

10 Top Takeaways from Day 3 of Magic 2017



The FGRT team is in Las Vegas this week attending the Magic conference, which covers the men's, women's and children's apparel, accessories and footwear markets. Here, we share our 10 top takeaways from day 3 of the event.

- 1) Athleisure 2.0 is moving beyond materials to focus on fashion and comfort.
- 2) Data from social media can help retailers make better and faster decisions, including trend and inventory forecasting.
- 3) Store windows and layout are still an essential driver for store traffic and sales in physical stores.
- 4) Robots, over time, can be taught to manufacture apparel, and domestic production can be made economical using lean manufacturing and management.
- 5) Fashion is seasonless and more casual, creating opportunities for fashion innovation.
- 6) The product development cycle must be shortened in order to remain competitive.
- 7) Emerging markets will dominate the world's top 10 economies by 2050.
- 8) China is no longer a one-stop shop for sourcing; things are more complicated now.
- 9) Retailers need to become relentless around the customer experience to drive engagement and retention.
- 10) The final takeaway consists of comments the FGRT team picked up while attending seminars and meetings at Magic 2017.

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1. Athleisure 2.0 Is Moving Beyond Materials to Focus on Fashion and Comfort

The panelists included owners of shoe and athletic retailers and one market analyst. We are in the fifth year of very strong athletic and sportswear sales. Previously, the focus had been on performance, and then the industry moved into athleisure. We are now in the second phase of athleisure, or Athleisure 2.0, which takes what was learned in terms of comfort, variety, color and fashion, and brings it full circle.

At the beginning, shoe manufacturers looked at materials and technical aspects, now they are looking at fashion. Everything that was old is new again. Athletics is not going away. One of the trends we are seeing is a lot of shoes with knit uppers.

One retailer commented that the hip-hop and streetwear movement seems to be moving toward contemporary. Other than brands, the retailer is focused on where the buzz is and chasing the next release and the next launch, which used to happen every month. Now there are five or six new product launches every week. The customer base is 16 to 25, and they know what they want, often even before the retailer does.

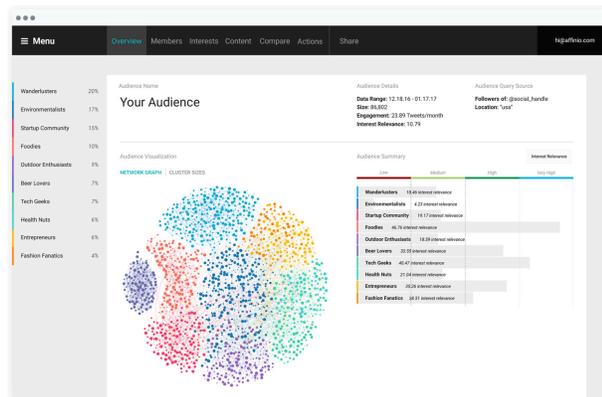
In terms of categories, running continues to perform; basketball, canvas and skate have slowed down; and athleisure for men continues to gain momentum.

Athleisure is here to stay is how the panelists summarized the current outlook.

2. Data from Social Media Can Help Retailers Make Better and Faster Decisions, Including Trend and Inventory Forecasting

The speaker, Wendy K. Bandoni, Assistant Professor and Chair of the Fashion Marketing Department in the School of Business at Woodbury University and an international retail trend forecaster, discussed consumer behavior in relation to social media, and how the data can be used for trend forecasting for making business decisions. Drivers of consumer behavior in the online world include social confirmation, visual consumption, instant gratification, the sharing economy, insta-fashion and uber-connected consumers. Bandoni commented that the average American spends five hours a day on their smartphone (up one hour from 2016). Online contributors started as bloggers, and now consumers of digital content can be analyzed as “tribes.” They seek social confirmation online, are more accustomed to searching for things visually and benefit from the power of a collective voice.

There are new tools on the market, such as Affinio and Edited, that empower researchers to sift through the enormous amount of social media data, for example analyzing attendees of music festivals such as Coachella. In particular, there are a total of 32 million festival attendees, of which 15 million are millennials, and “the festival look” has hardly changed in 12 years, which offers an opportunity for new fashions. Big data can be used to predict trends, determine which products are selling out and determine the optimal time to introduce new products.



