

## Women's Clothing Boutique Business Plan

### Market Analysis Summary

There are various economic forces that affect apparel retailers. Consumer confidence is the most important; people don't shop when they are not feeling good. Unemployment also has an effect, in that fewer women out in the workforce means less disposable income for high-end quality clothing. Thus, the large discounters (Target, Sears and Wal\*Mart) are now working with top designers to bring designer apparel to the masses. Although they can't compete on quality, their continued development of the trend could have a direct impact on retailers who sell designer clothing during tough economic times.

Fortunately, the luxury goods market, of which De Kliek is a part due to the high-end brands it will carry, has remained recession-proof, as clearly indicated by the successful 2003 results for Coach, Tiffany and Saks. According to Women's Wear Daily, luxury firms forecast a strong 2004, particularly for accessories and footwear. However, the strong Euro and slowdown in wealth creation are big concerns and managing a balanced quality-price ratio is the key to success for luxury retailers.

In the luxury market, luxury consumers (defined as "affluents" who have household incomes of over \$100K) spent more in 2003 than 2002. [1] Based on focus groups, United Marketing believes luxury consumers see apparel and accessories as more of a necessity than a luxury. This is good news to boutique retailers. There are over 800 clothing boutiques in the LA Area; approximately 19 percent of these generate over \$500K in sales.[2] In fact, women's clothing stores in Los Angeles have a 62% higher sales growth rate than the national average; this can be attributed to the fact that the average household in Los Angeles is considered affluent.

---

1) Luxury Market Report, Unity Marketing, 2003

2) Local Marketing Research Profile of LA, Bizminer, Jan. 2004.

#### 4.1 Market Segmentation

##### Market Needs

If you were to overhear women talking in a dressing room, you would more than likely hear them comment on something they've tried on and question how they should wear it or what it will go with in their closet. Research has shown that women are stressed, have little time to shop, and would generally like help in determining the right clothes and styles to wear. With over 61 million U.S. women between the ages of 25-54 spending over \$34 billion in apparel each year, there are sure to be some mistakes made in clothing choices. Television shows such as BBC's "What Not to Wear" and Style's "Fashion Emergency" clearly speak to a woman's confusion about what looks best on her. Even women who can afford a professional stylist feel helpless and often jokingly request that their stylist come to their home every morning to help them get dressed.

"Within a decade, the companies that do the best job of marketing to women will dominate every significant product and service category." -Faith Popcorn

One gender in particular influences the majority of the retail marketplace: women. Women comprise 51% (145 million) of the U.S. population [1] and control or influence 81% of all household purchase decisions. [2] Women are now earning more college and master's degrees than men, which translates into more senior positions & higher pay. [3] Overall, women represent 47% of the total U.S. civilian workforce and as that continues to grow, demands for their time also increase. Balancing work and family are the #1

concerns for women and almost half "hardly ever" take care of their personal needs; one out of five women would like to have time to do a little shopping! [4]

Research indicates that women approach retail shopping uniquely by evaluating purchases based on product and company information derived from both personal and expert sources. Additionally, surveys consistently reveal that women buy based on the relationship they forge with a brand. [5], [6] Statistics, studies, and our own personal experiences show us again and again that excellent customer service lowers customer attrition rates, fosters excellent word of mouth and most importantly, increases sales. The table below shows that out of the ten characteristics consumers find important in deciding where to shop, four were attributed to customer service.

#### **4.2 Target Market Segment Strategy**

Los Angeles is rated amongst the top U.S. markets in economic and educational achievements. At an average age of 40, the Los Angeles professional is highly affluent, with an average family household income of \$180,903 and a median home value of \$622,170. Close to 50% have a bachelor's degree and 40% of these professionals hold a postgraduate degree.

De Kliek customers will learn about the boutique through the following sources:

LA Neighborhood Storefront

Friends & Customers (word of mouth and email)

Personal shoppers and stylists

Women's Fashion Magazines articles and reviews such as W, Lucky, Marie Claire and Vogue

Local press mentions & ads

Travel and shopping books and websites

The Primary Customer [1]

The primary De Kliek customer is a professional woman with a household income over \$100K. Her main characteristics are listed below:

Demographics

Professional woman (ages 30-55)

Household income over \$100,00

College-educated

Lives in a higher-income LA neighborhood

Psychographics

Looks for bargains (seasonal fashion) but willing to spend money on quality, core items

Would like more time or help in understanding what clothing is right for her

She wants to look her best because she wants to feel good about herself as well as make a good impression at her job

#### Leisure Activities

Listens to NPR

Supports the Arts

Reads Vogue, New Yorker, Bon Appetit, Lucky

Watches Bravo, BBC, HBO

Internet savvy

Travels, owns a passport

She enjoys eating out as well as taking time for herself at the spa or getting a mani-pedi

