What’s inside this report?
New York, April 2013

Introduction with Apax Partners’ Retail & Consumer team

Conference attendees

Migrating retail to the Next Generation: eCommerce
Michael Rubin - Founder & CEO, Kynetic and Founder & Former CEO, GSI

Global leader series: Growing global brands
Roger Farah - President & COO, Ralph Lauren

Opertaining with public, private or strategic investors
Jimmy Lee - Vice Chairman, JPMorgan (Moderator)
William Launder - Executive Chairman, The Estée Lauder Companies
Tommy Hilfiger - Founder & Principal Designer, Tommy Hilfiger

Pursuing growth internationally: BRIC opportunities
Bruno Medeiros - Former CEO, Inbrands (Brazil)
Giedrūtis Pukišas - Centrobuv (Russia)
Steve Shen - CEO, Tommy Hilfiger (China)
Govind Shrikhande - CEO, Shoppers Stop Ltd (India)

Changing the way people shop for fashion: eCommerce
Kevin Ryan - Founder & CEO, Gilt Group

Building an enduring brand
Trey Laird - Founder & CEO, Lard + Partners

Expects in Fashion Retail

The second bi-annual Apax Partners Global Fashion Retail CEO Conference took place in New York in April 2013. Over 50 CEOs and leading industry experts came together to discuss key trends in the industry and what they mean for the future of fashion retail. This report reviews the Conference and its conclusions.
Introduction

with Apax Partners’ Retail & Consumer team

The Conference was held at an uncertain time for the retail industry. Recovery following the global economic crisis has been uneven. European economies remain challenged, the US has endured a prolonged period of unsteady, low growth and even the high-flying BRIC nations have recently seen some of the wind come out of their sails. Furthermore, many established retailers are increasingly being challenged by new types of competitors, many of which rely on innovative eCommerce-oriented business models. The speakers and participants at the Conference shared practical advice on how to execute strategic growth initiatives against the backdrop of these uncertain times. The articles in this publication summarise many of the key discussions that took place, but cannot do justice to the numerous insights and ideas exchanged between the participants at the Conference.

Brands are increasingly looking to new markets for growth

Retail growth in the developed Western economies is expected to remain lackluster in the near future. Seeking to capture new growth opportunities, retailers are increasingly moving into emerging markets, where global brands remain underpenetrated. Although growth in these markets has recently slowed, global brands remain highly sought after by the rising middle and upper consumer classes. Approaching these markets represents an enormous opportunity, but carries significant execution challenges. Brands that will be successful will have a tailored approach to design and merchandising, and have developed necessary local market expertise to successfully navigate the nuances of each market. Numerous panelists discussed the challenges of entering emerging markets and what it takes to successfully deliver a global brand to new consumers.

Online is continuing to evolve the retail landscape

Online non-food retail could double in the next five years, potentially creating more change in the next five years than in the previous 25. Driving this growth are new innovative formats—such as flash sales sites—and logistics efficiencies—such as free 2-day shipping—that are catering to consumer shopping habits and making it easier for consumers to shop online. Breakthroughs in online social media are also creating novel platforms for marketing and brand development. These trends are prompting retailers to pursue an integrated omni-channel go-to-market approach. Several of our speakers discussed strategies for connecting with consumers online and how to use engagement to drive sales through all channels. There was also extensive discussion on the importance of developing mobile shopping platforms, as smartphone and tablet penetration and mobile network speed and connectivity continue to increase.

Maintaining consistent brand values is paramount

Increasingly global and online consumer environments are driving brands to rethink the way that they interact with their customers... Attendees shared numerous insights and ideas exchanged that took place, but cannot do justice to the numerous insights and ideas exchanged between the participants at the Conference.

Approaching these markets represents an enormous opportunity, but carries significant execution challenges. Brands that will be successful will have a tailored approach to design and merchandising, and have developed necessary local market expertise to successfully navigate the nuances of each market. Numerous panelists discussed the challenges of entering emerging markets and what it takes to successfully deliver a global brand to new consumers.

