



GSRC 10 TAKEAWAYS

10 Key Takeaways from Day One of the Goldman Sachs 23rd Annual Global Retailing Conference

On Wednesday, September 7, the Fung Global Retail & Technology team attended the first day of the Goldman Sachs 23rd Annual Global Retailing Conference. We were joined by representatives of more than 40 retailers from across the globe, including large retailers, startups and brands, as well as by executives from technology companies and investment groups. In this conference wrap-up, we identify 10 major themes that were covered at the event, and share participants' insights regarding store closures, mall traffic, celebrity branding and more.

Our key takeaways include:

- 1) The US consumer is said to be in good shape currently.
- 2) Mall traffic is declining more rapidly than it has in the past.

Retailers are expressing some optimism about the second half of 2016 and the holiday season.

DEBORAH WEINSWIG

MANAGING DIRECTOR,
FUNG GLOBAL RETAIL & TECHNOLOGY
DEBORAHWEINSWIG@FUNG1937.COM
US: 646.839.7017
HK: 852.6119.1779
CN: 86.186.1420.3016

1. The US Consumer Is in Good Shape

Commentary from retailers at the conference suggests that consumers are doing just fine—they have money to spend, although they are selective about where they spend it. Presenters referenced the fact that discretionary income, balance sheets and low unemployment are positive signs with regard to consumers. However, consumption trends are changing, and consumers are more focused on experience/lifestyle-based purchases than they are on purchases of goods. Spending has been skewed toward experiences such as entertainment and dining out at restaurants.



Source: Shutterstock

According to Dick's Sporting Goods Chairman and CEO Ed Stack, the consumer is in good shape and there is a lot of pent-up demand for autos, home renovations and sports-related items. A representative from Gap Inc. also commented on the overall health of the consumer.

In addition, several of the panelists from a lunch session focused on private equity remarked on the health of the US consumer. They did, however, note some malaise specifically related to restaurant performance recently as well as some softness in the travel category.

2. Mall Traffic Declines Have Accelerated

While mall traffic has steadily declined at low-single-digit rates over the last few years, the declines have worsened recently, hitting the mid-to-high-single-digit range. This could partially be driven by a lack of compelling trends or significant newness in apparel, aside from pockets of strength in the activewear category. The continued popularity of online shopping is also a factor. Traffic is bifurcated, though: top malls have seen positive footfall while lower-tier malls have, in some cases, experienced deep, double-digit declines in traffic.

The current promotional environment remains elevated and it is a challenging one for retailers to manage and compete within. A lack of compelling and differentiated product has resulted in price competition. Old Navy has managed to reduce its promotional activity, and the business has improved sequentially following a challenging fourth quarter. The brand continued to improve in August.

Mall traffic has steadily declined at low-single-digit rates over the last few years, but the declines have worsened recently.

3. Retailers Are Somewhat Optimistic About the Second Half and Holiday 2016

A number of retailers at the conference noted that they were optimistic about the second half of the year, though some only cautiously so. Current inventories are more closely aligned with sales relative to the first half of the year. In addition, some attendees had positive comments about the back-to-school season, which bodes well for holiday sales, given the high correlation between the two seasons' results. There has been some resurgence in the denim category as well.

Retailers that were optimistic about the back half of the year included Gap Inc., Dick's Sporting Goods, Hibbett Sports, Express, Global Brands Group, and PVH Corp. Under Armour, Nordstrom and Walmart expect somewhat more neutral trends. An executive from Nordstrom noted that the company prefers to plan the business conservatively and then be able to chase in the event that particular trends become more favorable.

4. Accessories and Beauty Continue to Outperform Apparel

Today's consumer is heavily focused on accessories. The right pair of shoes or the right handbag often takes precedence over the rest of the outfit; thus, apparel seems to be lagging. A representative from Global Brands Group stressed the importance of the company's kids' apparel line, while also noting that handbags and shoes were outperforming apparel in both the men's and women's segments. Michael Kors Chairman and CEO John Idol noted that his company's watch collection, including its recently debuted Access smartwatch, has performed very strongly. Idol said that in the coming years, fashion watches will not exist, that every watch will have smart features and that, eventually, smartwatches will not need to work in tandem with a phone or computer. While Michael Kors saw flattish growth for handbags in the second quarter, unit numbers were up significantly as women bought more bags, particularly smaller bags.



