

# USVI Apparel Forum

Instructor: Jed JohnHope

February 10, 2021



# About USVI Economic Development Authority

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The United States Virgin Islands Economic Development Authority (USVIEDA) is a semi-autonomous government organization responsible for the promotion and enhancement of economic development in the U.S. Virgin Islands. It has four major components:

- Economic Development Commission
- Virgin Islands Economic Park Development Corporation (formerly the Industrial Park Development Corporation)
- Economic Development Bank (formerly the Government Development Bank and the Small Business development Agency)
- Enterprise Zone Commission

The Economic Development Commission (EDC) offers unique [tax incentives](#) for qualified businesses. Benefits of the EDC program include a reduction of up to 90% of personal and corporate income taxes and up to a 100% exemption on excise, business property and gross receipt taxes.

The purpose of the U.S. Economic Development Authority is to act as an umbrella authority that integrates and unifies the functions of the four agencies under one executive board in order to maximize efficiency and enhance economic development in the Territory.

Since its creation by V.I. legislation in February 2001, the USVIEDA has worked to attract, develop and retain business in the Virgin Islands community, especially through its four entities which have existed collectively for more than 50 years. As part of that mission, USVIEDA has trained hundreds of entrepreneurs that work in, or operate private businesses and public companies.

# About SFT Solutions

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- Strategy, Finance, and Technology (SFT) Solutions
- Founded in 2017
- Headquartered in Christiansted, VI
- Principal has over 30 years of entrepreneurship, business, and management experience

# About Instructor

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- Frederiksted, VI native
- Academic background
  - Good Hope School
  - BS Chemical Engineering - University of Delaware
  - MBA Entrepreneurship, Finance, and Management & Organizations - Northwestern University Kellogg School of Management
  - International Exchange Programme – London Business School
- Corporate Background
  - ARCADIS
  - Liberty Mutual
  - Morgan Stanley
- Entrepreneurship Background
  - Started first business at 6 years old
  - SFT Solutions, Business World, and Twin City Capital
- Other
  - Former Professional Engineer
  - Vice Chairman: Virgin Islands Water & Power Authority Board
  - Trustee: Good Hope Country Day School
  - Former Manager of St. Croix landmark - Caribbean Clothing

# Agenda

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- Welcome to USVI Apparel Forum
- Module I – Fundamentals of Business Strategy**
- Module II – Industry Analysis**
- Module III – Fundamentals of Pricing**
- Module IV – Digital Marketing for the Apparel Industry**
- Module V – Recommendations for VI Apparel Entrepreneurs**
- Module VI –Special Guest: Branding**
- Wrap-up and Questions

# What Will you Learn in this Workshop?

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## □ Workshop Goals

- Better Thinker About Apparel Industry
  - This will improve and not diminish over time
  - Successful businesses are adept at applying strategy, given constantly changing environment
- No Formula
  - There is no such thing as a universal strategy
- No Facts in business
  - Facts become outdated
  - Businesses vary greatly
- Professional Development Resources

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# Module I

## Fundamentals of Business Strategy

# Apparel Industry Legend

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- Started selling t-shirts and hats on the street
- Mortgaged mother's home for \$100,000, which was used for office and production space
- Obtained \$300,000 in orders at MAGIC and had no idea how to fill them
- Peaked at sales of \$350MM
- 11 years later, \$200MM in sales in 2009
- Today, working on a re-launch
- Who am I?

***FUBU***



# What Can We Learn From FUBU?

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- Trends die. Fashion is timeless.**
- Take risk: Sell it first, then figure out how you will get it done.
- Sold too much product thus oversaturating market – “when you find yourself in the bargain bin its hard to get out”
- Do not turn down sales?
- In business, success does not last forever. Sometimes, its best to take your winnings and move on

***FUBU***

## What is Strategy?

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*“Business strategy can be understood as the course of action or set of decisions which assist the entrepreneurs in achieving specific business objectives. It is nothing but a **master plan that the management of a company implements to secure a competitive position in the market, carry on its operations, please customers and achieve the desired ends of the business.**”*

# Dare To Be Different

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**You must do something different, or do something in a different way**

# All Businesses Must Seek to Maximize Profits

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- ❑ Why?
  - Bankruptcy
  - Fiduciary Responsibility
  - Public Companies: Board of Directors, Takeovers
  - Entrepreneurs: Economic livelihood depends on it
- Other Concerns are important too
  - Environmental concerns
  - Labor Standards
  - Social Welfare
  - Other issues?

*If it does not increase profit, there is a limit to how much the firm can support without policy or regulation*

# Profit Maximization is the Foundation of Business Strategy

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- Profit = Revenue – Costs
- Profit = (Revenue/Unit – Cost/Unit) \* # of Units
- Good Strategy will:
  - Increase Revenue
  - Decrease Costs
  - Increase # of Units sold
- Maximize profit, not maximize revenue or minimize costs

Note: Profit maximization by itself is not a strategy. Like "good health" is *not* a strategy for long life.

