A retailer with modern-day designs partners with a country steeped in design tradition: *Lilly Pulitzer in Peru*
Introduction

In today’s fiercely competitive global textile and apparel (T&A) market, management teams face increasing pressure to develop a growth strategy that reduces costs. Research shows that in an effort to drive down costs, T&A firms and retailers often move their production capabilities offshore. Beginning in the 1980s, many T&A firms that served the “mass market retailers” moved production to lower wage countries like China, Vietnam, Cambodia, and Bangladesh. However, as a result of their offshoring efforts these firms began to face new challenges including poor product quality, longer wait times for products to market, and complexities with managing a supply chain through several time zones.

At the start of the 2010s, in response to these new challenges, T&A firms began to migrate their production from the traditional “offshoring countries” (e.g. China, Vietnam, Cambodia, etc.) to Latin American and South American countries. Soon major retailers such as Lilly Pulitzer, POLO Ralph Lauren, and Burberry were producing their apparel in Peru, Mexico, and Brazil.

The following analysis examines the macro environmental forces that have paved the way for Peru to become one of the leading producers of high-quality textiles, and has led U.S. based retailer, Lilly Pulitzer, to move their production to this South American country.

Understanding the political, social and economic elements that define Peru

Political details: Key trade agreements to support growth

Since the early 1990s Peru has focused on expanding economic opportunities, deepening their “anti-narcotics and alternative development efforts”, and promoting sound environmental stewardship. To support these objectives Peru has developed a political trading strategy that exemplifies openness while positioning Peru for growth and stability. Beginning in 1991 the United States enacted the Andean Trade Preference Act (ATPA) to help combat drug production and trafficking in the Andean countries of Peru, Bolivia, Colombia, and Ecuador. The program was designed to offered trade benefits to help these countries develop and strengthen legitimate industries. The Act was changed in 2002 to the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which meant the U.S. would allow duty-free access to these countries to U.S. markets for approximately 5,600 products, thus giving Peru a comparative advantage in this sector against competitors in Asian markets.

In 2009 Peru entered into the United States-Peru Free Trade Agreement (PTPA). The PTPA eliminates tariffs to U.S. services, provides a secure, predictable legal framework for investors, and strengthens protection for intellectual property, workers, and the environment. Since 2009, the total trade between the two countries has almost doubled, from $9 billion to more than $16 billion in 2013.
Another key trade agreement is The Protocol of Accession of Ecuador to the Trade Agreement with Colombia and Peru.\textsuperscript{11} This agreement, signed on November 11, 2016, opened up markets on both sides of Peru as well as increased the stability and predictability of the trade and investment environment between the three countries.\textsuperscript{11} A full listing of Peru’s Trade Agreements that were in force, to be entered into effect or pending negotiations as of 2014 can be found in Exhibit 8 and an overview of Peru’s political structure can be found in Exhibit 4.

Social details: Urban populations and social classes

Similar to other Latin American countries, Peru’s social policies have been directly influenced by its political history, “which for almost a century has been characterized by political and social instability, military coups, fragile democracy, and weak institutions.”\textsuperscript{7} However, despite this history, Peru has experienced two recent decades of unprecedented economic expansion, low inflation, investment-grade status for the country’s debt, and a dramatic drop in poverty rates.\textsuperscript{21}

Peru has the fifth largest population in Latin America, after Brazil, Mexico, Colombia and Argentina. Seventy-five percent of its 30 million population live in urban areas while the remaining 25% live in rural areas.\textsuperscript{4} Peruvian society is divided into three social classes:

- The upper class, consisting of approximately 3\% of the population, live mostly in urban centers;\textsuperscript{4}
- The middle class, consisting of approximately 60\% of the population and includes salaried working class families, small business owners and commercial occupations, bureaucrats, teachers and professionals on a salary job;\textsuperscript{4}
- And the lower class, consisting of approximately 37\% of the population, is composed of farmers and immigrant workers.\textsuperscript{4}

Economic elements: A healthy economy and growth in its textile industry

Peru, the sixth largest economy in South America (as measured by its Gross Domestic Product (GDP)) based on Purchasing-Power-Parity (PPP), according to the IMF. (Exhibit 2 & 3)\textsuperscript{4} The country is also ranked seventh out of the 20 best countries to invest in.\textsuperscript{4} In 2015, Peru held the #2 ranking (within Latin America) in the World Bank’s’ annual Doing Business Ranking.\textsuperscript{4} (Exhibit 5) For the last decade, Peru has been experiencing a positive growth rate in its GDP due to increased levels of investments and gains in productivity.\textsuperscript{4} (Exhibit 5) In recent years, Peru capitalized on the favorable commodity prices and used this to push forward on key mining and hydrocarbon projects. These projects reduce the overall cost of energy and improve electrical connectivity and coverage around the country, which previously inhibited the country's growth.\textsuperscript{4} An overview of Peru’s key economic indicators, as of 2014, can be found in Exhibit 7.

Historically, Peru’s economy centered around commodity industries including agriculture, fishing, mining, and hydrocarbons. However, beginning in the 1990s, the country saw an increase in manufacturing, particularly in the textile sector. (Exhibit 6)\textsuperscript{5} Apparel
production is often seen as a springboard for economic development due to its low fixed costs and emphasis on labor-intensive manufacturing (Gereffi & Memedovic, 2003).\textsuperscript{5} Peru’s textile and apparel industry has become a key pillar of its manufacturing sector;\textsuperscript{5} in 2013 it accounted for 17% of Peru’s non-traditional exports, totaling US $1.9 billion.\textsuperscript{5}

Why Manufacture in Peru?

