

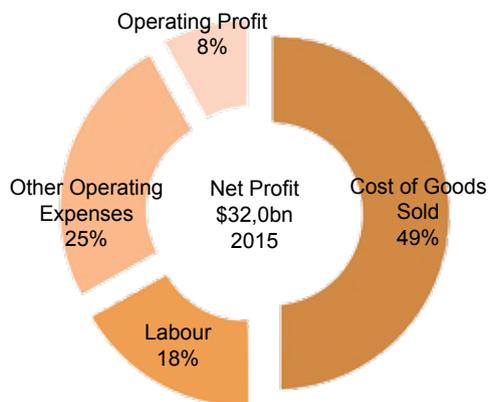
COMPARISON SHOPPING

How To Build Retail Business Success Now

By Kirsten Mogg

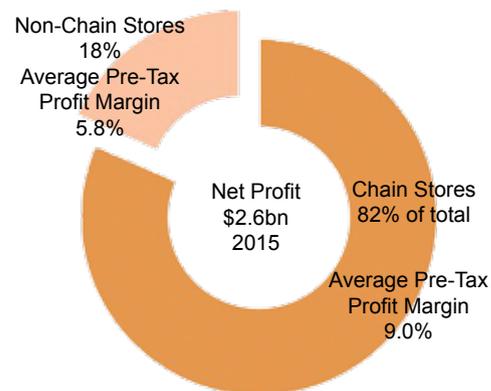
After a long-term decline in overall market share, how are independent fashion shops competing today? The overall Canadian economy is quite healthy as first quarter 2019 apparel retail sales grew by 4.4%. Canadian retailers did dodge the threat of \$800 de minimus rules under the new **NAFTA**, but trade uncertainties linger and there is no reprieve from relentless global competitiveness and the technological forces that change the way fashion consumers shop.

Retail pressures are not unique to Canada or to small retailers. ‘For Lease’ and ‘Store Closing’ signs appear on **Instagram** and shop windows as soaring rents and rising operating costs cut into profit margins. The **Gilded Boutique** in downtown Galt is only one example of that. The generational shopping shift to **Millennial** and **Gen Z** consumers is well underway - consumers have the power and they are demanding different looks, brands and experiences.



Canada Clothing Retailers

Canada store expenses
Source : Statistics Canada CANSIM table 080-0030 Annual Retail Trade Survey



Canada clothing store profits
Source : Statistics Canada CANSIM tables 080-0028 Annual Retail Trade Survey

E-COMMERCE: It's Not Everything

The initial fiscal advantages of direct-to-consumer digital native brands are falling fast. Low barriers to entry have made it a crowded marketplace. It's getting harder and harder to be found online as search and social media algorithms keep changing.

Amazon resellers are losing out to Amazon, and digital operating costs are rising sharply. Retail net margins are being eroded by fees, commissions for subscriptions to POS systems, e-commerce and payment platforms plus the costs of warehousing, shipping and returns, which most indie brands have to absorb (or price) in order to stay competitive.

With an average of 5.8% in net profits, it doesn't take much for retail success to be siphoned off by **Google**, **Facebook**, **Shopify**, **Monnex** and a long lineup of retail service providers each taking 1% to 2% or more from every transaction. As digital costs rise and it becomes ever more difficult to be found in the fragmented flood of online competition, it's clear that some form of physical retail is the best way to be discovered and build sales.

FASHION RETAIL: A Profit Problem

Operating margins are a good indicator of how efficiently a company manages its fixed and variable expenses before taxes. Almost 30% of 27,572 clothing stores in Canada were unprofitable. Net operating profit for Canadian clothing retailers averaged a healthy 8.2% in 2015, according to **Statistics Canada**. But net profit at non-chain stores was notably lower at just 5.8%. In the first quarter of 2019, the net margin for publicly traded apparel retailers in the U.S. is a similar 5.68%, according to **CSI Market.com**.



Rendering of new Holt Ogilvy Montreal 250,000 s.f. retail luxury to open in 2020 on Ste. Catherine St, including 20,000 s.f. on the ground floor for leased concessions to Chanel, Dior, Fendi, Hermes, Louis Vuitton, and others. Courtesy of CNW/Holt Renfrew & Co. Limited



Gilded Boutique Galt Ontario Instagram screen shots





Poppy Barley popup store in West Edmonton Mall

The study also showed a gap between retailers' priorities and Gen Z preferences. About half of retailers were not targeting Gen Z at all through strategic social media marketing. **Tony Chapman**, brand strategist, consultant and consumer behaviour expert, agrees. He spoke at the recent **Retail Council of Canada's** annual Store conference urging retailers to change fast: "You need to be the place to be."

