

STYLE INC.: FINE BESPOKE TAILORING

Richard Bloomfield wrote this case under the supervision of Elizabeth M. A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In July 2016, Josh Gavidia and Rae Dineda, co-owners of Style Inc. (Style), a fine bespoke tailoring company, wondered how to increase the company's profitability. Over the past six years, the Toronto, Ontario-based company had enjoyed modest financial success, but the industry was becoming increasingly competitive; profit margins had been shrinking on some of Style's clothing lines. Although the co-owners were proud of their diverse selection of bespoke tailored products, they wondered whether offering seven different clothing lines was overextending their resources. They set out to consider dropping their lowest-margin clothing line or increasing its retail selling price.

TORONTO, ONTARIO

Toronto was the largest city in Canada, with a population nearing six million. The city had grown at a rate consistently above 9 per cent between each census date, making it one of the fastest-growing cities in Canada.¹ At the centre of the city was the historic Financial District of Toronto. The Financial District was home to the Toronto Stock Exchange, as well as corporate head offices for several businesses and all major Canadian banking institutions, justifiably supporting its recognition as the financial centre of Canada. Furthermore, more than 100,000 commuters, including many business executives and professionals, travelled through Toronto's Financial District every day, establishing an important shopping base in the district (encompassing five blocks between Front Street West and Queen Street West, and three blocks between University Avenue and Yonge Street).

CUSTOM TAILORING IN CANADA

Several new custom bespoke tailoring companies had launched over the past decade, including the online giant Indochino that boasted over CA\$10 million² in annual revenues and more than 100,000 global

¹ Statistics Canada, "Population of Census Metropolitan Areas," accessed July 24, 2017, www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo05a-eng.htm.

² All currency amounts are shown in Canadian dollars unless otherwise indicated.

customers.³ Other successful custom bespoke tailoring companies with global sales included J. Hilburn, Knot Standard, and Modern Tailor. Locally, Style's owners considered Garylin Tailoring (Garylin) and Phillip Thomas (Thomas) their closest competitors.

GARYLIN TAILORING

Garylin focused on high-quality bespoke tailoring. Garylin's retail location in Toronto was less than one kilometre from the core of the Financial District. Garylin had been recognized by numerous major fashion media outlets (e.g., *GQ*, *Toronto Life*, and *Sharp Magazine*) for its superior quality and niche product offerings. An example of its high level of customization was its state-of-the-art, \$20,000 bulletproof suit.⁴ Custom dress shirts sold from \$100–\$170, and suits and jackets were priced from \$500–\$1,200.

PHILLIP THOMAS

With over 20 years' experience and nine retail shop locations in major cities across Canada, Thomas was well-established in the custom bespoke market. Thomas sold a variety of custom dress shirts, as well as suits and jackets with retail selling prices from \$70–\$130 and \$400–\$850, respectively. In Toronto, Thomas was located at the corner of King Street West and Bay Street, in the heart of Toronto's Financial District.

STYLE INC.

History

In 2006, after graduating with a business administration degree with a major in finance from the Ivey Business School (at Western University), Gavidia worked as a financial analyst for Richardson Partners Financial Limited and then as a business analyst for CIBC Wealth Management. Dineda completed her undergraduate degree at the University of Victoria with a major in health informatics and then a master's degree in business administration from the Ivey Business School (at Western University) in 2011. Dineda then worked in sales, marketing, and consulting positions. Gavidia and Dineda launched Style in 2010, while Dineda continued to work on a full-time basis elsewhere.

Style focused exclusively on personalized custom-made suits and dress shirts for men. Since incorporation, sales had grown each year. Style earned \$600,000 in revenue for fiscal year 2015. See Exhibit 1 for Style's product line pricing and costs. One of the biggest success factors for Style was strong customer retention; a vast majority of customers continued to buy dress shirts and suits from Style each year. Gavidia and Dineda attributed this customer retention to their personalized service for each customer and their diverse product offerings.

With no retail storefront, Style kept its fixed costs low at between 5 and 8 per cent of revenues. The most significant fixed cost was a \$78 per square foot annual rental expense for 400 square feet of storage space needed to hold inventory. This cost control was responsible for Style's higher-than-average industry profit margins and sufficient cash flow to pay the owners healthy dividends annually.

