

“I think the future [department] store is going to be a different cocktail of goods and services and different operating models.”

— Jeffrey Gennette

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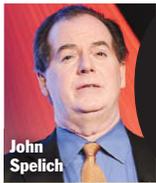
“You never do things thinking you will make a big statement. It just happens sometimes and you are lucky. You don't think you will do a revolution.”

— Nicolas Ghesquière



2014 WWD APPAREL & RETAIL CEO SUMMIT

revolution



NEW YORK — CREATIVITY. CHARM. PASSION. INSTINCT. PERSONALIZATION. DRIVE. THESE WERE ALL WORDS USED BY FASHION AND RETAIL EXECUTIVES GATHERED AT THE PIERRE HOTEL HERE AS THEY DISCUSSED SUBJECTS INCLUDING THE GROWING MADE IN THE USA MOVEMENT, THE CREATIVE FORCE, THE FUTURE OF THE DEPARTMENT STORE, THE INDUSTRY'S INCREASING GLOBALIZATION IN ONLINE AND OFF-LINE RETAIL, AND THE VITAL NEED TO INSPIRE EVERYONE FROM THE CONSUMER TO THE EMPLOYEE. FOR MORE, SEE PAGES 4 TO 12.

“Charm is one of the most undervalued things in business today. People respond exceptionally well to charm. It's a challenge for department stores today, especially when they're very large. That element of charm leads to the need for personalization, to tailoring the sale to different customers.”

— Marigay McKee

“We're trying to find a defined market in the United States for goods that are made here. And with capital and innovation, we're trying to expand those markets and create more jobs.”

— Tom Kartsotis

“When it comes to our investment in U.S. manufacturing, we know it's not only the right thing to do, it's good for business, it's good for communities and it's good for our customers.”

— Michelle Gloeckler

“In some respects, we go down parallel tracks because the more secure we can make the communities that we serve, the more business we can generate for your world.”

— William Bratton

“We want to buy brands that have a global approach and potentially can have a strong heritage. They must have a size that's scalable already.”

— Stefano Rosso



PHOTOS BY JOHN AQUINO AND GEORGE CHINSEE

TOM KARTSOTIS, SHINOLA

Since founding Detroit-based Shinola in 2011, Tom Kartsotis has expanded the brand beyond its initial offering of watches into a full-fledged business with new categories, stand-alone stores and huge growth potential.

In a presentation that was repeatedly interrupted by applause and stirred emotional responses from many in the audience, Kartsotis told the story of his company's efforts to bring jobs to an economically devastated city. In what seemed an against-all-odds strategy, the company brought in Swiss watch technicians to train unemployed workers in the craft of watchmaking.

"The original plan was to have a small watch factory that sold watches to people like Tiffany and Movado, but along the way, we ran into some nice surprises," Kartsotis said.

After purchasing factory space in a Detroit trade college in March 2013, Shinola brought on a team of local workers for training. By June, they had 2,500 units produced. "We ran an ad that said we wanted to presell," Kartsotis said. "So, we were asking customers to buy a watch that we barely knew we could make and cost \$550, and we were asking them to pay in advance. They sold out in about a week. That kind of changed the whole plan for us."

By October 2013, Shinola had made 55,000 watches. When budgeting for 2014, the brand determined they would produce between 150,000 and 170,000. However, upon informing the strap maker, based in Florida, they were told it would be impossible to meet that demand. In response, the company con-

tacted a manufacturer in Switzerland to bring in the "Rolls Royce" of leather goods-making machines. With that machinery in place, the Detroit factory makes about 300 straps a day.

"This is significant, not just because we're going to make our financial plans, but when we're training people to make watches, the pieces are hard, so it's like building a Tinkertoy," Kartsotis said. "It's a science. When you are working with natural material, like leather, it's both an art and a science. Early in the spring of next year, we're going to start making belts and small leather

"The objective is to create really incredible jobs that are aspirational. When we train people, we pay them \$12 an hour. Once they are productive, it's about \$14 to \$17 an hour." Shinola also offers a 401k plan, paid time off and full benefits.

This week, the company will move a factory specializing in Swiss watchmaking from Taiwan to Detroit. The notion of job stimulation also encouraged Shinola to move beyond

**Shinola's Detroit factory makes about 300 watch straps a day.**

and they are \$10,000." Kartsotis reached out to Schwinn to work out a plan to produce the bikes in mass. "He said, 'We have to produce our production and hire a lot of people,'" said Kartsotis. "So that's what we did."

Shinola's marketing strategy is equally Detroit-focused. Three days after the city officially filed for bankruptcy, the brand took out an ad in the New York Times that read, "For those of you who've written off Detroit, we give you the Birdy" — a reference to the name of one of the brand's most popular watch styles. Beyond the tongue-in-cheek ad, Shinola went on to tap Bruce Weber to shoot its first ad campaign, casting actual Detroit residents alongside model Carolyn Murphy, with the city prominently featured in the background.

Kartsotis summed up the brand's growth strategy by saying, "We're trying to find a defined market in the United States for goods that are made here. And with capital and innovation, we're trying to expand those markets and create more jobs."

Besides the factory in Detroit, Shinola has store locations in Minneapolis, London, New York and, of course, Detroit. In its first six months open, the original Detroit store did \$3.1 million in sales and is projected to hit \$9 million this year. "So, we're opening a bunch of stores," he concluded. "Someday they'll call Geneva the Detroit of Switzerland."

— LAUREN MCCARTHY

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— TOM KARTSOTIS, SHINOLA

goods out of this factory. We're hoping to make larger handbags in 2016, and maybe one day we'll be able to make shoes, which would be the mother lode in terms of job creation." He later added, "We're looking at all kinds of product categories that we could theoretically make."