**What are the underlying activities that lead to good health?**

# Trade-offs

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- ❑ Rule of 168
  - ❑ One hundred sixty-eight is the total number of hours each and every one of us gets in any given week. No more. No less. What separates the ultra successful from the mildly so is what each does with this number of hours.
  - ❑ Gated position → choose your priorities wisely
- ❑ Strategic positions are not sustainable unless they are complemented with concessions in competing areas
  - ❑ Strategic operational decisions affect revenue and costs
    - Examples
      - ❑ Make a higher quality good, which increases revenue, but also increases costs
      - ❑ Sell more units by reducing price, but more units needed to be sold to break even
      - ❑ Decide to make raw materials in-house because it improves quality and increases price, but also increases costs and need for management attention
- ❑ Why are trade-offs necessary?
  - ❑ **Incompatibility** – product that fits one need performs poorly at addressing others
  - ❑ **Different Configurations** – you cannot do two things at the same time
  - ❑ **Inconsistency** – doing on thing well may not bode well for your reputation elsewhere

## Strategic Trade-offs in Practice: Fast Fashion

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- Customers used to pay an exorbitant price to obtain new, trendy fashion
- Fashion entrepreneurs realized this hole in the market and created new brands

ZARA

H&M

FOREVER 21®

*Buy it now, or it's gone*

# Strategic Trade-offs in Practice: Fast Fashion

	Fast Fashion	Conventional
Design	In-House	Mixed
Manufacturing	In-House	Outsource
Distribution	Centralized	Regional
Shipping	Short	Long
Production	Small Batches	Large Batches
Collections per Year	Many	6 or less
Pricing across Geographies	Varies	Standard
Inventory Management	Pull	Push
Markdowns	Limited	Heavy
Profit Margins	Maintain Large Margins	Lower Margins
Advertising	Small	Large
Internet Sales	Small	Large

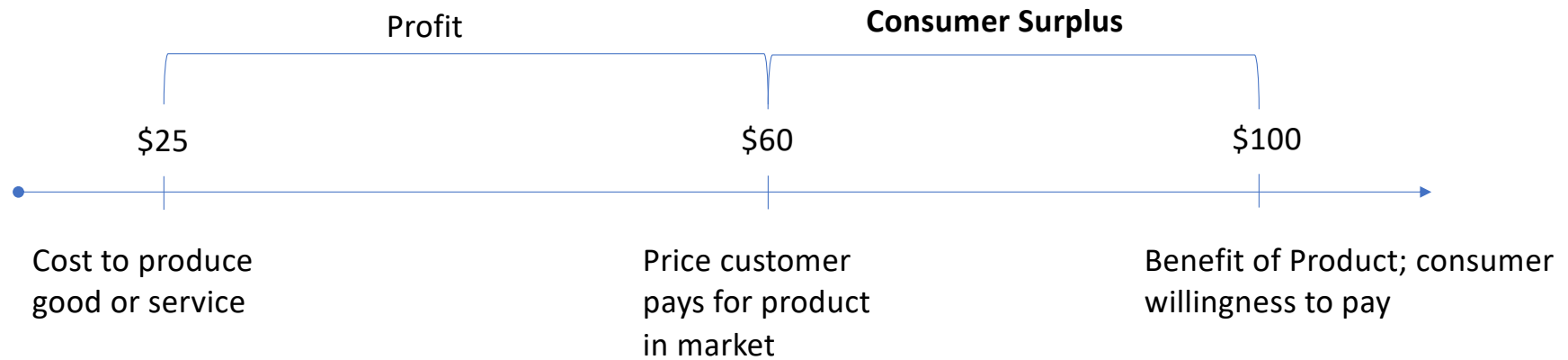


# Value Creation and Capture – Exercise 1

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- Landscaping Example
  - Consumer - Jamal
  - Jamal needs a shirt for a special event
  - He found something for \$50 that he likes online, but he waited too long. The event is in 3 days
  - Due to friction, willing to pay an extra \$50 to get something on island
  - Consumer willingness to pay \$100**
  - Seller – VI Apparel Co.
  - Seller of custom t-shirts and button ups
  - Shirts cost \$10
  - Add costs of “business”
  - Breakeven cost \$25**

# Value Creation and Capture

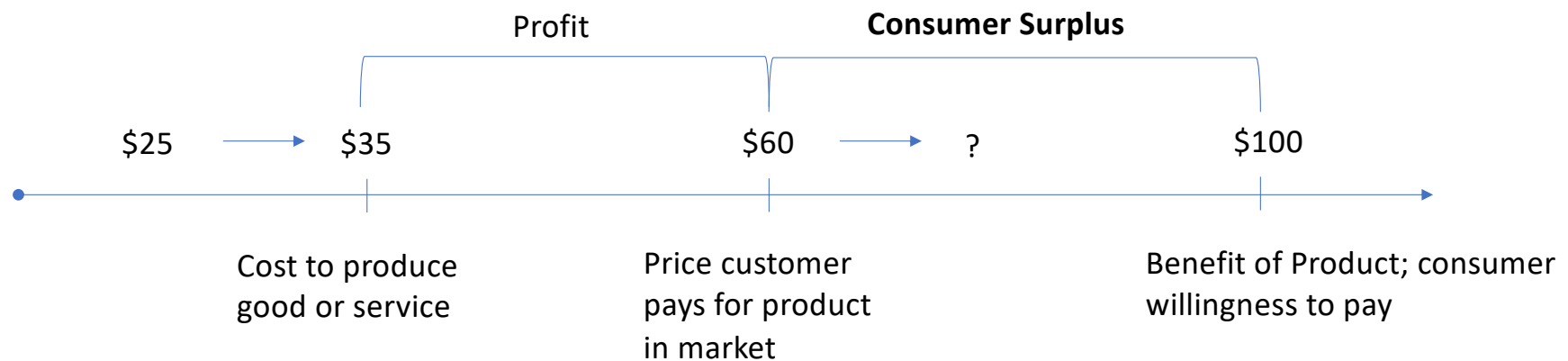


# Value Creation and Capture – Exercise 1

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  - Seller – VI Apparel Co.
  - Seller of custom t-shirts and button ups
  - Shirts cost \$10
  - Add costs of “business”
  - Add all organic packaging, which increases direct costs by \$7.50, when accounting for friction equals \$10
  - Breakeven cost \$35**

