WWD

Fashion. Beauty. Business.

Benetton's Back

Luciano Benetton has returned to the retailer and talks the future of Fabrica.

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Party Pack

All the red-carpet action at and around Grammys' weekend.

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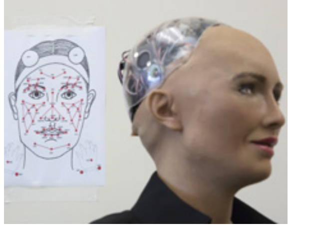

Intelligence Quotient

A look at the latest in AI and how firms are applying it.

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Tinker, Tailor

Structure and flou: couture's two essential sides. When in tailoring mode, couturiers start with impeccable construction, and then they tinker. For her impressive debut collection for Givenchy, Clare Waight Keller added a glamorous spill of feathers to an otherwise clinical white coat. *For more, see pages 10 to 12.*

PHOTOGRAPH BY **GIOVANNI GIANNONI**

BUSINESS

How to Spend The Tax Windfall

● Retailers have a once-in-a-generation chance to invest a big windfall from tax reform and lots of places to spend.

BY **EVAN CLARK**

Don't blow it.

That's the message to retailers as they look out into 2018 and ponder how to spend their once-in-a-generation tax windfall. The controversial $1.5 trillion tax overhaul, which was signed into law by President Trump just before Christmas, is expected to boost many retail bottom lines by 20 percent or more.

The money comes at just the right time. After an extremely tough ride through most of 2017, when footfall slowed dramatically and more than 1,875 stores selling

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CEO TALKS

VALUE RETAIL'S SCOTT MALKIN ON THE JOY OF DISCOMFORT

QUOTING EMERSON, THE CEO BELIEVES THAT RETAIL IS MORE ABOUT THE JOURNEY THAN THE DESTINATION.

BY **SAMANTHA CONTI**

LONDON – With a trinity of degrees from Harvard and a philosophical approach to business, Scott Malkin is a rare bird in the retail property world. The founder and chairman of Value Retail, Malkin is a firm believer in brick-and-mortar stores, but recognizes that retail needs to evolve and become a spectacle again.

"Ralph Waldo Emerson talked about how the journey was more important than the destination. That's our world; we're about delivering an ever-more-relevant journey," said Malkin, a London-based Connecticut native who grew up in the property business – his father once owned the Empire State Building – and counts the late Marvin Traub, Burt Tansky and Sergio Loro Piana among his mentors.

Malkin moved to London in 1992

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How to Spend The Tax Windfall

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Wal-Mart is using some of its tax savings to boost its workers' pay.

Photograph by David Duprey/AP/REX/Shutterstock

apparel went dark, the consumer trend improved with a solid 5.7 percent gain in holiday sales. And the outlook is steady – the economy is growing, unemployment is low and the stock market continues to hit new highs and blow past them.

While a late-night tweet from the White House can still turn the national debate on its head and the threats of everything from a trade war with China to an actual war with North Korea grow and then recede with alarming speed, for now, retailers seemingly have a tiny bit of breathing room and a little extra spending money.

There is plenty of work to do as they right-size operations, connect digitally with customers, sharpen their stores and delivery mechanisms and figure out how to coexist with Amazon while desperately trying to get off the price-promotional wheel that they created. Meanwhile, the strongest might use some of the funds to make acquisitions, either to expand their digital operations or grab a weakening competitor to bolster their own market share.

Wal-Mart Stores Inc., which is already in the midst of a pitched battle for consumer dominance with Amazon, signaled that at least part of its savings from the tax rejiggering was going to go into its workers' paychecks. The discount giant boosted its starting hourly rate to $11 and is giving a onetime cash bonus of up to $1,000 to eligible associates. (Critics argue that the company has been raising its rock-bottom wages for some time and is spending only $300 million on wages and $400 million on bonuses, a fraction of its expected tax savings).

Other companies are also expected to put more money into their people, but the list of things to do is long.

One former chief executive officer of a major fashion retailer noted: "In today's world of complete transparency, the customer is king, so anything that improves the customer experience is typically a good investment. The same is true for anything that further strengthens and differentiates a brand...I'd invest in technology, I'd invest in the supply chain from beginning to end...I'd invest in data analytics capability....I'd invest in the four-wall experience....I might invest in building distribution in China, India and other geographies....I'd invest in people, especially development and retention....I'd probably invest in new businesses, including new categories of business. If I made good decisions, I'd likely have even more cash, especially in the midterm."

That is a cadence and rationale cited by others – spend now on things that will immediately build a business healthy enough to survive the transformation into the retailer of the future (whatever that ends up looking like).

But just as there is an opportunity for companies to use their tax windfall to supercharge their transformations, there is also an opportunity to squander the newly found money or to invest it poorly.

For public companies in particular, shareholders looking for returns on their investments will be pushing for dividend payments or share buybacks.

A Moody's Investors Service analysis of how companies across the economy would spend their tax savings noted, "We do not expect a meaningful boost to business investment because U.S. nonfinancial companies will likely prioritize share buybacks, [mergers and acquisitions] and paying down existing debt."

And don't hold out hope that the tax breaks will spur a wave of consumer spending big enough to save retail on a whole. Moody's noted that more than three-quarters of the $1.1 trillion in tax cuts over 10 years would go to people making more than $200,000 a year in taxable income.