Peru’s T&A sector is vertically integrated, ranging from agricultural production to manufacturing.\textsuperscript{5} Growth in this sector has been driven by three main factors:

i. the use of high quality cotton inputs (e.g. Peruvian “Pima Cotton”),

ii. an integrated supply chain, and

iii. over a thousand years of traditional textile and apparel craftsmanship, which underlies its high quality production.\textsuperscript{5}

Peruvian “high-quality” Pima Cotton

Archaeologists found Pima Cotton fragments in Peru dating as far back as 3100 B.C. but its name comes from the Pima Indians, the first to harvest the fibers in the United States.\textsuperscript{19} Peruvians refer to Pima cotton as 'gamuza', meaning suede in Spanish because of its silky soft feel and brilliant luster.\textsuperscript{18} Peruvian “Pima cotton” is often heralded as the best cotton for three main reasons: its prime growing location, its extra-long fibers, and its need to be harvested by hand.\textsuperscript{19} The fibers are extremely durable and absorbent, making the cotton an excellent candidate for apparel with rich coloring and designs. It’s also easy to hand wash or dry clean, is easy to maintain, and will last through several years of use, a true testament to its quality.\textsuperscript{18}

Pima cotton is grown in the northern coastal valleys of Peru which has nearly perfect year-round temperatures and rich soil. The cotton plant absorbs just the right amount of moisture from its environment to give it a silky luster and soft texture. Its extra-long fibers, at 1 3/8” length, put it in the category of luxury fibers, whereas ordinary cottons only measures about half to three quarters of that length.\textsuperscript{19} To avoid scratchy impurities that affect the smoothness of the fiber, Peruvian pima cotton is harvested by hand instead of machine.\textsuperscript{18}

Peru earned its reputation as a global cotton producer in the period following World War II, during which plantation owners, protected by import barriers, developed large-scale operations.\textsuperscript{5} By the 1960s, cotton was the country’s principal export with over 260,000 hectares (ha) of cotton under production (Escobal & Salcedo, 2004).\textsuperscript{5} However, the Agrarian Reform Law of 1969 followed shortly thereafter leading to the breakup of the large operations in favor of cooperatives (Mitchell, 2006).\textsuperscript{5} Unfortunately, under the new reforms, the cooperatives lacked capital and adequate equipment. As a result, internal management deteriorated (Korovkin, 1990) and cooperatives weakened and eventually disintegrated (Mayer, 2009).\textsuperscript{5} This led to individual farmers producing cotton on very small plots of land. At the time, cotton was becoming less
financially attractive to the farmers (due to declining yields) and as a result farmers shifted to alternative crops.  

By the end of the 1990s, Peru had grown their clothing exports to US $337. However, just a few years later, Peru was faced with a pima cotton shortage. Since so many Peruvian farmers had stopped growing cotton in favor of more profitable crops (at the time) Peru had to import American Pima fiber from the U.S. With a combination of domestic and imported pima cotton, Peru resumed its growth through the 2000s, resulting in US $1.6 billion in clothing exports in 2008 (IDS, 2015), thus becoming the principal manufacturing export in Peru (ADEX, 2015). Peru’s T&A sector continued to grow during the 2010s as a result of quality production, availability of raw materials, and technologically upgrades deployed in T&A firms to better compete in international markets (Escobal & Salcedo, 2004; Jaramillo, 2004).

Innovations during this time enabled Peru’s T&A firms to upgrade their capabilities and provide an increasingly sophisticated range of high quality cotton, improved overall quality and additional product lines. Originally, these T&A firms catered to mass-market retailers like The GAP and Old Navy, which deploy a high-volume, low-value product strategy. However, after the Great Recession many retailers struggled to regain their financial footing. As a short-term solution retailers examined their supply chain to determine where they could reduce costs. Once they realized their products could be produced at a cheaper cost in the Asian markets they relocated their production capabilities to these countries. Peru was known to have high labor standards, to provide social and health benefits to their workers, and to operate very clean and safe work environments. As a result, Peru’s labor costs were almost four times that of Vietnam and more than double that of Nicaragua (O’Rourke Group, 2014; Werner International, 2014) (Exhibit 10). These high labor costs deterred the high-volume, low value retailers from producing their products in Peru.

In response to this market shift, Peru’s manufacturers changed their strategy from serving the high-volume, low-value retailer to instead serving the lower-volume, higher-value brands such as Armani, Brooks Brothers, and Lilly Pulitzer. These brands have shown their willingness to pay high prices for the high quality cotton and production.

A fully integrated supply chain

Peru is one of the only countries in the world to have a fully vertically integrated supply chain, from agricultural production through to final apparel production (Exhibit 9). With a fully integrated supply chain a manufacturer is able to respond more quickly to an order and will have reduced logistical costs, this is especially critical to manufacturers in the “fast-fashion” space where consumers demand new styles each week. In this setup, the manufacturer can easily coordinate between yarn and textile producers to supply inputs required for the final product.
Retailers also value having all stages of the chain in one location. For example, Lilly Pulitzer, headquartered in Philadelphia, values the relatively short flying time between the company’s headquarters in Philadelphia and the company’s production site in Lima, Peru. Additionally, with all elements of production located in one site, product and design development teams can closely monitor quality in all stages of the chain (Donaldson, 2014).

