaco migration was followed by a substantial loss in revenues. Over the three months of transition (April, May and June 2013) CKU missed approximately 1,7M of the turnover, mostly due to:

1. **Order fulfillment failures:** late deliveries, cancellations, overall supply chain temporary slowdown;

Before the actual migration demand planning team had calculated optimal stock levels to ensure its sufficiency to fulfill current and upcoming orders. Furthermore, order fulfillment was outbalanced and stabilized shortly.

2. **Wholesale customer base rationalization**

After acquisition of Warnaco, CK wholesale customer base required a ‘clean up’ due to excessive complexity. CK Jeans (CKJ) and CK Underwear (CKU) have been analyzed separately. Lists with suggestions for rationalization were made on both commercial as well as credit criteria. Lists of with suggestions have been shared with markets, which reviewed, and submitted the final lists. Based on FY’12 Sales, 3,055 customers contributed €88.5M of Sales. Eventually, countries rationalized 1,277 customers (42% of Total), resulting in €8.4M rationalized, 9.5% of FY12 value, while 12% (10.9M) was suggested.

Nevertheless, the loss bore within this period had been made up by sufficient stock level attained in advance before the merger. Demand Planning team ensured stock adequacy in order to fulfill the demand that had been before the transition, work in progress and upcoming planned orders. In fact, CKU replenishment delivery leadtimes are currently at 72 hours, that is why it was crucial to maintain efficiency of the supply chain management.
The detailed sales analysis can be found in Appendix 2

**Long-term vision; Goals & objectives**

Despite the fact that Calvin Klein Underwear is already the market leader, there are still numerous opportunities in various market segments that the brand can fulfill and issues to be solved.

As it has been learned from in-depth interviews with corporate management, the following aspects are key strategic priorities for Calvin Klein Underwear in coming years:

- **Building expertise in Women’s business**
  CKU is number one brand for gents and this position is not likely to change, but the brand still faces challenges in Women segment. Tremendous competition from Ladys’ lingerie brands such as Princess Tam Tam and Chantelle Passionata does not let CKU take the lead, mostly due to the fact that Women’s undergarments are way more complex in terms of product engineering. Therefore, the brand plans to put substantial investment into elevating Women’s product development in order to become more successful and appealing to ladies.

- **Penetrating emerging markets**
  Two largest accounts for CKU – Jashanmal company (UAE) and BNS Group (Russia & CIS) are representing emerging markets of Europe and Middle East. This fact justifies that currently developing (as well as developed) economies with rapidly increasing consumer purchasing power are a fantastic market expansion chance for CKU. Although it is successfully ongoing, CKU board believes that there are a lot more opportunities upcoming.

- **Strengthening position in key markets**
  Germany, UK, Scandinavia and France are the largest markets for CK in terms of revenues, however if we take a deeper perspective of the business performance such as order type and gender mix, there is still big growth potential. Creating focus strategies and pushing certain processes are in the highlight for the key Calvin Klein countries.

- **Elevating swimwear**
  Over the last years swimwear was not a profitable business unit for CKU Europe. The decline started shortly after swimwear design center had been moved from HQ New York to a new location in Los Angeles with according staff team transformation. According to the recent announcements of the board, European Swimwear Design Center will be established in coming months and all new products will be developed in regard to European consumer precision; localized product engineering will definitely elevate swimwear performance and contribute to overall success of the brand.

- **Replenishment and communications reinforcement**
  CKU successfully operates immense replenishment business, which currently drives over a half of the total turnover. However, the potential has not been fully fulfilled yet as there are countries/customers which have not implemented direct sales to an adequate extent. Besides, space management and replenishment tool software and overall system integration have to be executed. Eventually, in the long-term perspective we would like to have a comprehensive network which automatically replenishes stocks for every door, transfers data and makes it
available to all system users, maintains information flow within the whole organization and reaches all essential units of the supply (value) chain.

4.4 THE PVH UNDERWEAR POWERHOUSE

Introduction
Existing in both abstract and physical dimensions, PVH Underwear Powerhouse has become a consequence of dual integrated brand power – Calvin Klein Underwear and Tommy Hilfiger Bodywear divisions operated under the roof of one of the largest apparel companies in the world – PVH Corp. This became considerable and feasible shortly after the acquisition of Warnaco company had been completed and new opportunities for synergy had been identified. According to PVH Corp. 2013 Annual Report, during 2013, PVH made significant progress integrating the Warnaco businesses into the corporation and investing in the infrastructure was critical for company's long-term global success. PVH teams converted systems across North America and Europe, putting associates on common platforms across each business. In 2014, its teams will focus on systems conversions in Asia and our sourcing integration is on track for completion for the Fall 2014 season. Corporation also invested in people, filling many of the over 200 open positions across the acquired businesses, including a President of Calvin Klein Asia and a President of Calvin Klein Europe.

In 2013, PVH took significant steps to strengthen its organization for the long term and deepen our focus on its global designer lifestyle brands, Calvin Klein and Tommy Hilfiger. The Warnaco acquisition provides a broader global platform for both brands and has enabled it to continue to transform from a primarily North American multibrand business with strong European Tommy Hilfiger operations, to a more diversified, global organization with significant operations in four distinct regions, and with Asia and Latin America now accounting for approximately 20% of PVH operating income. The corporation put big efforts to enhance and further develop the acquired businesses by making significant investments in their infrastructure, including filling high-profile senior management positions, improving systems and processes and elevating the design and quality of Calvin Klein underwear. These changes will put the brand in a much stronger position to grow globally, strengthen its customer base and thrive over the long term. With the direct global control of the brand image and commercial operations for the two largest Calvin Klein apparel categories, jeanswear and underwear, PVH teams took steps to strengthen management, improve operations, unify our brand messaging, and coordinate and improve design, merchandising, retail distribution and marketing functions on a regional and global basis. While the company still has additional areas of investment and development planned for 2014, the integration is progressing on track and this will position PVH for sustainable long-term financial growth and drive stockholder value.

The fact that two brands could recently share their resource, established distribution channels, global market expertise and brand equity has become an implication for enforcing this process and giving it a formalized structure, mission & vision, goals & objectives and other attributes of a business entity. Absolutely different thus world-class brands, CKU and THU are now supposed to enhance their performance through generating synergetic power on the global market and revolve the concept and perception of underwear.

