

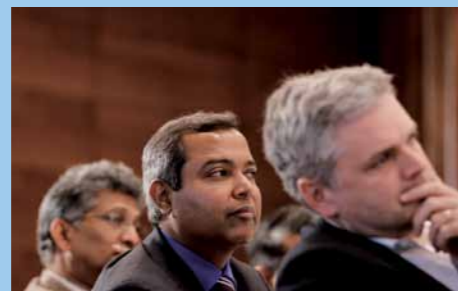


Global opportunities in Fashion Retail

Apax Partners Fashion Retail Conference 2011



The Apax Partners Fashion Retail Conference took place at the The Four Seasons Hotel on London's Park Lane, on Tuesday 5th April 2011. It was attended by some of the global fashion retail industry's leading figures.



Agenda

	Page
Introduction John Megrue and Oriol Pinya, Apax Partners	2
Speakers and attendees	4
The next decade of growth Fred Gehring, CEO, Tommy Hilfiger	6
Building a successful online business Adam Bernhard, CEO, Haute Look	8
The next frontiers for the internet Peter Fitzgerald, Retail Industry Director, Google UK & EIRE	10
Marketing and the social networks John Kembel, VP Social Solutions, RightNow Technologies	12
The ins and outs of e-commerce operations Joachim Reinhardt, CEO, Netrada	14
Coping with inflationary sourcing Bruce Rockowitz, Group President & CEO, Li & Fung Arun Sirdeshmukh, CEO, Reliance Trends	16
Winning your next three billion customers Alexandre Birman, VC, Arezzo Michael Burke, CEO, Fendi B.S Nagesh, VC, Shoppers Stop Steve Shen, CEO, Tommy Hilfiger China	20
Global fashion trends Thomas Tochtermann, Director, McKinsey & Co	24
Conclusions	26
Apax Partners Retail Group	28

Connecting Global Fashion Expertise

Introduction



John Megrue Chief Executive Officer, Apax Partners US and co-head of the Retail & Consumer team



Oriol Pinya Partner and co-head of the Retail & Consumer team

The Apax Partners Fashion Retail CEO Conference took place in London in April 2011, bringing together 56 CEOs and industry experts from around the world to talk about the most burning topics of the fashion retail industry.

The conference came at a time when the industry is experiencing some of the biggest challenges it has seen in a long time. For the first time in more than a decade, product costs are increasing this year. Growth is happening far away from the homes of traditional European and American brands, in markets with significantly different consumer behaviour. At home, the fastest growing area is a channel that is distinctly different from the traditional retail experience of physical stores.

The idea of the conference was to provide a social and interactive forum for the leaders of the fashion and apparel industry. It provided a platform that stimulates the exchange of ideas and the making of lasting contacts, which would ultimately lead to collaboration, cooperation or co-creation between participants. This brochure aims to provide a flavour of the breadth of the topics discussed. What it cannot do is provide an insight into the hundreds of conversations happening during breaks, breakfast and dinners between the participants.

Online changes everything The first topic discussed centres on the vast opportunity and disruptive power of online commerce for fashion businesses. The acceptance of online as a sales channel for fashion

companies has grown rapidly, raising issues such as potential cannibalisation of the off-line sales platform and introducing a new set of operational requirements to be successful in the space. And despite its relative youth, online is already seeing its next revolution: the huge growth in online access via portable devices such as smart phones and tablets gives brands an opportunity to get even closer to their customers in both mature and emerging markets. Likewise, social media is having a significant impact on the means of communicating with the consumer, forcing brands to rethink their approach to the market.

The next frontier for Global Brands

The rapid growth of online and the emergence of brand hungry consumers in fast-growth markets

like China, India and Brazil has also accelerated the emergence of truly global brands. Several of the sessions focused on the significant management challenges involved in taking your brand global including recruiting local talent and capabilities, handling the very diverse natures of different parts of emerging markets as well as working with local partners.

Cost inflation While presenting a massive new growth opportunity, the rise in consumption in emerging markets has also had a big impact on commodity prices. In the last decade demand for cotton has risen dramatically with an unforeseen impact on pricing. In a similar way the current rapid wage inflation in producer countries such as China is having an equally marked impact on costs.

The apparel industry faces its first year of increase in costs of goods sold in a decade or more. The debate focused on issues around sourcing strategies including distributor relationships and changing geographic footprint on the one side and pricing and product strategies on the other.

Platform for debate We were thrilled to host an event with so many high calibre attendees and to provide the forum for the kind of open debate, that is so crucial in developing the fashion retail industry to the next level.

These are just some of the topics covered in this brochure and in far more detail in discussions at the conference. If you want to be part of the debate please feel free to drop us a line: retail@apax.com

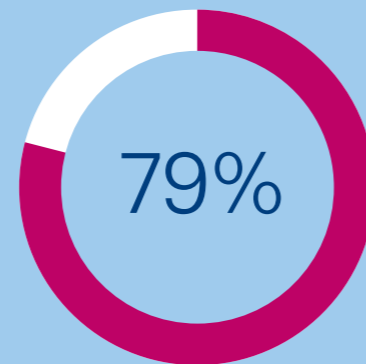
Key trends and highlights

The conference discussed some important developments in global fashion retail. Here are some of the highlights.

For more information please contact the **Retail and Consumer** team at Apax.

email: retail@apax.com

What proportion of smartphone users shop using their smartphone?