Source: affinio.com



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Fashwire is another digital platform that provides an interactive link between fashion designers and consumers, and drives user participation with a curated user experience and robust rewards program. Users give their preferences via a “swipe right, swipe left” model, and are rewarded with discounts from e-tailers, independent specialty stores and larger retailers. Designers get real-time feedback on user preferences.

The Fashwire platform also serves as a community where users are free to explore and discover styles from the designers' collections as well as inspire others with their own personal styles. Similar to Instagram, users of Fashwire can follow other Fashwire users and designers, like and comment on their outfits, linking everyone together through one app.

3. Store Windows and Layout Are Still an Essential Driver of Store Traffic and Sales in Physical Stores

Speaker Michael Niemtow, Cofounder and President of retail consultant WindowsWear, began his talk with remarks about well-known store window designers of the past such as Gene Moore of Tiffany's and artist Salvador Dalí. He described window design—i.e., visual merchandising (VM)—as both an art and a science. The art portion is supposed to make shopping fun and easy, and create order from the chaos of a multitude of products. VM is the moment of truth, a tactile 3D representation of anything told to consumers in a marketing campaign. A company's selling strategy consists of the store window and interior displays that support the advertising goals and professional signage as part of the company's in-store strategy, the store's department layouts and interior décor, the merchandise fixture layouts and the placement and presentation of merchandise.

Niemtow continued by analyzing the physical store and human perception. The human eye sees clearly in the center and less clearly in the peripheral areas, basically from eye level to the floor (the height of a man's suit). Interestingly, most consumers turn right when they enter a store, so merchandise placed on the right is more important. He also discussed the arena effect, in which merchandise is placed higher at the edges of the store so that visitors have a clear overview of the merchandise. His analysis of a Rag & Bone (best-in-class) store covered the exterior, use of audio, the interior including fixtures, signage, displays and cash register, as well as lighting and surface treatments. He concluded by commenting that today, the art of window displays is alive and well—great windows are elegant, clever, brilliant, playful, artful, resourceful (everyday objects), whimsical and integrate art into their design solutions.

4. Robots, Over Time, Can Be Taught to Manufacture Apparel, and Domestic Production Can Be Made Economical Using Lean Manufacturing and Management

This session consisted of two presentations titled, “Robots, Automation: Made in USA Sourcing.” The first presentation was given by Dr. Mike Fralix, President and CEO and Technology Evangelist at SoftWear Automation, which makes automated sewing robots. Dr. Fralix discussed Industry 4.0, which followed Industry 1.0 (mechanization and steam power), Industry 2.0 (mass production and the use of electricity) and Industry 3.0 (the use of computers and automation.) Industry 4.0 employs the Internet of Things (IoT), the smart factory and machines that can talk to other machines (and also to humans.) He discussed disruptive technologies such as 3D printing and driverless cars. He closed with a prediction that in 18 months, machines will be able to assemble an entire T-shirt (which is one of the most difficult garments to manage).

The second speaker, Will Duncan, CEO of apparel process improvement consultancy Will Duncan & Associates and Executive Director of SEAMS Association, discussed the goal of

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the “lights-out” factory, which will require no human workers. He continued, comparing a traditional garment factory with one using lean manufacturing, which uses flexible workstations and workers, less inventory and less floor space, resulting in higher quality, better employee involvement and, of course, lower costs. Lean manufacturing techniques can be applied to management and as well as administration.

He introduced the Reshoring Fashion Initiative, which aims to reintroduce lean manufacturing and bring manufacturing and associated jobs back to the US from overseas. He cited an article estimating China’s cost advantage at just 4%, due to higher productivity in the US, which is a small advantage. Duncan concluded his remarks with “If allowed to develop and succeed, the Reshoring Fashion Initiative will contribute to brands’ and retailers’ bottomline, while bringing high-quality manufacturing to areas hard hit by the loss of jobs in recent decades.”

5. Fashion Is Seasonless and More Casual, Creating Opportunities for Fashion Innovation

We heard from several different retailers and companies involved in the retail space that the seasons are becoming blurred and that consumers are no longer following fashion rules. Some examples include seasonless clothing where there are no limitations in terms of style, color and materials. Ed Gribbin, President, Alvanon, a retail, apparel and fashion consulting firm, suggested that with fast fashion, there are no seasons, with product flowing into stores every two weeks, rather than the typical, fall, winter, spring and summer. For example, boots are worn in the summer with dresses, traditional winter materials such as velvet and brocade are now featured in summer styles, and pastel colors are worn all year round.