Job creation within Detroit remains one of the strongest pillars for Shinola. "The minimum wage in Detroit is around \$7 an hour and, honestly, I don't know how people live on that," said Kartsotis.

watches and into other, unexpected categories. "We wanted our second category to speak towards the fact that jobs had been lost in the United States," Kartsotis said. Enter Richard Schwinn, great-grandson of the founder of Schwinn bicycles, a company that went bankrupt in the late Eighties. "When they went bankrupt, Richard bought a factory that makes frames and forks for the bicycles," said Kartsotis. "For the last 20 years, he's been making 100 bikes a year. There is a six-month waiting list

STEFANO ROSSO, OTB

Stefano Rosso, chief executive officer of OTB, the holding company of Diesel, Maison Martin Margiela, Marni, Victor & Rolf, Staff International and Brave Kid, has a full plate, but he's still looking for acquisitions that move the needle.

"We're not looking at anything in particular, but we're looking at everything. We want to buy brands that have a global approach and potentially can have a strong heritage. They must have a size that's scalable already," said the 35-year-old ceo and son of Renzo Rosso, the Italian fashion mogul and founder of Diesel and OTB.

OTB is not interested in acquiring a small business under \$10 million, he said. "We try to reach for businesses that have the potential to open retail stores. They have to be cool, they have to be alternative. We don't look for a logo, we look for a lifestyle... We want somebody who fits into our solar system," said Rosso.

During his presentation, the younger Rosso explained Diesel's journey from monobrand to multibrand international global group, highlighting its past, present and future. Founded 36 years ago, Diesel distributes to more than 80 countries, has six regional hubs, more than 400 monobrand stores and 5,000 points of sale. The lifestyle company generated revenues last year of 1.1 billion euros, or \$1.4 billion at current exchange. "Our history is full of important milestones," said Rosso, pointing to 1978 when his father cofounded the company with Adriano Goldschmied inside the Genius Group and 1985, when his father decided to leave the Genius Group and buy his partner's shares, acquiring 100 percent of the company. Today the brand has been relaunched under creative director Nicola Formichetti.

Rosso described the brand's trajectory through three main phases. The first he termed a "laboratory" where they focused all their energies into creating product (especially denim); the second phase was focused on marketing, where they launched the "For Successful Living" campaign and truly built the business, and the third phase is "The War Machine," where they're driving a

message and delivering the group's multitude of products. The common denominator has been the presence of "a visionary leader," who's always taking risks, said Rosso, referring to his father. The company puts creativity and innovation into everything it does, from the product to the marketing to the way it sets up their stores, said Rosso. Rosso said that his father always had an expression, "Problems make me happy."

"As a matter of fact, he must be really happy because we see problems rising every single day. But we see problems more as opportunity," added Rosso.

He recalled when the company launched Diesel Style Lab, a fashion-forward line, in 2000, it didn't have the skills to develop all the clothing it wanted to do because it needed better materials and more high-end construction. They went to Staff International to produce the line. After one season, Staff was about to go bankrupt. Diesel realized they could either go to someone else to produce the line or buy the company, and they decided to buy the company. "We bought Staff International and it opened up a big opportunity to get into high fashion and the contemporary world," said Rosso.

He described Staff as a licensing company with different brands. "We develop them and sell them and we're able to deliver super-high-quality Italian product worldwide," said Rosso.

Through Staff, it acquired the licenses for first lines such as Maison Martin Margiela, Victor & Rolf, Dsquared2, Marc Jacobs' men's line and Vivienne Westwood. It also got contemporary lines Just Cavalli and MM6 (from Maison Martin Margiela). The company does 1.6 billion euros, or \$2.03 billion, in sales a year and has 7,500 employees. OTB, which stands for "Only the Brave," has an OTB Foundation which raises funds to help Africa; Rosso is also the president of the Bassano Virtus soccer team.

Asked about the hiring of John Galliano, whom people thought was unhirable, at Margiela, Rosso said, "Honestly, I believe John Galliano is a talent... I understand his past is his past. We as a group don't comment on the past. We really would like to comment on the future of John Galliano. We believe the best



and only way to do that is to see his next collection. My advice is to see what he's going to deliver in January when he does his couture collection."

Rosso said his mission statement is to build brands for a new breed of consumer. The strategy is to develop these brands, by challenging the rules and fostering creativity. The group doesn't want to acquire brands just to grow; it wants to help them become something solid and sustainable. For example, he said, it took 10 years for Margiela to become profitable. He described OTB's consumers as "modern, unconventional, fashion-savvy, who want to represent their lifestyle through clothing and that's who we want to talk to; it's somebody who lives fashion."

The interesting thing about having a multibranded company is each brand keeps their identity and they don't touch each other, he said. "We support them through the services and giving them direction, a strategy, and the resources they need." The company's goal is not to be a big group. "Our goal is to be an alternative, and the coolest group out there through an entrepreneurial approach. We have an entrepreneur who's the founder of our group. We believe entrepreneurship has to be part of the

people who work for us and develop our brands," said Rosso.

As the company has grown, it has needed to rewrite the rules of the organization. "The more you empower people and the more they're feeling the responsibility and doing something for themselves than for someone else, the more you have the entrepreneurial spirit. The entrepreneurial spirit is what has been driving the results in the past years. That's what we really want to push forward," he said.

Looking to the future, he said the economic and financial crisis hasn't abated since 2008. The competitive arena has completely changed, and everything goes so fast. There are no spaces left anymore on the major streets. "If you're not there with the right product at the right time and take the right space, you're out of the game. That's where the development of this business will be in the next 15 years," he said. In addition, he said there's a generational shift going on, and this generation is going so fast. "There's a digital revolution going on. It's a challenge but we see it as an opportunity. The challenge is trying to talk to this generation in the right way."

— LISA LOCKWOOD