Vision & Mission
Even though PVH Underwear House is comprised by two different brands, with their individual DNA and identity, vision and positioning, it is important to understand what stands behind
them on the “common PVH level”. As a global lifestyle designer brand, PVH Corp. is active in the vast majority of clothing categories and markets globally, that is why there it is crucial to have single corporate strategy that company’s brands should follow and be aligned with. The following mission & vision statements are seen as consolidation of various standpoints and ideas, collected during the primary research, as well as based on brand vision documents and presentations. The greatest input in this brainstorming and formulation was made by “the father of Calvin Klein Underwear” – Bob Mazzoli, Chief Creative Officer for CKU, who coordinates marketing and brand management activities of CKU globally from New York HQ.

Mission:
P VH Underwear Powerhouse employs the best practices and resources of the two world-class body wear brands – Calvin Klein Underwear and Tommy Hilfiger Bodywear in order to design and market superior underwear products worldwide.

Vision:
P VH Underwear Powerhouse aims to become an expert in global underwear category by revolutionizing the concept of body wear, changing the market mindset and taking a leading position as premium underwear designer brand.

Goals & objectives
PVH Underwear Powerhouse core goal is similar to its vision, and obviously this journey will not take short before complete. According to the in-depth interviews with top and senior management of Calvin Klein and Tommy Hilfiger, the Powerhouse should not focus on metrics such as “largest market share” or “top revenues”. Instead, the long-term goal is to become the great underwear company, comprised by two leading brands, which design and market admirable products that deliver the best value and experience to the customer.

Apart from that, PVH Underwear Powerhouse aims to achieve the combination of category expertise, operational excellence, emotional and physical connectivity the brand allows us to achieve. Ultimately, the Powerhouse should create new standard for underwear category in order to be the great company of the future. The mix of unique concept, state-of-the-art design, perfect fit, outstanding quality and overall fulfilling experience is what the Powerhouse aims to bring to the global marketplace under the glorious names of Calvin Klein and Tommy Hilfiger.

Currently both brands are facing challenging future and with the brand-new integrated business platform they can elevate their competences and create synergetic competitive advantage in the global marketplace. The Powerhouse strategy is not about “beating competitors”, but being exceptionally successful, admirable and appreciated by the customer – the most important stakeholder. At present, Calvin Klein Underwear is the leading underwear brand in the world, in terms of both brand equity and market share. Therefore, one of the goals is to maintain this title and make Tommy Hilfiger take 2d place in this “ranking”. It is important to understand that competition is an imperative market element and defining competitive position of the brands against each other is one of the key success factors of the Powerhouse.

Structure & functions
In fact, PVH Underwear Powerhouse is an integrated business system comprised by both shared and individual departments, business units, supply and value chain segments and overall resource base.
The most recent organizational structure of the Powerhouse is described in the following scheme:

The board of the Powerhouse consists of Vice Presidents of both divisions and Sales Director who is responsible for both divisions. Functions such as Demand Planning & Forecasting, Finance & Controlling and Systems & Process Management are shared, thus originally based within CKU division. Bob Mazzoli, Chief Creative Officer of CKU will provide the Powerhouse with marketing and brand management support and guidance.

### 4.5 INTEGRATION

As it has been already mentioned in the introduction to this chapter, the opportunity to interview employees of various teams and divisions gave a broader perspective of the integration capabilities, objectives, scope and desired outcomes.

Integration process has been formally marked by an announcement as of May 2d, which concludes that Tommy Hilfiger Underwear division is subject to be integrated with overseen by Calvin Klein Underwear division. The announcement outlines all important organizational and structural changes that will follow the integration process and key roles of the people involved, which is reflected in the scheme. Therefore, according to the initial notice, the integration in the first phase will primarily concern operational part of the business, namely finance controlling, demand and production planning, systems, process and merchandise framework.

However, numerous meetings and interviews resulted in other interesting ideas that could be implemented in a longer term, such as:

- **Shared warehousing and shipment**: could largely save costs by keeping stocks in common plants and facilities, as well as shipping them to distribution centers, customers or other points within the supply chain in case the orders have a single destination. Logistics play crucial role since transportation of goods is a costly process and economies of scale could be achieved by integrating these aspects of the business.
• **Production and vendors:** economies of scale could be achieved by sharing another operations process – manufacturing. Currently both divisions have a wide base of suppliers, where production costs as well as quality are essential when it comes to selection. Apparently, choosing limited number of manufacturers could be a way to negotiate lower costs. Bearing in mind growing volumes of production (especially in the future perspective), this action could lead to an immense economic rationalization. Another idea in this regard could be a set-up of PVH-owned production site, which is a very challenging process from strategic and finance perspectives.

• **Design and product development:** Even though both Calvin Klein and Tommy Hilfiger have their unique brand DNAs, shared product development function could be a great way to develop cutting-edge underwear with input of both design teams. Inspiration comes from everywhere and bringing talents and bright ideas together might result in an excellent assortment strategy.

In the short term, the operational integration will diminish or totally solve the issues that have been identified in Tommy Hilfiger Underwear division analysis, such as irregular order intake framework; inexistence of proper Demand Planning and stock level control system; Manual Production (Purchase) Order data input and inexistence of automatized Weeks on Shelf tracking system; Low degree of Demand Solutions (A3) platform integration with SAP and Oracle; Inconsistency in Merchandise Hierarchy coding system and poor integration with Demand Solutions framework.

In the mid-term, outbalancing of stock effect will stabilize in and outbound operations and consequently decrease late deliveries and cancellations, as well as markdown cadence. In general, these technical aspects reflect the true capability of the business and it is the foundation of its success. Therefore, in the long-term overall supply chain efficiency will be maintained and sales performance will be no longer negatively affected. Instead, Tommy Hilfiger Underwear will have a solid platform for achieving its goals.

Operational integration of the divisions is subject to finalize by the 24th of November 2014 and this will mark the entire unification of operational platform for PVH Underwear Powerhouse. As for the step further, no critical deadlines have been submitted.
CHAPTER 5: CONCLUSIONS & RECOMMENDATIONS

5.1 CONCLUSIONS
The PVH Underwear Powerhouse research has been very successful in that it totally lived up to my expectations and in most parts, exceeded them. Firstly, fantastic organizational environment made it possible to identify sources of information easily and get access to data. Secondly, the combination of primary and secondary research tools applied was very coherent and successful, because it helped me to analyze data from both qualitative and quantitative perspectives, thus making my conclusions justified and reliable. Thirdly, it was very interesting to watch the way the whole project has been launched and I could actually understand if my conclusions and recommendations are working or not. Finally, I was very happy to be able to finalize the research and answer my research questions, as well as to give my personal guidelines which were very much in line with standpoint of the members of PVH Corp..