According to market research firm the NPD Group, the most successful shoe brands have seasonless silhouettes, including sneakers, mules, strappy sandals and ankle boots. For example, the top growth silhouettes year-to-date June 2017 include sneakers, comprising 63% of growth, fashion sport slides (18%), strappy sandals (11%), ankle boots (9%) and mules/clogs (4%).

Top growth silhouettes – Women’s

YTD June '17



Source: The NPD Group/Retail Tracking Service – Total Fashion Footwear, TMM, Jan-Jun '17
Brands/Item shown represent examples of top growth brand/item

The NPD Group, Inc. | Proprietary and confidential

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Source: The NPD Group

Seasonless dressing is also creating innovation in the fashion space. According to the NPD Group, there is innovation in footwear with hybrids including “Espadrille Sneakers,” Nike Air Huarache Gladiators,” and peep-toe boots, to name a few.

Consumers are also increasingly more casual and are seeking ease and comfort in their wardrobe. This trend is evidenced everywhere—with Men’s Fashion featuring an article on “10 ways to wear sneakers with suits” and the sneaker-with-everything trend. Panelist Steve Hawkins, SVP of Sales for American Textile & Apparel of Grupo Karim’s, also highlighted that the trend in the US is more casual than ever. He said “Billionaires are going to work with hoodies and flip-flops on. It isn’t what it used to be.”

6. The Product Development Cycle Must Be Shortened in Order to Remain Competitive

In a panel presentation titled, “You Want Faster Fashion? You’re Closer Than You Think: Sourcing from The Americas,” Ed Gribbin, President of Alvanon, suggested that the reason that retailers are struggling and that there have been more bankruptcies in 2017 than since the global financial crisis, is that the product development cycle is broken. Today’s procurement process has changed based on consumer shifts; consumers are technology-driven and unpredictable, and as soon as a trend hits, they want to be able to purchase it immediately. Today, retailers are operating on a cycle trying to predict what a consumer wants to buy 18 months from today, whereas a responsive supply chain can respond within 2–3 weeks to capture that desire.



Source: FGRT

Gribbin described fast-fashion retailer Zara’s value proposition, which is newness and scarcity; once its product is gone from the stores, it is gone. Gribbin highlighted a survey performed by the NPD Group that found that the average shopper that is brand loyal visits the store 4.1 times per year, whereas the average Zara shopper visits a Zara store 17 times per year because they are afraid they are going to miss something. According to Gribbin, 65% of Zara’s production is based on proximity—all of its products can be delivered from the factory by air within one day to any of its 4,400 stores. Zara has the highest inventory turn in the business, and Gribbin emphasized that taking a lesson and shortening the front-end time a company takes “from design to on the back” will save money on markdowns in the long run.

Retailers will have to transform themselves in order to be competitive. Steve Hawkins, SVP of American Textile & Apparel of Grupo Karim’s said that reducing turnaround times takes a lot of collaboration and communication between the retailers and factories because the factories have to plan for equipment, staffing and overall infrastructure needs.

7. Emerging Markets Will Dominate the World’s Top 10 Economies by 2050

In the presentation, “2050: Key Apparel Sourcing Countries—Future View,” Ron Klein, Director of Retail & Consumer Management at management consultancy firm PwC, presented megatrends that are shaping the world today. Life expectancy is longer, there is increased urbanization, an emerging middle class, increases in global supply chains and competition for global talent. In terms of environmental conditions, there is an emphasis on sustainability and environmental protection, coupled with resource scarcity. In society and culture, there are changing economic alliances, consumer sophistication and diversity, and transforming family structures including women in the workforce.

The world is changing, and as we look toward 2050, key megatrends will shape those changes

Strategy & megatrend navigator



Source: PwC, 2050: Key Apparel Sourcing Countries—Future View

According to a PwC study, China will become the largest global economy by 2050, in terms of both purchasing power parity (PPP) and market exchange rate (MER). China will top the GDP rankings, increasing to approximately 20% globally. India will also overtake the US in PPP to become the second-largest economy, nearly doubling its world GDP share to reach approximately 15%. The US will fall to third place in the global GDP ranking, with its share of world GDP dropping to approximately 12%. Emerging markets will dominate the world’s top 10 economies by 2050. Indonesia, Brazil, Russia and Mexico will overtake Japan and Germany by 2050, according to the study.



