



If you don't deal with your company's future now, the market will.

BY ALLAN ELLINGER

“During the past few years, I’ve met with many CEOs and leaders in our industry who have lamented the state of their businesses. While they acknowledged that their business was at risk if radical changes were not made, more often than not, these executives ‘tinkered’ rather than reinvented or radically changed their business structures. For the most part, they were unwilling to endure the pain and angst needed to reverse their companies’ diminishing future. They were in denial, rationalizing why they couldn’t do what had to be done. A number of these same CEOs are now asking themselves why they didn’t do what they should have done when they should have done it. The reality is that if you don’t deal with your company’s future now, the market will. It’s just a matter of time.”

I originally wrote these words for *MR* magazine in 2003; ironically, they ring even more true today than back then. While top of mind issues among industry execs today are the current state of retail and the e-commerce revolution, others, such as the threatened B.A.T. (the Border Adjustment Tax) and the possible renegotiation of NAFTA, are clearly outside of our control. Now is the time to control the controllables, not pause for outcomes. Don’t wait for something to happen; take action.

Much of today’s fashion industry looks and operates much as it did in the 1980s. But the ecosystem we exist in is rapidly changing around us with a steady stream of new technologies that have fundamentally changed the way businesses operate. If you are to survive, your business must change too.

While many vendors will continue servicing the department store channel, the growing retail channels are either direct-to-consumer (“DTC”), online marketplaces such as Amazon, or off-price channels such as TJ Maxx and Burlington. The future for vendors is dependent upon their ability to reinvent their business to service these channels. They need to diversify and mitigate the risk of any one channel or customer segment and adjust their business model to a digital marketplace.

Develop the ability to produce smaller runs with exclusive products and more frequent injections of newness. If you are a brand and you don’t have a direct-to-consumer strategy, get one. Be available online, on mobile web, on smart phones, tablets and PCs as well as brick-and mortar retail. Barriers to entry have been permanently lowered with the internet. Digitization has allowed new disruptive entrants to capture the incremental apparel growth. VC-backed web-based businesses operate to a different

set of values—scale quickly, profits later.

Social media creates brand awareness rapidly and cheaply, undermining the competitive advantage of established brands. Your brand needs to compete with nimble new startups that may or may not be around in 2018-2019. But I can promise you that if they are not, they'll be replaced by more of the same.

The hard truth is that the pace of change is unprecedented as digitization works its way through the apparel ecosystem, from design, textile production to assembly and manufacturing, to logistics and distribution and finally to point of sale. 2016 was one of the toughest trading environments in recent history and the challenges will increase in the next few years as creative destruction ensues.

Over the long haul, the digital shift should generate efficiencies that yield enhanced profitability. Opportunities co-exist with these challenges. They require a new framework, out-of-the-box thinking, a willingness to test, even to try and fail, which is a lesson the apparel industry can learn from technology. Do not put off data literacy another day. Your business de-

pends on you understanding the proliferation of data out there and turning the data into insights that help you take actions that protect and grow your business.

If barriers to entry are down, so are opportunities for economies of scale. Protect your gross margin. Near-term, this may require limiting distribution to mitigate

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retail markdowns. Given the number of recent store closings (Fung Global Retail & Technology counts 1,674 store closures in 2016 and 2,026 announced so far in 2017) and the sales guidance retailers are

providing, you can anticipate a high single to low double-digit sales decline this year with many of your existing customers.

Reduce overhead so you can pivot to new strategic opportunities as they come to market. We sense growing impatience in the VC and PE communities with burn rates that are too high and success rates that are too low. As their interest wanes and capital dries up for unprofitable e-commerce startups, opportunities for strategies will open up at prices worth negotiating.

Your core competencies of design, manufacturing and sourcing, logistics and importing remain intrinsic to the fashion industry. With the right strategic relationship, you can provide digital retailers with much needed business acumen.

Invest in your business for the long haul. Digitize your business model now. Multi-decades-old apparel brands and labels were created in a different environment and doubtless many of their business practices exist in silos, a sure obstacle to nimbleness. Make collaboration across functionalities your new business mode. This will enhance speed to market and product accuracy while aligning supply with consumer demand.

Finally, ask yourself if you can adapt your business model to meet the needs of these new channels and new consumer preferences/expectations? If all this is too much for you, it may be time to consider monetizing your business.

One thing is certain: If you don't make the tough decisions about your company's future now, the marketplace will do it for you. It's just a matter of time! ●



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