Peru’s close proximity to its key market, the US (and it’s shared east coast time zone), enables Peru’s T&A firms to produce small lots, a key ability needed to participate in the higher value ‘fast fashion’ market. In the past, Pima cotton was reserved for luxury products, but in recent years, the use of high quality cotton has increased for mass markets. The rise of fast fashion and the declining global production of high quality cotton has added to the wave of growth in this sector. Additionally, Peru has significantly lower energy production costs (Exhibit 12) which allows the T&A firms to pass along cost savings to the retailers.

A cultural tradition of textile craftsmanship

Peruvian historians have data, dating back three millennia, of Andean culture’s producing intricate textiles for social and religious purposes - this tradition of textile making is woven into their culture, even today. Throughout their history, Andeans have developed, and passed down, the skills needed to craft intricate fabrics, colors, and designs that denote key characteristics of a person including their town of origin, social status, gender, age, wealth, power and ethnicity. The art of weaving textiles is taught early on, beginning with three and four year olds learning to spin yarn. The act of weaving is both social and communal and is the community’s favored form of expression. Additional weaving and spinning skills are acquired over the individual's lifetime and passed down through the generations.

Today, Peruvians bring generations of knowledge and experience to the modern day textile weaving industry. Naturally, the country has a deep talent pool of highly skilled individuals with an innate knowledge of how to produce the highest quality textile using time tested techniques and materials. The incredible level of knowledge built into a labor force translates to high quality production of textiles and final products.

Business Overview of Lilly Pulitzer

Lilly Pulitzer Inc. (Lilly) designs, sources, markets and distributes upscale collections of women's and girl's dresses, sportswear and related products. The brand was originally created in 1959 by Lillian Lee McKim (later known as Lilly Pulitzer) in Palm Beach, FL. The Lilly Pulitzer brand reflects the affluent heritage and aesthetic of the Palm Beach resort lifestyle. Originally, the main factory was located in Miami, FL and the fabrics were produced by the Key West Hand Print Fabrics Company in Key West, FL. From the 1960s to the early 1980s, Pulitzer's bright, colorful clothes were very popular, worn by celebrities such as Jacqueline
Kennedy Onassis and C. Z. Guest. In 1984 Lilly retired and closed down the entire line, but in a decade later, in 1993, Sugartown Worldwide Inc. bought the rights and revived the company.\(^2\) Lilly stayed on as a creative director until 2010 when Oxford Industries acquired the Lilly Pulitzer brand from for $60M.\(^1\) Oxford Industries is a global apparel company that designs, sources, markets and distributes products bearing the trademarks of the company-owned lifestyle brands, as well as certain licensed and private label apparel products. Their portfolio of brands includes Tommy Bahama®, Lilly Pulitzer® and Ben Sherman®.\(^12\)

The Lilly brand is unique among other women’s brands in that it has demonstrated multi-generational appeal with mother’s passing down their love for the brand (as well as actual products) to their daughters.\(^12\) Lilly maintains that their strategy has always relied on serving a variety of age groups, stating that Lilly can dress women “from 9 years old to 90 years old.”\(^3\) Their products can be found in Lilly Pulitzer stores, on the Lilly Pulitzer website, as well as in high-end department and independent specialty stores.\(^12\)

In 2017, key management team members included Michelle Kelly, CEO, Kate Lester Kenny, Vice President of Merchandising and Planning, and Mira (Jarvinen) Fain, Executive Vice President of Product Design & Development.

Lilly Pulitzer’s Design, Sourcing, and Distribution Strategy

Design

Lilly’s products are developed by their internal design teams primarily located at their headquarters in King of Prussia, PA.\(^12\) The design process combines feedback from buyers, consumers, the Lilly sales force, and market trend research.\(^12\) Lilly’s apparel products are designed to incorporate various fiber types, including cotton, silk, linen and other natural and man-made fibers, or blends of two or more of these materials.\(^12\)

The Lilly Pulitzer brand is most known for their playful designs and rich, colorful patterns, reflective of the “Palm Beach resort lifestyle”. The idea for these brightly colored designers was to hide the juice stains Lilly would experience while working at her juice stand outside the orange groves that she and her husband owned at the time. Since then, every single print and pattern is designed, by hand, in Lilly’s print studio (Exhibit 2). Lilly would pride herself on adding a personal touch or special detail on her products, to add “that little something extra”, to please her customers. Today, the Lilly brand continues this tradition of subtlety by hiding “Lilly” in each designed print. A key to Lilly’s success lies with their partnership with a manufacturer that can produce high quality apparel that showcases Lilly’s unique patterns and coloring.

Sourcing

Lilly utilizes a combination of in-house employees in their Pennsylvania and Hong Kong offices and third party buying agents primarily based in Asia to manage the production and
Through its buying agents and direct sourcing, Lilly Pulitzer used approximately 45 suppliers, with the largest 10 suppliers providing 63% of the Lilly Pulitzer products acquired during Fiscal 2014. In that same year, 66% of Lilly’s product purchases were from manufacturers located in China.