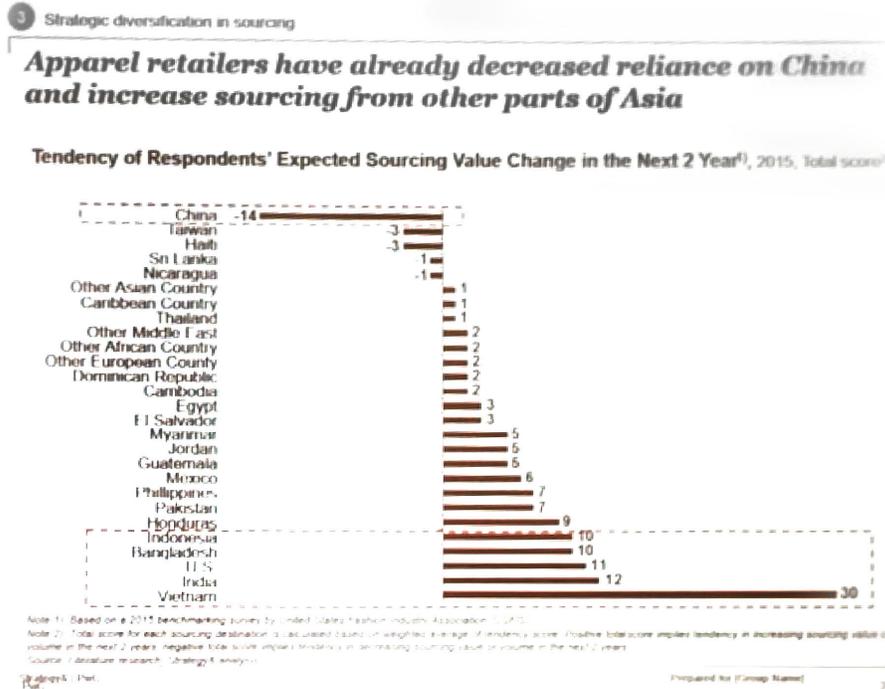
Source: PwC, 2050: Key Apparel Sourcing Countries—Future View

8. China Is No Longer a One-Stop Shop for Sourcing; Things are More Complicated Now

Apparel retailers have decreased their reliance on China and increased their reliance on other parts of Asia for manufacturing. There are four challenges in the China business environment that are making sourcing more expensive, according to a PwC study:

- 1) **Wage increases:** Wage rates in China are 2x–8x higher than in Southeast Asia. There have been increases of approximately 8% in recent years, and government policies concerning minimum wage and social welfare are becoming stronger.
- 2) **Real estate appreciation:** Real estate valuations have increased in the past decade, with rental rates rising as much as 11% year over year.
- 3) **Renminbi appreciation:** The Chinese currency has appreciated by approximately 25% relative to the US dollar in the past 10 years.
- 4) **Stricter environmental regulations:** We are seeing increased governmental regulations being imposed on high-pollution industries.

The result of these four challenges is that the cost of sourcing from China is going up. We are seeing fashion manufacturing moving out of China to Southeast Asian countries, including Thailand, Vietnam and Indonesia. According to Klein, manufacturers are following lower wages and lower operating costs. The challenges that need to be overcome by moving out of China include lower worker productivity, underdeveloped infrastructure and cultural differences. The figure below was based on a 2015 benchmarking survey by the United States Fashion Industry Association (USFIS), which shows the trend of retailers decreased reliance on China and increased sourcing from other parts of Asia.



Source: PwC, 2015: Key Apparel Sourcing Countries—Future View

9. Retailers Need to Become Relentless Around the Customer Experience to Drive Engagement and Retention

Customer centricity is creating a positive customer experience both at the point of sale and post-sale, throughout the entire e-commerce journey. A customer-centric approach can add value to a company by enabling it to differentiate itself from competitors who do not offer the same experience.