# Value Creation and Capture – Exercise 1



- Increases cost
- Could increase consumer willingness to pay
- Could increase price
  - Could decrease/increase profit
  - Could decrease/increase customer surplus

### Questions to Ask

*How much value have I added - \$\$?*

*Does consumer really care - \$\$?*

# Value Creation and Capture is Essential to Understanding Firm's Profitability

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## Recap

- A firm must create value in order to have value to capture as profits**
- A product or service must provide benefits to the end user in order to create value
- Creating value does not guarantee profits. A firm must be able to capture value by charging higher prices
- The more value you create, the more you can charge (up to a limit)

# Opportunity Cost

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- ❑ The cost of undertaking one activity, comes at the expense of its alternative
- ❑ The opportunity cost is the value of the best foregone alternative
  - ❑ Examples
    - ❑ Using production line to make product B, instead of product A
    - ❑ Selling customer product B, instead of product A
    - ❑ Assigning an employee to a specific project, means that she cannot be assigned to another
    - ❑ Renting a specific location, means that you cannot rent at another location

## Opportunity Cost – Exercise 2

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- In order to increase sales, VI Apparel Company closed its stores and participated in a pop-up shop at the Ag Fair
- Sold 1,500 t-shirts in 4 days!
  - Was this a profitable decision?
  - What information do you need to determine if this was a profitable decision?



# Customers Are Not Trying to Minimize Price, but Maximize Benefit

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- ❑ The Psychology of Benefit
  - ❑ Pricing drives perception of value
    - ❑ Prada carries a few obscenely priced items in its stores, so everything else looks like a value
    - ❑ Why do texts costs money while e-mails are free?
  - ❑ “The best way to sell a \$2,000 watch is to put it next to a \$1,000 watch” – Anonymous
  - ❑ *Priceless: The Myth of Fair Value* by William Poundstone discusses a study conducted with beer

## Test 1





# Customers Are Not Trying to Minimize Price, but Maximize Benefit

- ❑ The Psychology of Benefit
  - ❑ Pricing drives perception of value

Test 2

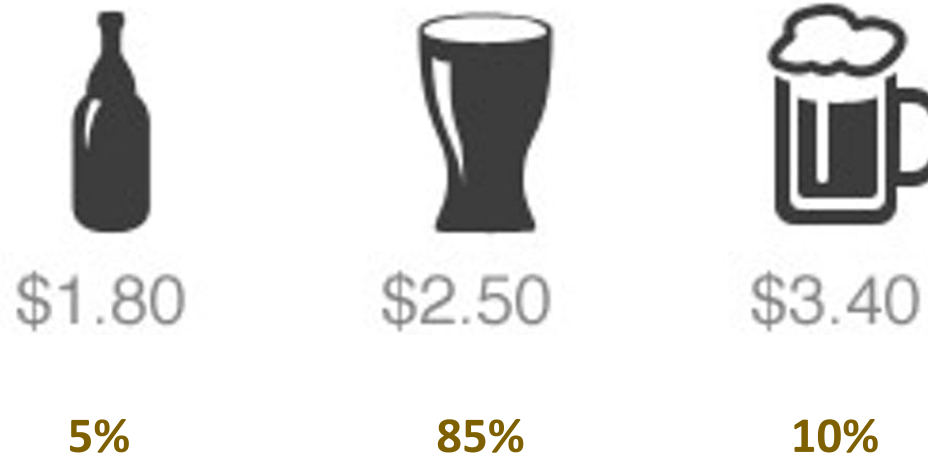


## Customers Are Not Trying to Minimize Price, but Maximize Benefit

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- ❑ The Psychology of Benefit
  - ❑ Pricing drives perception of value

### Test 3



*You can always find a reason to charge more. At least be willing to test it.*

# Fundamentals of Business Strategy

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1. **Dare to be different.** You cannot make more money than everyone else doing what everyone else is doing.
2. **Trade-offs.** Strategy requires trade-offs
3. **Value Creation.** Firms must create AND capture value
4. **Consumer surplus.** Remain conscious of the psychology of benefit
  - Consumers want to maximize benefit, not minimize price
5. **Opportunity costs.** What are you giving up? What is that worth?

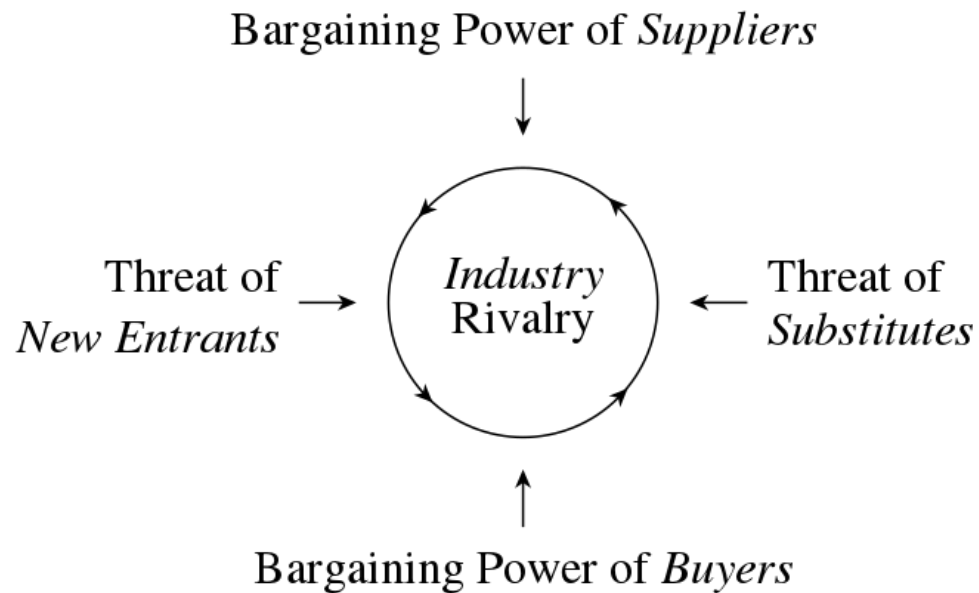
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# Module II

