The Double Gross Margin Dilemma

The 'Made in USA' product ethos is changing. This holiday season the media was all over the made in America angle. Hard working entrepreneurs were shown on nightly news segments and the newspaper ran weekly articles highlighting locally made goods. All great stories, however, what's interesting is that most share a distinctive trait: Distribution of the New American Brands' domestically made product steps around the traditional relationship with retail sales. These emerging up-starts are selling directly to their customers, either on the internet, or through their own brick and mortar locations, or both.

For years we've been told that American made product is just too expensive. Eyes would roll and an exasperated retailer would explain that it costs far too much to make product in this country and if 'they' did, it would sell for a price that no one would be willing to pay.

That is simply not true.

The brand-slash-marketing-and-design companies behind the labels that hang in retail stores develop product that is produced and invoiced by some far away, low cost factory. The brands then takes this cost and add the first margin, which covers overhead plus a touch of profit, and thus creates the wholesale price. Normally, in traditional front-door-retail, the wholesale price is taken and doubled; that total becomes the full retail price. 'That's the way it has always been' – a death knell phrase if I've ever heard one. The retailer in this formula makes as much money as: the cost of all of the product's materials, the factory's workers' wages, the factory owner's margin, the shipping, plus all of the brands' undoubtedly healthy margin. The retailer's gross margin dollars equals every other dollar in the product.

The truth: the 'it just costs too much' argument merely shifts the focus, placing the blame on the lifestyle of a fictitious domestic factory worker (whose contribution to the cost of the garment is minimal by the way), and ignores the biggest reason it can't happen, the onerous double margin added by the retailer.

New American Brands creating product, conceived and produced entirely in the USA, face a tough choice. Go with the double margin route and have the product sold at incredible boutique prices, through an archaic process of wholesale distribution, using retailers that make far more money than you do? Or, just take a single margin on the product, reach out through the internet, be active on social media, build a clubhouse instead of a storefront, and sell at market price to a tribe that loves what you do.

In other words, does the new player go with the conventional approach, or bypass an entire way of doing business and enjoy a relationship directly with their customer? It isn't much of a choice; follow the passion.

What amazes me, is how fully committed the Outdoor Industry is to being on the wrong side of this history. Like a billowing Titanic, carrying an assemblage that is seemingly unable to check its privilege, their commercial secrets safely in stowage below decks, they steam into the oncoming icebergs of social and environmental change. It is easy to see a day when a younger generation might recognize 'Dad's Chinese made mountain jacket', the homogeny and perfection of the old man's apparel standing in stark contrast to the son's locally made garments, complete with the flaws that will no doubt be a part of their character. •

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