Source: Shutterstock

Beauty is another sector that is outperforming apparel, as exemplified by the strong growth reported by Ulta Beauty in the second quarter: the company saw total sales up 21.9% year over year. Beauty and footwear were also strong categories at Nordstrom in the second quarter.

5. No Compelling Trends Are Currently Driving Apparel

An executive from Gap noted that there is a lack of key trends driving its business and a lack of differentiation across the general retail landscape. In 2012, the company benefited from colored and novelty denim, but the executive noted that if the product is not compelling, a retailer cannot win.

A Nordstrom representative seconded that notion, saying that in the retail business, it all comes down to offering compelling product. It is now more difficult to offer something compelling to customers that they cannot get other places. Retailers have to work harder to offer something different because of the range of choice offered via e-commerce. Demand generation has become more expensive, so Nordstrom chooses to focus on its relationship with customers through its loyalty program.

Conference presenters noted that the one subcategory that has performed well within apparel is activewear and athleisure.

6. Gap Is Shifting to a Demand-Based Buying Model

A manager from Gap Inc. outlined a fundamental change in the way the company is managing its business. It is moving to demand-based buying, which will enable it to use data and real-time trends to affect the way it buys merchandise. The goal is for Gap to be able to get back into a particular product in the same season, when appropriate. When asked about the possibility of a four-week time frame for the production process, management noted that that was probably not necessary, but would be possible if the items were produced in the Caribbean and shipped via air.



Source: Shutterstock

The company believes it has made significant progress in terms of shifting to demand-based buying, and it expects a significant percentage of its assortments to be on the new platform by the beginning of 2017.

7. Retailers Seem to Agree that Store Closures Are Necessary; They See Opportunity in the Macy's Closures

Retailers have faced tough headwinds adapting to the new consumer, which was a concern for Express, according to the company's CEO, David Kornberg. The company expects to complete the planned closure of 50 stores across the US by the end of 2016, and to see a pickup in the second half of the year. Express has no plans to close additional stores.

In reaction to the announcement that Macy's would close 100 stores, Kornberg commented that Express was mostly unfazed, as it does not have much crossover in malls where Macy's will close stores. An executive from Gap Inc. said the company sees opportunity in the Macy's closures, given the roughly \$1 billion in sales those stores represent. The executive said that that demand would not go away and that Gap is hoping to capitalize on it. In addition, given co-tenancy clauses, there could potentially be a rent opportunity for Gap Inc.



Source: Shutterstock

Many of the Macy's stores being closed were the least profitable for PVH. In addition, PVH's major brands are in only the top 500 Macy's department stores. In terms of a specific impact from the Macy's closures, a representative from PVH noted that there would be a minimal impact initially, but some impact over time.

Gap Inc. is most aggressive with store closures for the Gap brand. The PVH executive noted that there are too many department stores on a per-capita basis across the country. Dick's Sporting Goods recently took over 31 leases from Sports Authority, including leases for many stores in underpenetrated locations such as Florida and California.



One of the panelists at the private-equity-focused lunch discussion said that there is an issue of retailers having boxes that are 40% too big rather than simply having 40% too many stores.

Global Brands Group partnered with Katy Perry to release a line of footwear, which has gained a lot of buzz.

8. Celebrity Partnerships and Collaborations Remain an Area of Interest for Retailers

Celebrity partnerships have proven to be very valuable for retailers, particularly due to celebrities' social media reach. Global Brands Group partnered with Katy Perry to release a line of footwear, which has gained a lot of buzz. The pop star has nearly 100 million followers on Twitter, and more than 50 million on Instagram, making her the ideal face for the brand. Another successful celebrity partnership is the collaboration between Gigi Hadid and Tommy Hilfiger, which was debuted at Zalando's Bread & Butter fashion show in Berlin in early September. The line is exclusively sold on Zalando.com.