In his presentation, “Creating A Search + Social Strategy: Drive Customer Acquisition, Engagement & Retention,” Lewis Brannon, Senior Paid Search Manager at CPC Strategy, a retail-focused digital ad agency, said that there are five core elements of customer centricity to drive engagement and retention:

- 1) Experience:** This involves ensuring the brand’s value is conveyed on the website, the checkout process is smooth, the returns policy is free and the ad experience is targeted.
- 2) Selection:** According to Brannon, it is very important for a company to strive to offer its full collection on its website, including partner products. Once you lose an e-commerce customer, it is difficult to get them back. Merchandising on the website is very important. If you have an offer, display it prominently on the home page, which helps to drive conversion rates up. Brannon recommended using



Source: FGRT

Google Analytics to discover the items that customers are searching most frequently for, and merchandise your website based on the search engine results.

- 3) **Price:** Customers appreciate a fair price. Brannon discussed discounting, and although there is controversy about whether this can cause brand dilution, discounting on the website drives conversion rates, up to 50% higher.
- 4) **Communication:** The benefit of having a direct to consumer (DTC) strategy is that brands can speak directly to the customer. With DTC, the middleman is removed and brands control the message, and also have the ability to collect first-party user data. For example, by using analytics such as Facebook Audience Insights and Google Analytics, retailers are able to collect customer e-mail data, track pixels, (ad words, Facebook, e-mail platforms) and purchase history, and then customize websites based on that data.
- 5) **Relationship:** Brands can create VIPs as a way to strategically target the best customers who buy multiple times. One way to build VIPs is through loyalty programs, such as those of Sephora, Starbucks and Amazon. Another way to build up VIP status is to create an influencer program, where customers receive a sneak peek into new products before they launch. Special promotions and communications with past purchases to create lifetime value are key to include in marketing. Facebook has a “lifetime value tool” built into it to track how your brand is doing.

10. Comments the FGRT Team Picked Up While Attending Seminars and Meetings at Magic 2017 (Sorted Alphabetically by Category)

Apparel

- “There is a huge opportunity in dressy athleisurewear.”
- “How do we think about the move of Nike to Amazon?”
- “We want to work with the supplier that supplies Amazon (private label).”

Consumers

- “We are using a barbell strategy with our customers. They are either a VIP or we let them serve themselves. It is driving the topline and margins.”
- “Consumers have money to spend—we just have to make it easy for them.”
- “How about Chinese consumers shopping in the US (from China)? How do we serve them better?”
- “Where do we get the best bang for our marketing buck?”
- “Think about the Bonobos in-store experience—how can retail adopt more of that?”

E-Commerce

- “An online experience in the store is what consumers desire.”
- “How do we decrease returns?”
- “It is a big change in trend to present by classification versus brand. Presenting by classification and by brand is getting double exposure.”
- “How do we know which influencers to partner with?”



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- “In certain categories, we are now at 30%–40% e-commerce. It has far exceeded our expectations.”

Innovation

- “Many of these test stores are still retooling at a great expense.”

Magic

- “I just got a new buyer,” was the most frustrating sentence heard at Magic.
- “I am the anti-Martha Stewart. We all have our imperfections,” said one celebrity!

Real Estate

- “Shopping center real estate investment trusts (REIT) are just getting started in turning things around.”

Retail/Physical Stores

- “When these retailers are comping negative 5% each year, their stores are actually getting 5% bigger each year.”
- “Why can’t something be done with all of the empty shop windows?”
- “We need more see-now, buy-now to drive the topline.”
- “We think there is still a lot of opportunity for pop-up stores.”
- “What percentage of shoes were not on display and available for sale—I asked several large brands when they visited retailers they worked with. The answer: At least 33%.”
- “There is more opportunity to support retailers in the stockroom to drive availability of product.”
- “There is a move to self-service, even in high-end department stores. The consumer does not seem to mind.”
- “Experiential retail is the future.”

Technology

- “Mirrors that are powered by artificial intelligence (AI) that can help you choose your wardrobe and determine your size are what every retailer, brand and consumer is still dreaming of on a large scale.”
- “We need standards for shoppable video because what happens when all of these apps come out at the same time that are not compatible?”
- “There is a huge opportunity for radio-frequency identification (RFID) in footwear.”
- “Beacons are less of a focus.”
- “How can we really use augmented reality (AR)?”
- “The future is truly omnichannel.”



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