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June 23, 2014

Players Disrupting the Retail Landscape

FROM: WWD Issue 06/24/2014

By LISA LOCKWOOD

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Paul Charron, David Jaffe, Peter Weijmarshausen, Robin Lewis, Jennifer Hyman, Mindy Grossman and Neil Blumenthal.
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NEW YORK — Agents of change don't cut it anymore. Nor, apparently, do mere innovators, outliers, mavericks, visionaries, risk-takers, rebels and category killers. Now, in the lexicon of corporate-speak, it's all about "disruption." And until executives are done disrupting everything in sight — and there's nothing left to disrupt except disruption itself — the concept remains the 2014 buzzword for the seminar set.

Chief executive officers from Warby Parker, Rent the Runway and Shapeways 3-D Printers squared off with ceo's from HSNi and Ascena Retail Group Inc. (Lane Bryant, Dress Barn, Maurice's, Justice's and Catherine's) in a Fashion Group International panel discussion titled "Disrupters vs. Disruptees" on Friday morning. The discussion was moderated by Paul Charron, chairman of the board of Campbell Soup Co. and former ceo of Liz Claiborne Inc.

Robin Lewis, ceo of The Robin Report, started the discussion, talking about disrupters who come into a specific market and screw everything up by doing something different and create a whole new game. He pointed to firms such as Gilt Groupe, Uber, Amazon, Facebook and Tesla Motors, which continue to change the retail scene in one way or another. He offered a few points of strategic advice: One is to know that a disruptive model can be knocked off in a nanosecond, and if one has a truly disruptive model, "scale it as fast as you can" so copycat companies can't catch up.

Charron asked the representative Disrupters what their vision was at the outset and were they looking to build a better mousetrap? Did they see a fatal flaw in the competitive environment that they sought to exploit?

Neil Blumenthal, founder and ceo of Warby Parker, the eyeglass brand, said the impetus for his company was that he saw a process of buying eyeglasses that was not enjoyable. He explained that a customer would find a pair of glasses they were excited about and the prices get "marked up and up and you walk out feeling beaten." He wanted to create an experience that was fun. "How do we make it as entertaining as possible to simplify prices to bring them down?" He said he started offering eyewear at \$95, compared with retail stores that were charging \$500, \$600 and \$700. They were able to cut out traditional retailers, sell below wholesale prices and work directly with manufacturers. He started the business with \$120,000, he pointed out.

Jennifer Hyman, ceo and founder of Rent the Runway, said when a consumer thinks about their apartment, every aspect has completely changed over the past 10 to 15 years. People have flat screen TVs, are using Spotify, Netflix, Seamless and Fresh Direct. The only thing that hasn't changed is one's closet, she said.

It's still archaic and stuffed with junk, she said. Hyman pointed out that the average American buys 64 new articles a year, and while apparel is a \$210 billion-a-year business, half of it is worn two times or less. "There is trillions of dollars of inventory sitting in a woman's closet that is not utilized," said Hyman. She said when she came up with the idea to return dresses, she called ceo's of various department stores to see what they thought of her idea. Return rates at department stores are "enormously high," she said, and special occasion has more than a 50 percent return rate from women who actually wear the dress before returning it. She noted that the number-one return day is Jan. 2 after women wear their dresses on New Year's Eve. "Department stores cannot stop the behavior," she said. That's because these customers often just bought 10 pairs of shoes downstairs. "You're not going to cut off your best customer," she said. Rent the Runway has taken away "the worst customers of department stores" and is giving young women exposure to designers whose dresses cost thousands of dollars. She feels that she's disrupting the closet.

Charron asked whether she feels that Rent the Runway is disrupting department stores because they're taking sales away from them. Hyman responded that Rent the Runway's average age is 29, where the average age of the Nordstrom, Neiman Marcus and Saks Fifth Avenue customer is above 50, she said.

Hyman said between August and November, she's planning to open three Rent the Runway locations, but wouldn't specify their locations when asked after the discussion.

Peter Weijmarshausen, ceo of Shapeways 3-D Printers, recalled when he heard about a new technology that allowed people to design something on their computer and turn it into a physical product. After testing it with his friends, "I saw the enthusiasm for it and it clicked for me. Why do prototypes, when you can do final products?" he said. He recalled when the iPad came out on a Friday, it took four days for an independent designer to figure out how to make an iPad cover, design it on their computer and put it on the market.

Even though she was on the disruptee side, Mindy Grossman, ceo of HSNi, a publicly traded company, spoke about how she's disrupted the publicly traded company. "There is no formula anymore." She said when she joined the company, she saw changes in consumer behavior and technology "that was going to transform everything they do." For many years, HSN was a linear television model. Now it's in an environment where content crosses many areas. She offers a 365-day-a-year platform for brands to tell their story. "Not only did we need to disrupt our business model, but in a business that has history and legacy, the first thing you have to do is disrupt your culture," she said.

"We don't even use the word 'channel.' We say we have a 360-degree network of experiences," she said. Grossman explained that HSN will use technology to create a frictionless experience. "We had to break the mold of the company. I'll never forget the second day at the company, when I got up and said, 'We are not a TV shopping channel and we are not a catalogue business.'" She said the biggest detriment to business today are silos, because that behavior won't serve the customer well. "The past eight years, we disrupted our business model at least four times. We created a culture where risk-taking is encouraged. Failing fast is encouraged as well," she said. The new mantra in her company is "Agile is the new smart." Not just technology is changing things, consumer behavior is changing, too, she said. "Everybody's calling it an Amazon world. It's kind of like an Uber world. Everybody wants everything on demand and personalized and customized for them."

Another disruptee, David Jaffe, president and ceo of Ascena Retail Group Inc., said his company was challenged to understand whether e-commerce was a trend or a fad. "We looked at it early on and had to make sure we'd be involved. Some of the brands got in earlier than others, and some got in from the back door through catalogues," he said. The company has 4,000 stores. They figured out if they could marshal all that infrastructure they could come up with a better version of omnichannel. Jaffe pointed out that the company just opened an e-commerce fulfillment center and is looking to have a better omnichannel solution.

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