

FUNG GLOBAL RETAIL & TECHNOLOGY AT PROJECT LAS VEGAS: 10 KEY TAKEAWAYS

WWD MAGIC

Young Contemporary and Juniors' RTW,
Women's Sportswear, and Accessories

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LAS VEGAS CONVENTION CENTER, CENTRAL HALL

MAGIC



In Las Vegas this week, Fung Global Retail & Technology attended the Magic conference, which covers the men's, women's and children's apparel, accessories and footwear markets. Here, we share our 10 key takeaways from the event.

- 1) Influencers Are Enhancing the Buy-Now, Wear-Now Fashion Cycle
- 2) Snapchat Is the New Instagram
- 3) The Power Struggle Between Brands and Retailers Is Shifting
- 4) Department Stores Are Focusing on Quality, Not Quantity
- 5) Under Armour Is at the Forefront of Automated Manufacturing and Smart Fabrics
- 6) Retailers Continue to Seek Celebrity Partnerships; Katy Perry to Launch Shoe Line
- 7) 3D Printing, Design and Scanning: The New Roadmap to the Footwear of the Future
- 8) Loyalty Programs and Customer Service Are Key in Changing the Retail Environment
- 9) Returns and Reverse Logistics Are Increasingly Becoming an Issue for Retailers
- 10) Consumers Are Willing to Buy More at Full Price

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As the fashion cycle shortens, consumers are seeking alternative sources for style inspiration.

Retailers and brands must partner with influencers who can incorporate the product or message seamlessly into their own branding, Smith said he foresees an even more collaborative future, with influencers working closely with brands and retailers in the design process.

WWD MAGIC panelists outlined the importance of Snapchat and Instagram Stories for brands and influencers.

1. Influencers Are Enhancing the Buy-Now, Wear-Now Fashion Cycle

Influencers are becoming even more important to brands' marketing strategies. As the fashion cycle shortens, consumers are seeking alternative sources for style inspiration. Parker York Smith, Senior Editor at *GQ* and a menswear blogger, explained that he gets his inspiration from a multitude of places, including the runways, street style photography and people watching. Beauty and lifestyle influencer and vlogger Linda Vuong said that the value of fashion influencers lies in their ability to curate and show their audience how they can incorporate trends in ways that fit their individual bodies and styles.

Retailers and brands must partner with influencers who can incorporate the product or message seamlessly into their own branding, said Stephanie Jenkins, a PR expert and the entrepreneur behind e-commerce site *Styled by Noir*. Smith said he foresees an even more collaborative future, with influencers working closely with brands and retailers in the design process.

Smith, Vuong and Jenkins said they like to stay current when planning their content. Smith explained that this was because it is so easy to shop in the moment. When consumers can shop online for something to wear to an event just a few days away, they are not motivated to buy a sweater a season in advance. This strategy aligns with the buy-now, wear-now attitude and further contributes to the authenticity that makes influencers such a powerful marketing tool.



Source: Shutterstock

2. Snapchat Is the New Instagram

Social media was a hot topic at the Magic conference. Instagram has long been touted as the best social media platform for fashion brands and retailers. However, WWD MAGIC panelists—including Smith, Vuong and Aimee Santos, a designer and influencer—outlined the importance of Snapchat and Instagram Stories for brands and influencers. While Instagram Stories is essentially a

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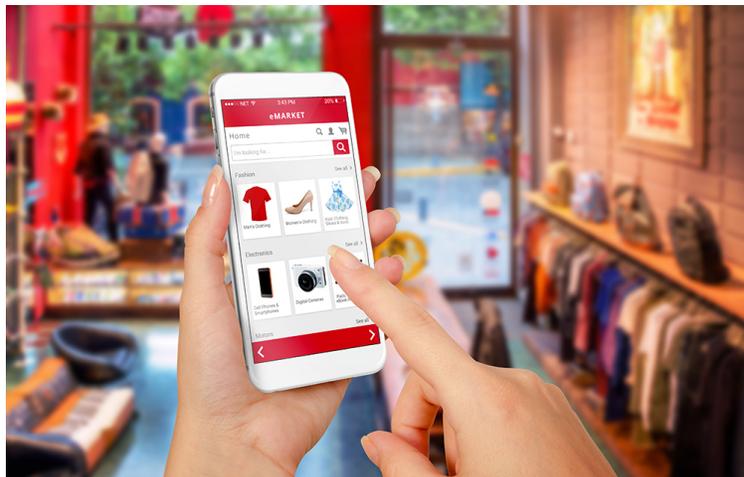
Influencers and brands are still figuring out how to best partner for Snapchat campaigns. While marketers know that the platforms are powerful tools, it is often difficult to measure the ROI of a specific campaign. However, retailers can use influencers to offer one-time-only promo codes to their audience via Snapchat, and then track how effective each campaign was.