5.1.1 Environment
Primary and secondary research results revealed that underwear market and category in general have their specificity that determines its distinct business model and practices adopted and executed by underwear brands worldwide. The most important conclusion that was made in this regard is that underwear category and products can not be treated in the same way as apparel, because:

- Undergarments are specialized items and consumer behavior and perception towards them is different;
- Underwear business model largely depends on replenishment business, whereas in apparel a very limited and insignificant number of products can be replenished;
- Underwear business requires category expertise and deep understanding of its core aspects.

European underwear market research demonstrated that the market is rather complex, thus stable. Numerous brands compete in different segments, although premium segment is the one where both THU and CKU are positioned. The following conclusions were made in this regard:

- European underwear market is quite competitive, where CKU is the leader in both market share and revenue terms;
- European underwear market structure is quite different in Men's and Women's segments, and this is essential for PVH Underwear Powerhouse strategy;
- CKU runs tailored business model that suits division’s framework, environment and supply chain the most; However, this goes in conflict with apparel-driven mindset of PVH Corp. in general;
- THU business model was largely affected by “PVH apparel mindset”, that is why the division could not fully fulfill its potential;

5.1.2 Organization
The research revealed that Calvin Klein Underwear and Tommy Hilfiger Underwear divisions are closely monitoring its sales performance. The analytics are seen as an essential part of business development planning process and as a foundation of strategic decision making, which determines the direction of the development and its core aspects. I have concluded that sales management interferes with numerous functions of the CKU and THU. Sales analytics help other
teams and departments understand the trends of sales performance and determine other processes accordingly.

On one hand, sales teams execute sales strategy of the divisions by penetrating markets and pushing sales efforts in order to achieve the targets. On the other hand, sales executives and analysts operate this data and create consolidated meaningful data, that is used by other departments further. In a nutshell, sales serve as both an executive branch and consultant of CKU and THU.

Tommy Hilfiger Underwear division has limited sales human resource and therefore the excellence and efficiency of the current sales forces and executives is rather questionable. Besides, the absence of Demand Solutions framework hinders the activities of the last unit of the supply chain – sales people. Unfortunately, the level of uncertainty in this case rises significantly and low transparency over sales channels makes it hard to achieve high sales performance on the whole. Communication issues have also been a case for THU Amsterdam HQ and local sales team, causing erosion of sales strategy execution. Another important feature of THU sales management framework is the fact that most local sales team have shared function, which means that underwear products are managed by Hilfiger Denim, Footwear & Accessories or Kidswear teams. Obviously, as it has been already concluded, apparel logic can never be applied to underwear category and the lack of focus on a particular product category can result in low success.

Calvin Klein Underwear division has a very valuable resource – a great network of sales teams across EMEA markets coordinated from Amsterdam HQ. This explains the seamless sales distribution with relatively high performance KPIs that CKU operates instantly. Most importantly, dedication of sales forces drives the performance and in contrast to THU sales practices, most CKU sales teams have single underwear function which gives an ultimate focus on the specificity of body wear. Regular (monthly) demand planning meetings, instant communication and reporting and other events and activities help CKU align its sales forces and create common strategic framework. Although, it still a challenge for the division to implement strategic policies and objectives within the local sales forces due to the corporate hierarchy which determines that there is no subordination between sales managers of Amsterdam HQ and local sales directors and executives.

5.1.3 Strategy
The following conclusions can be made in regard to strategic considerations of PVH Underwear Powerhouse and its unique brands:

- The key business priorities for CKU and THU are enhanced product development, expertise in Women’s products, replenishment business development, penetration in the target markets and creation of common competitive advantage;
- PVH Underwear Powerhouse is a strategic alliance that brings together corporate resource and market expertise in order to create synergy and take leading position in underwear market;
- In a nutshell, The Powerhouse aims to become “the greatest designer underwear brand” by developing and marketing superior body wear products that have excellent quality and appeal to modern consumer;
5.1.4 Integration
As far as integration process is concerned, the research revealed that it is a fundamental part of the Powerhouse creation, as it in fact brings the brands together in an environment that is the most favorable for exchange of best practices and generating synergies.

One of the most important conclusions to be made is that despite their unique brand identity, both brands are compatible in terms of business functions integration. However, the integration itself will mostly involve and transform operations management, finance and controlling, systems and process management and sales.

Another key take-away is the fact that integration is seen both as a solution to current issues of the divisions (mostly THU) and foundation of future common Powerhouse strategy. Therefore, in the short/mid-term it will help eliminate bottlenecks that affect the performance and contribute to the long-term goals and objectives.

On the whole, integration should not only unify particular parts of CKU and THU divisions, but create a common platform for instant co-operation, which should not be restricted unless it brings value. Besides, integration process is not limited in terms of time frames, since the exchange of best practices and functions sharing will take place occasionally. Finally, the synergy is an ultimate goal of the integration process, but the physical results can be only seen in the future.

5.2 RECOMMENDATIONS
Taking into account the conclusions made on the primary and secondary research findings, as well as a number of valuable insights which gave a broader understanding of the project, recommendations have been suggested. These recommendations are clustered by functional area, as most of the recommendations concern PVH Underwear Powerhouse level unlike on the divisional level, although some of them address a division individually. Unlike conclusions, recommendations section does not include “Environment” part, as there are no applicable recommendations and this research topic was not supposed to deliver certain recommendations. Nevertheless, relevant subjects that relate to the underwear category or market have been covered in other sections.

The recommendations have been based on both ideas, suggestions and already planned actions by members of PVH Corp. and me personally. All different ideas were consolidated into this proposal which has been fully reviewed and approved by the management of Calvin Klein Underwear and Tommy Hilfiger Underwear divisions, which are in the heart of the project.