The energy generated is incredible when thought leaders can exchange their perspectives with peers without worrying that their feedback will be misconstrued by the press or broader financial community. We could not be happier with the positive feedback we received from this year’s participants.

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We were delighted to once again provide a venue for such an impressive line-up of speakers and attendees to freely share their thoughts in an open forum.

John Megrue CEO, Apax Partners US, and co-Head, Retail & Consumer team

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Conference attendees

Who’s who?

**Conference speakers**

- Steve Biddle, Retail Industry Group Director, Facebook
- Roger Farah, President & COO, Ralph Lauren
- Tommy Hilfiger, Founder & Principal Designer, Tommy Hilfiger
- Trey Laird, Founder & CEO, Laird + Partners
- William Lauder, Executive Chairman, The Estée Lauder Companies
- Ori LeWinter, Director, Social Marketing Strategy, 360
- Bruno Medeiros, Former CEO, Inbrands (Brazil)
- John Megru, CEO, Apax Partners US
- Giedrius Pukas, Centrbuv (Russia)
- Michael Rubin, Founder & CEO, Kynetic and Founder & Formor CEO, GSI
- Kevin Ryan, Founder & CEO, Gilt Group

**Conference attendees**

- Pranab Barua, CEO, Textile Apparel Business, Aditya Birla Group
- Steve Biddle, Retail Industry Group Director, Facebook
- Siddharth Bindra, Managing Director, Birla Apparels P Ltd
- R. Neal Black, CEO, President & Director, Jos. A Bank Clothiers Inc
- Giuseppe de Boni, CEO, Giorgio Armani
- Jack Boys, CEO, Cole Haan
- Mark Brasher, Chairman & CEO, Americas, Hugo Boss USA Inc.
- Vince Camuto, CEO & Chief Creative Officer, Camuto Consulting Group
- Vicente Castellano, Managing Director, Hackett
- Saj Cherian, Vice President & Chief of Staff, Kynetic
- Emanuel Chirico, CEO, Phillips-Van Heusen
- Zehavit Cohen, Partner, Apax Partners
- Neil Cole, CEO, Iconix Brand Group, Inc.
- Simon Collins, Dean, Parsons School of Design
- David Cook, CEO, Nutsada
- Claudio Del Vecchio, CEO, Bally International
- Ashish Dikshit, President, Madura Garments
- Roger Farah, President & COO, Ralph Lauren
- Bob Fisch, President & CEO, rue21, Inc.
- Fred Gehrling, CEO, Tommy Hilfiger Europe
- Jill Granoff, CEO, Kate Spade
- Tom Hall, Partner, Apax Partners
- Fabio Hering, President, Hering
- Ken Hida, CEO, Foot Locker, Inc.
- Tommy Hilfiger, Founder & Principal Designer, Tommy Hilfiger
- Pradeep Hirani, CMD, Kimaya Fashions Pvt. Ltd
- Dieter Holzer, CEO, Tom Tailor
- Joel Horowitz, CEO, Global Brands Acquisition Corp
- David Jaffe, President & CEO, Dass Bign
- Aditya Joshi, Senior Associate, Apax Partners
- Sanjay Kapoor, CEO, Genesis Colors Pvt. Ltd.
- Khajak Keledjian, Founder & Chief Creative Officer, Intermix
- Richard Kestenbaum, Partner, Triangle Capital LLC
- Katherine Krill, President & CEO, Ann Taylor
- Fernando Labanca, President, Unico de Lago Laoer
- Trey Laird, Founder & CEO, Laird + Partners
- William Lauder, Executive Chairman, The Estée Lauder Companies
- James Lee, Vice Chairman, JP Morgan Chase & Co
- Ori LeWinter, Director, Social Marketing Strategy, 360
- Marcelo Lima, Director, Tarpon Investments
- Irene Liu, Principal, Apax Partners
- Sergey Lomakin, Partner, Quadro Capita Partners
- Fabian Mansson, Ex CEO, H&M
- Roger Markfield, Vice Chairman/Executive Creative Director & Chief Design Officer, American Eagle Outfitters
- Roberto Martinis, Operating Partner, BTO, Factal
- Magnus Mattsson, Partner, Apax Partners
- Tom McGann, CEO, Spyder Active Sports, Inc.
- Bruno Medeiros, Former CEO, Inbrands (Brazil)
- John Megru, CEO, Apax Partners US
- Robin Mueller, Principal, Apax Partners
- Joseph Park, CEO, Bluefly, Inc.
- Alex Pellegrini, Partner, Apax Partners
- Walter Piacsek, Partner, Apax Partners
- Giedrius Pukas, Centrbuv (Russia)
- Neel Rahaia, Group President, K Rahaia Corp
- Dimitri Rodionov, Principal, Apax Partners
- Jan Rosenberg, Global Head of Lifestyle, Real Time Technology
- Michael Rubin, Founder & CEO, Kynetic and Founder & Formor CEO, GSI
- Kevin Ryan, Founder & CEO, Gilt Group
- Mark Seba, CEO, The Net-A-Porter Group Limited
- Glen Senk, CEO, David Yurman
- Steve Shen, CEO, Tommy Hilfiger China
- Govind Shrikhande, CEO, Shoppers Stop Ltd (India)
- Shashank Singh, Partner, Apax Partners
- Christian Stahl, Partner, Apax Partners
- Scott Sternberg, Founder, Band of Outsiders
- Stephan Swinkels, CEO, Takko
- Robert Whipple, Principal, Apax Partners
- Michel Wurman, MD, BTG Pactual
- Richard Zhang, Partner, Apax Partners
Migrating retail to the Next Generation: eCommerce

