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DAVID E. WHITE CLOTHIERS

Clutching a large mug of strong coffee, David White settled into his home office. It was December 2012, and as the president of David E. White Clothiers, White was considering what strategic growth options to choose for his menswear company. The company, entering its 32nd year of operations, had established a loyal local following, but sales growth had been declining over time. The menswear and apparel industry had experienced tremendous change through the years. White knew that he had some important decisions to make. Setting down his mug, he began analyzing his company's options.

THE MENSWEAR AND APPAREL INDUSTRY

The Canadian menswear and apparel market in Canada was projected to total $8.4 billion in 2013, representing an increase of 3.4 per cent since 2008,[1] slightly lower than the 5 per cent projected increase over the same time period in the United States. Men's suit sales had grown 10 per cent in the United States since 2009, and despite a decline of 4.2 per cent in 2008, global menswear sales had increased by 70 per cent since 1998 and had outpaced the growth in women's clothing.[2]

Much of this growth in menswear was attributable to social trends. The rise of social media encouraged men to increasingly value their public image online. As a result, a generation of both millennial[3] and middle-aged men had taken a much keener interest in their personal appearance and the fit of their clothing. While young men aged 16 to 24 were still keen clothing shoppers, men aged 25 to 34 had overtaken their younger counterparts to become the most frequent buyers.[4] This age group tended to buy fewer but better quality items, and it was expected to grow 11 per cent between 2012 and 2017.

[1] Menswear in Canada, Research and Markets, www.researchandmarkets.com/reports/2094325/menswear_in_canada, accessed June 16, 2014
[2] Claire Zillman, "Undressing Today's Man," Fortune, fortune.com/2014/03/14/undressing-todays-man-mens-fashion-enters-a-renaissance/, accessed June 16, 2014.
[3] A millennial is someone who was born between the early 1980s and the mid-1990s.
[4] Tamara Sender, "Men's Fashion: Three key issues retailers need to know about the menswear market in the UK," Mintel, www.mintel.com/blog/mens-fashion-3-key-issues-retailers-need-to-know-about-the-menswear-market-in-the-uk, accessed June 16, 2014.

Despite high overall growth figures for menswear, the majority of sales took place amongst larger retailers, with the 50 largest companies accounting for 65 per cent of menswear sales. While larger companies had advantages in product variety, distribution and purchasing, smaller stores competed through offering unique products, targeting a specific demographic or fostering loyalty in a regional market through superior customer service.

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While women's share of the online clothing market was still more than double that of the men's market, the men's market was growing at an annual pace of 13 per cent, compared with 10 per cent for women. Convenience and product selection had factored into this online growth. Established brands, including Gap Inc.'s Banana Republic and J.Crew, had recently made sizable investments to their online sales capability. In addition, a large number of smaller menswear companies had emerged online, mixing fashion products with blog or look-book[5] content to target social-minded consumers. As opposed to the traditional in-store shopping model, which focused on salesperson assistance, online locations serviced their customers through webpages and delivered products directly to customers' homes. To accommodate concerns about the fit of the clothing ordered, these companies often provided flexible return policies and invested heavily in their webpages to make them as user-friendly as possible.

DAVID E. WHITE CLOTHIERS

History

Born in the baby-boomer era,[6] White began his career in January 1971 as a sales associate at men's retailer H.W. Ball in London, Ontario. White commented, "When I first started in the industry, the hourly wage was set at $1.25 per hour. In contrast with the various marketing channels available to today's retailers, marketing in the 1970s was defined by the displays the store had in the front window."

White excelled at his role and received several promotions through the years, but White's goal was to manage his own business and create his own personal brand. With his personal savings, White established David E. White Clothiers (White Clothiers) in May of 1980 in the town of Goderich, Ontario. The retail operation quickly grew to five employees as the business flourished. In August of 1987, White relocated the retail operation and the staff to London, Ontario, approximately 100 kilometres from Goderich. Occupying a prime downtown location at the corner of Richmond St. and Queens Ave., White Clothiers was known as a one-stop shop for high-end men's fashion and style. For discerning men, the company combined top brands with the highly personalized type of service reminiscent of White's early retail sales experience in menswear.

White Clothiers focused on tailored clothing, with an emphasis on premium brands, including John Varvatos, Allen Edmonds, Naked & Famous, and Paul Betenly (see Exhibit 1). The company prided itself on its suiting service. Unlike shopping-mall counterparts, the company's employees were not simply sales associates. Rather, they were "go-to" advisors for clients looking for the right outfit for any occasion. As experts in suiting, these associates advised clients on apparel details, including the fabric, cut and construction of the suits. More recently, White Clothiers had added the ability for customers to purchase some of its products online, primarily its shirts and accessories.