Therefore, the following recommendations are given to PVH Corp. and particularly CKU and THU divisions as the essential business development key priorities:

**Strategy**

- Sell-out vs. sell-in mindset as the future sales concept
- Replenishment as a vital part of underwear business and key growth priority for PVH Underwear Powerhouse - this has to be acknowledged by the organization on PVH level;
- To review and analyze current business-models, their efficiency and relevance to the Powerhouse goals & objectives;
- Reinforce brand management and awareness in terms of: brand DNA, cannibalization threats, internal competition prevention;
• Carry out competitors and price-point analysis, as well as positioning and differentiation for THU and PVH Underwear Powerhouse in general;
• Review vendors based on production quality, leadtimes, reputation and history, volumes of production and overall efficiency in order to select the most optimal ones and achieve economies of scale by negotiating trade discounts;
• Long-term manufacturing: enhance women’s products’ fit and quality in order to fulfill growing market demand – launch of PVH-managed manufacturing facilities or selection of exclusive suppliers;
• CKU Product Design European brunch establishment;
• Elevate shipments: unified shipment system suggestions – cost-effective approach; Replenishment order fulfillment leadtimes to achieve 48 hours target.
• Analysis of current product portfolio and product assortment structure on the Powerhouse level in order to create highly competitive product range for both brands;
• EDI implementation in as many accounts as possible in order to create extensive network and instant information flow as well as automated replenishment.

Organization
• Reconduct of local sales forces in terms of hierarchy and functions (shared functions for divisions and brands should be optimally redistributed); Consistent training on replenishment, space management and assortment planning, as well as store/account/country performance tracking and analysis with KPIs; Creating awareness of the common strategy and ensuring alignment across all markets and countries;
• Space management tool implementation in key accounts (short-term) and the rest of customers with high replenishment volumes; Sales teams and customer training and coaching; Implementation of towers’ in Tommy Hilfiger and Hilfiger Denim retail stores;
• Tommy Hilfiger and Calvin Klein Underwear 5 Years Plan development and execution; Business performance analysis and forecasting;
• Customer service enhancement in terms of communication and new functions (placing orders e.g.)
• B2B channel development: web-site has to deliver more benefits and proceed orders; Elevate conversion;
• Analyze marketing resources & capabilities of CKU, THB and PVH in order to design effective marketing and promotion strategies in regard to the goals and objectives of the Powerhouse and brands individually; Reinforce marketing support for sales;

Integration
• Call to constantly exchange best practices between the divisions and create favorable environment for seamless communication;
• Customer network integration;
• Decision upon marketing department structure: centralized PVH level, shared CKU-THB level, individual CKU/THB level;
• THB integration with CKU Demand Solutions platform;
• Warehousing and goods allocation: analysis of current plants (1000 vs 1500); PVH centralized warehousing facility considerations; Automation in regard to Warnaco practices;
• Merchandising Hierarchy review and alignment;
• Product design teams: exchange of best practices and experience; shared design function for CKU and THB;
• Unified order intake and fulfillment framework;

All in all, the list of conclusions and recommendations does not necessarily address every issue that are currently the case for CKU and THU brands, but they are focused on the common objectives that could be fulfilled. If we look deeper into the organizational structure and integrity, it becomes clear that most of the recommended actions/considerations/ideas would have a great deal of synergy, because of the combination of skills, competences, resources and all other valuable assets that are available to both brands within the big corporate environment and support of PVH.
CHAPTER 6: STRATEGIC IMPLEMENTATION

The implementation plan within the establishment of PVH Underwear Powerhouse project plays an important role on a more operational level, in that it “translates” strategic vision of the Powerhouse into particular actions, which would contribute to fulfillment of project’s goals and objectives. In a nutshell, it outlines recommendations based on business performance analysis as well as forecasts, based on five years perspectives for both CKU and THU.

It is important to keep distance between the divisions on planning level, because their single performance consequently contributes to the Powerhouse success and each of them have specific targets, even though benchmarking is based on the best practices of both. However, the recommendations are given from the PVH (corporate) perspective, where operational alignment and integration is crucial.

6.1 TOMMY HILFIGER UNDERWEAR 5 YEARS PLAN

5Y Plan: Sales Forecast 2018/19

According to the sales performance analysis based on sales records of Fiscal Year 2013, the following aspects have been highlighted as the key priorities of business growth for TH Underwear division in coming five years:

5Y Sales:
1. Reinforcement of the Core (Direct sales) business as the main driver of the entire TH Underwear performance, which is currently highly dependent on Fashion (68% of the total sales);
2. Establishment of Women’s business with a big focus on Key/Seasonal Item Replenishment, which represented an utterly tiny 13% of the total sales in 2013;
3. Review and analysis of the current customer base, aiming to restructure it in a way that the lower number of accounts would generate larger revenue, in other words, to increase average purchase value.

5Y Business Development:
4. Review and analysis of current product portfolio with the focus on KIR/SIR in order to build competitive and cost-effective assortment;
5. Review and analysis of suppliers (vendors) and manufacturing quality of products vs. cost-effectiveness that they offer;
6. Shipment and delivery leadtimes analysis: prevention of delays and breakdowns within the supply chain, identification of existing bottlenecks and introduction of possible solutions;
7. Effective Country management: local sales forces, accounts network development, KIR penetration.

6.1.1 Channel mix
As in the majority of large-scale businesses with a huge geographic market coverage, specifically Europe, Middle-East and Africa, wholesale remains the key TH Underwear distribution channel within the forecast. The consistency of its growth is very important for maintaining adequate volume of sales, as any fluctuations in the wholesale channel directly reflect in the total volume.
and may considerably shape the overall performance. Therefore, wholesale is targeted to grow with 17% CAGR and reach € 55M in total value by 2019.

In contrast, retail – currently a very small part of the business, has a large growth potential in coming five years perspective. Retail revenues are targeted to represent 18% of the total turnover in 2019, compared to 5,5% in 2014. This will lift sales volume dependency on wholesale and balance out single channel contribution. Besides, retail channel generates profits on higher margins reflecting in increased net profit.

E-commerce industry has rapidly grown over the last few years and introduced new opportunities for apparel companies. With CAGR of 38%, e-commerce channel has to account for 7% of total turnover, compared to 3,5% in 2014. The growth pace appears to be rapid, even though the overall volume is quite little, that is why the growth value does not seem to be sufficient. Nevertheless, from 2019 onwards this channel has more room for development with a larger turnover and extended distribution network.

### 6.1.2 Gender mix

One of the biggest concerns for the division, the gender split has quite a challenging future in coming five years. Firstly, it turns out to be effortful to build Womens business in the countries where it is either non-existent or has very small presence. Secondly, TH Underwear is considered to be a rather masculine brand, which has to do with market positioning. Thirdly, product portfolio analysis has to be taken into account as it has a significant impact on sales capabilities.