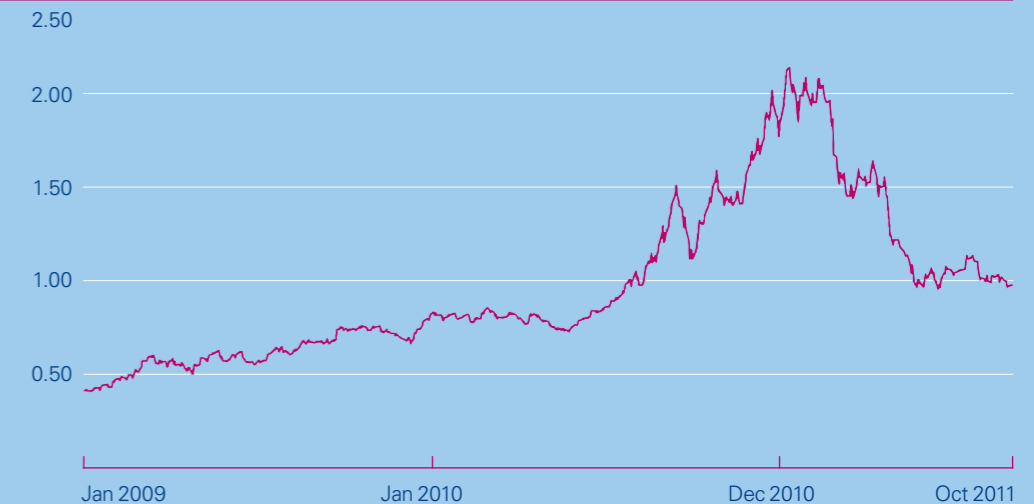
Smartphone compatibility with retailers' online offer is already critical to consumer uptake of all retailers' products and services

Source: Google

Global cotton price US\$/ lbs

400%+

Between Jan 2009 and Dec 2010 the global cotton price rose by more than 400%



The fashion retail conference

Who's who?

Conference speakers

Alexandre Birman
Vice Chairman, Arezzo

Michael Burke
Chief Executive Officer, Fendi

Peter Fitzgerald
Retail Industry Director,
Google UK & EIRE

Fred Gehring
Chief Executive Officer,
Tommy Hilfiger

John Kembel
Vice President, Social Solutions,
RightNow Technologies

B.S. Nagesh
Vice Chairman, Shoppers Stop

Joachim Reinhardt
Chief Executive Officer, Netrada

Bruce Rockowitz
Group President & Chief Executive
Officer, Li & Fung

Steve Shen
Chief Executive Officer,
Tommy Hilfiger China

Arun Sirdeshmukh
Chief Executive Officer,
Reliance Trends

Thomas Tochtermann
Director, McKinsey & Co



Apax Partners attendees

Giancarlo Aliberti
Partner

Amedeo Carassai
Partner

John Megrue
Chief Executive, Apax Partners
US, and co-head of the Retail &
Consumer team

Robin Muerer
Principal

Sandeep Naik
Partner

Alex Pellegrini
Partner

Oriol Pinya
Partner and co-head of the
Retail & Consumer team

Javier Rigau Pages
Principal

Dimitri Rodionov
Principal

Conference attendees



Alexandre Birman
Vice Chairman, Arezzo

Sanjay Lalbhai
Chairman & Managing Director,
Arvind Limited

Nick Robertson
Chief Executive Officer, ASOS

Yan Li Beijing
President, Shopin Retail
Development Co

Mary Hong
Co-assistant President and General
Manager of Commodity Management
Centre, Beijing Shopin Retail
Development

Qian Xu
Development Co Interpreter,
Beijing Shopin Retail

Marco Gobetti
President & Managing Director, Céline

Andre Maeder
Chairman of the Board,
Charles Vögele Mode AG

David Jaffe
President & Chief Executive Officer,
Dress Barn

Christopher Colfer
Chief Executive Officer, Dunhill

Bruno Sälzer
Chief Executive Officer & Chairman of
the Board, Escada SE

Michael Burke
Chief Executive Officer, Fendi Srl

Murat Ozyegin
Managing Partner, Fiba Capital
Holdings

George Koutsolioutsos
Vice President, Folli Follie SA

Sanjay Kapoor
Chief Executive Officer,
Genesis Colors pvt. Ltd.

John Hooks
Deputy Chairman, Armani Group

Peter Fitzgerald
Retail Industry Director,
Google UK & EIRE

Dacio Oliveira
Chief Executive Officer, Grupo Valdac

Stephanie Oliveira
Chief Executive Officer, Grupo Valdac

Vicente Castellano
Managing Director, Hackett

Adam Bernhard
Founder & Chief Executive Officer,
Hautelook

Fabio Hering
Chief Executive Officer, Hering

Claus-Dietrich Lahrs
Chief Executive Officer, Hugo Boss

Peter Ruiz
Buying & Brand Director,
John Lewis Partnership

R. Neal Black
President & Chief Executive Officer,
Jos. A Bank Clothiers Inc.

Sara Ferrero
Chief Executive Officer,
Joseph Limited

Bruce Rockowitz
Group President and Chief Executive
Officer, Li & Fung Limited

Bill McComb
Chief Executive Officer,
Liz Claiborne Inc.

Thomas Tochtermann
Director, McKinsey & Company

Thomas Grote
Chief Executive Officer, Mexx

Giuseppe Miroglio
Chief Executive Officer, Miroglio SpA

Thomas Müller
Managing Director,
Mytheresa Muenchen

Joachim Reinhardt
Chief Executive Officer, Netrada

Dave Cook
Chief Executive Officer,
Netrada North America

Roberto Graziani
President & Chief Executive Officer
Nuance Group

Carlos Ortega Cedron
Chief Executive Officer,
Pepe Jeans Group

Emanuel Chirico
Chief Executive Officer,
Phillips - Van Heusen

Brian Duffy
President, Europe
Polo Ralph Lauren Group

Arun Sirdeshmukh
Chief Executive Officer,
Reliance Trends

Laef Olson
Chief Investment Officer,
RightNow! Technologies Inc.

John Kembel
Vice President Social Solutions,
RightNow Technologies Inc.

