

The mess clothes
shops got
themselves into.
And how they can
dig themselves out

The Emperors' Clothes

Mike Flanagan
Clothesource

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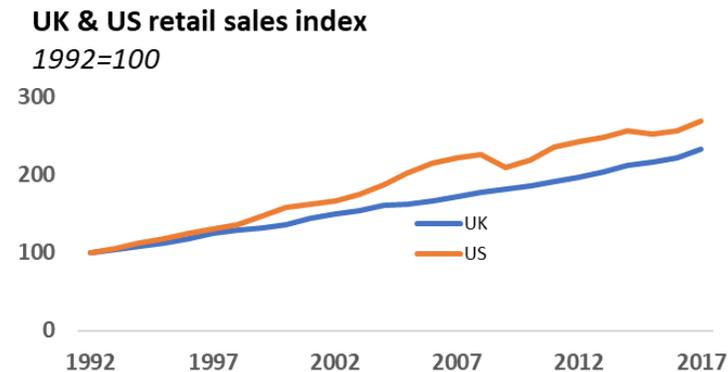
Summary

Clothes retailing: Perfect Storm or Emperors' Clothes?

According to Britain's Big Four accountancy firms, retailers – especially clothing retailers - face a perfect storm. Their US colleagues agree: sales are terrible, and all going to the internet.

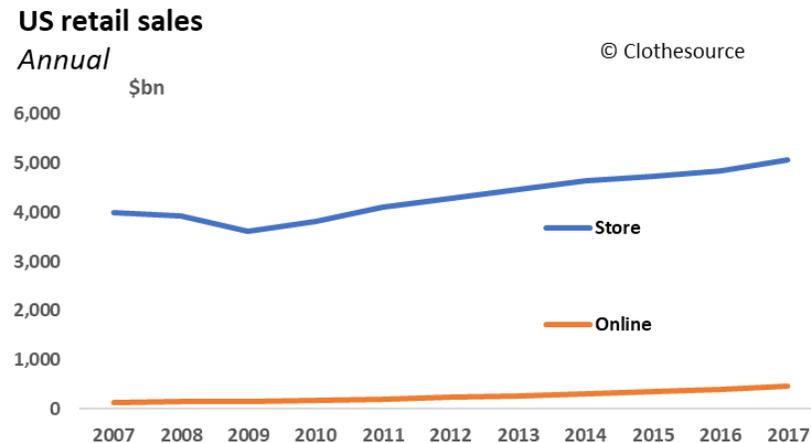
Clothes stores are making lots of mistakes. But at the heart of those “perfect storm” narratives are two huge fallacies. Retail sales aren't falling, and they're not leaving physical stores.

Britain's Office of National Statistics (ONS) and the US Bureau of the Census both report higher retail sales than ever. In the UK, concerns about a “High Street collapse” reflect sales moving from town centres to town-edge superstores or neighbourhood shops.



Clothes sales simply haven't migrated to the internet

Online's not damaging Western clothing stores: it's hysteria about an imaginary internet monster.



Fine for some: ASOS, for example, makes money from younger shoppers buying fashion on the web. But nowhere near as much money as Primark. The FT sniffed at Primark's UK sales growing 3% "despite the lack of online sales" and fashionistas loathe Primark – but it makes more profit than any other UK clothes retailer.

Fashionistas also loathe TJX and Ross Stores - America's most profitable clothes stores. All three make money **because** they avoid the internet, not despite it

The real problem is a toxic mix of recent cost inflation, clothes retailers misunderstanding their markets, vanity projects wiping out the savings from offshore production and poor advice from external advisors

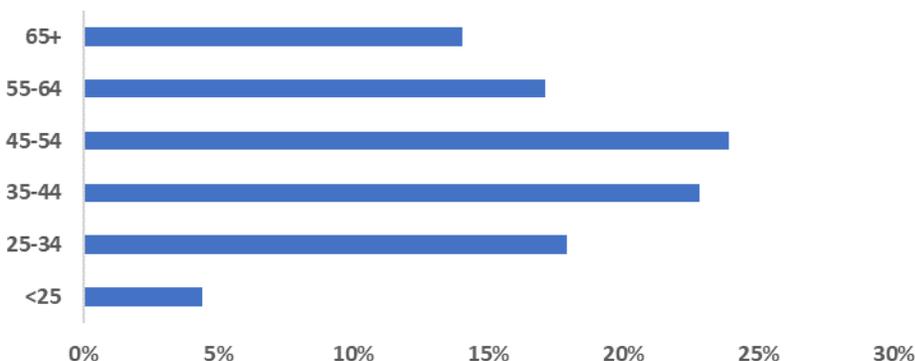
Costs have risen in both the UK and US, with sharp recent increases in minimum wages. Sales tax exemptions for online ordering have damaged American shops: the devalued pound has hit British shops and property taxes on town-centre shops are far too high.

Clothes stores' **market misunderstanding** starts with their focus on millennials – broke, indebted and in unsafe jobs – when most clothes spending comes from the middle-aged.

US Apparel market

Share by age, 2016

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They think they're selling fashion when they should just be selling stylish clothes that fit properly. They're not investing in their retail estate but paying shareholders and CEOs far too much. Cheaper overseas factories aren't providing the new ideas clothes shops need from suppliers

One damaging **vanity project** has been excessive expansion. The UK and US were slow to end their pre-Recession store opening orgy, and still haven't fully corrected the resulting oversupply. The top ten clothing specialists now have three times as many branches as they did in 2000. Often worse, though, opening foreign branches has shown

that retailing just doesn't travel - in shops or online. Selling merchandise in China and India has been fruitless for both Walmart and Amazon.

The other is the move to selling online: a decade ago few understood how expensive it would turn out to be. At food distributor Ocado, delivering from the world's most automated warehouses seems to cost as much as selling through shops: broker Citibank now says that, for selling clothes, "not being online is an advantage".

E-commerce doesn't just cost more than people expected: it sells less than people think. Britain's ONS and America's Census Bureau show sales growing faster online – but still growing through shops as well.

And most clothes ordered online are still tied to physical stores.

Almost all clothes are ordered from a physical chain's online division, with many "showroomed": viewed or tried on in store. Or collected from one or taken back to one if they don't fit. At Clothesource, we estimate that internet-only businesses are unlikely to have more than 5% of European and North American clothing sales.

Misguided external advisors start with trade journalists pressing for conspicuously expensive shops. Consultants touting IT projects that'll never work but inevitably cost twice what they promised. Big 4 accountants expert on everything but reliable auditing, or financial journalists judging every set of results against the "everyone's buying from Amazon" delusion

Worst of all, though, is the financial services industry's continuing obsession with sales. It's encouraged online specialists - buoyed by seemingly limitless ability to raise money – to chase sales growth, often selling below cost. And dragged the whole industry into a downward spiral of price-cutting and vanishing margins

We've moved into an Emperors' Clothes fantasy world where cost inflation, market misunderstanding, vanity projects and misguided advice have combined to create a fifth horror: **internet-led underpricing.**

Underpricing's done little for sales – but by shattering margins, it's undermined the whole industry's stability. At Clothesource, we believe the monster can be slain: if retailers rely on their own customer understanding, recapture their self-confidence, and rediscover their traditional frugality.

This report mostly quotes UK data in support of the case, but most points apply to the US as well.