However, outside of Asia, Lilly also sources their products from Peru. Sharrie Lister Booker, former vice president of production for Lilly Pulitzer Inc., said she sources in Peru “for both its quality standard and ease of communication. We’ve been making our products in Peru since 2001, starting with solid knit tops, and in the last five years we’ve significantly expanded our sourcing in the country.” Lilly produces knit tops, knit dresses, and knit children’s wear in both prints and solids in Peru. Booker has been quoted as saying that “Lilly won’t make them anywhere else for two reasons: The Pima cotton, and time our product teams have dedicated over the last few years working with print mills in Lima area to ensure they mills can produce the quality and color palette of the Lilly Pulitzer prints. We are a brand known for our color palette and prints – so to be able to execute them correctly is a critical factor in determining the source base. From a technical perspective we could produce them in China, which is where we used to make them before moving heavily into Peru.”

**Distribution**

Lilly operates a distribution center in King of Prussia, PA for its operations. Activities at the distribution center include receiving finished goods from suppliers, inspecting the products and shipping the products to wholesale customers, retail stores and to e-commerce customers. Lilly aims to maintain sufficient levels of inventory at the distribution center to support their direct to consumer operations, as well as pre-booked orders and some limited replenishment ordering for their wholesale customers.

**Who is the Lilly Pulitzer Customer?**

Today’s Lilly Pulitzer customer is not too different from the generations that came before her. She expects top quality materials and design, a personalized shopping experience, and a season after season of products that reflect the “Palm-beach resort” lifestyle. In addition to these characteristics, today’s Lilly customer, in contrast to the Lilly customer of a generation before her, is also looking to “connect” with the brand’s story and the image it portrays. Customer research has shown that the Lilly customer is inspired by Lilly Pulitzer’s entrepreneurial spirit and unapologetically whimsical designs. Along with connecting to the brand, she also wants to share her love of the brand through the various social media channels she controls (e.g. Instagram, Facebook, Snapchat and Twitter). This has added a new dimension to the Lilly shopper as she now has the ability to influence a much larger audience with her tastes than any generation before her. E-commerce is her preferred method of shopping and she expects the marketing campaigns she interacts with (via social media or direct mail) to be tailored
specifically to her. Overall, she is a savvy consumer who is highly likely to pass along her love of the brand to her next generation.

Benefits & Challenges Lilly Pulitzer faces producing in Peru

Producing knit tops, knit dresses, and knit children’s wear in Peru has allowed the Company to take advantage of several key benefits. The first, as mentioned before, is access to Pima Cotton - a luxury grade cotton that is a challenge to source in other markets. The second is access to a highly-skilled labor force with a deep history and expertise in textile production. A third benefit is Lilly’s ability to partner with top-tier production facilities that have a fully integrated supply chain. These Peruvian factories are also known for their high safety standards and sustainability practices. The Peruvian production facilities and Lilly’s headquarters share the same timezone - making communication among the teams easier. Flights between the facilities are much shorter, running an average of 7 hours versus a 14-16 hour flight to China if they had their production facilities based in an Asian market.

However, with these benefits also come challenges Lilly must navigate. Most recently there’s been a renewed interest in “bringing jobs back to the United States.” Leaders from multinational manufacturers to bio-pharma are feeling the pressure to bring as much of their supply chain as possible back to the U.S. and Lilly will be no exception. New York was once the capital of American fashion production, Lilly could feel pressure to bring back its production to the U.S. A second challenge is the rising labor costs in Peru, as noted earlier in the analysis. In 2012, labor costs in Peru in were US$2.78/hr compared to US$0.74 in Vietnam and US$1.23 in Nicaragua. Although Lilly benefits from access to Peru’s highly skilled labor force, when the cost to produce the product erodes the margin on the product Lilly will be faced with the challenge of maintaining quality while still making a profit. A third challenge is the reliance on Pima Cotton. This high quality cotton is strong, durable and holds the bright colors of Lilly’s apparel very well. If Peru and other Pima Cotton producing countries experience extreme changes to weather and climate this could impact the amount and quality of Pima Cotton available in the global marketplace. Additionally, the lack of investment in new and improved cotton seed varieties and the traditional methods of farming on small-scale lots will greatly limit the amount and quality of Pima Cotton that Peru can produce. To keep up with the demand from retailers Peru will need to purchase Pima Cotton from other countries, thus increasing the overall costs to produce a cotton-based product in Peru. Finally, Lilly will need to consider the impact of other U.S. and European brands moving their production to the T&A firms in Peru. With a potential sudden surge of new brands in the Peruvian T&A industry, Lilly may see these firms increasing production costs or increasing the lead time needed to complete a request from Lilly. Lilly’s leadership team will need to consider each challenge and determine a strategy that will mitigate major disruptions to cost, timing and quality.

Key questions for the reader:
1. How should Lilly’s leadership handle the potential challenges that could arise as they continue to manufacture their apparel in Peru?
2. What key factors should Lilly Pulitzer’s leadership consider when determining a potential change in their manufacturing strategy?
3. How would a potential change in strategy impact the quality of the Lilly Pulitzer product?
4. Is there an opportunity for Lilly Pulitzer to sell their products directly to the Peruvian market as well as the US market? Should Lilly Pulitzer begin to consider a global go-to-market strategy?
Exhibits Overview:

- Exhibit 1: PESTEL Framework - Global Fashion Industry
- Exhibit 2: Graph displaying Peruvian growth rate % in terms of GDP (2004 - 2015)
- Exhibit 3: Graph displaying South America’s GDP growth in 2014 based on Purchasing-Power-Parity (using the international dollar as a unit of measurement)
- Exhibit 4: Overview of Peru’s political system
- Exhibit 6: Snapshot of Peru’s textile exports (2009 - 2013) (US$)
- Exhibit 7: Key economic indicators for Peru (2014)
- Exhibit 8: List of Peru’s Trade Agreements that were in force, to be entered into effect or pending negotiations as of 2014
- Exhibit 9: Peru's Participation in the High Quality Cotton Textile & Apparel Global Value Chain
- Exhibit 10: Labor Costs in the Textile and Apparel GVC, Select Countries 2002-2014, US$/Hour
- Exhibit 11: Industrial Electricity Prices, 2013 (US$ cents/kWh)
- Exhibit 12: Examples of Lilly Pulitzer’s unique prints and fabric coloring
Exhibit 1: PESTEL Framework - Global Fashion Industry

<table>
<thead>
<tr>
<th>Factor within framework</th>
<th>Factor detail</th>
<th>Impact on retail industry</th>
</tr>
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</table>
| Political               | ● The U.S.’s withdrawal from the Trans Pacific Partnership (TPP)  
                          ● The U.S.’s plans to renegotiate the North American Free Trade Agreement (NAFTA).  
                          ● Potential impacts on overseas manufacturing operations that most U.S. retailers use for production.  
                          ● Potential increase in costs if new tariffs are put in place in countries involved in the supply chain. |
| Economic                | ● The rise in value of the US dollar against most major currencies (in 2015 and 2016).  
                          ● Lower oil prices  
                          ● Slowing of the Chinese economy due to a number of factors including the massive borrowing by local governments, corporations, and individuals investing in fixed assets  
                          ● The rise of interest rates (in U.S. in 2017)  
                          ● Increase in GDP: 1.9% in Q4 2016  
                          ● Inflation rate 2.1% (up from 0.73% in 2015)  
                          ● 2016 Unemployment rate = 4.9%  
                          ● Increased purchasing power for US consumers and higher import prices for consumers in other countries, especially in emerging markets.  
                          ● Reduction in transportation costs but also resulted in weak economic growth in a number of oil-exporting countries, such as Canada, Russia - key retail markets.  
                          ● A reduction in consumer spending in China, the world’s fifth largest luxury market, will have a negative impact on global retailers.  
                          ● While this “erodes message control for brands” social media is one of the most effective means to introduce new products globally.” |
| Social                  | ● The increase in digital consumer engagement through social media  
                          ● The evolution in consumer buying behaviors  
                          ● The millennial generation values sustainability, transparency, and authenticity.  
                          ● Millennial generation = 79 million people  
                          ● Annual U.S. population growth = 0.8%  
                          ● While this “erodes message control for brands” social media is one of the most effective means to introduce new products globally.” |
| Technological           | ● The rise of ecommerce;  
                          ● New methods of payment;  
                          ● The emergence of wearable  
                          ● Changes to the consumer-retailer relationship;  
                          ● The creation of new business models |
technology

- The increased threat of cybersecurity attacks on (A data security or privacy breach could damage our reputation and our relationships with our customers, expose us to litigation risk, and adversely affect our business.)

- and the introduction of uncertainty to traditional ones.²

Environmental

- The rise of “fast” or “disposable” fashion has led to cheap materials and cheap labor usage.
- Consumers throw away 65 pounds of clothing per year.⁷
- The potential of loosening environmental regulations on U.S. companies as a result of change in leadership at the Environmental Protection Agency (EPA).

- Retailers face pressure to turn out new styles quickly and cheaply, forcing them to use synthetic fabric that are not biodegradable and have a environmentally harmful manufacturing process.⁷
- NGOs pressuring retailers for transparency in their supply chain and manufacturing processes, as a result some retailers are moving to put sustainability at the core of their identity and marketing strategies.⁸

Legal

- The EU’s General Data Protection Regulation (GDPR) will apply to all businesses that collect and use data from European citizens.¹
- Britain’s exit from the European Union⁴
- Retail companies face new compliance requirements that will significantly impact their data practices, marketing strategies, and operations.¹
Exhibit 2: Graph displaying Peruvian growth rate % in terms of GDP (2004 - 2015)

Peruvian Real GDP: Rates of Growth (%)

Source:
BCRP, APICY, Consultoria (Forecasts)
**Exhibit 3:** Graph displaying South America’s GDP growth in 2014 based on Purchasing-Power-Parity (using the international dollar as a unit of measurement)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (current international dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>3,072.61</td>
</tr>
<tr>
<td>Argentina</td>
<td>927.88</td>
</tr>
<tr>
<td>Colombia</td>
<td>641.53</td>
</tr>
<tr>
<td>Venezuela</td>
<td>545.70</td>
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<tr>
<td>Chile</td>
<td>410.28</td>
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<tr>
<td>Peru</td>
<td>376.74</td>
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<tr>
<td>Ecuador</td>
<td>181.95</td>
</tr>
<tr>
<td>Bolivia</td>
<td>98.90</td>
</tr>
<tr>
<td>Uruguay</td>
<td>69.79</td>
</tr>
<tr>
<td>Paraguay</td>
<td>57.67</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook
October 2014 (Forecasts)
**Exhibit 4: Overview of Peru’s political system**