Alberto Baldan
General Director, Rinascente

Gianluca Brozzetti
Chief Executive Officer, Roberto Cavalli

Bob Fisch
President & Chief Executive Officer,
rue21, Inc.

Roberto Vedovotto
Chief Executive Officer, Safilo SpA

Steve Shen
General Manager, Shanghai Chuang Si
Apparel and Accessories Co Ltd

B.S. Nagesh
Associate & Vice Chairman, Shoppers
Stop Limited Customer Care

Stephan Swinka
Chief Executive Officer, Takko

Pedro De Andrade
Managing Director, Faria Tarpon
Investimentos

Raymond Kelvin
Chief Executive Officer, Ted Baker

Dieter Holzer
Chief Executive Officer, Tom Tailor

Fred Gehring
Chief Executive Officer,
Tommy Hilfiger Corporation

Andreas Hammer
Business Development Manager,
Tommy Hilfiger Corporation

Joseph Gromek
President & Chief Executive Officer,
Warnaco, Inc.

Fred Gehring CEO, Tommy Hilfiger

The next decade of growth

Fred Gehring CEO, Tommy Hilfiger

Fred Gehring has been the Chief Executive Officer of the Tommy Hilfiger Group since 2006, and currently acts as Chief Executive Officer for Tommy Hilfiger/PVH International.

Mr. Gehring joined the Company in 1997 as the CEO for Tommy Hilfiger Europe B.V., which was initially a licensee for the Company and has since become wholly owned. Prior to this, Mr. Gehring served as Chief Executive Officer for Pepe Jeans Plc in London and Amsterdam, and also held various executive positions with Polo Ralph Lauren, Europe.

Fred Gehring remodelled an iconic but troubled US company as a Global brand with European headquarters. Here Fred looks back at the experience and shares his thoughts on the challenges to come in the next ten years.

The story of the Tommy Hilfiger brand in Europe was one of adherence to the cool, American, preppy vision of its eponymous founder and this consistency in design was mirrored in the steady increase in financial performance. In the US, the story was very different. The brand had left the confines of the 'cool, clean and preppy' and hit the urban streets in a very big way. It was bold

and brash and for a while it was everywhere in the US before hitting the wall. Faced with a US brand that was 'zigzagging all over the place' Fred and the European management team decided to take their destiny more firmly into their hands, by taking the company private and re-locating headquarters to Amsterdam. Here Fred talks about the process of 'fixing' the US brand and taking the company global.

The positive aspects of brand confusion While acknowledging the schizophrenic nature of the brand in the US during the 90's Fred also stresses that this period of massive exposure had positive

impacts in the longer term: "The explosion of the brand's presence in the United States did help create global awareness. It didn't necessarily help the perception – it stood for too many things and we had a lot of work to do focus it again – but the fact that the Tommy brand was everywhere in the US for a while certainly helped build the global awareness it enjoys today."

The fragmented States of Europe

One of the curious things about the brand transition for Tommy is that a confused US brand had managed to capture the imagination of the European consumer to a greater extent than almost all of its Europe-based competitors.

"The **explosion of the Hilfiger brand** exposure in the United States did help create global awareness."

Fred Gehring Chief Executive Officer, Tommy Hilfiger

Fred explains that this is not as unusual as it at first seems: "European brands all start in a specific part of Europe and by the time they start thinking about moving outside the home market, they have become so indoctrinated that it is already very difficult for them to adapt to a new culture. It's a very fragmented marketplace."

Although we see Europe as one economic entity, Fred points out that in terms of the consumer it is really the sum of many very different, smaller markets and if there is one overriding difference between the United States and Europe, it is concentration versus fragmentation. In that context, it is very important to get the balance right

between central control over brand image and local tailoring of product, which was something Tommy did well in Europe.

Going global

This experience of tailoring the product for very different consumers and empowering local management through a decentralised organisation has proved invaluable as the company moves further outside its traditional comfort zone. Outside of the US and Europe, the brand has a strong presence in Japan, where up until 2006, it was run as a successful franchise operation by Hitachi. The fact that it was run at arms length, with a product offering that was tailored to the Japanese market

has had a positive impact since it was re-integrated into the wider group.

"Over the last ten years there were very few truly global brands," says Fred. "They always had the majority of their business in their domestic market or their domestic part of the world. I think in the next ten years true global brands really will have to face the reality that probably less than 30% of their total sales will be in their comfort zone or their domestic market." In this new world, achieving the balance that was at the heart of Fred's presentation between global brand image consistency and the ability of well trained local management will become ever more critical.

HauteLook is an online discount retailer of premium brand clothing, accessories and events operating in the US and was established in December 2007 by its CEO Adam Bernhard. The first year turnover was about \$12m and the site has continued to see phenomenal growth since then, recording 400 - 500% growth year-on-year. Adam joined us at the Apax conference to talk about his journey in building up a successful online business.

The HauteLook story

Adam says he first identified the opportunity for the online discount selling

of premium brands while based in London, travelling the international circuit for his employer at the time, clearing their inventory backlog.

Meetings back in the US with premium brands such as Diane Von Furstenberg, Catherine Malandrino, Robert Rodriguez and Rock & Republic subsequently led to the creation of HauteLook.com. "These large brands recognised that moving their excess inventory quickly and quietly at a discount through an online private sales site was the answer to an inventory problem that was being amplified by a global recession."

A different model behind the success

The business has worked with over 1,500 brand partners and one of the keys to its success, according to Adam, is that HauteLook never buys the inventory. Historically this meant that the company was the only private sale business in America that was not negotiating against the brand concerned to purchase their inventory. Instead, they were working in partnership with the brand by producing and hosting the excess inventory sales channel.

The benefit to the consumer is also clear: the type of web-savvy consumer that buys from HauteLook knows they can find great bargains on high-end fashion brands; typically around 60% off. While the discounts may be deep, it is important to note that the supplier partners are not manufacturing inferior product for this distribution channel.