Michael Rubin is a respected eCommerce entrepreneur, who founded GSI Commerce in 1995, and sold it to eBay for $2.4bn six years later. His current enterprise, Kynetic, consists of three fast-growing consumer Internet businesses: Fanatics, the world’s largest retailer of licensed sports merchandise; Rue La La, a leading online private sale destination in the US; and ShopRunner, an innovative members-only service that partners with leading retailers and brands to provide free shipping on online purchases. Michael shared a range of insights regarding the future of eCommerce.

The Growth of retail is being absorbed by eCommerce

In Michael’s view, over the next 10 years the share of the overall retail market held by brick-and-mortar retail will shrink in relative terms, as consumer preferences shift to favour online shopping. With online retail capturing growth, competitive and cost pressure on stores will intensify. “Doesn’t mean there won’t be lots of winners” says Michael, but “there’s going to be more losers than winners in overall retail”.

The best retail businesses will be those that control every aspect of their brands integrating design, merchandising and marketing across channels. In contrast, companies that wholesale goods to online retailers must be vigilant that their products are not inappropriately discounted, which is the business model for some of the largest online retailers.

Retailers should focus their efforts and marketing spend for eCommerce

There’s no “one perfect approach” to developing online capabilities. In Michael’s experience, retailers are not obligated to choose between building and buying their eCommerce operations; rather, businesses should consider how to deliver the best customer experience and partner where internal talent cannot produce the ideal experience for the customer. While it is helpful to possess a talented in-house team, best-in-class suppliers can address certain demands, such as logistics, in a more effective manner. For example, Michael emphasised that today’s eCommerce shopper expects fast delivery; and three to four day service will soon become unacceptable. This environment will require distribution from regional fulfilment centres, which can be provided by third party partners.

Counterfeiting is a real and present danger to all successful brands

Counterfeiters today are sophisticated organisations with efficient logistics and marketing know-how including search engine optimisation strategies that capture traffic and profits from the true brand owners. Michael considers the problem to be much bigger today than it was a mere three years ago. “I would tell you today, when people ask me who my biggest competitor is, counterfeiting is right at the top of the list.”