Consumers are continuing to reject traditional marketing techniques, and social media has become a key marketing channel. Retailers need to focus on developing content and followers on Snapchat and Instagram Stories as shoppers seek out more authentic content from brands.

3. The Power Struggle Between Brands and Retailers Is Shifting

The fact that a number of brands, particularly in the handbag space, have recently disclosed that they are reducing their exposure to the department-store channel prompted much discussion at Magic this week. E-commerce is giving brands more control of their distribution and more brands are operating their own stores, which puts more pressure on department stores to offer a compelling experience to consumers. Department stores must do something different. Consumers no longer shop in silos, they are less brand loyal than in the past and they are more interested in seeing a curated selection of compelling product.

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Source: Shutterstock

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These changes will allow the companies to focus more of their time and energy on fewer stores and to make a more dramatic impact with their overall offering.

The company sees the future of retail as reliant on its ability to respond to customers' needs and wants by manufacturing in local markets.

4. Department Stores Are Focusing on Quality, Not Quantity

Macy's recently announced that it will close 100 of its 675 full-line stores at the end of the current fiscal year, after already having closed 41 stores last year. The planned closures represent 12% of the current store base, and will total more closures than the company has made in the last six years combined. Kohl's had previously announced it would be closing 100 of its 1,015 stores, and that it plans to reduce square footage in large stores as leases expire or other opportunities arise. These changes will allow the companies to focus more of their time and energy on fewer stores and to make a more dramatic impact with their overall offering. We would not be surprised to hear of other retailers executing aggressive store closure plans.



Source: Shutterstock

5. Under Armour Is at the Forefront of Automated Manufacturing and Smart Fabrics

Under Armour is at the forefront of a number of new technologies, particularly related to manufacturing automation and smart fabrics. The company sees the future of retail as reliant on its ability to respond to customers' needs and wants by manufacturing in local markets. That has implications across the entire production process.

Investments in Automation and Robotics

Under Armour is working to address the long lead times that are prevalent across the industry. Fast fashion has emerged as a strong area of growth, driven in large part by advanced supply chains that enable short lead times. These have allowed fast-fashion brands to react to actual consumer demand nearly in real time and to give consumers what they want rather than giving them products based on projections that were made months in advance.

Low-cost labor is no longer the linchpin of an efficient supply chain, according to Under Armour. The cyclical search for low-cost labor started in China, then moved to Taiwan and then to South Korea.

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At FN Platform, the footwear expo at Magic, pop star Katy Perry debuted her new shoe line with Global Brands Group. The shoe collection will reflect Perry's bold, whimsical style.

Changing conditions have made the 20th century model economically unsustainable. Labor's cost is no longer low enough to make up for distance.

New manufacturing technologies and processes create new business opportunities. Under Armour is working to automate the manufacturing process to eliminate drudge labor and inefficiency instead of exporting it.

Ready to Grab Smart Fabrics If/When They Emerge

The fabrics we wear have not changed much for thousands of years. But recent developments in technology and manufacturing will enable the production of smart fabrics that can see, hear, sense, communicate, store and regulate temperature, monitor health, and change color. These will be the beginning of a fabric revolution.

Once the fabrics are invented, Under Armour and other companies will be able to evolve their product offerings and make products and clothes that can enhance the lives of consumers. Revolutionary fibers and textiles are a fast-growing segment with a wide range of commercial and defense applications, according to Under Armour.

Critical mass for smart fabrics is dependent on significant adoption in apparel. Military and government applications are likely to be as important as sports apparel applications. Currently, apparel that incorporates smart fabrics represents only 0.004% of total apparel sales globally basis and 0.006% of sales in the US.

6. Retailers Continue to Seek Celebrity Partnerships; Katy Perry to Launch Shoe Line

At FN Platform, the footwear expo at Magic, pop star Katy Perry debuted her new shoe line with Global Brands Group. Launching in spring 2017, Katy Perry Footwear will include sandals, sneakers, stilettos and pumps ranging from \$59 to \$299. The shoe collection will reflect Perry's bold, whimsical style. Sketches released by Perry and Global Brands Group show designs featuring automobile-inspired elements, colorful stars and a tassel-embellished heel.