## Industry Analysis

# Porter's 5 Forces Framework

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# A Firm's Profit Depends on Its Industry and Its Position in Its Industry

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- Industry Profits
  - Industries differ in their average profitability
  - Some of the differences are because of risk or business cycle fluctuations
  - Most of the difference is attributed to different economic characteristics of the industry
  - If you pick an attractive industry your chances for success are higher
  - The apparel industry is ripe with rivalry**
  - To be profitable, in any industry, you must understand the competitive landscape of your industry**
    - We use Porter's 5 Forces to improve our understanding of the differences
- Individual Firm Profits
  - Firms in the same industry can vary dramatically in profitability**
  - Strategy affects profits

## Force 1: Intense Rivalry

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- Rivalry decreases profits via price competition**
- The intensity of rivalry depends on:
  - Number of sellers
  - Product differentiation
  - Buyer's switching costs
  - Buyers' motivation to shop/search
  - Size and frequency of sales
  - Industry capacity and/or demand
  - Cost structure (fixed and variable costs)

## Force 1: Intense Rivalry

- Rivalry decreases profits via price competition**

- The intensity of rivalry depends on:

- Number of sellers
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- Buyer's switching costs
- Buyers' motivation to shop/search
- Size and frequency of sales
- Industry capacity and/or demand
- Cost structure (fixed and variable costs)

- What are examples of industries with intense rivalry?**

- Supermarkets
- Airlines
- Car dealerships

- Rivalry is very strong in the Airline Industry**

- Small changes in price result in large changes in demand





## Force 1: Low Rivalry

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**Rivalry decreases profits via price competition**

The intensity of rivalry depends on:

- Number of sellers
- Product differentiation
- Buyer's switching costs
- Buyers' motivation to shop/search
- Size and frequency of sales
- Industry capacity and/or demand
- Cost structure (fixed and variable costs)

**What are examples of industries with low rivalry?**

- Luxury cars
- Luxury hotels
- Internet search engines

**Rivalry is low in the luxury car Industry**

Small changes in price have little effect on demand



Mercedes Benz G-Wagen  
~\$160,000 fully equipped and hard to find  
**If you want one, you want one**

## Force 1: Intense Rivalry in the Virgin Islands

- Rivalry decreases profits via price competition
- The intensity of rivalry depends on:
  - Number of sellers
  - Product differentiation
  - Buyer's switching costs
  - Buyers' motivation to shop/search
  - Size and frequency of sales
  - Industry capacity and/or demand
  - Cost structure (fixed and variable costs)



Example: Carnival vendor

## Force 2: Threat of New Entrants

- New entrants decreases profits via price competition
- Decreases market share
- Threats from new entrants depends on:
  - Economies of scale
  - Learning curve
  - Access to inputs and distribution
  - Availability of technology to entrants (patents, trade secrets, IP)
  - Brand identity of incumbents
  - Exit costs



### OPINION • FINANCING POTBELLY WORKS TO AVOID BANKRUPTCY

The sandwich chain is negotiating with landlords to close locations but has hired restructuring advisors, says RB's The Bottom Line.

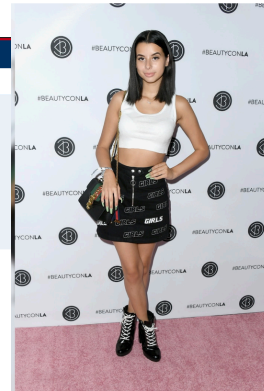
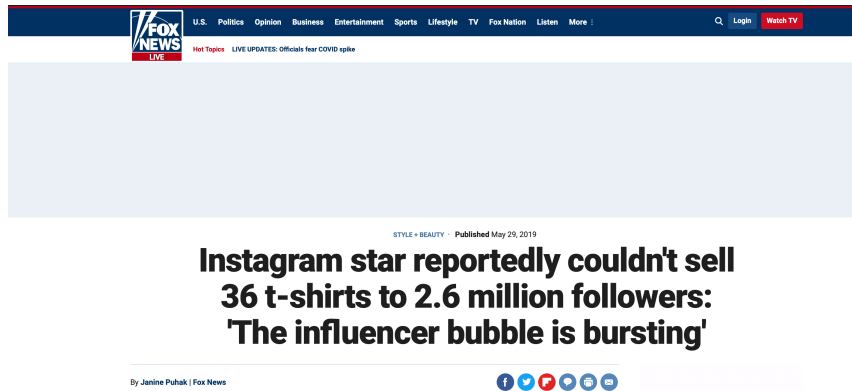
By *Jonathan Maze* on Jun. 12, 2020



Photograph: Shutterstock

## Force 2: Low Barriers to Entry

### ☐ Threat of entry is strong in the t-shirt industry



*In recent days, Instagram influencer Arii allegedly took to the platform to share the disappointing news with fans that her fashion line wouldn't be launching on schedule, [BuzzFeed News](#) reports. According to the outlet, the 18-year-old social media personality lamented that no one "kept their word" in promising to buy her merchandise, and the clothing company she had worked with pulled their agreement as she wasn't able to sell at least 36 t-shirts required to launch the line.*

## Force 2: High Barriers to Entry

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- Threat of entry is low in the oil industry
  - Economies of scale
  - Learning curve
  - Access to inputs and distribution
  - Availability of technology to entrants (patents, trade secrets, IP)
  - Brand identity of incumbents
  - Exit costs