Since forever, young consumers typically reject their parents' brands. That's one reason why big legacy retailers and landlords have too much space and waning foot traffic.

"As the Canadian luxury retail landscape evolves, so too is **Holt Renfrew**," said president, **Mario Grauso** in a release a year ago announcing over \$400 million to be invested in their physical spaces. "We're securing our position as a top global destination for luxury fashion and beauty products." By leasing space to international designer brands in its renovated stores, Holt's appears to be counting on brand cachet to lure customers - becoming more landlord than luxury retailer.

Last year, **Macy's** bought **STORY**, the wildly successful indie brand curator. Hudson's Bay does something similar with the **Drake General Store** and is rapidly repurposing excess retail space with **WeWork**. **Saks** in Toronto has the draw of **Pusateri's** food hall. Similarly, **Edito** is **Simons'** small selection of indie labels offering more variety through **Fabrique 1840**, their captive online platform for discovery brands.

Canadian malls, meanwhile, are performing well relative to those in the U.S., but vacancies have mall and outlet operators looking far and wide for non-traditional tenants. **Ivanhoé Cambridge** is working with temporary space finder **Pop-Up Go** to fill vacancies with short-term retail in its 'Mills' outlet properties, which includes **Vaughan Mills** near Toronto, **CrossIron Mills** in Calgary and **Tswassen Mills** near Vancouver.

The leasing tables have turned for landlords and big retailers who are competing to house small brands with retail-as-a-service businesses. Sub-divided space with short and long-term leases is more profitable and less risky than operating one's own retail. It's also a way for landlords to find future tenants among successful retailers.

Strong indie brands have an opportunity to negotiate from a position of strength when dealing with a mall, an outlet centre, a pop-up spot or main street landlord. The decline in physical retail will continue and emerging retailers will not operate as they did in the past. Where Gen Z shops is where the future fashion retail success will be found. Independents may achieve a turnaround in market share if they optimize their strengths - unique local advantages and an ability to adapt quickly - and connect meaningfully with customers where, when and how they want to shop. Most importantly, profit margins need to improve. Here is a look at how a few small retailers are preparing to succeed.

MY LBD: Collaborate To Design Customer Engagement

My LBD (My Little Black Dress) is a day-and-evening-dress business built on the direct to consumer model. Founded by designer **Franciska Verese** and stylist **MT Meikle**, the company is now expanding to wholesale with a focus on products and an online shopping experience in preference to marketing. Fabrics are of high quality and durability.

Dress silhouettes and shop-your-shape functions take into account different body types and even greater versatility is achieved by transforming some designs into different looks. Small-scale local production, which allows for bespoke details, is blended with some offshore production to keep retail prices reasonable at \$145 to \$395.

Limited edition celebrity or designer collabs with retailers has proliferated to the point of being mundane. MyLBD tried a different approach. This spring, the company used social media to encourage customers to participate in a design contest by sketching their idea of a perfect little black dress. Three industry pros selected 15 of the submissions for inclusion in the 2019 Holiday Collection. The winner's name will appear on each style.

THE PLACE TO BE: Why Physical Indie Retail Is Back In Fashion

Nielsen conducted **American Express Canada's** study of **Gen Z** consumers aged 15-22 in 2019 and found that 65% of Gen Z's prefer to shop at real stores compared to 32% who prefer to shop online. Over half of Gen Zs said their ability to touch and try a product before purchasing can influence them to shop at a particular retailer.

Far from abandoning physical shopping, Gen Z has higher expectations for a specialty fashion retail experience than Millennials and Boomers. They increasingly want human contact, interaction with products, and a cool place to hang out.

"Gen Z is proving to be a powerful economic force, perhaps even more so than previous generations. This poses a tremendous opportunity for retailers and those who take action now have the greatest chance for success."