Mobile shopping is happening now

All retailers must have aggressive programmes to address mobile because consumers are very quickly adapting to shopping through this medium. Moreover, “If you think you can get away with not having very tailored experiences to each device, you can’t”. Mobile investment needs to provide custom experiences for each device consumers are using to shop. Four years ago, according to Michael, mobile was non-existent. In contrast, in one of Kynetic’s businesses, mobile accounts for a significant portion of traffic today and could provide half of all traffic in just one year. From Michael’s perspective, retailers should be overinvesting in mobile now. “The way that people were investing in eCommerce 10 years ago; I think you need to be investing in mobile in the same way.”
Global leader series: Growing global brands

Roger Farah joined Ralph Lauren in 2000, three years after the company went public. He previously served as CEO of Footlocker and held senior leadership positions in merchandising and operations at Macy’s and Saks. In his remarks, Roger shared insights on the globalisation of Ralph Lauren and how the more than 45-year-old company is poised to continue delivering value for consumers and shareholders.

“We had to contract the business before we could turn around and expand it in the light of a different thought process.”

Roger Farah President & COO, Ralph Lauren
Creativity and innovation must be backed by the discipline and resources to execute on it

When Roger joined Ralph Lauren in 2000, the company was a very different business than it is today. “We were really a men’s, blue label wholesale company with a lot of licenses, both product categories and geographies.” Since its IPO, the stock had declined from $26.50 per share to the lows: “Ralph was very troubled by why Wall Street didn’t get us”. Roger saw a need to bring operational discipline and a focus on execution to a highly creative and design-driven organisation. After his arrival, Roger and Ralph set to work forming a dream team with a symbiotic relationship encompassing the creative process and operational excellence. The results have been nothing short of spectacular: sales have grown from $2.2bn to $6.9bn, operating income from approximately $250m to $1.1bn, and the company’s stock price has increased well over 10 times. Ralph Lauren has succeeded by supporting design, merchandising and marketing innovation, which Roger refers to as the “lead part of our company”, with the resources and infrastructure to promote creativity and take products to market effectively. 

Consistency is key

Though the brand’s origin was associated with American style and the American flag, Ralph Lauren has globalised its brand message to reach a broader range of consumers by communicating an aspirational lifestyle that has universal appeal. “We began to look at the opportunities to really become more immersed in aspirational lifestyle... because as you move around the Middle East or Russia or Europe or Asia or South America, our view was there are aspirational customers everywhere.” The company has also widened its reach to consumers of varying incomes by creating a sub-branding strategy that addresses multiple pricing tiers with a uniform brand message. Ralph Lauren is distinguished by a family of brands including Polo by Ralph Lauren, Ralph Lauren Purple Label, RLX, Chaps and Club Monaco; and can be found in a wide variety of channels from value wholesale to outlet to full price to luxury. From the best-of-the-best to the bottom, all of Ralph Lauren’s products are built around a design sensibility that reflects its brand values in a consistent way.

For example, the company has a very successful business in Lauren by Ralph Lauren, which is the women’s more moderately priced product line in department stores. Those customers believe they are buying Ralph Lauren, just as the customers who walk down Madison Avenue, going into the mansion, see their product as Ralph Lauren.

Protect the brand, control the brand, and then grow the brand... in that order

Developing a brand can sometimes require contracting a business before expanding it. At the time Roger joined Ralph Lauren, the company’s primary channel was US wholesale. Available in 1,600 doors, Roger felt that the brand was over distributed and should have been sold through no more than 800 doors. “We had to contract the business before we could then turn around and expand it in light of a different thought process,” says Roger. The key is to have a well executed wholesale business with door counts based on a rigorous evaluation of all doors in a market, including company-owned retail and factory stores.

“We look, by market, and we look at what we think our market share in Phoenix should be and then we try to figure out how much of that should come from our own stores, how much of that should come from wholesale distribution, how much of that should come from factory stores, and we go market-by-market.” 

With this bottoms-up approach, the company is generating more sales in all channels reflecting extraordinary attention to detail around every aspect of the brand. Over the years, the company’s operations have evolved as Ralph Lauren has successfully taken more control over its brand. Moving far beyond its history of extensive licensing, the company now directly manages product and store design, merchandising, marketing, advertising, sourcing, manufacturing, distribution and logistics in-house. The result is well-demonstrated by gross margin expansion, over 1,100 basis points, half of which has been brought to the bottom line. By building its infrastructure and developing broad in-house capabilities, the company has created a powerful platform for the brand’s full expression capable of supporting its clear, distinctive brand strategy on a global basis.