ExxonMobil

bp



Example: Oil industry

## Force 2: High Barriers to Entry in the Virgin Islands

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- Threat of entry is low in the oil industry**
  - Economies of scale**
  - Learning curve**
  - Access to inputs and distribution**
  - Availability of technology to entrants (patents, trade secrets, IP)**
  - Brand identity of incumbents**
  - Exit costs**



Example: Casino industry

## Force 3: Substitutes

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- Is there another good that would fulfill the same customer's needs?**
- Substitutes decrease profits by reducing the size of the available market
- Threats from substitutes depends on:
  - Ability to fill the same customer need whether similar product or not
  - Similarity in performance characteristics, ease of use, availability, etc.
  - Similarity in cost per unit of usage

## Force 3: Many Substitutes

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- Is there another good that would fulfill the same customer's needs?**
- Substitutes decrease profits by reducing the size of the available market
- Threats from substitutes depends on:
  - Ability to fill the same customer need whether similar product or not
  - Similarity in performance characteristics, ease of use, availability, etc.
  - Similarity in cost per unit of usage

Examples: VOIP is a good substitutes for land lines

Viya





## Force 3: Few Substitutes

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- Is there another good that would fulfill the same customer's needs?**
- Substitutes decrease profits by reducing the size of the available market
- Threats from substitutes depends on:
  - Ability to fill the same customer need whether similar product or not
  - Similarity in performance characteristics, ease of use, availability, etc.
  - Similarity in cost per unit of usage



Examples: There is no good substitute for foil paper.  
Saran wrap, paper towel and rigid containers do not fill the same need.

## Force 3: Substitutes in the Virgin Islands

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- Is there another good that would fulfill the same customer's needs?**
- Substitutes decrease profits by reducing the size of the available market
- Threats from substitutes depends on:
  - Ability to fill the same customer need whether similar product or not
  - Similarity in performance characteristics, ease of use, availability, etc.
  - Similarity in cost per unit of usage



Examples: There are several substitutes to airplanes for inter-island travel

## Force 4: Supplier Power

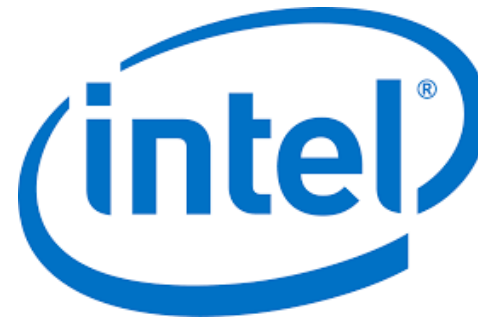
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- Can suppliers reduce profits by charging higher prices for their goods?**
- Suppliers decrease profits increasing the average cost of goods to the consumer
- Threats from suppliers depends on:
  - Number of suppliers
  - Ability to acquire substitute inputs
  - Need for specific investments in order to use inputs purchased from supplier
  - Suppliers ability to integrate forward
  - Note that, just because an input is vital doesn't mean that there is supplier power

## Force 4: High Supplier Power

---

- Can suppliers reduce profits by charging higher prices for their goods?**
- Suppliers decrease profits increasing the average cost of goods to the consumer
- Threats from suppliers depends on:
  - Number of suppliers**
  - Ability to acquire substitute inputs**
  - Need for specific investments in order to use inputs purchased from supplier**
  - Suppliers ability to integrate forward**
  - Note that, just because an input is vital doesn't mean that there is supplier power



Example: Supplier power is high in the microprocessor and ERP industries.  
Few suppliers and many buyers.

## Force 4: Low Supplier Power

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- Can suppliers reduce profits by charging higher prices for their goods?**
- Suppliers decrease profits increasing the average cost of goods to the consumer
- Threats from suppliers depends on:
  - Number of suppliers**
  - Ability to acquire substitute inputs**
  - Need for specific investments in order to use inputs purchased from supplier**
  - Suppliers ability to integrate forward**
  - Note that, just because an input is vital doesn't mean that there is supplier power



Example: Supplier power is low in the catering business.  
Many suppliers and few buyers.

## Force 4: High Supplier Power in Virgin Islands

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- Can suppliers reduce profits by charging higher prices for their goods?**
- Suppliers decrease profits increasing the average cost of goods to the consumer
- Threats from suppliers depends on:
  - Number of suppliers**
  - Ability to acquire substitute inputs**
  - Need for specific investments in order to use inputs purchased from supplier
  - Suppliers ability to integrate forward
  - Note that, just because an input is vital doesn't mean that there is supplier power

Example: Supplier power is high in the farm-to-table dining industry

## Force 5: High Buyer Power

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- Can buyers extract profits by securing lower prices?**
- Buyers can decrease profits by mandating price concessions
- Threats from buyer power depends on:
  - Number and importance of buyers
  - Need for specific investments to serve buyer needs
  - Buyer's ability to integrate backwards into supplying their own inputs

## Force 5: High Buyer Power

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- Can buyers extract profits by securing lower prices?
- Buyers can decrease profits by mandating price concessions
- Threats from buyer power depends on:
  - Number and importance of buyers**
  - Need for specific investments to serve buyer needs
  - Buyer's ability to integrate backwards into supplying their own inputs**



Examples: Cruise companies have tremendous buyer power when negotiating with excursion providers



## Force 5: Low Buyer Power

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- Can buyers extract profits by securing lower prices?**
- Buyers can decrease profits by mandating price concessions
- Threats from buyer power depends on:
  - Number and importance of buyers**
  - Need for specific investments to serve buyer needs**
  - Buyer's ability to integrate backwards into supplying their own inputs**

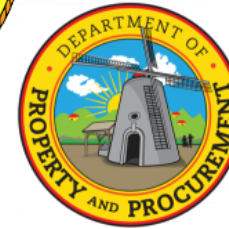


Examples: Chemical supply companies' customers have low buyer power.  
Few producers and many buyers.