### 6.1.3 Order type mix

As it has been previously mentioned, Core business development is one of the key priorities of this forecast. However, a more insightful perspective on them would be order type per gender mix, which highlights the most challenging thus promising market segment – Womens KIR, targeted to grow with 57% CAGR and reach € 5.8M turnover in 2019. Its total share is supposed to change from less than 2% in 2013 to 12% in 2018, making it a more prominent “piece of cake”.

Another important remark to be made is the fact that order type mix projection was made based on trade-offs, mainly due to Womens Direct sales. Mens Forward sales – the most substantial part of total business (50%), on the other hand, are targeted to grow with a lower pace of 10% CAGR. Obviously, such a moderate growth rate is outscored by other segments so that they have a room for expansion.

### 6.1.4 Countries

As far as country management is concerned, TH Underwear 5Y forecast focuses on outbalancing the contribution of particular markets to the total business. Currently the turnover is driven ultimately by Germany (42% total contribution) which is subject to change in coming years.

*Germany*: best-performing group among all, its total contribution has to decrease from 53% to 42% by 2018. Germany aims to improve on its Core sales share from 14% to 30%. Austria is currently almost out of Womens business (4%) and targets to achieve 30% share. In contrast, Switzerland – a very similar market to AT, maintained a “perfect” gender mix of (W:45/M:55), although it has to boost Womens Core business to grow from 3% share to 30% in 2018.
*Benelux:* Rather similar in performance, Netherlands and Belgium are not an exception for Womens Core business objectives: NL target to build up from 3% up to 30% and from 16% to 30% for BE.

*The UK:* aiming to maintain current order type split (50/50) and boost Womens business from 8% in 2013 to at least 30% in 2018. Total business contribution is targeted to represent 9% compared to 5% last year result.

*Scandinavia:* Total sales volume has big growth potential, because of high customer purchasing power and growing exposure of the brand. Nordics countries will concentrate on Womens business, which has to grow up almost 45% CAGR to generate €1.8M and improve the gender mix W:16% to 33% in 2018. Besides, among all of the group, Finland currently leads in the total revenues (48% total contribution) and this share has to drop to at least 40%, increasing the share of other markets such as Sweden, Norway and Denmark.

*Spain:* Heavily dependent on Fashion sales, by 2018 Spain has to reach minimum of 30% Direct sales share, generating €750K incremental. Womens business is targeted to grow 45% CAGR and improve gender mix W:12% to 30%. Overall, relatively low volume of sales will slightly outpace in coming years.

*France:* Having quite healthy order type mix, France has a major objective to establish Womens business, which accounted for as little as 3% of total in 2013. Therefore, a target of 30% by 2018 has to be reached in order to fulfill overall KIR introduction sales strategy.

*Italy:* key priority – Direct sales with the focus on Womens, targeted to grow up 41% CAGR and reach €1.12M revenue in 2018.

*Exports (REM):* Despite the fact that REM group consists of numerous countries across Europe, Asia, Middle East and Africa it only represents 3% of total TH Underwear turnover, aiming to reach 5% by 2018. High purchasing power, emerging economies and yet unlocked markets reveal great growth opportunities. Key countries will face rapid growth in coming years: UAE (48%), South Africa (40%), Lebanon (38%), Israel (35%) and Greece (25%). Womens share (5%) is subject to increase up to 30%, where 25% will account for Core business. Optimization of order intake system, replenishment platform, delivery and warehousing framework are the main pillars of the EX-sales strategy.

The detailed plan and forecast can be found in Appendix 1.

### 6.2 CALVIN KLEIN UNDERWEAR FORECAST 2019

Based on the recommendation for Calvin Klein Underwear business development given in Chapter 4, the following five years plan is suggested. In fact, it is seen as more of a regular forecasting process rather than challenging development program that was designed for THU. CK Underwear forecast focuses on reinforcement of division’s performance, recovery from the decline experienced in the last few years, as well as penetrating certain markets and segments in particular.

*Wholesale business*
Taking into account the fact that CKU has been declining after Warnaco acquisition and ominous market situation, it is crucial to not only attain desired turnover, but also ensure mid/long-term growth capability.

According to CKU 2019 Years Forecast, the division targets to generate incremental growth of €80 million with a new breakdown per country in order to redistribute the share of each towards a more equal structure. The dependency on UK sales should be decreased by penetrating markets such as Russia, MEA+, Scandinavia and Italy. Their share will increase and drive the turnover growth over the years.

The gender mix will be shaped by growing Women’s sales which will uplift the share from 38% in 2014 to 45% in 2019 mainly driven by the UK and Scandinavia. The Forward/Direct split will remain on 50%/50% as it matches the desired result currently.

Retail
CKU Retail sales, which account for 50% of the total turnover generated by free standing stores, flagship stores, franchisee, concession and other stores. Retail presence of CKU is currently not substantial in Europe (16 boutiques), which is targeted to increase.

Retail business will be largely influenced by implementation of replenishment tools, EDI and space management systems, that is why we can expect considerable growth of direct sales.

The detailed plan and forecast can be found in Appendix 2.

6.3 OPERATIONAL INTEGRATION PLAN
Operational alignment of THU and CKU within the PVH Underwear Powerhouse project is a fundamental issue, since it is the most time-consuming, technically and system-wise challenging aspects of the entire integration process. In fact, it turns out to be one of the most measurable objective transitions to be executed which will practically reflect the integration outcome.

Operational alignment with effective Demand Solutions platform operated by Calvin Klein Underwear Forecasting and Demand Planning team has been the primary action to be undertaken in order to adopt Tommy Hilfiger Bodywear data as soon as possible so that the next sales campaign could be launched under the common system and all errors could be prevented. For this reason CKU F&DP team has set up an action plan

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<thead>
<tr>
<th>Key Milestones</th>
<th>Comments &amp; details</th>
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<tbody>
<tr>
<td><strong>Step 1: Define objectives, timeline and scope</strong></td>
<td>The objective of the plan is: to transfer all THB data to Demand Solutions platform and map it according to “CKU logic”;</td>
</tr>
<tr>
<td>1. Define objectives and approach</td>
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<tr>
<td>2. Develop project plan</td>
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<tr>
<td>3. Review project plan with Vice Presidents</td>
<td>This plan has been approved by the Vice Presidents and implementation process has already started.</td>
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<td>4. Agree upon scope and deliverables</td>
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<td>5. Refine approach as necessary</td>
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<tr>
<td>6. Sign-off on scope and approach</td>
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<tr>
<td><strong>Step 2: System requirements / Head-count</strong></td>
<td>System requirements: server needs to be moved from the US location to HQ in</td>
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1. Server need / location
2. Business Intelligence support
3. EU – Demand Solutions support
4. UK – Demand Solutions support
5. Demand Solutions contract
6. Single plant for Tommy Hilfiger

Amsterdam;

Technical support for this transition is provided by PVH Europe Business Intelligence team and Demand Solutions platform maintenance in the UK (support & training for users);

DS contract has to be renegotiated: some services are not used, more costs will come with TH server integration;

Currently THB operates two plants (warehousing facilities); Single one has to be selected eventually.