<table>
<thead>
<tr>
<th><strong>Executive power</strong></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>President of the Republic</strong></td>
<td>The President is the Head of State and of the government, his mandate is for 5 years and immediate reelection is not permitted. Ollanta Humala Tasso is the Constitutional President of the Republic until July 28th, 2016.</td>
</tr>
<tr>
<td><strong>Council of Ministers</strong></td>
<td>This is composed of the President of the Council of Ministers and the ministers, appointed and removed by the President of the Republic. Currently Peru has 18 ministers.</td>
</tr>
<tr>
<td><strong>Laws issued</strong></td>
<td>Legislative Decrees, Emergency Decrees, Supreme Decrees, Supreme Resolutions, Ministerial Resolutions, Viceministerial Resolutions, Directorial Resolutions and Resolutions of Public Organisms.</td>
</tr>
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<table>
<thead>
<tr>
<th><strong>Legislative power</strong></th>
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<tbody>
<tr>
<td><strong>Congress</strong></td>
<td>Represents the Legislative Power, is unicameral and has 130 congressmen, elected for a 5 year period. The mandate of the current Parliament expires in July 2016.</td>
</tr>
<tr>
<td><strong>Laws issued</strong></td>
<td>Laws and resolutions.</td>
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<tr>
<th><strong>Judiciary</strong></th>
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<tbody>
<tr>
<td><strong>Jurisdictional organs</strong></td>
<td>They constitute the Judiciary and have the exclusive power to administer justice. These organs are the Supreme Court, the Superior Courts, Justices of the Peace and the Specialized Mixed Courts.</td>
</tr>
<tr>
<td><strong>Organs of government and administration</strong></td>
<td>These consist of the President of the Supreme Court, who is also President and most senior representative of the Judiciary, the Plenary Chamber of the Supreme Court, the Executive Council, General Management and the District Executive Council.</td>
</tr>
</tbody>
</table>

**Constitutionally Autonomous Organisms**

They are public law entities with economic, functional, technical and financial autonomy; governed by their organic laws and carry out specialized functions of the State. They include, among others, the Superintendency of Banking, Insurance and Pension Fund Administrators (SBS); the Central Reserve Bank of Peru (BCRP); the Constitutional Tribunal (TC); National Election Administrative Body (JNE) and the National Comptroller’s Office.

**Regional Governments**

Currently there are 26 Regional Governments, made up of the 24 departments, the Constitutional Province of Callao and the Metropolitan Municipality of Lima. Their representatives are elected by popular vote for four years.

**Local Governments**

They conduct the public administration in each of the provinces, districts and villages of Peru, through the municipalities. Their representatives are elected by popular vote for four years.

Source: CPP

Regional Doing Business Ranking

<table>
<thead>
<tr>
<th>Place</th>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Colombia</td>
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<tr>
<td>2</td>
<td>Peru</td>
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<tr>
<td>3</td>
<td>Mexico</td>
</tr>
<tr>
<td>4</td>
<td>Chile</td>
</tr>
<tr>
<td>5</td>
<td>Uruguay</td>
</tr>
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Source: Doing Business 2015
Exhibit 6: Snapshot of Peru’s textile exports (2009 - 2013) (US$)

Textile Products Exports (FOB US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1,495</td>
</tr>
<tr>
<td>2010</td>
<td>1,561</td>
</tr>
<tr>
<td>2011</td>
<td>1,990</td>
</tr>
<tr>
<td>2012</td>
<td>2,177</td>
</tr>
<tr>
<td>2013</td>
<td>1,926</td>
</tr>
</tbody>
</table>

Source: BCRP
Exhibit 7: *Key economic indicators for Peru (2014)*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Nuevo Sol (S/)</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP) 2014</td>
<td>US$ 271 billion</td>
</tr>
<tr>
<td>GDP per capita 2014</td>
<td>US$ 6,895</td>
</tr>
<tr>
<td>GDP based PPP 2014</td>
<td>US$ 368 billion</td>
</tr>
<tr>
<td>GDP per capita based PPP 2014</td>
<td>US$ 11,735</td>
</tr>
<tr>
<td>GDP Annual Growth Rate 2014</td>
<td>5.50%</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>S/ 750 (US$ 242 at exchange rate of S/ 3.095)</td>
</tr>
<tr>
<td>Private Consumption (as a percentage of GDP) 2014</td>
<td>63.02%</td>
</tr>
<tr>
<td>Public Consumption (as a percentage of GDP) 2014</td>
<td>11.60%</td>
</tr>
<tr>
<td>Gross Fixed Investment (as a percentage of GDP) 2014</td>
<td>25.80%</td>
</tr>
<tr>
<td>Public Dept (as a percentage of GDP) 2014</td>
<td>17.40%</td>
</tr>
<tr>
<td>Unemployment Rate 2014</td>
<td>6.0%</td>
</tr>
<tr>
<td>Population below poverty line 2013</td>
<td>23.90%</td>
</tr>
<tr>
<td>Lima Price Index December 2014</td>
<td>3.22%</td>
</tr>
<tr>
<td>Net International Reserves (NIR)</td>
<td>US$ 64,107 million</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI) 2014</td>
<td>US$ 9.3 billion (forecast)</td>
</tr>
<tr>
<td>Exports 2014</td>
<td>US$ 39,326 million</td>
</tr>
<tr>
<td>Imports 2014</td>
<td>US$ 40,807 million</td>
</tr>
<tr>
<td>NIR/M3 2014 3Q</td>
<td>0.9%</td>
</tr>
<tr>
<td>NIR/debt short-term 2014</td>
<td>9.11</td>
</tr>
<tr>
<td>NIR/GDP 2014</td>
<td>23.7%</td>
</tr>
<tr>
<td>Gross Public Debt / GDP 2014</td>
<td>16.7%</td>
</tr>
<tr>
<td>Net Public Debt / GDP 2014</td>
<td>0.5%</td>
</tr>
<tr>
<td>Gross Public Debt / GDP 2014 3Q</td>
<td>18.5</td>
</tr>
<tr>
<td>Net Public Debt / GDP 2014 3Q</td>
<td>1.9</td>
</tr>
</tbody>
</table>
**Exhibit 8: List of Peru’s Trade Agreements that were in force, to be entered into effect or pending negotiations as of 2014**