[5] A look-book was a collection of photographs meant to showcase a style, stylist or clothing line.
[6] A baby boomer was defined as anyone born after World War II between the years of 1946 and 1964.

In addition to clothing, the store had a dedicated on-site tailor and dry cleaner available for clients. Because off-the-rack[7] items seldom fit a customer perfectly, the tailor made adjustments for a better fit. With its convenient downtown location, White Clothiers had established a strong client base for off-the-rack suits amongst working professionals. In 2000, White Clothiers added a barbershop, offering customers both cuts and shaves. The barbershop also catered to groups from larger events such as weddings. White believed that the tailoring, cleaning and barber services were an important and effective way to differentiate the company from its competition. Furthermore, these services introduced these clients to White Clothiers' product offerings.

During its 32 years of operation, the business had established a core customer base and a visible identity in the London community. White and his employees participated in the Kidney Foundation of Canada's annual fashion show and were also ardent supporters of the Movember Foundation, a non-profit organization that raised funds and spread awareness for prostate cancer.

Operations

White Clothiers purchased inventory twice a year, once for the spring/summer season and again for the fall/winter line. Clothing manufacturers typically shipped orders from their factory to a number of suppliers for distribution and sale. White Clothiers purchased inventory from 15 to 40 suppliers in any given year, depending on what products, brands and styles were needed. Currently, the company's inventory turnover[8] was approximately 2.5 times a year. Accurate forecasting was critical to the company's success. If too little inventory were purchased, the company would miss out on sales as the most popular styles of the season sold out. If too much inventory were purchased, the age of inventory would be extended and some product discounting would be required.

Customers

White Clothiers' customers were divided into three categories: senior level professionals, professionals and students.

<u>Senior Level Professionals</u>

Senior level professionals were primarily between the ages of 40 and 65. These individuals included business owners, health-care professionals, educators and professional service providers such as lawyers and accountants. Either in a senior level position or nearing retirement, these men valued high-quality suiting as defined not only by the brand, but also by service, fine detail and quality materials. They usually had an understanding of their own personal sense of style and wanted to add clothing items to complement their existing wardrobe. With a higher level of disposable income, they did not purchase apparel on a frequent basis but tended to spend more money per visit. These men were also more likely to shop at retail outlets than online. Currently, of White Clothiers' three customer segments, this segment garnered the largest sales.

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[7] *"Off the rack" refers to clothing that is ready-made in standard sizing.*
[8] *"Turnover" refers to the number of times that an asset is replaced over a financial period.*

Professionals

Professionals were characterized as men between the ages of 22 and 40 who were most likely in entry-level or middle management positions. Just beginning their careers or juggling an existing career with a new family, the members of this customer group required professional attire, including suiting that was functional and stylish. These men were willing to experiment with different looks and occasionally required advice on style, fabric, design and fit. Their disposable income was limited by factors such as living expenses (student loans or home mortgages) so they were likely to seek discounts on their purchases. While casual and affordable clothing items were often purchased online, more expensive purchases were most often completed at retail clothing stores.

Students

The student segment included males between the ages of 16 and 22 who were enrolled either in high school or a post-secondary college or university. Their initial purchase was often for their very first formal outfit for a school event, family function or job interview. Students typically knew little about suiting and how suits varied in quality. With minimal income, these shoppers were usually accompanied by family members who paid for the purchase. Students were the least brand-loyal, and they comparison-shopped to find the best value. In line with a recent decline in mall traffic, this segment was the most likely to shop online.[9]

COMPETITION

White identified three main competitors: local independent retailers, online retailers and major menswear retail chains.

Independent Retailers

Since 1987, the number of independent menswear retailers in London had decreased from 22 to 6. However, White Clothiers still faced strong competition from some of the existing retailers. In particular, Channer's constituted a major competitor. Founded in 1999, the store expanded its menswear offerings in 2002 by adding a ladies section and an apparel section. Operated by owner Peter Channer, the store had 25 employees and carried a large variety of men's brands such as Hugo Boss and Paul & Shark. Women's brands included Michael Kors and Rebecca Taylor. In addition to word-of-mouth advertising, the company also took initiatives such as sponsoring a London Knights Ontario Hockey League player as the "player of the month." While the store had an aesthetically pleasing website, it did not sell apparel online. Channer's was visually attractive and was located on a busy intersection at the corner of Wonderland Road and Commissioner's Road, approximately a 10-minute drive or a 26-minute bus ride from downtown London.

