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left to right: Lori Rock, Nick Antonian, Lenny Gordon, Ron Friedman

ADAPTING THE RETAIL PARADIGM FOR A DIGITAL GENERATION: ENJOY THE RIDE

By Ronald Friedman

The election is (finally) over, and on January 20, 2017, Donald Trump will be sworn into office as the 45th president of the United States. Who would ever have thought that a businessman and not a career politician would receive the ultimate honor of serving our country in the White House? What will be the impact on our economy and what should we expect for the apparel industry? In this article I will give you my thoughts from a retail and manufacturing perspective.

As you all know, the retail and consumer products industry is facing tremendous challenges, with fewer and fewer brick-and-mortar stores in operation and ceaseless pressure on discounted sales and with low margins for both retailers and manufacturers. All you have to do is drive down any street where you might expect to see small, independent retail locations and what you will find are vacancies. Block after block of storefronts with signs posted,

looking for tenants. Not a great sight if we want an expanding economy for the foreseeable future.

What is driving the decline in brick-and-mortar retailing is a combination of online sales growing annually at double-digit rates and the lack of excitement among customers for visiting brick-and-mortar locations. The Baby Boomers have, for years, spent their shopping dollars by visiting local malls and independent retail shops, but the reality is that this generation is aging and spending proportionately less on apparel and other consumer products. Today's big spenders are the next generations, with the Millennials leading the pack.

My wife and I are Baby Boomers, and she spends a great deal of her free time shopping in a particular department store. I have unsuccessfully suggested that she get a job at this department

Photography by Laurel Hungerfeld

“Retailers must create an experience to attract Millennials...these experiences will involve entertainment and social environments where shoppers can interact with the products while dining, gaming, texting, socializing or just relaxing.”

store because she knows the inventory better than most of the employees working there. Just trying to be constructive. Now, my children, on the other hand, have no intention of spending time at malls or local shops. This generation finds that supporting a household requires both partners to work in order to make ends meet. When they come home at night, they are exhausted and want their shopping to be easy and painless. Thus, they let their fingers do the walking on their mobile devices. No hassle with street traffic, crowds, noise or checkout lines.

Black Friday, the traditional kickoff to the holiday shopping season, occurring on the day after Thanksgiving, produced \$3 billion this year for brick-and-mortar retailers. That total was matched nearly dollar-for-dollar three days later on Cyber Monday, a record high for single-day online sales. We can only expect this trend to continue. Brick-and-mortar retailers are going to have to either step it up by finding new ways to fight for market share, or else shift priority to their own websites if they intend to compete online. No one doubts that mobile devices will continue to be the shopping venue of choice for Generation Y unless retailers give them a compelling reason to spend their dollars offline.

What can the industry expect from the Trump administration, with the help of a GOP Congress? I suspect that NAFTA will be one of the first challenges for the industry. With Mexico being such a big part of our production and the administration's goal to bring jobs home, we may be facing increasing costs for merchandise produced in Mexico. As of this writing, the president-elect is considering imposing a 35% tariff on goods produced offshore. Nobody yet knows if his focus will be on the auto industry and other heavy manufactured goods, or on all consumer goods manufactured in Mexico.

We also know that President Trump is committed to negotiating with China to neutralize their advantage with low-cost labor, currency manipulation, and government subsidies to factories that provide low-cost production for products they export. With these changes coming, we can only expect that the cost of imported goods to the U.S. will be increasing. I would also speculate that consumers will be seeing an increase in prices, since U.S. manufacturers and retailers will most certainly have to pass on their increased costs, as they will be unable to absorb any additional squeeze on gross margins.

President-elect Trump is committed to growing the national economy. What normally stimulates growth is lowering interest rates and reducing taxes. With interest rates already at an all-time low and expected to increase in the coming months, we can anticipate a significant push from the Trump administration on reducing tax rates.

If president-elect Trump succeeds in growing the economy, consumers will have greater discretionary spending available to them, and retailers will need to adapt if they want to capture those additional dollars. Today's online shoppers are hooked on their mobile devices to fulfill their shopping needs, but they are not averse to visiting brick-and-mortar stores if given a reason. Retailers must create an experience to attract Millennials and future generations. Some of these experiences will involve entertainment and social environments where shoppers can interact with the products while dining, gaming, texting, socializing or just relaxing. The future of retail is starting to take shape, with restaurants that sell consumer products. We will see more cafes, social networking locations and similar environments that erase the lines between different types of customer engagements and eliminate shopping silos.

The future of brick-and-mortar will also trend toward smaller retail spaces that function more like showrooms where customers can select products to be shipped the next day from a centralized warehouse. This will decrease the need to maintain large quantities of inventory and shrink the footprint, and thus the cost, of retail space.

I have spent the last 45 years serving the apparel and consumer products industry. I have seen tax rates as high as 70% and as low as 28%. I have seen interest rates ranging from today's historic lows to highs of 20%-plus. No matter what, there is always one constant: consumers will spend, and manufacturers and retailers will adapt to capture as much of that spend as possible. Apparel is not for sissies. I always tell my clients that if they're not prepared to adapt and they're not having fun doing it, they should do something else.

Good Luck and enjoy the ride!

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