Are private sales sites just a fad?

"Great brands at great prices will never go out of style", says Adam, and that is the number one value proposition for HauteLook. "Supply is king in the off-price business; if you have the right merchandise

the customers will come. However, if you want to have a long standing business and an enduring relationship with your consumer, you also need to build a brand."

Consumers are looking in a direction that they never looked before, which Adam attributes to discounting early in the season that department stores started to do in 2008 and 2009. He believes that the effect of this has been to train the consumer to look for discounts throughout the year rather than just during specific sales periods, which also indicates that the phenomenon is here to stay.

Building a successful online business

How **driving traffic** and **winning customers** accelerates growth

"Great brands at great prices will never go out of style."

Adam Bernhard CEO, Haute Look

Adam Bernhard CEO, HauteLook

Adam Bernhard is the founder and Chief Executive Officer of HauteLook, a leading private sale website offering the top brands in women's and men's fashion and accessories, beauty, kids' products, home décor and travel. HauteLook was acquired by Nordstrom Inc. in March 2010.

Bernhard is a specialist in inventory clearance and fashion sales. Prior to launching HauteLook in 2007, he founded Liquid8, an inventory clearance company for contemporary apparel brands, as a way to gain insight and expertise into the category.

"We are using outdated language when we talk about online and offline. We need to broaden our minds and see that regardless of channel there is just one thing going on and that is shopping" Peter Fitzgerald, Retail Industry Director at Google, joined us for the conference to give his view on the world of online shopping and its impact on the fashion industry.

The introduction of personalised searches One of the latest internet trends to impact on the US retail market is linking products to personal recommendations.

Google recently launched a product called Plus One, where if you enter a search for a product you can see recommendations from both friends and experts, and base your purchase decision on that. As well as informing the customer, this function can have a significant impact on whether or not they are likely to click on and buy a competitor's product that did not have their friend's recommendation next to it.

Mobile devices of growing importance Another important point is that the majority of searches will be done on phones:

"Approximately 15% of all searches are being conducted on mobile devices already and this figure is growing at a speed of eight times the rate of desktop in its heyday. Yet only about 20 per cent of businesses have a mobile-enabled site," says Peter. "During the first 15 years of the web, online went to 5% of total retail. Mobile ecommerce, meanwhile, has already reached the 2% mark in half the time and will conceivably be as big a business as desktop internet in around seven years' time." This will also make mobiles the ultimate shopping companion

and an invaluable tool for companies to reach out to their customers. In addition to this, mobile internet access is in many emerging markets the only access point to the internet for a large amount of people, making mobile-enabled homepages a vital communication channel to reach these customers.

As a consequence, Peter strongly recommends that companies focus on putting more engineering into their mobile experience than they do on their desktop equivalent. With 80% of smart phone

internet users using these devices to help them with shopping, if a retailer is present at the moment when people are doing their searches and can even show them real time availability, this is a great potential conversion driver.

Local searches – the shortest way to the customer Peter also stresses the importance of the local dimension to these searches: "A third of searches on smart phone devices are local compared to approximately one in five on a desktop computer. These people are ready to come

to your store in their area and buy the product. Therefore, personalising the response that they receive is likely to improve the chances of a sale even more."

Companies that can leverage these angles in the right ways will be able to access markets over the next few years that would have been virtually out of reach with traditional retail networks and with a much smaller investment, but you need to make sure you know how to address these customers in the right way.

The next frontiers for the internet

"Approximately **15% of all searches are being conducted on mobile devices** already and this is growing at eight times the rate of desktop in its heyday."

Peter Fitzgerald Retail Industry Director,
Google UK & EIRE

Peter Fitzgerald Retail Industry Director, Google UK & EIRE

Peter is the Retail Industry Director for Google UK & EIRE Retail Vertical and is responsible for developing and executing the strategy for delivering growth in Google UK's Retail advertising sales revenues.

Previously, Peter worked for over 8 years with Amazon.com. As Director of Business Development, Peter was responsible for

UK sales and account management of multi-channel retail accounts, like Marks and Spencer and Mothercare, within Amazon Enterprise Solutions Europe, which develops and maintains e-commerce solutions for retailers that leverage the technical platform, operational capabilities, professional services and online retailing expertise of Amazon.com.



Led by the likes of Facebook, Twitter and Youtube, the social networking phenomenon has swelled rapidly into an online tidal wave that dominates the internet globally.

Engage with the consumer The most obvious challenge for businesses to overcome is one of sheer scale. It is physically impossible for a brand to be everywhere across the social web. However, as the brand managers behind a recent Old Spice advertising campaign aptly demonstrated, a business can generate scale in the social networking environment by enlisting the assistance

of consumers and loyal brand followers. The campaign relied on the brand engaging in a real-time rich media conversation across various networks in which it used online video posts to respond to consumer comments. In a very short time and with a comparatively small budget, the campaign was generating hundreds of millions of page views.

Wire the whole business for social networking The second major challenge for businesses in the social networking space is the speed with which information and messages travel through the medium. The immediacy brought about by the

internet generally and mobile devices in particular has dramatically increased the expectation among consumers that requests, complaints or other customer services issues will be dealt with rapidly.

However, tracking all of the important issues that spin out of social networking channels can be like finding a needle in a haystack. Many businesses are not giving themselves the best chance of spotting and actioning important issues by only building social networking capacity into their marketing departments. In reality, many of the more important issues that arise via social networking channels are

more relevant to operational centres of a business - customer services departments, loyalty schemes, merchandising, etc. "To be able to identify key issues and respond swiftly and appropriately is vitally important to weave social networking strategy into the entire fabric of a brand's business processes," says John.