~ **Kerri-Ann Santaguida**, Amex's VP and GM of Global Merchant Services



MyLBD Design Challenge Promotional Sketch

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oobaby

Ashera Armour



Maguire



INLAND Popup

INLAND : Sell Better Together

All photos courtesy of INLAND (Atrium)

“INLAND has always been about challenging the mainstream fashion system by exploring new ways of creating, showcasing and connecting with fashion,” says founder **Sarah Power**. Five years ago, she was ahead of the direct-to-consumer retail trend when she created the first INLAND pop-up concept.

Her profitable retail business model is built on collaboration and a laser-like focus on Canadian fashion and accessories designers. Each pays a fee to secure and operate a spot in an open-concept space. INLAND handles consumer promotion and outreach to industry and media. The breadth and quality of the two-day retail event attracts an audience every retailer wants - stylists, influencers and trend shoppers - to a one-stop marketplace in an airy atrium in downtown Toronto. Most attractive for small fashion companies is the ability to promote and sell in-season stock, generate cash flow and connect with the consumer without high overhead or time commitment.

INLAND celebrated its 10th season in May with 70 independent Canadian designers under one roof, including **Hilary MacMillan**, **Zoran Dobric**, **Andrew Coimbra**, **AtelierB**, and **Shop Authentique**, a new line by **Nada Marzouk**. Also in attendance were **Bano eeMee** fashion leather jackets; many jewellery accessories brands like **Ashera Armour** and **Atelier SYP**, high-functioning handbags from **oooBaby** and shoes by **Barcelona Collective**, all of whom have direct and wholesale channels. New Montreal brand **Maguire** does not wholesale, instead their Italian made shoes sell online and at a newly opened retail store of their own in Montreal where, being vertical to consumers, they can pass savings along to shoppers.

INLAND collaborated this season with **Sage Paul**, the founder of **Indigenous Fashion Week Toronto**, to present a collection by contemporary Indigenous designers. Giving the public access to a large assortment of Canadian designers under one roof has proven to be a sustainable and successful strategy. Power has worked hard to achieve her goal “to make it easier to buy better.” She continues to seek ways to expand her curated indie designer pop-up concept to other markets and spaces.



Atelier SYP fringe



Andrew Coimbra Fuschia



Hilary MacMillan Ruffle Hem Dress



Atelier B dress

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The nature lounge at the new Chicago store
Courtesy of Roots



Courtesy of Roots



Courtesy of Roots

Art on Nature Conservancy t-shirts originally created for Roots by artist Heather Cooper in 1980s who also designed Roots' beaver logo.

ROOTS : Branch Out To Expand Your Audience

Roots Corporation is not a small retailer, but it's worth noting how branching out with new partners, building big experiential stores and creating marketing events can bring more customers into your premium outdoor lifestyle tent.

Last December a **Roots x Shawn Mendez** capsule collection aimed squarely at young music fans. In January, the brand partnered with **Air Canada** for 'international sweatpants day' to emphasize comfort for long-haul travelers. A retro t-shirt collection reviving 80s art was released on 'international beaver day' with 100% of profits going to the **Nature Conservancy of Canada**. Further establishing Roots' connection to nature, the latest program with **Travelzoo** promoted wilderness and weekend-retreat travel packages with in-store signage and a web contest.

"We wanted to create experiences that appeal to a wide demographic, from the avid adventurer to the weekend warrior," ~ **Karen Zuccala**, VP Marketing.

In May, Roots opened its largest experiential store at 605 N. Michigan Avenue on Chicago's Magnificent Mile. The two-story 11,448 s.f. store brings together cabin comforts and city conveniences and features a nature lounge where customers can 'hang out'. An in-store customization workshop lets shoppers personalize and embellish their sweats and leather goods. In a release, president and CEO **Jim Gabel** described the store's goal:

"In uniting the best of cabin and city, we strive to always inspire people."

PEACE COLLECTIVE : Brand Build With A Big Partner To Do Good

McDonald's Canada partnered with local brand **Peace Collective** to support the annual one-day fund raising drive to support **Ronald McDonald Children's Charities Canada**. The limited-edition collection of t-shirts, socks, mugs and tote bags was designed by Peace Collective and available for purchase at participating McDonald's restaurants on May 8th.