## Force 5: High Buyer Power in Virgin Islands

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- Can buyers extract profits by securing lower prices?
- Buyers can decrease profits by mandating price concessions
- Threats from buyer power depends on:
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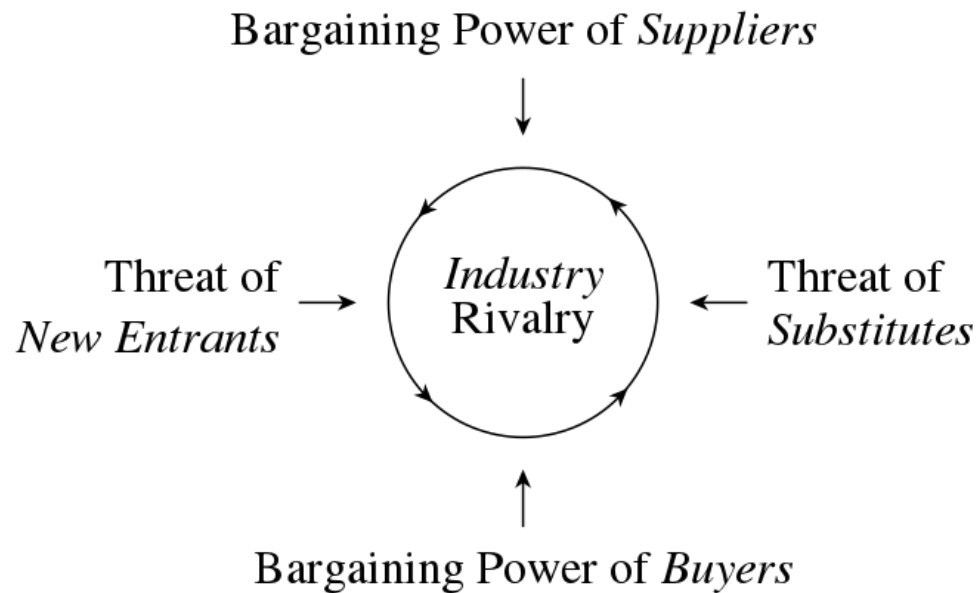


Government of the Virgin Islands  
Department of  
**PROPERTY AND  
PROCUREMENT**  
"Keeping The People's House In Order"

Example: Government of the Virgin Islands has tremendous buyer power

# Porter's 5 Forces Framework

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## Porter's 5 Forces – Exercise 3

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- Use Porter's 5 Forces to examine the following industries
- Rank all 3 industries - from most to least attractive

	Airlines	Construction	Carnival Vendor
Rivalry			
Entry			
Substitutes			
Supplier Power			
Buyer Power			

## Porter's 5 Forces – Exercise 5

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- Use Porter's 5 Forces to examine the following industries
- Rank all 3 industries - from most to least attractive

	Airlines	Construction	Carnival Vendor
Rivalry	High	High	High
Entry	Low	Moderate	High
Substitutes	Low	Low	High
Supplier Power	High	High	High
Buyer Power	High	High	High

- Airline >> Construction >> Carnival Vendor

# Porter's 5 Forces Framework – Airline Industry

TODAY IN THE SKY

## American Airlines CEO: We'll never lose money again

David Koenig, Associated Press

Published 11:53 p.m. ET Sep. 28, 2017 | Updated 8:18 a.m. ET Sep. 29, 2017



World Business Markets Breakingviews Video Mon

AEROSPACE AND DEFENSE JUNE 9, 2020 / 9:00 AM / UPDATED 6 MONTHS AGO

## Airlines heading for \$84 billion loss this year: IATA

By Laurence Frost

3 MIN READ



(This June 9 story corrects to show combined 2020-2021 loss forecast about \$100 billion, paragraph 5)

CORONAVIRUS

## American Airlines posts \$2.2 billion loss, is losing \$70 million a day during coronavirus pandemic

By DAVID KOENIG  
ASSOCIATED PRESS | APR 30, 2020 AT 3:05 PM

## Porter's 5 Forces Framework – Airline Industry

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“If you want to be a millionaire, start with a billion dollars and launch a new airline”

Sir Richard Branson  
Founder, *Virgin Group*

## Profit Margin by Industry – NYU Stern

Industry	Number of Firms	Gross Margin	Profit
Auto Parts	46	15.77%	3.05%
Banks	611	99.86%	30.50%
Beverage (Soft)	34	56.31%	18.50%
Retail (General)	17	24.27%	2.79%
Restaurant	77	30.49%	10.57%
Software	86	64.46%	20.53%
Supermarkets	13	23.38%	1.44%



## Profit Margin by Company

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Industry	Profit
Google	24.36%
Apple	23.2%
Coca-Cola	20.11%
Bank of America	17.3%
Target	4.25%
American Airlines	3.68%
Kroger	2.92%
AECOM	1.4%