<table>
<thead>
<tr>
<th>Currently in force</th>
<th>To enter into effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Trade Organization</td>
<td>Guatemala</td>
</tr>
<tr>
<td>Andean Community</td>
<td>Pacific Alliance</td>
</tr>
<tr>
<td>Mercosur</td>
<td>Doha round for development</td>
</tr>
<tr>
<td>APEC</td>
<td>Transpacific Alliance</td>
</tr>
<tr>
<td>EFTA</td>
<td>Honduras</td>
</tr>
<tr>
<td>European Union</td>
<td>El Salvador</td>
</tr>
<tr>
<td>U.S.</td>
<td>Turkey</td>
</tr>
<tr>
<td>China</td>
<td>Trade In Services Agreement - TISA</td>
</tr>
<tr>
<td>Canada</td>
<td>India</td>
</tr>
<tr>
<td>Japan</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td></td>
</tr>
<tr>
<td>Cuba</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
</tr>
</tbody>
</table>

| Pending negotiations | |
|----------------------| |
| | |
Exhibit 9: Peru's Participation (activities within red boxes) in the High Quality Cotton Textile & Apparel Global Value Chain

Exhibit 10: Labor Costs in the Textile and Apparel GVC, Select Countries 2002-2014, US$/Hour

Exhibit 11: *Industrial Electricity Prices, 2013 (US$ cents/kWh)*

![Bar chart showing industrial electricity prices for various countries in 2013.](chart)

Source: Authors elaboration based on (International Energy Agency, 2014) and (Osinergmin, 2013)

Note: * Data from second trimester 2013.
Exhibit 12: Examples of Lilly Pulitzer’s unique prints and fabric coloring

Lilly Pulitzer prints are custom designed in house by our talented print designers. They will take you to a world you never imagined - is that a parrot with a piña colada on your shift? Probably. We believe in living a life in print - always sunny and always happy. Click on a swatch below to learn more.
Work Cited

4. 2015 Doing Business and Investing in Peru. (PwC piece)
Case Summary
The case study entitled “A retailer with modern day designs partners with a country steeped in design tradition: Lilly Pulitzer in Peru” explores the relationship between global trade policy, cultural traditions and changing forces impacting the global retail market.

The case focuses on Lilly Pulitzer, a U.S. based company that designs, sources, markets and distributes upscale collections of women's and girl's dresses, sportswear and related products, and its decision to move production of some of its products from Asia to Peru. The audience will explore the recent changes in global trade policy that allowed Peru to emerge as a key player in the retail and apparel market as well as how Peruvian culture and traditions support this position.

Additionally, the audience will learn about the key forces driving major changes across the global retail market including technological and societal forces. They will explore Lilly Pulitzer’s business strategy and understand how the macro forces discussed have led Lilly to move its supply chain to Peru. The audience will also learn the challenges that face Lilly with this change and they will have the opportunity to discuss potential solutions to these challenges.

The case concludes with a few questions to reading regarding Lilly’s future strategy. Overall, the class session should be lively with opportunities to breakout into small groups to discuss topics and then come back and present findings to the larger group.

Teaching Objectives
Teaching objectives for this case study are as follows:

- Teach students to identify triggers in the global landscape that would cause leaders in the retail industry to adjust or change their production strategy.
- Enable students to identify and understand the relationship between global policy, consumer preferences, economic drivers and how these impact a retailer’s supply chain and production strategy.
- Demonstrate the importance of evaluating cultural traditions, values and future objectives when partnering with a developing economy.

Target Audience
The target audience for this case is undergraduate and graduate business students. International Business or Global Management courses are most appropriate. Additionally, a course related to supply chain/operational management and/or consumer products would be a good setting for this case. A survey course about doing business in Latin America would be a good fit as well.

Suggested Teaching Strategy
One good approach to start with is to place the audience in the seat of Lilly Pulitzer’s CEO. Take the audience through the decision journey while processing the key elements that impact supply chain (e.g. global trade policy, changing consumer preferences, economic factors, etc.). The goal of the discussion is expose the audience to think holistically about a key business decision – to understand the many forces pushing against a business and how to think critically to navigate a business through uncharted waters.

**Step 1: Focus on impacts on the retail industry**

- Begin by asking the class to talk through what the retail environment was like in the early 2010s. Discuss how customer preferences were starting to change, how fast-fashion was coming into the spotlight and how this was starting to put pressure on retailers in ways they have never experienced.
- **Goal:** The audience has an appreciation for the pressures and speed at which consumer demands are shifting and how that impacts the retail industry as a whole.

**Step 2: Broaden the discussion to look at those impacts on the industry within the context of global trade policy.**

- One the audience has an appreciation for the forces impacting the industry, broaden the discussion to include talking points on trade policy. Ask the audience to talk through some of the key legislation and its players and analyze how these decisions started to set up a shift companies producing in primarily Asia to now South America.
- **Goal:** Enable the audience to recognize how global trade policy has the power to change a country’s economy and growth prospects while also impacting how and where U.S. businesses set up parts of their supply chain.