Global Brands Group is not new to celebrity collaborations. The licensing company has also worked with Jennifer Lopez, David Beckham and Rachel Zoe.



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Caleres, a multibrand retailer whose brands include Naturalizer, Sam Edelman and Rykä, has used 3D technology to create a customized, 3D-printed orthotic for athletic footwear.

7. 3D Printing, Design and Scanning: The New Roadmap to the Footwear of the Future

The footwear industry is innovating using 3D printing, 3D design and 3D scanning. Printed fashion is becoming less futuristic and more of a reality. Caleres, a multibrand retailer whose brands include Naturalizer, Sam Edelman and Rykä, has used 3D technology to create a customized, 3D-printed orthotic for athletic footwear. The customer takes three simple photos of their foot, and receives a customized, personalized, 3D-printed orthotic within 10 days. The customer simply downloads an app to begin the process at home through a smartphone; no doctor visit is required.



Source: footwearnews.com

In design, the 3D process is faster than the traditional design process and involves less physical material. In digital manufacturing, no molds are required and there is no waste, which allows the manufacturer to print as many or as few items as needed, and to fully customize products.

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8. Loyalty Programs and Customer Service Are Key in Changing the Retail Environment

Creating customer loyalty programs and offering exquisite customer service can drive revenue, as 10% of loyal store traffic represents 50% of revenue, while 45% of nonloyal store traffic generates only 5% of revenue. Affluent customers are the biggest users of rewards programs. Restoration Hardware and Neiman Marcus are two retailers that have built very strong loyalty programs. With Restoration Hardware's store card, customers receive 25% off full-priced merchandise and an additional 10% off sale merchandise. Neiman Marcus's InCircle program has more than 150,000 members and represents more than 40% of the company's revenue.

Legendary customer service can boost revenue by as much as 14%. Poor customer service is the number one customer complaint, and customers judge their retail experience relative to all their other in-

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store experiences. What do customers want? Three things: service; information about products, including reviews; and peace of mind, such as guarantees and liberal return policies provide. Studies show that a liberal return policy is better for business long term.



Source: Shutterstock

E-commerce returns totaled 33%, apparel returns totaled 60% and brick-and-mortar returns remained steady. A new study revealed that lenient return policies led to increased purchases and decreased returns.

9. Returns and Reverse Logistics Are Increasingly Becoming an Issue for Retailers

In-store and online returns hit an all-time high of \$284 billion last year and were up 6.2%. E-commerce returns totaled 33%, apparel returns totaled 60% and brick-and-mortar returns remained steady.

Supply.AI is an applied artificial intelligence platform that helps retailers derive maximum cost efficiencies from their order-to-cash cycle by minimizing returns of online purchases. According to the National Retail Federation’s annual *Return Fraud Survey*, the average in-store return rate was 8% in 2015. According to Supply.AI’s analysis, that rate has increased to over 20% in 2016.

A new study revealed that lenient return policies led to increased purchases and decreased returns. Customers love guarantees and liberal return policies because they would rather avoid a loss than gain a win.

10. Consumers Are Willing to Buy More at Full Price

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Consumers are willing to spend more on classic, timeless pieces because they believe they will get more wear out of them, according to panelists at WWDMagic. At a Breakfast with The Disruptors event we cohosted with First Insight, Matthew Sebra of *GQ* said that men choose items based on cost per wear. The magazine creates strategies around men’s lifestyle zones, taking into consideration how different groups enjoy spending their free time. When looking at cost per use, the rationale is that a consumer can get a basic item anywhere, but if the item is a great classic that he will get a lot of use from, then he may be more likely to buy it and to spend more



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for it. Greg Petro, CEO of First Insight, a company that tests products in the market, said that Petro said that 11% of all items that First Insight tests can actually carry a higher price, and that understanding the customer at a microsegment level is critical to figuring out what the customer is willing to pay.

Paul Erickson of RMSA emphasized that retailers should never compete on price because it becomes a race to the bottom. Instead, he said, retailers should play up their product differentiations, cross-market with other stores and hold promotional events.



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Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Amanda Byrne

Marketing Associate

Shoshana Pollack

Senior Research Associate

Erin Schmidt

Research Associate

HONG KONG:

10th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 2470

LONDON:

242-246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

NEW YORK:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

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