“We began to look at the opportunities in aspirational lifestyle... because around the world there are aspirational customers everywhere.”

Roger Farah, President & COO, Ralph Lauren
A company’s ownership structure can have a profound impact on a business’s operational flexibility and managerial time horizon. In a conversation moderated by Jimmy Lee, Tommy Hilfiger and William Lauder shared their experiences on what it is like to run a business while it is publically traded versus privately owned.
Advantages and disadvantages exist in each context

For Tommy Hilfiger, “Going public meant that we would have the funding to do all the things we needed to do. And it happened at an opportune time because our growth was just beginning; it took us to a new level.” For a highly successful family-owned company like Estée Lauder, William Lauder noted the IPO created liquidity for shareholders. But when focusing on a transformational initiative or when a restructuring is in order, being private allows management to concentrate on operations and invest for the long term, instead of worrying about near-term earnings. Tommy wrestled with the analyst community when expanding overseas, "we really believed that expanding the Tommy Hilfiger brand outside of the United States would be positive for the future, but cash-intensive for the moment, because we were opening stores in London and Paris and Madrid and Milan. And there was a big push back from the analysts. It turns out that if we hadn’t done that we would not be the company we are today.”

Ultimately, exiting the public markets gave Tommy the patient, long term oriented environment his team needed to execute their plan, “being private at that particular time helped to propel the company forward and played an important role in getting us where we are today. Similarly, going public again with PVH’s acquisition of the company in 2010 has amplified the growth of our brand globally.”

Active investor relations programmes are essential

Communicating with analysts and investors can be challenging “… because there can be a lot of differing opinions that don’t line up with the way you understand your business” said Tommy. Building credibility and trust with the investment community overtime is crucial. William recommended proactively seeking investors who have investment interests and time horizons aligned with the company’s. By doing this, “we’ve been rewarded by much more constructive dialogues with those owners we see with some frequency because they are familiar with our story, they understand much more the rhythms of our business because they listen for the long term.”

Board composition makes a difference

“Boards are no longer rubber stamps,” reflected William. Choosing the right directors can make a discernible difference in keeping a company on a sound strategic path. Both Tommy and William shared the view that having knowledgeable and engaged board members is strategically valuable. “Having that all-star board of directors really was the answer in making this company a very healthy, growth-oriented company whereby the focus was the product, the brand, the growth, the expansion, and attracting the right executives,” commented Tommy. William believes directors with a range of expertise and experience can add great value, “So everybody serves a role in adding to the conversation”. Estée Lauder’s board members have been selected for their diverse expertise, including knowledge of the investment community, international markets, and family owned businesses. “Ultimately we’ve come to a wonderful balance in conversation and discussion… and we seek from each of these board members their contribution to the conversation,” he concluded.

"Everybody serves a role... we seek from each board member their contribution to the conversation."  
William Lauder Executive Chairman, The Estée Lauder Companies
Kevin Ryan is a true internet entrepreneur who sees big opportunities as eCommerce continues to change the retail landscape. After selling DoubleClick for $1.1bn, Kevin and a partner founded AlleyCorp, a network of three Internet companies that includes the eCommerce flash sales retailer Gilt Groupe. Founded in 2007 as an invitation-only site for coveted women’s apparel and accessories, Gilt has expanded into other business lines including home décor, kids & baby; men’s apparel and accessories; and artisanal food and wines.

Off-price eCommerce is a great place to be

Gilt was among the first to successfully implement a flash sales model online, selling discounted luxury products to consumers in private sales that last for only 36 hours. Consumers enjoy shopping off-price because they love a deal on high-end brands they recognise and Kevin believes there is considerable runway for flash sales providers such as Gilt to grow their share of the market. He estimates that the flash sales industry, now only 10 years old, represents $2.5bn in revenues. On that basis, Kevin believes that if companies like Gilt can take 1% share per year from the $100bn traditional discount retail market, they will grow 30% per year to reach $10bn in total revenues in just a few years. As the shift plays out, according to Kevin, “off-line retail doesn’t go away at all; what happens is the growth just gets sucked out of it. Almost all the growth is going to online.”