### Step 3: Mapping data

| 1.    | TH customer mapping     | Mapping data concerns: Customer data transfer divided into Wholesale, Retail (Retail + E-commerce), ECI, Germany + |
| 2.    | MOQ/MCQ script – defaults | Style master data – updating style information, attaching forecasting codes, season intro dates and etc; |
| 3.    | Leadtime – defaults     | MOQ/MCQ (Minimum order/color quantities) scripts have to be built from the scratch in order to implement them in DS which would run data automatically and analyze if total order intake meets the minimum quantity requirements; |
| 4.    | Forecast coding by style option | |
| 5.    | Additional styles to become Basic/KIR | |
| 6.    | WOS coverage by Forecast | |
| 7.    | Back date historical style | |
| 8.    | Adding in INTRO date    | |

### Step 4: Testing (DSFM/DSRP)

- Calculation DSRP
- Mapping DSFM
- WOS
- Booking data
- WIP data
- Customer mapping

At this step all data is uploaded and validation process starts.

DSRP (Demand Solutions Replenishment – calculation of Weeks on Shelf) and DSFM (Demand Solutions Forecasting Module – customer data) have to be checked if they run data in a right way to prevent system errors;

### Step 5: Replicate Tools

- Capacity file
- WOS automation
- RISK memo
- Market recap

Replication of tools is the process of creating/replicating Demand Solution / Forecasting instruments and mechanisms used in CKU for THB.

Capacity file – Forecast for 12 months
<table>
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<th>Step 6: Sign-off</th>
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<tbody>
<tr>
<td>• <strong>Final confirmation by Vice Presidents</strong></td>
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</table>

- **Oversold summary**
- **Delivery schedule**
- **Monthly Basic buy process**
- **Quarterly Basic review**
- **Markdown cadence**
- **Forecast change report**
- **Forecast accuracy**
- **Buy calendar – Reconciliation / CEF / Buy Due date**
- **OPS confirmation**

Submitted to vendors in order to make them aware of the demand and plan capacity to meet outbound production orders; Vendors can also book fabrics in advance, which shortens lead times;

**RISK memo (pulled out of WoS)** – report on expected low stock level based on styles and colors to ensure its adequacy in coming periods;

**Market recap & Oversold summaries (fashion business)** – oversolds are the orders placed after the market close date. These bookings can not be fulfilled and are considered as missed sales opportunities.

**Delivery schedules for THB have to be aligned with CKU;**

**Monthly basic buy** – production orders are placed on monthly basis in CKU, whereas THB could not do so due to low volumes of sales and inconsistent stock level control; THB stock level will be increased so that goods are always available to customers;

**Quarterly basic review** – every quarter basic styles’ performance is analyzed to identify best performers, whose stock level is either maintained or increased, and low performers – whose stock goes on markdown and eventually these product groups are dropped.

**Markdown cadence** – is a pattern which determines that styles can be dropped only either in May or November.
6.4 REPLENISHMENT BUSINESS DEVELOPMENT

As it has been already highlighted, replenishment is essential for consistent sales growth in underwear business. The success and efficiency of replenishment business model largely depends on how well the stores and customers in general are equipped with replenishment framework tools, which make it technically feasible. Moreover, demand planning and stock control are vital for maintaining replenishment order fulfillment, in that the stock level has to be sufficient at all times and this is only possible when production orders are placed considerably upfront with consideration of expected demand and adequate buffer.

All these aspects are inter-related and the effectiveness of the whole system is directly related to how communication and information exchange are handled. Making data and different sources of data accessible to the stakeholders and supply chain operators is essential in these terms. The following plan explains the actions to be undertaken in this regard in detail.

6.4.1 Replenishment Tool Implementation

Replenishment tool is simply a software that automatically monitors storage and shop floor shelves on adequacy of remaining units and gives alerts to the store staff in case shortage of units is identified. Basically, the program is set on minimum and maximum quantities of every product type available in the store and stockroom. Therefore, when the stock level goes below the minimum the systems gives an alert and creates an automatic order to reach the target number of units before the stock will be over. In fact, it very much resembles Demand Solutions framework with Weeks on Shelf indicators, but on a store level.

Retail: currently none of Calvin Klein / Tommy Hilfiger retail (free-standing) stores are equipped with replenishment tool due to the fact that they are ultimately apparel-driven channel points of sale. Almost no apparel categories are replenished and consequently there is no need for such platforms. However, retail operations department will be working closely with PVH Underwear Powerhouse in order to roll it out across the stores in Europe.

Wholesale: most of the accounts already have the tool in place for their internal stock planning, however there is low degree of data exchange between PVH platforms and customers. Therefore, the orders still have to be made manually which reflects in longer leadtimes and low awareness and information flow. Wholesale business represent an immense share of CKU European sales and it is crucial to elevate replenishment capabilities of the wholesale channel and monitor its efficiency.

Nevertheless, replenishment tool itself is not enough for successful and seamless replenishment process operation. The data created in the internal software of the customer needs to be translated and submitted to the products supplier (PVH). Quite old-fashioned and ineffective way of doing this manually is time-consuming and it gives little transparency over the whole sales picture in a particular store/customer. This gap can be bridged with the help of EDI which technically serves as a data link between the customer and supplier.

6.4.2 EDI (Electronic Data Interchange)

One of the key priorities of replenishment business development and exceptionally acute for the space management tool launch is implementation of EDI (Electronic Data Interchange). EDI systems are of a great contribution to the entire supply chain of the business, because it enables efficient information flow and exchange without manual input of personnel. In fact, they link
thousands of POS (Points of Sale) with a single platform operated by a company and run raw data to further channels.