The power of the crowd A third fundamental characteristic of the social network wave is how it has helped to democratise information and empower the consumer. Traditionally, brands have been much more inclined to dictate how they are perceived by maintaining close control of

their message and visual identity. But the rise of Twitter and other social sites is leading to a shift towards brands being built experientially on the social web.

Global clothing brand Gap didn't appreciate this until a social networking led backlash against a tightly controlled re-branding exercise forced it into a complete u-turn. On the flip-side US coffee brand Folgers turned the social network to its advantage, effectively handing over the creation of a new jingle to the social network. The latter example also highlights how surprisingly close the consumer's perception of the brand fundamentals often are to those defined by the brand itself...

Marketing and the social networks: riding the wave

Led by the likes of Facebook, Twitter and Youtube, the social networking phenomenon has swelled rapidly into an online tidal wave that dominates the internet globally. **John Kembel, Vice President Social Solutions, RightNow Technologies,** assesses the key opportunities and challenges for fashion retail businesses globally.

"It is well worth taking a step back to distil down the **fundamental characteristics of social networks** and to assess how these characteristics present challenges and opportunities to business."

John Kembel Vice President Social Solutions, RightNow Technologies

John Kembel Vice President Social Solutions, RightNow Technologies

John Kembel joined RightNow in September 2009 with the acquisition of HiveLive and now heads up social solutions as Vice President of RightNow Social. As CEO and founder of HiveLive, John has been a notable figure and thought leader in the social media space for several years, and continues to contribute to RightNow's social vision.

There has been a reluctance among some fashion businesses to make the jump to e-commerce, with only around a third of luxury brands having their own monobrand online store.

Joachim Reinhardt, CEO at Netrada, explains why consumer behaviour means this is no longer a viable option.

The ins and outs of e-commerce operations

Getting the product in the **e-customers'** hands

"Online retailing for fashion brands is no longer an option, it is a must", says Joachim Reinhardt.

He is CEO of Netrada, Europe's largest online fulfilment provider for the fashion sector. With some 2,000 staff in Europe and the US and 5 warehouses in different locations globally, Netrada handled over 25 million packages in 2010 for leading international brands such as Esprit, Puma, Hugo Boss and Lacoste. Joachim joined us at the conference to highlight the opportunities in e-commerce but also to give an insight into the many aspects you need to consider to run a successful multi-channel operation.

The upsides generated from engaging in multi-channel retailing compared to only operating through traditional brick and mortar stores have become evident over the last couple of years. Online is the fastest growing channel for all of Netrada's clients. In addition, significantly higher operating margins resulting from a lower required investment and scale effects make the channel hugely attractive. However, as Joachim highlights there are many pitfalls. The three key areas that he points out as crucial to run a successful online channel are online traffic generation, maintaining high conversion rates and managing fulfilment and returns.

Traffic generation The first is obviously as paramount for a multi-channel retailer as for a 4-wall store, but can be difficult to get your head around. Says Joachim, "Clearly the traffic depends on the brand strengths and the online and offline marketing investment. Initially, when we set up a shop, it starts with a very detailed analysis by our performance management team of the sales potential of any brand, based on traffic and search data we can find." To improve the sales potential, tools such as search engine optimisation, search engine advertising and integration of online and offline advertising are imperative.

"Online retailing is no longer an option, it is a must."

Joachim Reinhardt CEO, Netrada

Joachim Reinhardt CEO, Netrada Group

Joachim Reinhardt is CEO of Netrada Group. Prior to this, he was a member of the Management Board and CFO of Hugo Boss AG in Metzingen with responsibility for Finance, IT, Human Resources and other administrative functions. He has also had stints at Procter & Gamble and 13 years in various management responsibilities at the Gillette Group.

Conversion rates When it comes to maintaining a high conversion rate Joachim says that there is relatively little room for originality. "The experience of working with a large number of consumers has shown us that there are certain basic elements that simply have to be there." Among these attributes he mentions an optimised starting page for quick overview, search and filtering options, detailed product page with information and high quality imaging, which should also help to ensure low return rates, and an efficient check out process.

Fulfilment All of the above are prerequisites for capturing the customer, but what determines the customer satisfaction and drives repeat purchases is really the last link of the chain, the fulfilment and returns management. For companies entering into the e-commerce space for the first time this is really where a lot of the challenges for multi-channel retailers lie. Managing this area of the business also means that companies that are normally used to handling large orders to a smaller number of accounts (B2B) need to be able to handle a large quantity of small orders to a multitude of locations (B2C) including transaction specific complexities.

Joachim summarises his session by acknowledging the many challenges that companies are faced with in the e-commerce landscape, but also reminds us of the opportunities that lie ahead. "Getting the product in the customer's hand via the online channel is more complex than it might appear. Just like stationary retail, it's about details. However there is no alternative, unless you are willing to give up on one of the biggest growth opportunities and willing to lose market share as consumers go to competitors."

Global price inflation has probably never been so frequently discussed in the mainstream as it has recently.

Arun Sirdesmukh and **Bruce Rockowitz** discuss the pressures from both raw material prices and wage inflation on the global fashion sector.

Coping with inflationary sourcing

Rise in demand for cotton

40%

Global demand for cotton has risen 40% in the past seven years.

“On a global perspective, between 1948 and 1978 China did not exist. **In those 30 years it did not consume or produce anything.**”

Bruce Rockowitz Group President & CEO, Li & Fung Limited



Coping with inflationary sourcing *continued*



“When we talk about cotton specifically I believe that the very high price that we see right now is going to fix itself. Even though it will take time, people will plant more cotton and production will increase.”

Bruce Rockowitz Group President & CEO, Li & Fung Limited

Bruce Philip Rockowitz Group President and Chief Executive Officer, Li & Fung Limited

Bruce Rockowitz is the Group President and Chief Executive Officer of Li & Fung Limited, the publicly listed company. Bruce has also been an Executive Director of Li & Fung since 2001.