*Retail is just as competitive as the airline industry*

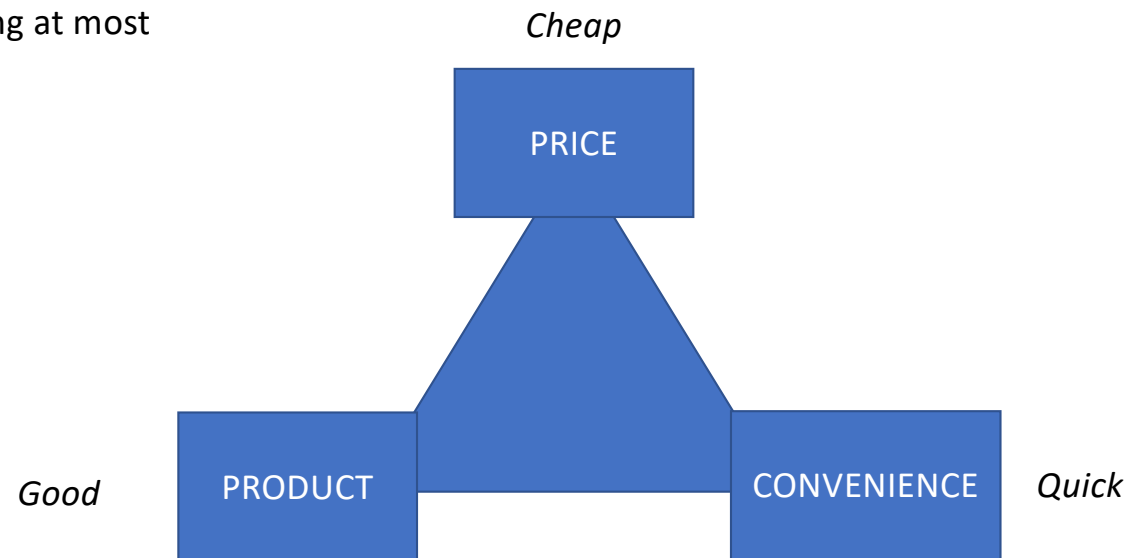
# Competitive Advantage for Apparel Entrepreneurs

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- Sustainable, competitive advantage requires all 4 of the following:
  - Different** – the firm must do something different; or do something in a different way
  - Inimitable** – not easy for competitors to replicate
  - Appropriable** – the firm must be able to capture the value created (\$\$\$)
  - Foresight** – the firm must be able to guess where the market is heading before it arrives

## What does your Brand Excel at?

- Look at your competitors and look at yourself**
- For a firm to outperform its competitors it must
  - Do something different
  - Or, do the same thing in a different way
- Pick two of the following at most



# Thoughts from Titans of Industry

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- Competitive Advantage: Will I have a competitive advantage (relative to my competitors)? If so, what is it?
  - Product**
    - "Innovation distinguishes between a leader and a follower" – Steve Jobs
    - "Be a yardstick of quality. Some people aren't used to an environment where excellence is expected."- Steve Jobs
  - Price**
    - "Control your expenses better than your competition" – Sam Walton
  - Convenience**
    - "All of the biggest technological inventions created by man - the airplane, the automobile, the computer - says little about his intelligence, but speaks volumes about his laziness." - *Mark Kennedy*
    - Coca-Cola: bottling, vending machines, free style machines, artificial intelligence (AI)
  - Hybrid Examples**
    - Designate a primary and secondary focus
      - Amazon** – (1) Price and (2) Convenience
      - Coca-Cola** – (1) Product and (2) Convenience

## Recap: Competitive Differentiation Strategy

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- ❑ Competitive Advantage: Will I have a competitive advantage (relative to my competitors)? If so, what is it?
  - ❑ **Different** – the firm must do something different; or do something in a different way.
    - ❑ Examples: Apple, BMW, Burberry, Rolex
  - ❑ **Inimitable** – not easy for competitors to replicate
    - ❑ Examples: Google, Tesla
  - ❑ **Appropriable** – the firm must be able to capture the value created (\$\$\$)
    - ❑ Example: Apple
  - ❑ **Foresight** – the firm must be able to guess where the market is heading before it arrives
    - ❑ Example: Tesla

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# Module III

## Fundamentals of Pricing

# Price and Profit Margin

- Revenue
- COGS
- **Gross Margin**
- SG&A
- **EBITDA**
- D&A
- Interest Expense
- Taxes
- **Net Income (Profit)**

Profit Margin % =  $\frac{\text{Net Income (Profit)}}{\text{Revenue}}$

Gross Margin % =  $\frac{\text{Gross Margin}}{\text{Revenue}}$

Industry	Profit
Google	24.36%
Apple	23.2%
Coca-Cola	20.11%
Bank of America	17.3%
Target	4.25%
American Airlines	3.68%
Kroger	2.92%
AECOM	1.4%

# The Anatomy of a \$25 Shirt

---

Let's say your shirt is for sale at **\$25.00**

Assume 40% for COGS **\$10.00**

Labor **\$3.00**

Shrinkage **\$2.50**

Shipping **\$1.50**

Rent **\$1.50**

Overhead **\$1.50**

Gross Receipts Taxes **\$1.25**

Advertising **\$1.00**

Cost of Trapped Cash **\$0.75**

Credit Card Fees **\$0.75**

Taxes **\$0.30**

**95 cents!**



**~4% Profit**



## Assumptions: The Anatomy of a \$25 T-shirt

---

- ❑ **Rent:** \$1,500 per month
- ❑ **Store Hours:** 50 per week
- ❑ **Labor:** *One employee*, \$15 per hour – minimum wage+, plus unemployment, cost of discounts, etc.
- ❑ **Volume:** Average sales of approximately 1,000 items per month or ~45 per business day
- ❑ **Trapped Cash:** Inventory and Startup cost of \$50,000
- ❑ **Overhead:** \$16,000 per year e.g. business license, insurance, software, tax prep, cell phone
  - ❑ **WAPA:** \$500 per month, included in overhead costs
- ❑ **Shrinkage:** 6% annual sales