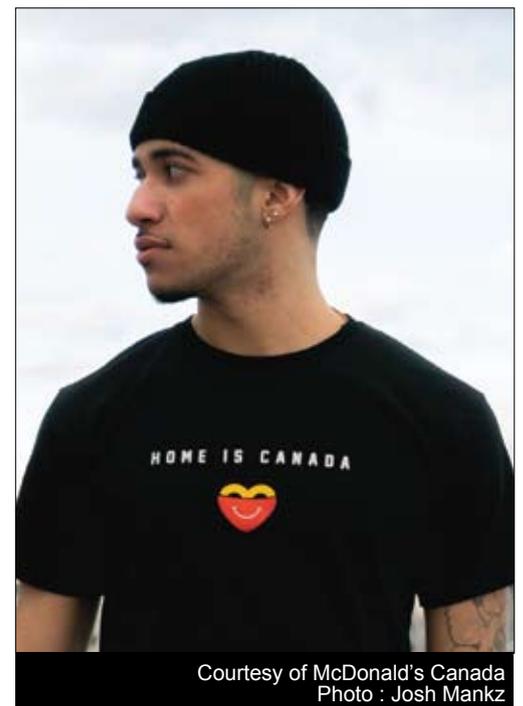
"It's truly an honour to partner with McDonald's and RMHC for McHappy Day," said **Yanal Dhailieh**, founder of Peace Collective. *"Giving back is in our DNA, so we are thrilled to get the chance to design this exclusive collection and bring our joint vision of helping families in need to life."* It was also a smart way to build Peace Collective's brand awareness.

WONE : By Invitation Only

In the saturated performance apparel space, **WONE** sets itself apart as a super premium women's activewear brand. Purchases are by invitation only. Former **Nike** designer **Kristin Hildebrand** launched WONE last spring using a limited access business model that allows fantastic margins. Only accepted members can buy WONE's exclusive leggings and bra tops - and they have 24 hours to do so. Hildebrand gets advice from investor and contrarian **Paul Graham** of **Y Combinator** who recommends that entrepreneurs 'do things that don't scale'. WONE ran zero paid marketing campaigns, but won thousands of **Instagram** followers with no posts. **Forbes** reports the company expects to sell 15,000 units of \$320 leggings and \$150 sports bras in the first year.

"We give priority to people who are interested in what we're doing and have made a deliberate decision to move away from the traditional marketing strategy. Partnering with the world's best manufacturers and leveraging patented technology, we achieve elite performance functionality seen only on the world's best athletes."

~ Wearwone.com



Courtesy of McDonald's Canada
Photo : Josh Mankz



lululemon lab, New York
Photo : Kirsten Mogg



LULULEMON : Sweat Equity & Lab Experiments

Fashion experiments need consumer feedback. **Lululemon** is also not a small company, but the **lululemon LAB** in Soho, New York, is something a small brand or retailer could replicate. It's a design workshop, retail store and wellness studio combined. By attracting active early adopters, lululemon learns what sells and why - and what may be missing.

The lab offers only premium performance fabrics and a sizeable men's assortment in styles geared more to running, the brand's new focus. The store is also a community hub involving classes to sweat, experiences to grow and events to connect. Listening to conversations, observing body language and seeing a product in action can provide a retailer with valuable information about the mood and desires of its customers. Product feedback can give a design team direction - what's working and what needs to be fixed. The lululemon lab allows for continual market research and generates invaluable ground-level consumer insight, which cannot be gleaned by algorithms alone.

In addition, lululemon has listened to their community of athletes, ambassadors and customers about 'sweaty problems' that prompted developments in an adjacent category of personal care products formulated to be up to the challenge. Testing is ongoing for several products - a smart way to tap into the booming beauty category with its direct connection to existing customers.

ITALIC : A New Slant On Luxury

In the race to gather customer information, retail membership programs are used to buy consumer data and customer loyalty with their own money. **Italic**, a New York-based business, has a different slant on membership: 'less is more'.

The innovative limited membership program was launched in late 2018 by **Jeremy Cai** with US\$13 million in startup funding. Instead of typical rewards, discounts or free shipping, Italic provides members with exclusive access to limited edition high fashion products from some of the best Italian factories. These factories make products for the most coveted designer brands such as **Prada**, **Gucci** and **Louis Vuitton**. Lately these same factories have had trouble filling their order books and are searching for new customers. Jeremy Cai explains how he is breaking the conventional profit model in an interview with Vox

"Both luxury and direct to consumer brands mark their products up, with the former spending money on fancy marketing and the latter giving money to Facebook and Google so shoppers find them - but the factories never see that money. Gucci's markup is 10x. Casper, Allbirds, or whoever, say their prices are lower because they are cutting out the middleman, but they are also a middleman. Italic, on the other hand, gives consumers the ability to buy straight from the world's best factories, at a factory price."