**Step 3: Identify what Lilly Pulitzer needs within its supply chain to deliver a quality product**

- Keeping in the mind the pressures on the retail industry and changes in consumer preferences guide the discussion so the audience begins to identify the keys elements Lilly needs in its supply chain (e.g. Quality cotton, design expertise, relatively close proximity to production sites, quick turnaround times, etc.) (This would be a good opportunity to ask students to get together in groups to discuss and then have each team write their findings on the board at the front of the classroom.) The facilitator can then ask each group to talk through their thinking behind their list of “key elements” that Lilly would need in its supply chain.
- **Goal:** Demonstrate to the audience the importance of understanding how macro forces can impact a business while also continuing to think through “what are the key elements that make our brand successful”? “What do we need to protect/develop/growth in this challenging environment to ensure we continue to deliver a quality product to our consumer?” *(Showing that as business leaders you will need to know how to navigate through challenges while simultaneously and continually finding ways to keep your business growing.)*

**Step 4: Discuss how the political and cultural elements aligned to enable Peru to become a key partner with international retailers.*
• Pivot the discussion from the elements Lilly needs in its supply chain to how Peru addresses each of those needs. (e.g. Peruvian “high-quality” Pima Cotton, A fully integrated supply chain, and A cultural tradition of textile craftsmanship.)
• **Goal:** Have the audience identify how Peru has leveraged their cultural strengths to position themselves as a key player in the global retail industry.

**Step 5: Address challenges Lilly will face with production in Peru and discuss a path forward on each of these challenges.**

• Ask the group of break into another set of small groups and then to write out (either on a white board or on large sticky note pad) the key challenges they think Lilly will face operating in Peru. (Allow 10 – 15 mins for this discussion).
• Then ask the groups to each share their ‘challenges’ with the class. Identify the top 3-5 challenges and then start a discussion around potential mitigation strategies around each challenge.
• **Goal:** Demonstrating to the audience that every business leader will be faced with challenges to their decisions. As a leader, they will need to know how to work across the business to develop solutions or ‘a path forward’ to each challenge.

**Step 6: Wrap up / final questions on comments on the case.**

**Suggested Answers to Discussion Questions**

1. **How did changes in trade policy give Peru a comparative advantage in the T&A sector against competitors in Asian markets?**
   
a. Since the early 1990s Peru focused on expanding economic opportunities, deepening their “anti-narcotics and alternative development efforts”, and promoting sound environmental stewardship. To support these objectives Peru developed a political trading strategy that exemplifies openness while positioning Peru for growth and stability. Beginning in 1991 the United States enacted the *Andean Trade Preference Act* (ATPA) to help combat drug production and trafficking in the Andean countries of Peru, Bolivia, Colombia, and Ecuador. The program was designed to offered trade benefits to help these countries develop and strengthen legitimate industries. The Act was changed in 2002 to the *Andean Trade Promotion and Drug Eradication Act* (ATPDEA), which meant the U.S. would allow duty-free access to these countries to U.S. markets for approximately 5,600 products, thus giving Peru a comparative advantage in this sector against competitors in Asian markets.

b. In 2009 Peru entered into the *United States-Peru Free Trade Agreement* (PTPA). The PTPA eliminates tariffs to U.S. services, provides a secure, predictable legal framework for investors, and strengthens protection for intellectual property, workers, and the environment. Since 2009, the total trade between the two countries has almost doubled, from $9 billion to more than $16 billion in 2013.

c. Another key trade agreement is *The Protocol of Accession of Ecuador to the Trade Agreement with Colombia and Peru.* This agreement, signed on
November 11, 2016, opened up markets on both sides of Peru as well as increased the stability and predictability of the trade and investment environment between the three countries.  

2. **In addition to changes in trade policy, as the CEO of Lilly Pulitzer, what other forces are impacting the future of your business? What macro trends would you be watching and planning for as your guide your business into the future?**

   a. The continual rise and growth impacting technology has on every aspect of business. Technology enables new methods of payments, new platforms for customers to share thoughts and opinions on a brand and product, and the rise of wearable technology. All of which has led to changes to the consumer-retailer relationship and the creation of new business models and the introduction of uncertainty to traditional ones.

   b. From a societal perspective we are seeing a shift in a desire for transparency in a supply chain, commitment from partners throughout the process to adhere to ethical and sustainable business practices while still delivering a product at a low price. Technology has enabled consumers to interact with brands like never before and the rise of fast fashion speaks to the millennial generation’s desire for immediate fulfillment while pushing back against their quest for sustainable business practices.

3. **Is there an opportunity for Lilly Pulitzer to sell their products directly to the Peruvian market as well as the US market? Should Lilly Pulitzer begin to consider a global go-to-market strategy?**

   a. The challenge the Lilly brand faces when considering a global go-to-market strategy is to identify which markets would connect most with the brand’s image and messaging. The Lilly brand positions itself as whimsical, fun, and preppy with a nod to its waspy roots. It’s an aspirational brand that connects best with a market eager to let others know they are fun and preppy but also have significant disposable income to spend on brightly colored, primarily warm weather appeal. A strategy that identifies 2-3 markets outside the U.S. and a targeted portfolio of products to launch would be the right next step if Lilly considers developing a more formal global go-to-market strategy.

**Further Reading**