#### Clothes Shopping Behaviors

Spends over \$2,500 for clothes each year

Shops at Boutiques, Nordstroms, and Banana Republic

Wears a size 6, 8, or 10

Buys mostly tops and pants

Looks for classic, basic items each season, with 1-2 trendy items

She cares about how she presents herself, enjoys fashion, and looks for quality over quantity

Customer needs, expectations and buying patterns [2]

The De Kliek customer loves to shop and enjoys going to boutiques. She is knowledgeable about designer fashions and tends to shop for seasonal wardrobes twice a year plus picks up various fashion and basic pieces throughout the year. Many times she shops to "browse." By offering fashionable accessories and wardrobe organization items, De Kliek will be able to grab a larger share of her wardrobe budget. She is used to coming into the store and browsing through the clothing items and trying on what interests her. She expects a warm and comfortable environment and nice dressing rooms. She enjoys being left alone but also enjoys the special touches of personal shopping assistance and having the ability to special order items. She wants fun and catered shopping events in the evening and also enjoys receiving special notices on sales and participating in trunk shows to garner more savings. She is also at a Director to CEO-level job and could potentially be reached through her office for personal shopping services or through her own personal stylist who is a member of AICI.

---

[1] "Why People Buy," Pam Danziger, 2003

[2] Valley profiles; De Kliek Shopping Behavior Research of LA Women, Oct 2003

#### **4.3 Service Business Analysis**

De Kliek is considered a luxury boutique within the Women's Clothing Store Industry (NAICS 448120 or SIC code 5621). Women's Clothing Store sales represent 20% of the Clothing Store Industry Group, which translates to \$27.2 billion during 1997, and \$34.4 billion in 2002.

The retail sector is the second-largest industry in the United States, both in number of establishments and number of employees. It is also one of the largest industries worldwide. The retail sector employs over 23 million Americans and generates more than \$3 trillion in retail sales annually. Retail sales usually see a 2-5% growth each quarter. Although 2003 was difficult, sales have slowly grown from 1.4% in Q1, to 3.1% in Q2 to an estimated 5.8% in Q3 according to the NRF. Overall retail sales account for two-thirds of the nation's economic activity, and the holiday season accounts for 20-40 percent of total retail sales. [1]

The Clothing & Accessories Stores subsector of Retail has seen sales growth of 19% over the last five years from \$137.6 billion in 1997 [2] to \$171.8 billion in 2002 [3]. Businesses in the Clothing and Clothing Accessories Stores subsector sell new clothing and clothing accessories merchandise from fixed point-of-sale locations. Establishments in this subsector have similar display equipment and staff that is knowledgeable regarding fashion trends and the proper match of styles, colors, and combinations of clothing and accessories to the characteristics and tastes of the customer.

Although the holiday season is the key indicator of retail health, according to the National Retail Federation, the holiday season accounts for only 15% of total apparel sales. A good holiday season is typically followed by a good economic year and analysts predict retail sales will rise a total of 4 percent in 2004. Total sales for 2003 were up 3.2 percent. Additionally, online holiday shoppers spent a record \$18.5 billion during the holiday season [4] -- a 35 percent increase over the \$13.7 billion spent in 2002. Luxury retailers and upscale department stores were the unexpected market leaders during the 2003 holidays with Nov-Dec sales up 15 percent. Analysts state that as consumers see their investments increase, they spend more.

#### 2004 Outlook

The outlook for sales and earnings in 2004 is bright, with especially strong results expected in the first quarter [7]. Two trends should dominate retail fundamentals in 2004: Strong first quarter sales due to an estimated \$60 billion in tax refunds and lower taxes hitting consumers' pockets in March and April, and a potential slowing of sales in the final three quarters of 2004 against the tougher comparison of 2003. Additionally, industry experts predict growth in the specialty store segment of which De Kliek is a part.

#### Current Trends

People are shopping online for convenience & value; growth of sales on the Internet

Continued decline of the mom-and-pop store

Overbuilding by specialty stores and other chains

Repositioning of full-price/multi-line department stores

Supremacy of the discount store chains

Category-killer superstores

Continuous changes in demographics, tastes and fashions

Easy availability of consumer credit

Dwindling appeal of the major mall

Economic, Cultural and Environmental Conditions

Weather, seasonal events, holiday shopping, competitor marketing, LA tourism, the Bay Area economy and the strength of the dollar can all affect the performance of De Kliek. On a macro-economic level, consumer confidence, interest rates and inflation rates all have an effect. Rising unemployment, political concerns and deflation also pose risks.