³ Akash Patel, "Indochino: Transforming the Custom Suit Industry," Technology and Operations Management: A Course at Harvard Business School, December 8, 2015, accessed July, 13, 2016, <https://rctom.hbs.org/submission/indochino-transforming-the-custom-suit-industry/>.

⁴ Jian Deleon, "A Stylish Bespoke Bulletproof Suit Will Cost You \$20,000," *GQ: Style*, November 13, 2013, accessed January 25, 2017, www.gq.com/story/bulletproof-suit-garrison-bespoke.

Operations

In lieu of a retail storefront, Gavidia and Dineda arranged for specific sizing days at locations with a high density of business professionals. For example, First Canadian Place and Toronto-Dominion Centre were major destinations in downtown Toronto for Style. Additionally, twice a year, Gavidia and Dineda set up at Western University, targeting upcoming graduates recruiting for full-time positions, many of whom were located in Toronto.

Typically, customers would meet Gavidia and Dineda on location to discuss their formal attire needs. Based on the conversation, style preferences, and personal budget, the partners would then recommend a number of different fabrics for the desired clothing. Each fabric booklet⁵ had more than 200 fabric options; therefore, the owners' expertise was critical in narrowing down the selection appropriate for each customer. Once the order was placed, it typically took two to three weeks for the finished product to be assembled and shipped from Style's overseas supplier. Gavidia and Dineda would then arrange a pick-up date for their customers to try on and take home the finished product at the same location as the initial fitting. Style had local designers and tailors for special alterations and worked closely to ensure 100 per cent customer fit. In some situations, customers could submit a receipt for alterations if they were not completed by Style.

Style aimed for a contribution margin above 35 per cent on all its clothing lines. Gavidia and Dineda knew that sales volume made a significant impact on the contribution each clothing line earned for the company. Considering these factors, Gavidia and Dineda set a total target contribution of \$25,000 annually from each clothing line.

THE FUTURE

Gavidia and Dineda were considering whether to stop offering their least profitable product line. If a clothing line were discontinued, the owners would need to recover that line's lost contribution from elsewhere in the business. They were prepared to spend an additional \$5,000 on advertising to increase the revenues earned on the remaining clothing lines. Gavidia and Dineda believed that a weighted average contribution margin for each of its seven clothing lines would be the best way to evaluate this decision's feasibility. They expected sales of the remaining clothing lines would remain at their same proportions of total sales.

Another option under consideration was to increase their clothing line prices to improve profitability. If the owners decided to increase the retail selling price on their lowest-margin clothing line, they thought it would be unlikely that they could sell this line at a price point above Garylin Tailoring without losing significant sales volume. Was it feasible? Would it be possible to increase prices while simultaneously meeting their target contribution margin?

CONCLUSION

With the busy fall season fast approaching, Gavidia and Dineda wanted to capitalize on current consumer trends while maximizing Style's profitability. They planned to make any decisions before the end of July so they would have enough time to implement a new marketing plan for the adjusted clothing line offering or to inform their customer base of pricing updates.

⁵ Style had 10 booklets that contained small two-by-four-inch (five-by-10-centimetre) fabric swatches as physical examples of the different materials available.

EXHIBIT 1: STYLE INC.'S PRODUCT LINE PRICING AND COSTS

DRESS SHIRT PRODUCT LINES			
	Classic Shirt	Premium Shirt	Executive Shirt
Retail selling price	\$75.00	\$95.00	\$125.00
Per cent of total sales	5	15	15
Tailoring costs	\$7.50	\$9.25	\$10.75
Shipping costs	\$48.50	\$58.75	\$69.25

SUIT PRODUCT LINES				
	Coat	Classic Suit	Premium Suit	Executive Suit
Retail selling price	\$395.00	\$475.00	\$625.00	\$850.00
Per cent of total sales	10	15	15	25
Tailoring costs	\$28.35	\$25.50	\$29.00	\$33.10
Shipping costs	\$181.65	\$163.50	\$186.00	\$211.90

Source: Company files.