Online Retailers

White Clothiers also faced competition from an increasing number of online retailers. In particular, Indochino was a growing presence. Co-founded in 2007 by a political science student and a business

[9] *David Uberti, "The Death of the American Mall," The Guardian, www.theguardian.com/cities/2014/jun/19/-sp-death-of-the-american-shopping-mall, accessed June 16, 2014.*

student from the University of Victoria, Indochino had since sold over 17,000 men's suits in 60 countries. Indochino secured $4 million in funding from an institutional investor in 2011 and operated offices in Vancouver, Canada, and in Shanghai, China.

Indochino's website presented its online customers with a selection of suits. Once they had made their choice, customers were required to send in a set of 18 body measurements.[10] The company suggested that a friend or family member could complete these body measurements within 10 minutes. An accompanying video was posted on the website to guide customers through this measuring process. After the customer made his purchase, the company's production partner in China manufactured the suit before delivering it by FedEx to the customer's home within four weeks. If the desired fit was not achieved, the company offered a $75 alteration credit towards local tailoring to be used within 30 days of purchase. If the tailor deemed the order unalterable, Indochino offered to remake the suit at no additional cost to the customer.

At a price point between $369 and $839 for a suit, Indochino was more affordable than other premium bespoke[11] suiting options, where prices could range from $1,000 to over $2,500 per suit. Indochino's website was intuitive, attractive and well designed. However, White found that the fabric and construction of the suits were generally of a much lower quality. For example, while higher quality suits featured a canvas of horsehair between the suit's wool and the lining, the interlining of Indochino's suits was generally glued together. Furthermore, several online reviews found that fit could be inconsistent despite the provision of specific measurements.[12]

Menswear Retail Chains

White Clothiers also faced competition from a variety of large retail chains. Among them, Moore's was one of the major players. Men's Wearhouse, a U.S.-owned company, owned Moore's. With a market capitalization of $2.8 billion, Moore's advertised through a variety of channels, including nationwide print ads and television commercials. Moore's locations were based in cities and towns across Canada in major shopping areas. The company offered customers an affordable price point ranging from $200 to $600 for a suit. While the stores did employ full-time personnel, the majority of its sales staff was employed on a part-time or non-permanent basis.

Moore's carried popular brands such as Tommy Hilfiger and Calvin Klein and had exclusive arrangements with other suppliers. Moore's suits were available off-the-rack only; customization options were not offered. As part of its strategy, the company often made use of heavy discounting campaigns and sale signage in order to attract customer traffic.

ALTERNATIVES FOR GROWTH

Status Quo

White considered the possibility of not implementing any strategic changes. If no changes were made, he believed that the company's sales growth for fiscal 2013 would mirror the growth rate of the Canadian

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[10] Indochino offered to mail a tape measure to the customer's home if they followed the company on Twitter.
[11] "Bespoke" suiting referred to suits that were custom-made or made-to-measure.
[12] Sven Raphael Schneider, "Indochino Review: Jacket and Pants," Gentleman's Gazette, www.gentlemansgazette.com/indochino-review-jacket-pants/, accessed June 16, 2014.

menswear and apparel industry over the past four years. With the incremental growth in clothing sales, White also believed the barbershop could attract an additional 10 customers per month.[13] For expenses, he expected to save $100 a month by eliminating an ineffective advertising channel. Wages would remain at the same dollar amount, while all other expenses were expected to remain the same dollar or percentage of sales as fiscal 2012 (see Exhibits 2 and 3).

Custom Suiting Showroom

Part of the store was currently used to showcase art. With over 60 square metres of available space, White wondered whether the area would be better utilized as a showroom for selling custom suiting on top of its existing product lines. This showroom would display sample fabrics and designs highlighting the full range of available customizable options. An interactive computer software program would showcase these features to the customer using a monitor (see Exhibit 4). Beyond the fit of the suit, these options would encompass details such as the width of the lapels, the type of buttons utilized, the type of suit pocket included and the colour of the suit lining. The materials used to construct the suit would be purchased from premium mills around the world, while the construction process would be outsourced to a few trusted manufacturers. Beyond suiting, the showroom would also offer made-to-measure shirts.