While collaborations with pop stars and supermodels can be highly successful and important, retailers have also found traction through lesser-known social media stars and influencers. Ulta Beauty reported that a makeup palette designed for and marketed by YouTube star Nikkie on her "NikkieTutorials" channel sold out quickly after the vlogger created a tutorial on how to use the makeup. The palette was not marketed elsewhere, showing the influence of the YouTube star.



Source: Shutterstock

9. Digitally Native Lifestyle Companies Are Disrupting the Retail Market

Representatives from several digitally native companies, including Chubbies, ModCloth and ThredUp, discussed their success creating lifestyle brands through user-empowering platforms. Lifestyle brands seek to inspire, guide and motivate people; the goal is that their products will contribute to the definition of the consumer's way of life. These lifestyle brands use a



content-driven approach that puts their consumers, or communities, at the forefront of the experience. In addition, many of these online pure plays are now experimenting with brick-and-mortar stores.



Source: Shutterstock

Kyle Hency, Founder of San Francisco-based Chubbies, discussed how his men's summer lifestyle brand has formed an emotional connection with customers. The company's business model is focused on customer service: it offers free three-day shipping, free returns, social advertising campaigns and dedicated human customer-service lines. Hency said the company has had success building a one-to-one relationship with its customer. In addition, Chubbies is experimenting with opening retail stores; the company opened a store in San Francisco two years ago, and has seen much success with it.

ModCloth is a growing e-tailer selling vintage-inspired fashion and décor that puts its customers at the forefront of the experience. One of the features on the company's site, Style Gallery, is a user-generated image gallery where customers upload photos of themselves modeling a purchased ModCloth garment. Photos are then featured on the ModCloth blog, allowing visitors to see how a certain clothing items look when worn by real customers rather than by professional models. Fit For Me allows users to see suggestions for clothing based on their exact body shape, based on other users' reviews. Fit For Me uses this data to generate specific clothing recommendations depending on the user's measurements. The company prides itself on exclusive, unique assortments that customers cannot find anywhere else, and it offers new products daily. ModCloth has already opened several pop-up locations and it plans to expand its store model.

We also heard from ThredUp, a marketplace for buying and selling "like-new" clothing that fuses fashion resale and e-commerce. The company has created a community of customers ages 25–44 who are typically hip, smart, busy moms who are seeking convenience when shopping.

10. More Retailers See the Omni-Channel Journey as the Solution

Multi-channel retailers and e-commerce pure plays alike are working to understand what the landscape will look like in the future and what their roles will be. We believe the answer is some combination of stores, e-commerce and mobile commerce.



Source: Shutterstock

Kim-Thu Posnett, a Managing Director at Goldman Sachs Investment Banking, discussed how mobile is the most important aspect of the consumer purchase journey due to shifts in consumer preferences, globalization of media platforms and increased consumer engagement across different interests. Posnett said that retailers that use customer data to drive bespoke and personalized offerings will create lifetime value and brand loyalty.

Shana Fisher, of Third Kind Venture Capital, said that shopping, for the majority of consumers, does not occur on apps, but still takes place on desktops. However, for many, the purchase journey starts on mobile—where consumers find inspiration across digital channels before going to their desktop to purchase. It is important for companies to master the different channels throughout the digital journey. Distributed e-commerce now ranges across multiple channels, including websites, Instagram and Snapchat Stories, and all points of distribution must come back to a singular brand expression. Knowing how to master the different channels to create an authentic brand image is key throughout the omni-channel journey.

Finally, several retailers discussed Walmart's recent acquisition of Jet.com. They noted that the deal positions Walmart for expanded e-commerce growth and enables it to provide a more seamless shopping experience by utilizing Jet's smart cart technology and experienced management team. The acquisition highlights the importance retailers are putting on creating a seamless shopping journey.



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

Shoshana Pollack

Senior Research Associate

Rachael Dimit

Research Associate

Steven Winnick

Research Associate

HONG KONG:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

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

FUNGGLOBALRETAILTECH.COM