Benefits and challenges to being online vs. offline are distinct

“There can be an advantage when you don’t have an offline business, because you just focus on what really works here online,” according to Kevin. Online businesses can align their entire strategy and operation to their one point of contact with the customer (their website), versus offline businesses that must engage with consumers across a variety of channels. Despite having a singular focus, bringing the off-price business online is complicated. Technology, operations, and marketing are all critical, but “if you had to pick one, the fashion merchandise selection is the most important,” shared Kevin. The merchandise determines the positioning and being on trend is paramount. It’s a tremendous challenge operationally to accommodate daily changes to the merchandising on their site. Every day, a full slate of new products must be photographed, priced and marketed on the site, so “you have to be leaner and better on the operations than most players who have things in stores for a couple months.”

Knowing your customer pays off

Collecting data on shopping trends and using it to model consumer behaviour and create a personalised shopping experience is a true competitive advantage for Gilt. As Kevin explains, having “data-intensity is extremely important and it lets us do things that most businesses can’t do.” There are numerous tests underway on the Gilt site every day with different consumers seeing different things at the exact same time. The differences could be a headline, an email, a photograph, the positioning. “Not that testing is the only thing, but you want to have that data.” The testing process is vitally important but is not visible to the consumer. What is transparent is Gilt’s highly customised marketing. Every night, Gilt sends out 2,000 customised versions of an email to all of its customers, “which is very database intensive.” Once such scale is achieved and the data can be used effectively, it makes a difference to the business. “Each one of these actions isn’t a groundbreaker,” shares Kevin, “but there are 50 of them, and each one “probably increases revenue by 0.5%, so that’s important.”
Building an enduring brand

Laird + Partners is one of the leading creative agencies in the world, having developed several iconic campaigns for fashion, lifestyle and luxury brands. Founder Trey Laird, shared his expertise on how brands are built and what differentiates truly great brands.

Your product is your brand

In Trey’s view, building an enduring brand begins with inspiration, and benefits from vision, execution, timing, and luck. “Your product is your brand. Your brand is your product. I think it’s your greatest product, it’s ultimately what you sell,” a simple truth understood by the iconic European luxury brands, in his experience. When a fashion brand does this well, a basic item like a classic v-neck sweater will give the consumer a different feeling and sense of style simply as a result of its brand. “You can walk down the block and find the same sweater at Ralph and you’re a different character. You go to Burberry, you feel a different way.”

Key brand building blocks

For Trey, most great brands have four things in common: (1) great product; (2) a long-term view; (3) a willingness to invest; and, (4) consistency. A compelling and unique brand image married with great product is virtually unstoppable and typically reflects the vision of a strong leader. J.Crew and Apple would be two good examples in recent years of brands with visionary leaders obsessively focused on the product details that underpin brand image. To build a truly great, enduring brand, it must be nurtured, reinforced and allowed to evolve. “Whether it’s a founder or CEO, a designer or creative director, having a clear, consistent guiding voice for a brand image is crucial.” There are no shortcuts. From people, to stores, to marketing, to product development, to the online experience, a company has to invest in creating and sustaining a consistent image. “It takes a long time to penetrate the consumer’s consciousness and have an audience truly understand what you are all about as a brand.”

The best brands are storytellers

A well-executed marketing campaign is one in which a brand’s story is understood by both consumers and the organisation internally. Tommy Hilfiger’s “The Hilfigers” marketing campaign, launched in 2010, is a good example of this insight. The campaign communicates the brand’s story through a fictional family, who embody the image of “Preppy with a Twist.” In addition to materials produced for external use, Laird + Partners worked to educate employees across the organisation on the campaign and realign the brand message. Today, throughout Tommy Hilfiger globally, associates can articulate clearly and consistently what the brand stands for, providing a specific direction for all marketing and product development, “The prep with a twist brand image is much more than just an ad campaign, it’s now the filter for everything the brand does.” Trey feels strongly that this enduring brand narrative has energised consumers, united the organisation internally and been essential in driving the company’s lasting success.
Many established brands are beginning to dip their toe into social networking as consumers across a broad income and demographic spectrum are increasingly engaging with each other, and brands, over networks. Helping the audience better understand how to leverage social networking into brand building and commerce, Steve Biddle and Orli LeWinter shared unique insights on the topic. Tom Hall, a Partner at Apax, led the discussion.
Altering the traditional marketing paradigm: Social networking continued

TH: Where would you suggest established brands start with social networking?

