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Top 10 Takeaways from Day 1 of the Goldman Sachs 24th Annual Global Retailing Conference

The FGRT team is attending the Goldman Sachs 24th Annual Global Retailing Conference in New York City this week. Here, we highlight our top takeaways from the first day of the conference.

1) Retailers are optimizing their supply chains based on speed rather than cost. Supply chain agility is becoming an important investment area.
2) A number of retailers at the conference challenged the notion that there has been a slowdown in the athleisure market and suggested that consumer preferences regarding activewear are simply shifting.
3) Retailers are meeting customers where they are, whether that be at a physical location or online. This is taking a number of forms, including omnichannel efforts; buy-online, pick-up-in-store services; flexibility; and the opening of new stores.

The FGRT team is attending the Goldman Sachs 24th Annual Global Retailing Conference in New York City this week. Below, we highlight our top 10 takeaways from the first day of the conference.

1) Supply Chain Agility Is Becoming an Important Investment Area for Retailers
At this year's conference, there was more discussion than in previous years about improving supply chain speed. This represents a change from a few years ago, when retailers focused on optimizing their supply chains based on cost at the expense of lead time. An executive from Gap Inc. highlighted Old Navy's effort to reduce the time it takes to get a product from concept to market to 6–18 weeks versus the industry average of 35 weeks. A manager from Macy's mentioned that the company is consolidating its three separate merchandising teams into a single leadership team in order to increase speed to market. On the supplier side, Macy's is consolidating its number of suppliers, the executive said, with 40% of its vendors now supplying 60% of its products. A representative from PVH Corp. noted that PVH is expecting some margin enhancements in the next 18 months from supply chain improvements.

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2) Retailers Focus on Loyalty Programs to Drive Growth

Reinventing loyalty programs was a focus of several presentations at the conference. Loyalty program members represent a significant portion of sales for retailers, as those customers tend to visit stores more frequently and spend more. An executive from Ulta said that the company's loyalty program is growing quickly and that it now has 25 million members. There is significant opportunity to capture more beauty enthusiasts in the loyalty program, the executive said, noting that the typical Ulta shopper only shops a quarter of the categories in the company's offering.

Reinventing loyalty programs; Ulta Beauty.
Source: FGRT

Macy's is launching a new loyalty program in October that features a new rewards program and a better couponing system. Michael's launched its loyalty program just a year ago, but the program now represents about half of the company's total business. An executive from Gap Inc. highlighted the value of cross-brand loyal customers, saying that they are 10 times more valuable than casual shoppers. Converting 1% of casual shoppers to cross-brand loyal customers would add $200 million to the top line for the company, the speaker said. The company is also beta testing a multi-tender loyalty program.

3) Retailers Are Aiming to Offer Fewer Promotions, but More Value

Many retailers at the conference mentioned that they have been actively trying to scale back promotions and offer more value to customers. An executive from Gap Inc. said that the company has reduced promotion levels across its brands in order to better serve value-driven customers and has started to open more factory stores that are not located in outlet centers in order to be closer to customers.

While Macy's still expects a very promotional holiday season, the company is looking to "declutter" its promotion calendar by simplifying sales offerings and reducing the frequency of sales, an executive said. A representative from TJX Companies emphasized that one key factor in the company's overall success is providing value to customers with differentiated products and a "treasure hunt" experience rather than just competing on price.

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4) There Are Still Ways to Counteract the Amazon Threat

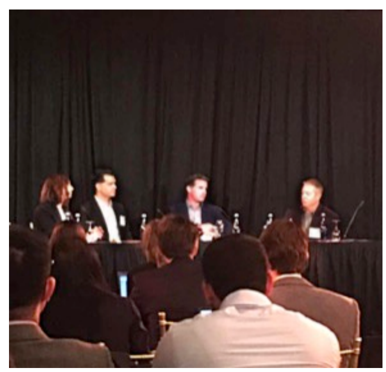
Michael Rubin, Founder and CEO of Kynetic, mentioned three possible ways that retailers can better compete with Amazon. First, he said that Facebook has tremendous potential to drive digital traffic for e-commerce. So, instead of consumers discovering products on Amazon, they might look to Facebook as a destination for product discovery. ShopRunner, a company that offers a membership for two-day shipping across many retailers, could be an alternative to Amazon's Prime membership, Rubin said. Lastly, he emphasized the importance of selling differentiated products that have significant value in order to be more competitive.

5) Retailers Challenge Talk of a Slowdown in Activewear Market

There has been much industry discussion about the malaise in the activewear space, but a number of retailers at the conference challenged the notion that there has been a slowdown in the athleisure market and suggested that consumer preferences regarding activewear are merely shifting.

According to Gap Inc. CEO Art Peck, the company's Athleta brand, which sells athletic clothing, continues to grow, and will "blow" through $1 billion in sales in a couple of years. Since 2012, Athleta has grown at a CAGR of 25%. Peck said that Gap has focused on creating a performance lifestyle brand that mixes ready-to-wear and performance apparel. Gap Inc. plans to shift its focus to growing the number of Old Navy and Athleta stores, and away from the Gap and Banana Republic brands. Peck said that the company will close about 200 Gap and Banana Republic stores in the next three years and open about 270 Old Navy and Athleta locations during the same period.