Bruce was the co-founder and Chief Executive Officer of Colby International Limited, a large Hong Kong buying agent prior to the sale of Colby to Li & Fung in 2000.

Bruce is a member of the Advisory Board for the Wharton's Jay H Baker Retailing Initiative, an industry research center for retail at the University of Pennsylvania, and he also serves as a Board member of the Educational Foundation for the Fashion Industries, the private fundraising arm of the Fashion Institute of Technology.

In December 2008, Bruce was ranked first by Institutional Investor for Asia's Best CEOs in the consumer category. In the years 2010 and 2011, he was ranked as one of the world's 30 best CEOs by Barron's. In 2011, he was given the Alumni Achievement Award by the University of Vermont.

Throughout the world of fashion the topic of price inflation has probably never been so frequently discussed as it has over the last few months. Both raw material price development and wage inflation have put sourcing models and sourcing geographies at the centre of attention.

Given this climate most in the audience were intrigued to hear what Bruce Rockowitz, Group President & CEO of Li & Fung and Arun Sirdeshmukh, CEO of Reliance Trends, had to say about the topic and discuss what the future would likely have in store for the industry. John Megrue, CEO of Apax Partners US, led the discussion.

JM: Bruce, maybe you could start off by talking about what development you have seen with regards to price inflation?

BR: When we talk about the raw material component of COGS and cotton specifically I believe that the very high price that we see right now is going to fix itself. Even though it will take time, people will plant more cotton and production will increase. However, I think it will stay higher than it used to be and that we are going to see a new norm in the future.

The labour component of COGS is something different. The Chinese government has changed its attitude towards exports from southern parts of the country and the coast. Whereas, they used to protect the people that owned the factories, they now prefer to change the conditions for the workers and generate domestic consumption instead. This means that we will see a continuing increase in labour costs with growth rates of 10-20% in the next 5 or so years.

JM: How about you Arun, what are you seeing?

AS: With regards to raw materials there have been some fundamental changes that have happened in the last several years that seem to suggest that prices are not coming down dramatically. There could be a decline if the supply were to increase above the demand, but that is fundamentally not going to be the case with worldwide demand for cotton having risen 40% in the last seven years, and emerging market consumption likely to increase further.

10-20%

expected rise in labour costs in the next 5 or so years



Arun Sirdeshmukh CEO, Reliance Trends Ltd.

Arun is currently the CEO of Reliance Trends Ltd., the Apparel and Accessories business of Reliance Retail. Prior to this, Arun headed marketing for Indus-League Clothing as a founding team member between 1999 and 2006. His 20+ years of experience in the Apparel business in India started at Madura Garments (Indian JV of Coats Viyella Plc) where he was the Group Brand Manager between 1990 and 1998.

On the supply side, acreage is unlikely to increase substantially as cotton is competing with other crops of equally inflationary nature. Therefore there is no reason to believe that prices will come down significantly, although there might be a bit of cooling off as happens normally in the cycle.

JM: How do you work with suppliers under these circumstances; is your philosophy to try to dominate certain factories or do you want flexibility?

AS: I think it's a bit in-between. If you have too much production with one unit you may obviously be too exposed to that producer and especially in India you may need to be a bit careful with geographical problems of varying kind. The flip-side is obviously that you won't get the right rates if you are too marginal to the producer. To us, what we would aim to do is to be the largest buyer but not dominate the supplier. The share of output of a factory we aim to take would generally be 40% to 50%.

That said, it is not necessarily about how much you buy from a specific producer, but about being their preferred partner. We have examples where we work with smaller producers to improve their productivity and improve their financing alternatives. Initiatives like these allow us to be a preferred partner, and that's a better place to be than to necessarily be the largest partner.

JM: What's your perspective on it Bruce?

BR: Very similar to Arun's really. You want long-term partnerships with the factories, and it's never been more important than today. In general we tend to take no more than 50% of a given suppliers capacity. First, because the factory feels vulnerable; but also because we want the flexibility if things change.

“...there is no reason to believe that prices will come down significantly, although there might be a bit of cooling off as happens normally in the cycle.”

Arun Sirdeshmukh Chief Executive Officer, Reliance Trends

Winning your next **three billion** customers

Four experts discuss the **emerging markets** of China, India and Brazil

“Penetrating the Indian market is not a simple task and **there are many obstacles** that need to be negotiated.”

B.S. Nagesh Vice Chairman and Owner, Shoppers Stop



Your next three billion customers *continued*

“The business culture in China remains far removed from that in the West and many international businesses have fallen into the trap of thinking that their previous experiences of joint ventures in Hong Kong will provide them with the foundation they need.”

Steve Shen CEO, Tommy Hilfiger China

With their vast combined populations, rapidly growing middle and upper classes and exploding consumerism, gaining a foothold in the emerging world super-powers of China, India and Brazil is clearly a high priority for Western fashion and luxury brands. However, as our panel of global and regional experts outlined, each of these markets presents a unique set of challenges and obstacles, from differences in national, political and business cultures to demographics and varying levels of available infrastructure.

China: nothing is ever certain

The booming Chinese market represents the world's single most promising growth market for fashion and luxury brands. This is not exactly news and the country has been attracting Western businesses for some time now. Encouragingly though, as explained by Michael Burke, CEO of Fendi, while history may suggest that first or early mover advantage is critical in opening up

new geographical markets, the sheer size and pace of change within the Chinese market makes it possible for late entrants to catch up. Fendi went through a staged roll-out in Chinese, focusing first on franchise operated and smaller stores. Having moved to rolling out stores in greenfield retail developments, Michael questions the importance of the first phase: “In hindsight it was, in my opinion, actually not that necessary”.