SB: I think the simplest way to talk about Facebook is that it’s marketing. This is not a separate part of your organisation, Facebook can be seen as a way of acquiring your customers’ growing sales and building loyalty, so you don’t have to keep acquiring more fans. Retail is moving from the siloed approach... to an omni-channel approach in more progressive organisations as customers demand much more of a seamless experience. And so, retail needs to evolve into much more of an integrated market system.

OL: We recommend to all of our clients to start by listening to what their consumers are saying. You can really learn a lot about how your consumers feel about your brand, what they expect, what they might not be getting, where the white space opportunity is, how they talk about your competitors compared to yourself; and really start shaping your approach to engaging them based on that information.

TH: How should fashion brands best use social?

OL: Social is... about creating a relationship with consumers. I think the struggle that a lot of fashion brands have today is making their own visual story much more personal. Many are used to running print ads or even TV ads that are essentially one-dimensional and very beautiful visually, but nobody can touch it or engage with it. What social media allows us to do is tell a more personal brand story.

SB: Facebook allows brands to build relationships over time. Those relationships are built primarily through consistent, lightweight, easy interactions. They may not be a purchase every time. Burberry, for example, on occasion will just post music that they feel represents themselves as a brand. A lot of people share that music, often because of their relationship.

OL: Over the last few years, there has been a shift in how people develop and project their personal brand identity. People have become content curators sort of leaving a digital trail. And the more, as a brand, you can tap into... the cultural zeitgeist, and provide content for people to associate themselves with, the more successful you’re going to be in getting them to spread your message.

SB: No one forwards emails, but any action that I take on that same message on Facebook, the likelihood of any interaction – a Like, Comment or Share, is going to be seen by, on average, 69 of my friends. When you compare the two, for the exact same distribution, social makes more sense.

TH: How do you measure success in social? What does success look like?

OL: Our most successful clients in fashion retail are... trying to change perception through conversation online and through relationship-building, developing a unique brand voice in the space and working with influencers to drive their brand message. One example I would give is UGG Australia. They have a brand that’s known for one thing and they are trying to become a lifestyle brand. But if they start to market themselves as something else, they’re going to have a really hard time building credibility.

SB: The traditional kind of closed-loop measurement systems for traditional digital advertising using conversional pixels and view-throughs are certainly in place. Over the last 10 years it’s been a very convenient metric for many marketers but we don’t believe it’s the right metric.

OL: Digital has only been around for about 10 years; how many decades did it take for marketers to be able to truly understand the value of a TV ad? It took a really long time. I think there’s a little bit of urgency around digital in today’s world because things are so trackable, you can track every single click, every single comment, every single share, but understanding what it all means is really the key. Attribution models are becoming much more effective and sophisticated, but social still is not very well understood within those models.

OL: There are going to be nuances to the role of each channel, based on demographics. Pinterest has much more of an older, female audience, as compared to an Instagram or Snapchat. But on a broad level, saying you, as a brand, should not invest in social because your target customer is not there, I don’t think can be said anymore. Everyone is becoming much more social and mobile; it’s just a matter of how, and where, and on what platforms, they are engaging.

Audience Question: Are there demographic differences when deciding where to spend marketing dollars either on social or on more traditional email contact?

OL: Digital has only been around for about 10 years; how many decades did it take for marketers to truly understand the value of a TV ad?

Steve Biddle Retail Industry Group Director, Facebook

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Orli LeWinter Director, Social Marketing Strategy, 360i

“Digital has only been around for about 10 years; how many decades did it take for marketers to truly understand the value of a TV ad?”