EDI transmits replenishment orders directly to CKU/THU SAP whenever sufficient quantity of goods needs to be shipped. Of course, the advantage of this system is a lot more relevant to key accounts who run large volumes of direct business, because the frequency of replenishment is a lot higher and delivery leadtimes are very important for top location (A and B) doors with high traffic and stockturn. Therefore, PVH Underwear Powerhouse EDI strategy focus is primarily on the key accounts.

At the moment approximately 50% of the key accounts (mostly in Germany) are EDI-connected and this figure has to increase up to at least 90% in 2 years. The following customers are currently in the process of EDI implementation which is facilitated by PVH Central Operations and Business Intelligence departments:

- **UK**: HOF, Debenhams, Harrods, Selfridges, John Lewis
- **Germany**: Humanic
- **Scandinavia**: Axstores, Magasin de Nord, Wunderwear, NK Sweden, Twilfit, Kaubamaja
- **France**: Galaries Lafayette, Printemps
- **Netherlands**: Wehkamp, De Bijenkorf, Van Velden Group

The maintenance team runs regular status reports per account for indicating the progress and main related issues. They analyze the overall implementation from the following perspectives:

- **People** issues are related to availability of people at PVH or customer
- **Process** issues are related to the business process and/or requirements, for example customer requirements regarding the invoice that can/cannot be met
- **Technology** issues are related to the IT at PVH or customer or the middleware / format type used for EDI messaging

Each account has a deadline for particular step finalization and final “go live” status obtaining under the monitor of HQ Amsterdam and local sales teams. Eventually, EDI-connected customers with replenishment tool in place will be able to operate almost entirely automated replenishment and consolidated sales data will be available to sales department for further analysis without special requests or inquiries.

In the long-term perspective EDI penetration strategy should deliver an extensive network, that would connect all stakeholders, servers, systems in order to create seamless instant information flow and efficient communication platform.

6.4.3 **Space Management**

Effective management of a shop floor (space) is crucial for company’s retail excellence. Many brands underestimate the importance of this front-office aspect of sales process and do not realize that there is a direct link between retail and wholesale sales objectives, shopping floor space and visual merchandising. Clearly, considering shop floor ultimately as a point of purchase is meaningful, especially in the light of modern retail operations technologies such as EDI and other concepts that extend the capabilities of space management.
First of all, shopping space is where the product becomes available to the consumers for viewing, trying, communication and purchase. Different pieces of furniture on which the items are displayed (fixtures) play a very important role in the sales process, as they:

1. Communicate shop’s / brand’s identity through the special interior design, shop layout and furniture / fixtures’ conception;
2. Display a product in a certain way and make it more attractive to the customer;
3. Differentiate various categories of products;
4. Determine the capacity of the shopping space (how many pieces may be placed);
5. Determine the density and distribution of the items within the available shopping space;

Every square meter has to be used to its maximum efficiency, which means that it has to display as many products as possible in the most alluring way. However, this is not an easy goal to achieve, because every shop has its individual layout and every product does not perfectly match and fit every fixture. Therefore, thorough investigation of shopping space and fixture capacity can definitely elevate retail performance and create added value.

Another issue that most retailers often deal with is stock and inventory control, where both over and under stocking result in low store performance. On one hand, overstocked items become obsolete and sold on markdown basis, which reflects in profit loss and excess warehousing/storage costs. On the other hand, empty shelves due to late booking, poor store management or lack of storage facilities poses risks for store reputation and customer satisfaction. Therefore, maintaining well-balanced stock level is one of the core goals in retail operations and it also has a direct link with setting and negotiating budgets on customer and door levels.

Budget determines how many products should be sold by a customer (door=store) on weekly/monthly/quarterly/yearly basis depending on its performance and sales targets. Judging by the experience, planning budgets is quite controversial, since the sales representatives challenge their customers by setting the targets that the last mentioned are not able to fulfill or feel concerned about. Consensus is not always a solution and under/over budgeting is another common reason for stock issues and assortment planning.

Another great effect of the space management tool utilization is the fact that it transforms basic process of selling physical products into “the solution/concept/experience”. In other words, it changes the perception of the sell from customer’s point of view. It is very important to realize the overall value that is being created within implementation of the tool: it eliminates additional efforts of both sales representative and customer as well as uncertainty about how realistic the planned budget is. Eventually, stores managers do not have to worry about stock levels and planning, as this process becomes partially automated and systemized. However, the most remarkable benefit that comes with the tool is enhancement of the replenishment, especially for “B” and “C” accounts, which may find it hard to keep proper balance of Core/Fashion mix and hold adequate stock for instant KIR.

6.5 RANGE PLANNING & PRODUCT PORTFOLIO DEVELOPMENT
In order to fulfill business growth targets that have been set for both divisions, especially for THU which has quite challenging forecast, a proper range planning strategy has to be designed.
First of all, THU aims to establish and push Women’s business and achieve 35% of Women’s share in the gender mix in coming 5 years. Currently there are only 2 style groups in Basics assortment, and as it has been already pointed out, replenishment business is a key priority and a necessity for sustainable growth of an underwear brand. Clearly seen, there is a big gap in regard to the current demand and needless to say about the future.

Taking into consideration the fact that current basics portfolio is very limited, and most of the existing gaps are filled with Fashion products, the journey of building Basics assortment seems to be a challenge. Therefore, the following range planning is suggested in regard to the objectives of THU 5Y Plan:

**Short-term:**
- Align prices within competition to prevent added-value gaps and overpricing in particular countries and in base pricing in general;
- Change fabric quality of all products from 93x7 to 95x5 – more added value for the customer and alignment with current market trends, as well as production cost-efficiency;
- Negotiate with vendors upon quality monitor and fit excellence;
- Launch of new style group for women in Spring 2015;
- Drop low performing Men’s style groups, such as 2-pack natural cotton trunk, natural cotton trunk and develop alternative replacement;
- Launch 2-pack trunk solid + print in different combinations with matching color range and waistbands;
- Launch elevated products in natural cotton and microfiber (Norton/Lace trunks);

**Mid-term:**
- Introduce new styles for Women’s every season consistently to make a statement in the market, more brand exposure and fulfill the targets as well as demand. Consumer should be able to notice growing presence of THU;
- Launch single/2-pack woven boxer shorts with matching (paring) colors/waistbands as Tommy Hilfiger signature products; launch cyclist long leg boxer shorts – meeting demand of Benelux and Scandinavian consumers;
- Revamping loungewear: tees, jersey pants, shorts, tank tops, introduce bath robes.
- Launch woven and modal programs as for German market demand.