Lots of Designs

White estimated that 80 per cent of showroom customers would spend $695 on a suit and $165 on a shirt, while the remaining 20 per cent of the customers would spend $1,000 on a suit and $250 on a shirt. He was confident that the showroom could generate five purchases each month. In addition to increased suit and shirt sales, White believed that sales of accessories such as ties and belts would generate an additional $250 each month. The cost of goods sold for all showroom sales, including accessories, would average 40 per cent of the selling price. White Clothiers would incur an additional 20 per cent cost, payable to the manufacturers for each custom suit and shirt sold. White would need to spend $5,000 on new fixtures, $15,000 on renovations and $10,000 on new equipment to set up the new showroom. These investments would be drawn from the company's existing funds. White knew that cannibalization of existing products was likely, and he estimated that one in five custom suiting customers would have purchased his store's existing products.[14]

Executive Clothiers

Another potential way to increase sales was to recruit personal stylists, or what White called "executive clothiers." These stylists would be based in large cities (Toronto, Calgary, Vancouver, etc.) and would sell White Clothiers' merchandise while building upon their own personal brand. White would hire entrepreneurial-minded people who could build a network of customers among their acquaintances, professionals and local organizations. With strong interpersonal skills, these people would visit homes and offices to assist consumers with their style choices.

White believed this job opportunity would be attractive for someone interested in starting a career in fashion. While upscale menswear stores such as Harry Rosen offered employees a commission from 6 to 10 per cent of sales, White planned to offer personal stylists a 20 per cent commission on all sales. This cost would be in addition to the 53 per cent cost of goods sold the company incurred for every suit, but White believed it was necessary to attract quality stylists. Personal stylists would be required to make a one-time investment of $500 for a starter kit consisting of clothing samples, a personalized website and

[13] *The average haircut at the barbershop was $25.*
[14] *Existing David E. White customers spent about $600 annually, on average.*

their own set of business cards. White Clothiers would also provide ongoing training and access to corporate databases and online booking software. In their first year of business, White believed personal stylists would be able to generate five sales a month, with an average customer spending around $800 per purchase.

If pursued, the company planned to utilize LinkedIn to advertise the stylist position. As the world's largest business-oriented social networking site, LinkedIn allowed employers to post positions, view professional profiles and receive job applications. It was estimated that Canada had over nine million LinkedIn users, representing 25.8 per cent of the Canadian population.[15] Of these users, approximately 225,000 had profiles relating to the fashion and apparel industry. Approximately 40 per cent of users checked their profiles daily. A job posting visible across Canada for one year would cost $4,600. White wondered whether he would find enough qualified candidates to grow company sales and recuperate this expense.

Sell

Despite his longevity in the industry, White knew he would eventually retire. Would anyone be willing to purchase his business? If so, White wondered what his company might be worth now. If he added the custom-suiting showroom expansion, what would the company be worth a year from now?

CONCLUSION

White was proud of what his company and his employees had accomplished in the London community. The industry was changing, however, and White knew he could not become complacent. The decisions he made today would undoubtedly affect White Clothiers' future performance.

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[15] *LinkedIn website, blog.linkedin.com/2013/01/09/linkedin-200-million/, June 16, 2014.*

EXHIBIT 1: DAVID E. WHITE CLOTHIER – PRODUCT OFFERINGS

Source: Company files.

EXHIBIT 2: STATEMENT OF EARNINGS
For the Period January 1 to December 31, 2012

Revenues:			
Clothing	$	784,865	79.0%
Tailoring		69,545	7.0%
Barbershop		139,090	14.0%
Net sales		993,500	100.0%
Cost of goods sold:			
Cost of goods sold		513,738	51.7%
Gross profit		479,762	48.3%
Operating Expenses:			
Advertising		5,196	0.5%
Amortization		3,839	0.4%
Interest		22,936	2.3%
Insurance		2,072	0.2%
Legal and accounting		1,831	0.2%
Office expense		19,853	2.0%
Rent		98,301	9.9%
Travel		10,449	1.1%
Utilities		8,975	0.9%
Wages		242,849	24.4%
Total operating expenses		416,301	41.9%
Net income before tax		63,461	6.4%
Income tax expense		9,436	1.0%
Net income	$	54,025	5.4%

Source: Company files.

EXHIBIT 3: BALANCE SHEET
As At December 31, 2012

ASSETS		
Current assets:		
Cash	$ 26,500	
Accounts receivable	23,255	
Inventory	419,433	
Prepaid web hosting	12,000	
Prepaid expenses	7,200	
Total current assets		$ 488,388
Fixed assets:		
Computer equipment	15,500	
Store fixtures	85,900	
Operational equipment	26,450	
Office equipment	2,908	
Accumulated depreciation (all assets)	(28,350)	
Net fixed assets		102,408
Total assets		590,796
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	112,345	
Income taxes payable	9,500	
Notes payable	48,458	
Total liabilities		170,303
Equity:		
Shareholders' capital	25,000	
Retained earnings	395,493	
Total equity		420,493
Total liabilities and equity		$ 590,796

Source: Company files.

EXHIBIT 4: WHITE CLOTHIERS – CUSTOM SUITING SOFTWARE EXAMPLE

Source: Company files.