Orli LeWinter Director, Social Marketing Strategy, 360i

“Digital has only been around for about 10 years; how many decades did it take for marketers to truly understand the value of a TV ad?”
Pursuing growth internationally: BRIC opportunities

The emerging markets have been a resilient source of growth in recent years for many global brands and retail spending in these countries is forecast to continue outpacing growth in most mature economies. Alex Pellegrini, an Apax Partner, moderated a panel of executives from each one of the BRIC countries as they discussed their local retail economies and the obstacles that global brands may face when entering these growing markets.
The retail sector in BRIC countries remains highly fragmented and largely controlled by local brands. While the growth rates in BRIC countries have exceeded those of mature economies, the retail sectors of these countries differ from Western markets in structure. “If you look at the Indian market, it’s about $500bn US, and only about 6% of it is organised retail,” said Govind. Mostly, these markets have fragmented retail landscapes dominated by local brands, which can create additional complexities for global brands attempting to develop operations in BRIC countries and displace entrenched local players. For example, “Brazil is pretty much dominated by the local brands. We have very strong iconic brands with a long history of relationship with the customers and with a very strong national presence,” shared Bruno. Further complicating matters, many of these markets lack robust wholesale distribution channels and available, affordably-priced retail space. “In Brazil we don’t have the concept of department stores, so it’s very hard for a lifestyle brand to have wide distribution in Brazil, unless they open their own stores, which we know is a more difficult operation. And for the large fast fashion retailers there’s an added challenge, which is basically the availability of retail space. We know that their marketing is the power of their stores, their locations. In that sense Brazil is very expensive right now. In most of the premium shopping malls, there’s not enough available space for a new chain to come in and establish itself,” continued Bruno.

Global lifestyle brands should tailor their approach to entering BRIC markets

For global players, investing the right resources and talent into a tailored entry strategy is key to developing their brands in these markets. “Russia shouldn’t be treated as a second tier market, because if you don’t treat it properly, the market will not accept you, and that’s where most of the mistakes come from,” commented Giedrius. Unanimously, the speakers felt that the most successful companies have adapted their design and merchandising strategies to cater to targeted markets. The most successful brands have developed local expertise either through owned or partnered operations, which have allowed them to build go-to-market strategies that are market-specific. In some cases, success has not come on the first attempt. For example, Tommy Hilfiger found limited traction in the Indian market after their first three years of operation. Tommy subsequently re-launched the brand, adjusting its price point, product design and distribution strategies. Today, the company is one of the few successful Western brands in India. Despite the challenges, Western brands are highly recognised and sought after in BRIC countries, especially in the luxury and fashion apparel sector. “Zara has its biggest sales per square meter metrics in Russia. Zara is opening 60 new hubs, which means five, six brands, or about 300 new stores this year alone,” stated Giedrius. Brands that prioritise recruiting top local talent, and pursue well-designed go-to-market strategies, are most likely to realise significant financial rewards. E-commerce developing, but mostly discount-focused

The panelists agreed that consumers across the BRIC markets like shopping online and that, as such, it is destined to grow. At this stage, however, online shopping remains largely focused on discounted merchandise in these markets. “We call it a ‘race to the bottom’ because the whole focus is on discounting... rather than really providing a platform of convenience,” said Govind about the Indian market. In Brazil, the channel is used largely for inventory disposal and not as a tool to enhance the brand experience or create customer relationships. “So it’s still a very tough environment in terms of economics for this channel in Brazil,” shared Bruno. Steve echoed these comments with respect to China: “I don’t find any full price business model making money. But, in the long run, I am sure the full price platform can make money.” Russia has a sizeable online retail market, but execution remains a challenge. “You have big bottlenecks in terms of infrastructure and logistics, payments, delivery, and returns,” commented Giedrius. “Russia has the biggest Internet audience in Europe,” he continued, “so I think the potential is great. But, it’s not there yet to the full extent.”

“The most successful brands have developed local expertise either through owned or partnered operations.”
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