By eliminating both the middleman and discarding logos, Italic sells luxury products that are far less expensive than branded ones. For a consumer who doesn't care about the label but still wants quality and exclusivity at a great price, it's a membership club worth joining - even if you can shop only twice per month.



Courtesy of Italic.com

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Images : Instagram @smashtess

SMASH + TESS : Use A Best Seller To Grow Fast

Laid-back loungewear brand **Smash + Tess** goes beyond direct-to-consumer with current distribution at over 200 stores including independents and also online at non-fashion retailers **Chapters Indigo** and **Well.ca**. **Ashley Freeborn**, the cofounder and CEO, is the ‘Smash’ half of the business plus her mother **Tess**. Both have financial backgrounds. In Vancouver in 2015, the company launched as a direct-to-consumer brand offering floral knits. When they introduced a romper in the first fall collection it was an instant success.

“*We pivoted hard and fast,*” said Freeborn in an interview, explaining the appeal of a ‘onesie’ that helps to normalize plus sizes. “*It’s not about the boys, it’s about us.*” She had hit on a must-have item that’s easy to sell online. She quickly built a lean, profitable and socially conscious brand that connected with her target customers, women between 25-50 who want something chic and effortless that is comfortable and wearable indoors or out. Many were young moms, so adding a ‘mini’ romper for kids made complete sense. There’s one for guys too.

At first the priority was to grow the digital imprint and build a strong relationship with customers. Now they have nearly 100,000 **Instagram** followers, even though the platform has not ‘verified’ their account. Wholesale was not her focus. “*We make more money selling direct to consumer, but we were getting knocked off.*” After listening to her sales rep for eastern Canada, she began to pursue growth through wholesale in 2016. Their first sale was the **Ritz Carlton** in Palm Springs.

About a year ago, Smash + Tess started selling to Chapters Indigo which led to the biggest sell-through of any micro brand on the platform. Just before Mother’s Day, Freeborn, a former teacher, published a children’s book ‘Frankie + the Magical Romper.’ Chapters Indigo agreed to carry the book along with adult and mini rompers. Smash + Tess pursued a social collaboration with **Knix**, another fast-growing Canadian indie brand, and also a limited edition with Canadian TV personality **Jillian Harris**. Today, splitting time between Los Angeles and Vancouver, Freeborn’s new focus, besides being a mom to daughter Frankie, is to expand brand awareness, diversify her product and collaborate with more like-minded brands and retailers.

K*STAR : Get Moving On Mobile Shopping

Shopping from the back of a truck is now fairly commonplace. Toronto-based fashion vet **Korey Friesen** joined the store-on-wheels bandwagon in 2015. Her **K*STAR** Fashion Truck is stocked with funky new and re-made vintage fashion and accessories. “*They love the truck and like shopping in person,*” says Friesen who says it took the first couple of seasons to figure out which events to attend and which merchandise to offer.

The latest version of the fashion truck phenomenon has been gaining momentum for about a decade. In 2010, Los Angeles-based **Stacey Jischke-Steffe** and **Jeanine Romo** launched **Le Fashion Truck**, a concept borrowed from the famous **Kenneth Cole** who skirted municipal bylaws in 1982 by launching his footwear line on the streets of New York. By 2014 there were more than 500 fashion trucks in the U.S. according to the **American Mobile Retail Association**. Fashion trucks are usually re-furbished delivery trucks with generators - a low overhead solution using digital payments and smart temporary location strategies. According to a 2016 study by AMRA, 18% of fashion truck operators reach the break-even point within a year.

Friesen learns from AMRA members whom she calls, “*a sisterhood and an online community we can turn to solve business problems.*” K*STAR trucks go where crowds of indie-minded customers hang out (private parties, street festivals and artisanal events), locations where organizers have a system in place. She does not open on municipal roads.

The K*STAR fashion truck is both a moving billboard and a novelty retail experience capable of hitting the road to capture new customers in leisure mode. Her truck generates profitable on-the-spot sales of linen dresses, hand-painted jeans and tie-dyed shirts. Friesen says her mobility and physical presence helps her acquire new customers who go online to make purchases through **Shopify**. In the fourth season of fashion trucking, the K*STAR truck is fully booked every weekend from June to the end of September. The former model turned fashion retailer says she’s in it for the long game. Friesen no longer needs her husband to drive and says her ultimate goal is to park the truck and open a bricks and mortar shop.