Perhaps one of the most important things to learn about the business culture in the Chinese market is the extent to which the political machine can drive decision making, as testified to by Steve Shen CEO of Tommy Hilfiger China. “If Western businesses have a problem or need decisions to be made, the first port of call is normally a lawyer; in China the first stop should be the government. The government is the ultimate company – its mayors are the CEOs and party secretaries

are the chairmen. If you can show them job creation, increases in tax revenues and GDP and savings in energy spend then it is likely that you will progress without hindrance. On this basis, you may have to proceed without the assurances that legal precedents would give you. And for this you need to be highly flexible”, says Steve.

India requires patience and positioning

Next on the target list would surely be India as it is second only to China in population terms, has seen phenomenal growth in consumption over a number of years and has the benefit of a largely English speaking business infrastructure.

However, even more than China, penetrating the Indian market is not a simple task and there are many obstacles that need to be negotiated. “To begin with it is important not to be wooed simply by the impressive headline demographics. It is true that India has approximately 300 million households, but in reality only

some 20-25 million of these have any real spending power”, explains B.S. Nagesh, vice chairman of Shoppers Stop. “In addition, other demographic issues such as the fact that around 75% of Indian women do not work and that children generally live at home until they marry all have an impact in shaping the true market size.”

There is also massive regional diversity to contend with. “India is made up of several large regions, each with its own personality, culture and in some cases language”, adds B. S. Nagesh. What's more the infrastructure network that connects these regions remains highly undeveloped by Western standards, presenting real supply chain challenges.

Dancing to the Brazilian rhythm

The Brazilian market may not quite be able to match the sheer size and growth potential of its two Asian rivals, but with steady, high GDP growth and massive

investment in services and infrastructure ahead of the football World Cup in 2014 and the Olympic Games in 2016 it certainly presents attractive opportunities.

But Brazil too has its challenges. “The country's seasons are opposite to the other largest global fashion markets. The Brazilian government also operates a number of protectionist policies, most important among which are high import duties, especially on goods coming in from China”, says Alexandre Birman, Vice Chairman of Arezzo. “Finally, although the whole country may share one predominant language and religion, there are marked differences in local consumer cultures, which makes it extremely important for fashion businesses to run a model which may combine flagship stores in the big cities and then effective networks of franchise operations to cater for local preferences”, he adds.



Alexandre Birman Vice Chairman, Arezzo

Alexandre Birman is CEO of Schutz and Vice Chairman, Executive Vice President and Member of the Executive Committee of Arezzo&Co in Brazil. Alexandre has been working for Arezzo&Co for 18 years where he has been responsible for the founding and managing of both the Schutz and Alexandre Birman brands, which currently represent approximately 30% of the Arezzo&Co's consolidated revenues. In 2009 Alexandre was awarded the “The Vivian Infantino Emerging Talent Award” for his work in the design of shoes, one of the most prestigious awards in the global footwear industry.



Michael Burke CEO, Fendi

Michael started working with Bernard Arnault in the real estate field, initially in France and then in the USA. When Arnault entered the luxury goods business in 1985, he tapped Michael Burke to head Christian Dior USA and reposition the brand away from a licensing-led model to a wholly integrated distribution model. After several successful years, Burke was appointed President and CEO of Louis Vuitton's North American operations in 1993. In 1997 he returned to Paris as Christian Dior's Worldwide Managing Director, until his appointment to President and CEO of Fendi in 2004.

7.5%

projected annual growth in Brazil's GDP presents attractive opportunities to global businesses



B. S. Nagesh Vice Chairman, Shoppers' Stop

Mr. B. S. Nagesh has been with Shopper's Stop Ltd since its inception in 1991. Recognised as the pioneer of the retail boom in India, Mr. Nagesh was voted by Business India as one of the top 50 managers in India who will influence the Indian business scenario in the 21st century.

Mr. Nagesh is the first Asian to be inducted into the “World Retail Hall of Fame” 2008 at the World Retail Congress 2008 conducted in Barcelona.



Steve Shen CEO Tommy Hilfiger China

Before Tommy Hilfiger China, Steve Shen had been with Esprit China from its very beginnings (May 1993) and had been the major force in building the business to its current size (about rmb 3 billion in retail value) and establishing its dominance as one of the leaders in international casual wear in China. Before joining Esprit China, Steve worked for Wang Computer China for two years.

The global fashion and apparel market is worth in the region of €700 billion today. By 2020, current estimates suggest that it will have grown by some 50% to €1.1 trillion. However, as McKinsey senior partner Thomas Tochtermann explained in his presentation, a sea-change in the global consumer landscape is inevitable and will dramatically alter the dynamics of the fashion market over the coming decade. With developed markets slowing down, all eyes are on the East to be the main driver of growth for the foreseeable future.

China: the new world growth engine

In line with its path towards being the dominant global economy, China is set to become the main engine for growth in the worldwide fashion market. McKinsey's forecasts suggest that some €200 billion of the growth predicted for the apparel industry will be generated by the Chinese market, which will swell in the next ten years to be worth over €330 billion.

Chinese consumers have an almost insatiable appetite for shopping: according to research carried out in 2008, compared

with American consumers almost twice as many Chinese people rate shopping as their favourite leisure activity. Shopping is also much more strongly entrenched in family life than it is in the West. Over 50% of Chinese respondents agreed that going shopping with their family is one of the best ways to spend time with them; this compares with just 15% and 9% of US and French consumers, respectively.

Deeper understanding needed

Many Western groups have already made strides to access the Chinese market and for some it has rapidly become very

important. There is, however, still major untapped potential in the region. Compared to Western counterparts, the Chinese apparel market remains highly fragmented, with the top ten non-sports brands only commanding a 5% share of the overall market, versus 25% in Europe.