**Long-term:**
- Build the range based on value/price point structure with different layers and attributing products that target different consumer groups and segments;
- Build the range with programs in contrast to current style group division;
- Launch Microfiber Hip Brief – elevated quality and design, TH signature products, high-end price point to meet demand of Italian and French consumers;

The core goal of strategic range planning is to ensure consistency and competitiveness of the total product assortment on the market. The structure should be thought-out and built in the way that programs/style groups have differentiation in both price-point and value-added, so that they do not cannibalize each other and target particular market segments. This product range should be able to drive the performance and communicate unique Tommy Hilfiger brand DNA, make it stand out within competition and build a strong image in consumers perception and mindset.
6.6 TIMELINE

The timeline of the implementation plan is quite simple, thus it has a thought-out structure and tightly related to the strategic vision of the Powerhouse.

Short-term: till December 2015  
Mid-term: till December 2018  
Long-term: January 2018 onwards

As far as milestones are concerned, it is very important to make sure that particular events would signify project progress and these have to be in line with the timeframe.
CHAPTER 7: REFLECTION

Even though I have never seriously considered fashion industry as a prospect field of my future career, doing research with the industry leader and expert was incredibly beneficial for me at the final step of my bachelor degree program. Personally, I strongly feel that I have grown both personally and professionally which gave me more confidence about my life and career goals. Besides, sales management appeared to be something I really liked, as it gave me a very deep understanding of business mechanism from within; assessing business performance of Calvin Klein Underwear and Tommy Hilfiger Underwear divisions enhanced my analytical skills and helped me gain

PVH European Headquarters in Amsterdam offered fantastic environment where I could seamlessly reveal my potential and develop skills that have definitely elevated my competitiveness and capabilities for the future career. My learning experience has been largely extended since my research required communicating with people of different personal and professional background, from different regions, departments and teams. Their willingness and enthusiasm to share their vision and knowledge gave me numerous insights into various dimensions of the business.

The PVH Underwear Powerhouse thesis research has been of a great contribution to the International Business and Management bachelor program learning experience, in that it gave me an opportunity to slip into global business environment within the walls of one of the largest corporations in the world.

I strongly believe that the knowledge I have acquired while studying at Rotterdam Business School and Institute of Business Studies-Moscow have been largely enhanced and transformed into a certain set of skills that will definitely help me build my career and set further professional and learning objectives. In fact, business education without decent practical experience, such as Sales Internship and thesis research that I have been working on over the last semester, is of a little value. Being able to understand how management concepts and strategies work in real commercial environment is essential for BBA graduates and I am happy to conclude that the PVH Underwear Powerhouse thesis research gave me this opportunity.

Although at first thesis project seemed to be a very complex and uncertain process, I am very satisfied with its outcome. According to most students, one of the hardest aspects of a thesis is to understand where is the starting point and how to pursue the entire research further. This was also true to me, but I have realized an important thing – proper planning and prioritizing your actions and efforts is critical in the beginning.

Apart from that, I have learned that setting deadlines in such a comprehensive and continuous assignment is essential. Every part of the research has to be executed within a certain timeframe with a sufficient buffer for insuring against unexpected circumstances. Respecting these deadlines is as important.

However, the most important lesson I have learned is that the thesis research can be compelling and successful only if you enjoy doing it. In fact, a lot of my fellow students who shared their experiences complained that they are not very enthusiastic about their assignments and I could clearly see their unwillingness to truly engage themselves with the research. As far as I am concerned, every aspect of my research has been absolutely appealing and exciting; the topic itself, the company and environment, data collection and analysis process and all other
procedures I have completed were indeed exciting and never forced myself to work on them. That is why my strongest suggestion to all graduating students is that they very carefully look for an assignment that they really like personally and this is the most important success factor that I can highlight.

Taking everything into account, I am more than thankful for the opportunity to work and carry out my research at PVH. Over the last five months I have learned and grown with an amazing pace; I have realized my true potential, capabilities and ambitions; I have met fantastic people whose impact on me can not be undervalued. Therefore, the PVH Underwear Powerhouse has been my personal great success story.
APPENDIX 1: Tommy Hilfiger Underwear 5 Years Plan

TOMMY HILFIGER UNDERWEAR
5 YEAR GROWTH OPPORTUNITY
2014 – 2019

- The immediate focus within wholesale will be on Mens – to gain brand awareness and build up a strong basics business, encouraging consumer loyalty;
- Key account push and SiS investment to gain market share and visibility;
- Strengthen the retail business – make it easy for the consumer to pick up that purchase
### DIRECT/FORWARD 5 YEAR GROWTH OPPORTUNITY

- Today direct represents 32% of the business with no KIR in Womens;
- Direct should represent 45% of the business in 2019 with 32% CAGR;
- Forward order business will continue to grow at 18% CAGR;
- TH has the potential to be a minimum €76.5 mill business in 2019 growing at 23% CAGR

**2013 Gross forward WHSL value + Direct re-estimates for 18/14 M Euro**

### MARKETING CAMPAIGN FALL’15

- Celebrity endorsement campaign across Europe to elevate our brand position and awareness => achieve our sales targets and make a statement in the underwear world;
- Expected growth effect of the campaign is €4.2M in Fall 2015 (35% up vs. Fall’14)

#### Total growth Fall’15 breakdown per channel (Assuming ECI moved to concession)

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<tr>
<td>Retail</td>
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<td>E-com</td>
<td>€2.5M</td>
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#### Total growth Fall’15 countries contribution

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<th>Country</th>
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<th>Incremental growth:</th>
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<td>Benelux</td>
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**COUNTRY 5 YEAR WHOLESALE GROWTH OPPORTUNITY**

- Apart from Germany, the highest direct % is currently only at 15%, therefore rev/margin growth will come out of achieving the 45% direct benchmark across all countries.
- Requirement for underwear focused sales teams in order to maximise sales, expertise to be leveraged where possible with CKU country sales teams.

**MENS/WOMENS 5 YEAR GROWTH OPPORTUNITY**

- Key priority is to drive the mens business with 20% CAGR;
- Introduction of Womens KIR and maintenance of the business with aggressive growth starting from 2016;
- In 2019 Mens will represent 68% and Womens 32% of the total turnover;
| Country | Men | Women | Total | Total
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