"This group represents 5 percent of all taxpayers," Moody's said. "These individuals are likely to spend a relatively small portion of their tax savings on current consumption, limiting the impact on the economy."

So the clock is ticking. The economy might seem to be on steady footing now, but it has been in expansion mode since mid-2009 – an extremely long rebound that can only go on for so much longer.

Even Bernard Arnault, chairman and chief executive officer of LVMH Moët Hennessy Louis Vuitton, which turned in 2017 profits of more than 5 billion euros for a 29 percent increase, is wary, warning last week: "I am personally convinced that we are going to have a crisis some time in the next five years – I can't say when. That's why I say that I'm confident for 2018, but you have to be cautious."

When the climate does shift, it is the investments that retailers make now (and that some have been making over the past few years) that will pull them through.

WWD reached out to experts in various disciplines in and around fashion and retail to get takes on where retailers should be putting their money. Here are their viewpoints.

KIT YARROW, CONSUMER PSYCHOLOGIST, GOLDEN GATE UNIVERSITY

Spend the dough getting to know today's consumers. They're not like they used to be and they're frustrated. Retailers understandably spend a lot of time trying to do the same things better when what consumers want are better things. They want to feel seen and understood, they want their needs and desires to be anticipated and addressed.

Next, I'd spend more on customer service. With a few exceptions, retailers are hemorrhaging the love and trust of their shoppers with rude or inept service – across channels: in-store, chat, phone, e-mail – doesn't matter, hearts are broken daily. With trust at all-time lows and anger at all-time highs, consumers are quick to judge and not as forgiving as they used to be. In the end, I think there is a genuine opportunity for the retailers that first make an investment in truly understanding the psychology of consumers, and second, that boost the in-store, online, anywhere personal contact moments that shoppers have with retailers.

JEREMY BERGSTEIN, PRESIDENT OF BRAND DESIGN FIRM THE SCIENCE PROJECT

Build foundational elements for the direct-to-consumer channels for the future and add to that enterprise equity. That's technical operation, fulfillment, all that sort of stuff, and to help reimage their organization toward those realities.

Realigning for the future means realigning to the customer and being able to talk to your customer in a more direct way, so investments in the direct-to-consumer relationship are the only ways these brands are going to survive.

ARI BLOOM, APPAREL VETERAN AND CEO OF TECH FIRM AVAMETRIC

The best thing retailers can do is use that money to acquire brands, firms and people from outside their four walls that will help them evolve for this century. If they don't have experienced (i.e., non-homegrown) operators in senior innovation positions with real autonomy and authority, they should invest there first.

MIKE KIM, DIRECTOR IN THE RETAIL PRACTICE OF GLOBAL CONSULTANT AARETE

Investing in innovation will help retailers stay ahead of a tightening market that is being dominated by larger e-commerce giants. While AI and chat bots are trending topics, retailers should also look to invest in core analytics to strengthen areas related to consumer sentiment, supply chain and business intelligence.

KIRK PALMER, FOUNDER AND CEO OF EXECUTIVE SEARCH FIRM KIRK PALMER ASSOCIATES

The deployment of tax money by Wal-Mart and others to increase minimum wages will have a ripple effect across the industry as companies try to stay competitive on wages. I think better to build it into wages, which can attract a higher level of talent. Onetime bonuses are being deployed by some companies, which is an economic stimulus, but doesn't really help in retention or access to better talent. I would rather see that money spent on investing in the right levels of customer-facing employees and then giving them the proper teaching/training to make them most effective in their roles.

We haven't seen a business environment this robust in a very long time – the best retail results in more than a decade, strong consumer and business optimism, a huge corporate tax change and low unemployment. It's a perfect time to aggressively invest in new executive talent to lead through the huge changes every company has to address to stay relevant. Companies who are not investing in talent right now, today, will be at a real disadvantage to those who are on it.

MICHAEL BROWN, PARTNER IN A.T. KEARNEY'S RETAIL CONSULTING PRACTICE

Retailers should invest these windfalls in building digital capabilities to compete with online disruptors. It will be critical for retailers to advance capabilities in a 360-degree view of the consumer, payment speed, and augmented reality to enhance the shopping experience. Also, this will give many retailers the opportunity to catch-up on deferred repairs and improvements in stores to create compelling environments and experiences that will connect consumers to their brands and products.

ALAN SHOR, PRESIDENT AND COFOUNDER OF REAL ESTATE FIRM THE RETAIL CONNECTION

Retailers with long-term vision should be taking that money, taking a close look at their business and figuring out how to adapt their business to play in today's retail environment. Do their stores need to be downsized? Do they need to change the type of distribution they have in light of the e-commerce consumer demand? Should the stores have a little bit of a pick up, return distribution function to them?

"A secondary opportunity might be in freshening up existing stores, opening new stores in the right markets. What I don't think I would do, but I think you see some of these public companies do it, is returning some of it to their shareholders in terms of dividends [and to] buy back stock.

SHYAM GIDUMAL, NORTHEAST CONSUMER PRODUCTS AND RETAIL MARKET SEGMENT LEADER AT CONSULTANCY EY

Anybody who's got any meaningful amount of debt is going to be paying down the debt and giving themselves the flexibility because the investments priorities going forward are quite different from the past and you want to have the financial flexibility to direct it.

People are going to use the liquidity to try to go buy something. I think you're going to see a lot more transactions between the traditional online guys and the traditional physical guys. You're going to see people spend a lot of money on the whole area of aligning their costs to the current reality.