Under Armour CFO David Bergman discussed how the North American retail landscape has changed and how there is now more of an emphasis on the fashion lifestyle component of activewear. Bergman noted that today's fashion consumer is demanding a multitude of fashion items, whereas many athleticwear consumers were previously focused on how a garment could improve performance. Athletes still want performance wear, Under Armour CEO Kevin Plank said, but they increasingly expect it to look great. Plank noted that Under Armour products will continue to help athletes improve their performance, but that the brand can get a leg up by combining use with lifestyle. "We have an opportunity to take sports and athletes to a new space," Plank said. "Sports style is an opportunity."



David Bergman, CFO; Kevin Plank, CEO, Under Armour
Source: FGRT

6) Celebrity Partnerships and Collaborations Provide Excitement and Newness

Celebrity partnerships have proven very valuable for retailers, particularly due to celebrities' social media reach. PVH Corp. CEO Manny Chirico discussed how Tommy Hilfiger and Calvin Klein have made big headlines through celebrity sponsorships and new product introductions. Chirico said that the Gigi Hadid ambassadorship has given the Hilfiger brand more authenticity in the women's space. The supermodel and influencer has more than 50 million followers on Instagram, making her the ideal face to drive the women's side of the business. Another successful celebrity partnership is the collaboration between Dick's Sporting Goods and Carrie Underwood. Underwood's Calia fitness lifestyle line is now the retailer's third-largest women's athletic brand.

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Kevin Plank touted Under Armour's partnerships with 42 Division I universities and several major athletes, including Golden State Warriors guard Stephen Curry, New England Patriots quarterback Tom Brady and pro golfer Jordan Spieth. Plank also noted Under Armour's 10-year apparel and licensing deal with Major League Baseball, which begins in 2018. Macy's CEO Jeff Gennette said the Selena Gomez-Coach collaboration—which launched exclusively at Macy's just a week and a half ago—has already generated significant traction.

Jeff Gennette, CEO, Macy's
Source: FGRT

7) 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 noted that increased discretionary income, continued wage growth, strong balance sheets and low unemployment are all positive signs with regard to consumers.

According to Lowe's Chairman and CEO Robert Niblock, the economic backdrop is still solid from a consumer standpoint. Interest rates are at historically low levels, home values are rising, and housing demand is outpacing supply, which has made more people want to invest in discretionary projects around the home.

Dick's Sporting Goods Chairman and CEO Ed Stack also said that the consumer is in good shape and that there is a good deal of pent-up demand for autos, home renovations and sports-related items. An executive from PVH Corp. commented that consumer confidence is spurring more shopping and that the weather, which has been cooler than normal so far this fall, has helped the retail business from a margin point of view, as retailers are seeing more sales at regular price early. PVH has also enjoyed strength from international consumers shopping within the US due to a weakening US dollar.

8) Retailers Are Meeting Customers Where They Are

Several retailers mentioned that they are working to meet customers where they are, whether that be in a physical store or online. This is taking a number of forms, including omnichannel efforts; buy-online, pick-up-in-store services; flexibility; and the opening of new stores. According to Gap Inc. CEO Art Peck, the company's goal is to meet its customer "on trend, by convenience, or online." As part of this effort, the company plans to optimize its fleet by opening 270 Athleta and Old Navy stores and closing 200 Gap and Banana Republic stores to better meet customer demand.

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An executive from Carter's noted that the company is closing retail outlet centers that are too far from customers and opening new stores that are in higher traffic areas in order to meet customers where they are. The typical Carter's customer likes to make frequent visits to Carter's stores, and the outlet stores do not serve this customer as well. An executive from Ulta referenced "being where your customer wants to shop" and reported that omnichannel is a critical part of the retail equation. Ulta is investing in the omnichannel experience with its Glam Lab offering, which helps bring together the physical and online aspects of shopping for beauty products. E-commerce represents 7.5% of Ulta's business, the executive said, noting that the company "loves the omnichannel" customer because she spends 2.5 times more than a customer who only shops in-store. Ulta is opening a flagship store in Manhattan and has just opened a store in Chicago.

9) Back-to-School Retail Is Less of a Focus in 2017

Matthew Fassler, Managing Director at Goldman Sachs, opened the first day of the conference by providing an overview of the retail environment and he noted that back-to-school retail sales were not as big a focus for retailers. Most of the presenters at the conference did not mention back-to-school shopping, nor did they provide much color about back-to-school traffic or sales when asked directly by a moderator. Macy's President and CEO Jeff Gennette said that back-to-school sales were "solid" and that the company's back-to-school partnership with Levi's has been strong. When questioned about specific back-to-school sales figures, both Gennette and Gap Inc.'s Peck said it was too early to comment.

10) Children's Apparel Is a Lucrative Category and a Traffic Driver

Carter's, the largest branded marketer of children's clothes, with $21 billion in market share, is in its 29th year of consecutive sales growth. Brands refer to children's apparel as a traffic driver because many of the items, particularly in the "born to the bus" stages, are replenishment pieces. According to Carter's research, more than 85% of families with newborns shopped in-store for Carter's brands over the past year, and the company found that e-commerce drives traffic to its stores through buy-online, pick-up-in-store service. Some 87% of Carter's customers like to shop both in stores and online.

An executive from Global Brands Group also told conference attendees that childrenswear is one of its largest and most successful verticals. The business works with more than 1,000 designers to continually innovate and create differentiated products for its brands. Lastly, Gap Inc.'s Art Peck said that the company is testing a subscription service at Baby Gap.

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