Positive Factors:

Clothing Industry      Impact on De Kliek

Very low interest rates      Cost of financing low

Easy availability of consumer credit      Higher ticket sizes on credit card purchases

Relatively low unemployment, and very low inflation      Stable employees & businesses

A relatively low personal savings rate      Increased consumer spending

(Positive side of:) Significant continued layoffs at larger corporations require job migration      Higher-educated employees

Negative Factors:

Clothing Industry      Impact on De Kliek

Weakening consumer confidence (influenced by global terrorism, tension & uncertainty)      Decreased sales

Strong Euro      Lower margins

Slowly increasing unemployment      Value and sale shopping (can also be positive impact)

Decreasing levels of consumer household wealth due to stock portfolios and 401(k) plans that have seen huge losses      Continued "cocooning" by customers

Consumers with record high debt levels are defaulting on credit card balances, home mortgages & loans at an alarming rate      Increase in returns

(Negative side of:) Significant continued layoffs at larger corporations require job migration and lead to large numbers of consumers employed as temp workers      Reduction in working women who can buy luxury items

---

[1] National Retail Federation trade group, Women's Wear Daily, 9/17/03

[2] U.S. Economic Census, 1997

[3] 2003 Holiday Survival Kit, NRF

[4] eSpending Report from Goldman, Sachs & Co., Harris Interactive and Nielsen/NetRatings, Jan 2004

[5] BizMiner, December 2003, Bay Area Women's Clothing Store Data, 2001-2003

[6] 2003 National Retail Security Survey, NRF

[7] Daniel Barry, Merrill Lynch Senior Retail Analyst/Broadlines

#### 4.3.1 Competition and Buying Patterns

De Kliek has stiff local competition with the many wonderful boutiques in Los Angeles. Direct competitors include those boutiques that carry some of the brands that De Kliek plans on carrying or could move easily into carrying, and are located in the Valley. Indirect competitors are those boutiques in LA that focus on a different target market or do not carry lines that De Kliek will carry, in addition to well-known boutiques in other metropolitan areas.

De Kliek's own comparative analysis of 15 boutiques in Los Angeles reveals that very few are successful in delivering high-quality customer service, as browsers are routinely ignored. It appears that if you don't look a certain way or show that you have money when you walk in, you are immediately disregarded. Dressing rooms are typically small and have curtains that don't guarantee 100% privacy. Clothing sizes tend to run small and items tend to be overpriced. Even with a lot of focus in the media and among fashion retailers on what to wear, not one boutique in town is a member of the Association of Image Consultants - a very prestigious professional organization whose members work with and train clients in developing their image. There are some retailers who do get it right - they have strong customer relationships, carry the right mix of merchandise, are knowledgeable in fashion - and the profits show.

Direct Competition:

Fish

Fred Segal

Girl and Her Dog

Margaret O'Leary

Dress

Rabat

Riki

Susan of Burlingame

The Grocery Store

Indirect Competition:

Abigail Morgan

Ambiance

eLuxury.com

Her

The Designer's Club

Yoya Boutique

All other LA Boutique Retailers

Main Competition:

From a "look & feel" perspective, as well as consideration of designer lines that De Kliek will carry, Dish in Hayes Valley is considered the main competition. The following is a comparative analysis of Fish and De Kliek:

Location:

Fish      De Kliek

Open Mon-Sat 11-6, Sun 12-5

Plenty of places in Los Angeles cater to the well-heeled, but this area also reaches out to the adventurously heeled -- and dressed.

Open Mon-Fri 11-7, Sat 10-6, Sun 11-5

The location for De Kliek has not been confirmed but top targets are areas in which the target market lives and/or shops.

Products:

Fish      De Kliek

Fish's collections largely come from American designers such as Nanette Lepore, Lauren Moffat, Vince and Katayone Adeli

De Kliek will carry sophisticated, quality lines from European and American designers such as Herr Frau, Weekend MaxMini, Hocken, Vince and Catherine the Great.

#### Customer Service

Fish      De Kliek

The owner of Fish is fashionable and knowledgeable. She is considerate of her customers and allows them the space to shop on their own (a very important aspect for women!) De Kliek will provide quality customer service including alterations, gift wrapping, Style Assessments, trunk shows and special workshops.

#### Features/Atmosphere

Fish      De Kliek

Sleek and modern interior with a warehouse feel. There are three dressing rooms with linen curtains that pull a bit from the walls so privacy is not 100% guaranteed. De Kliek's interior will reflect a minimalist look, yet be accommodating and warm so that all products are featured appropriately. The dressing rooms will have wood louvered doors to maintain privacy and will have chairs outside for friends to sit down.

#### Competitive Benchmarks [1]

The competition in the Valley does provide some good benchmarks for projecting sales and understanding customer expectations. In the Valley, Ambivalence, a junior/contemporary boutique, averages sales that top \$1,300 per square foot which totals more than \$900,000 in sales annually. Nearby, Ennui generates annual sales of \$1.3 million with approximately 800 square feet of selling space; that translates to more than \$1,600 per square foot. However, it is important to note that not all of Ennui sales are generated from the selling floor; a considerable amount of sales come from special orders. With these successful Los Angeles retailers as benchmarks, De Kliek will continue to monitor them for best practices. Additionally, there are a few very successful boutiques in San Francisco, New York and Florida that are worth mentioning as benchmarks for successful retailing and merchandising.

Brown-Eyed Girl, San Francisco

Heidi Says, San Francisco

Marissa Collections, Florida

Language, New York