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Ordinary Supply sweatshirt

KOTN : Blend A Sustainable Business

KOTN cofounders **Ben Sehl**, **Mackenzie Yeates** and **Rami Helali** received the **2019 CAFA H&M Sustainability Award** in recognition of the young company's commitment to sustainable cotton and for building a supply chain in Egypt from the ground up. Tapping Helali's family connections in Egypt, they have become deeply involved in structuring and supporting their cotton supply chain from field to store. It is an unusually deep effort for a small, young company to achieve such an award-winning product point of difference.

KOTN has its roots in menswear but has expanded into unisex and women's styles to serve its main customers who are 25 to 35 years old. The 100% Egyptian cotton T's and hoodies are of a quality that earns customer loyalty. Yeates explains why it's a solid and repeatable business: *"It's fairly basic, so it's suited for re-ordering online. Especially with men. They buy 5 white T's then a year later buy five more. We do three-packs for them."*

KOTN actually uses physical retail to acquire online customers. *"We do aim to have profitable stores, but our stores are an on-boarding channel for online."* Their **Instagram** marketing tactics engage primarily women while the website is more unisex friendly. KOTN also tested temporary popups in **Soho**, New York, and more recently in **Mile End** in Montreal. *"We have a heat map of our online customers. We know they are in Montreal and Brooklyn, not Soho."*

KOTN does not wholesale, but does a little private label. Cobranded collaborations with **Holt Renfrew** and **Not on My Planet**, the elephant crisis charity, are viewed as niche marketing opportunities. From the beginning there was an opportunity for b2b sales and by the end of 2018 it had become a third of their business. *"We've added a b2b business called **Ordinary Supply** spun out as a separate business in the fourth quarter of 2018"*, said Yeates. There are just five core unisex products: t-shirts, hoodies, corporate sweat shirts for tech startup employees, branded products for the cannabis industry, and items for boutique gyms that resell. Buyers like **Allbirds**, **Pinterest** and **Spotify** pay up front before any branding is applied. *"It allows us to have a constant revenue stream ... and it's completely seasonless."*

Signaling their commitment to social impact issues and environmental responsibility, both KOTN and Ordinary Supply are certified BCorp companies. *"We are a blip on the radar of the grand fashion scale, but I think that we have as a sustainable small business a great opportunity for the future because this new generation, the main thing they are looking for is truth in a companies' ethical practices."*



KOTN stores in Toronto and Vancouver



The 2019 CAFA H&M Sustainability Award presented to KOTN founders Ben Sehl, Mackenzie Yeates, Rami Helali
Photo : George Pimentel:



Okay Ok - Adrienne Butikofer in her new studio space atop the small shop below
Photo : Kirsten Mogg

OKAY OK : Making It With A Work/Shop

Adrienne Butikofer is the passionate designer and small business owner behind **Okay Ok**. It's her second time building a profitable clothing company based on quality, design, art and principles. She designs a fresh take on cotton basics, makes them in Toronto from locally produced fabrics, like a beefy 20 ounce fleece, and then hand prints some of them with graphics designed by local artists.

Butikofer wholesales to small retailers and sold online, at Inland popup events, and at One-of-a-Kind shows. Notified that rent on her studio would more than double, she shared her thoughts with her followers and her two daughters: *"There are so many barriers to becoming a successful small fashion business in Canada. The list is long and lived. The current collection about rejection was designed as a direct response to my long term hustle as a self-funded independent designer; a direct response to a 60% rent increase on my studio almost exactly a year ago; a direct response to the strength it takes to put oneself out there and try, over and over again, and the resilience repeated failures bring."*

What Butikofer didn't write was how she had to scramble to find an affordable space. Eventually she was the first to move into a brand new light industrial complex in the Junction Triangle. She needed a couple of months to build a second-floor work studio and ground floor shop in a completely raw space. Her work/shop is now fully functional as a small boutique and design studio with space for production, supplies, cutting, sewing and hand printing plus a shop on the ground floor that also serves as a pickup point for local online customers shopping for her kids and adult clothing.



Okay Ok northern rejection collection
Iridescent oil slick graphic - a statement about ethics and the environment
Photo : Kirsten Mogg