Thomas also points out that it would be a mistake to look at China as a single national market. It is more like an entire Continent, with the complexities of multiple time zones, cultural differences and consumer preferences. In order to maximise their growth potential in such a complex retail

landscape, fashion brands need to invest time and effort to develop a better understanding of the environment. While many groups already split the Chinese market into a number of tiers for the purposes of developing their strategy, it is arguable that this system lacks the sophistication to capture the true diversity of China's consumer landscape.

For brands serious about taking a slice of the huge growth potential of the Chinese fashion segment, understanding these nuances will be essential to the development of a credible strategy.

Global fashion trends: unlocking Eastern promise

Current estimates suggest that by 2020 the global fashion retail apparel market will have grown by some 50% to €1.1 trillion.

Thomas Tochtermann from McKinsey, suggests that global fashion brands need to take stock of the major changes that lie ahead for the market.

Thomas Tochtermann Director, McKinsey & Co.

Thomas has been with McKinsey since 1985. He has been working with consumer and retail companies on commercial topics, growth strategies and global organisation for 25 years and is currently leader of the firm's Apparel, Fashion & Luxury Group. He has an M. A. and a Doctorate degree in Business Administration from the Ludwig-Maximilians-Universität, Munich.

"China already has the **largest number of internet users** (almost 400 million) of any global economy and **this is expected to double** over the next 10 years."

Thomas Tochtermann Director, McKinsey & Company



Key conclusions and shared learnings

Conclusions

The conference came at a time when the retail and fashion industry was experiencing some of the biggest challenges it has seen in a long time. Reviewing the talks at the conference, one clear theme emerged from the day and that was the importance of 'empowerment'.

This included empowering local markets by allowing differentiated marketing strategies, products and store fits in order to better meet local tastes. We heard how this has proved extremely successful at Tommy Hilfiger, particularly in Germany and Spain; two of the most divergent European markets in terms of both taste and market

dynamics. But it holds just as true for businesses looking to succeed in other markets such as China, Japan or Brazil.

It also stretches to encompass the empowerment of consumers through e-commerce. In reality, most boards and their advisers consist of people who are in their 50s or older and this means that the

notion of embracing e-commerce and social networks, such as Facebook or Twitter, can be rather alien. Yet, if the talks we heard at the conference proved anything it is how important e-commerce already is to the success of retail businesses of all sizes. For those who haven't done so already, now is the time to grasp the nettle and ensure you

understand the vast potential this platform has for unlocking new sales channels.

The conference proved to be a fascinating day with discussions led by speakers of the highest calibre, to whom we remain immensely grateful. The aim of the conference was to create an environment for debate and networking that would

allow attendees to not only take home new ideas but also relationships on which they could build in the future. This has certainly been the case for us at Apax Partners and we were delighted to help facilitate the debates. If you want to be part of the debate in the future please feel free to get in touch.



Apax Partners

Experts in Fashion Retail

Our retail experience

The Retail & Consumer team is made up of 25 investment professionals globally, including six partners, spread throughout North America, Europe and Asia. The team has a range of professional backgrounds and wide experience across many segments within retail, consumer and leisure.

The Retail team is characterised by its very strong commercial background, and many of the members have direct industry operating experience.

Over the past five years, the retail team have advised Apax Funds on equity investments totalling over €5.0 billion.*

See more about the team at apax.com

*as at 30 June 2010



Bootlegger
Canadian apparel retailer

Country: Canada Deal date: 2005



CBR Holding
Women's fashion retailer

Country: Germany Deal date: 2004



Charlotte Russe
Value fashion clothing and accessories retailer

Country: US, Puerto Rico Deal date: 1996



Children's Place
Children's speciality apparel retailer

Country: US Deal date: 1996



Cleo
Women's fashion retailer

Country: Canada Deal date: 2005



Dollar Tree Stores, Inc
Discount goods retailer

Country: US Deal date: 1993



D+S Europe
e-commerce and integrated customer management

Country: Germany Deal date: 2008



Hibbett Sports
Sporting goods retailer

Country: US Deal date: 1995



New Look
Value fashion clothing and accessories retailer

Country: UK Deal date: 2004



Phillips Van Heusen - Calvin Klein
Global apparel company

Country: Worldwide Deal date: 2003



Ricki's
Women's fashion retailer

Country: Canada Deal date: 2005



rue21
Value girls and guys apparel

Country: US Deal date: 1998



Spyder Active Sport
Premier snow-sport apparel

Country: Worldwide Deal date: 2004



Sunglasses Hut
Global sunglasses retailer

Country: Worldwide Deal date: 1991



Takko
'Value' fashion retailer

Country: Germany Deal date: 2010



Tommy Bahama
Island lifestyles and luxury clothing and accessories

Country: North America Deal date: 2001



Tommy Hilfiger
Apparel retail and wholesale

Country: US, Europe, China Deal date: 2006

Our global retail team

Amedeo Carassai Partner

Recent deals have included:

Sisal, Wind, Plantasjen

See full biography at apax.com



Zehavit Cohen Managing Partner and Office Head, Apax Partners Israel

Recent deals have included:

Bezeq, Tnuva, Psagot

See full biography at apax.com



John Megrue Chief Executive, Apax Partners US and co-head of the Retail & Consumer team

Recent deals have included:

Tommy Hilfiger, Advantage Sales & Marketing, HUB International, rue21

See full biography at apax.com



Alex Pellegrini Partner

Recent deals have included:

Advantage Sales & Marketing, HUB International, rue21

See full biography at apax.com



Oriol Pinya Partner and co-head of the Retail & Consumer team

Recent deals have included:

Takko, New Look, Itevelesa

See full biography at apax.com



Richard Zhang Head, Apax Partners China

Recent deals have included:

Sou Fun, Tommy Hilfiger China, Golden Jaguar

See full biography at apax.com



www.apax.com

email **retail@apax.com**