On-Demand RETAIL

BEFORE **AMAZON FOUNDER JEFF BEZOS** AWOKE TO THE **BENEFITS OF BRICK AND MORTAR** AND **BOUGHT WHOLE FOODS,** ONLINE RETAILER **INDOCHINO** WENT THE **CLICKS-TO-BRICKS ROUTE** YEARS EARLIER AND IS NOW **OPENING STORES** AT A **RECORD PACE.** > By Mike Troy

While retailers of food and consumables wrestle with the optimal approach to blending their physical and digital presence, an unlikely source of innovation inspiration comes courtesy of menswear retailer Indochino. The company's unique operating model blends technology, high touch customer service, value pricing on made-to-measure products and a no-inventory supply chain to disrupt a major market and solve apparel retailing's biggest challenge: returns. Early on, the 11 year old company was a darling of the digital world, but recent years have seen its greatest growth come from physical expansion.

That makes Indochino something of a retail anomaly because up until Amazon's 2017 acquisition of Whole Foods the instances of online retailers opening or acquiring physical retail were few and far between. About five years ago, Indochino began dabbling with physical retail the way many pure play e-commerce companies do — by opening pop-up stores. The limited duration venues proved popular enough with shoppers that Indochino committed to its first permanent physical location in 2014. In November 2015, Drew Green was named CEO of the company and a new mindset toward physical growth was adopted to scale the company's business.

"We've really grown up in the last few years and are fully committed to an omnichannel experience like no other," Green said. "We've accelerated our growth by 50% over the past three years and retail has been at the core of that growth. It complements our overall experience and retail is now the number one way we acquire customers."

The company capped off its 2017 expansion plans by opening its 19th location at the Mall of America just south of Minneapolis, a venue that seems ironic given Indochino's e-commerce origins juxtaposed against the popular, yet flawed, narrative that malls are dying.

"When we looked at our data, Minnesota was in the top five in terms of areas for expansion. Choosing the region was a natural progression and we secured a premium location that we think will do quite well," Green said. "I've heard the phrase 'retail apocalypse' for a couple years now, but we have invested heavily to expand into retail and had to tune out the noise. I don't think malls are dying but they are reinventing themselves. Because we are appointment-based we are not as dependent on overall mall traffic as other retailers are. Any walk-in traffic we get is additive."

Roughly half of the 18 showrooms Indochino plans to open this year will be located in malls as the company moves toward a goal of operating 150 locations by 2020. That essentially means the company needs double its physical footprint in each of the coming years and will be aided in doing so by the ready availability of leasable space in Indochino's sweet spot of 2,500 to 3,000 square feet. The expansion goal is one Green described as deliberate as well as realistic because refinements to the operating model allow for rapid returns.

"We re-engineered our cost structure internally and pass those savings on to our customers. We are also very efficient and payback on our showroom openings is less than 12 months," Green said. "We are virtual inventory so that gives us an advantage against our competitors because I don't have to invest hundreds of thousands in inventory that I have to hope sells through. We are truly a showroom concept where you book an appointment, you are paired with a style guide, you create your own garment and we manufacture it. And 80% of the time we send it to you in under two weeks."

The approach has allowed Indochino to solve the profit drain

Drew Green, CEO of Indochino, likes the way the company's growth prospects look.

Indochino's made-to-measure business model means stores (right) function as inventory free showrooms. The company's expansion goals are aided by ready availability of leasable space in the 2,500 to 3,000 square foot range.

and inventory challenges caused by returns. Returns were already a big issue for physical retailers, but the arrival of e-commerce created new challenges as customers took advantage of free shipping and liberal return policies to buy multiple size and essentially use their bedroom as a fitting room. Still other commit outright fraud, wearing garments multiple times before returning.

"Our return rate is .01%," Green said.

The figure is so stunningly low that when asked to repeat the number Green expands on why Indochino doesn't have return issues.

"Fit is the number one issue that causes returns and returns are devastating to the P&L. Because we are so focused on a perfect fit, we don't have the issues that other apparel merchants have," Green said. "Sometime you return things because you thought you liked something, but in our process you are creating a one of a kind garment and there is a lot of pride of ownerhsip in that process."

The expanding network of showrooms also helps reduce returns because when a fit isn't perfect Indochino has in-house tailors who can make adjustments. In cases where a customer doesn't live near a showroom, vouchers are offered to defray the cost of using a local tailor. Either way, operating with a .01% return rate has helped the company achieve 50% gross margins, according to Green, who declined to share the company's annual sales.

Profitability is further aided by a unique sourcing arrangement entered into two years ago. Indochino partnered with Dayang Group, the largest suit manufacturer in the world, deepening its commitment to the company and receiving a $42 million investment in return.

"I felt that no one in the industry could scale in a way that I foresaw demand dictating so we partnered with the largest suite manufacturer in the world and vertically integrated our Chinese operations into their factories," Green said.

The company plans to be transparent about the sourcing arrangement too. Green said he recently approved new treatments to showrooms that include videos displaying how garments are produced and signing emphasizing quality, integrity and craftsmanship, attributes which aren't often associated with Chinese manufacturing.

"We are really going to highlight those things as part of our brand and consumer experience," Green said."

As for the potential growth headwind that no one wears suits anymore, Green chuckles while acknowledging the casualization of the workplace.

"There is still a great demand for suits and suit separates. We estimate there are about 17 million suits sold in North America each year. It's about a $7 billion market. It might not be growing like other categories, but the fact is you still need a great fitted suit whether it is for an interview, work, a wedding or special occasion."

Green's view is that an entire new generation of customers are choosing custom and made-to-measure over ready-to-wear clothing. In addition, the expansion of physical retail is improving the company's operating model while exposing new shopper segments to the brand. For example, online about 65% of customers are Millennials. However, with physical locations Indochino is seeing more Gen X and Baby Boomer customers.

"Commerce is commerce," according to Green. "E-commerce gets all the fanfare, but smart companies are figuring out how to do both." **RL**

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