**Equivalent owner salary of  
\$11,400 per year or \$5.48 per hour**

## Price and Profit Margin (Continued)

		Revenue			
		\$250,000	\$500,000	\$1,000,000	\$2,500,000
Profit	2%	5,000	10,000	20,000	50,000
	3.5%	8,750	17,500	35,000	87,500
	5%	\$12,500	\$25,000	\$50,000	\$125,000

### ***Volume is essential to success***

- Increase average ticket size
- Increase turnover
- Sell large dollar items
- Sell high-margin items

# The Anatomy of a \$100 Pair of Jeans

---

Let's say your jeans are on sale at **\$100.00**

Assume 40% for COGS **\$40.00**

Labor **\$3.00**

Shrinkage **\$7.50**

Shipping **\$2.50**

Rent **\$1.50**

Overhead **\$1.50**

Gross Receipts Taxes **\$5.00**

Advertising **\$1.00**

Cost of Trapped Cash **\$3.00**

Credit Card Fees **\$3.00**

Taxes **\$5.40**

**\$27.60**



**~28% Profit**

# Selected Financials for Popular Apparel Companies

2019	VI Apparel Co.	American Eagle	Macy's	GAP	Nike	LVMH
Revenue	<b>\$250,000</b>	\$4.3B	\$26B	\$16.6B	\$39B	\$53B
COGS	<b>40%</b>	65%	59%	62%	55%	34%
Gross Margin	<b>60%</b>	35%	41%	38%	45%	66%
Profit	<b>4%</b>	<b>4.4%</b>	<b>2.2%</b>	<b>6.0%</b>	<b>10.3%</b>	<b>13.3%</b>

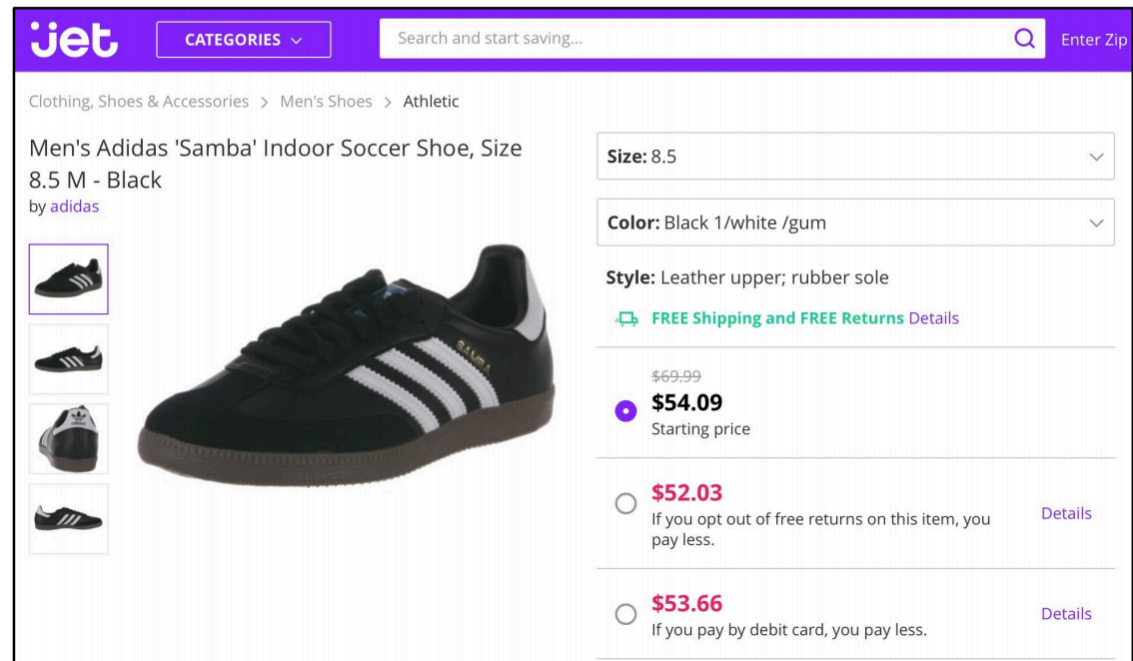
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# Concepts to Understand Before Setting Price

# Pricing should be a strategic decision

Pricing can be used to incentivize desirable behavior, along with a host of other objectives

- Why would a company want the buyer to opt out of free returns?
- Why would a company want a buyer to pay with a debit card?
- Why would a company put \$69.99 on the screen and then crossed it out?



---

# Important Considerations When Setting Price

# Important Considerations When Price-Setting

---

- Who is your customer?
- Through what channel(s) are you selling?
- What are you selling?
- What is your market-positioning?
- What are the substitutes?
- What are the switching costs?
- Is your offering perishable or seasonal?





# Important Considerations When Price-Setting

---

## Who is your customer?

- Through what channel(s) are you selling?
- What are you selling?
- What is your market-positioning?
- What are the substitutes?
- What are the switching costs?
- Is your offering perishable or seasonal?

Keep these questions in mind:

- How did this person arrive to your website or store?
- What are his or her interests, generally?
- Why would this person be interested in your product?
- What features or benefits would interest this person the most?

Bad Answer

All adults who live on St. Thomas.

Better Answer

Non-married residents of Red Hook, between the ages of 18 – 45 who make more than \$70,000 a year ,who live in a house with little outside space and has a dog AND a cat.

# Important Considerations When Price-Setting

---

- Who is your customer?
- Through what channel(s) are you selling?**
- What are you selling?
- What is your market-positioning?
- What are the substitutes?
- What are the switching costs?
- Is your offering perishable or seasonal?

## *Recommendation!*

An entrepreneur should be the first sales-person within their organization. It's a critical learning experience and the feedback you receive selling is invaluable.

- Online marketplaces - platforms like eBay, Amazon and others
- Distributors - wholesale businesses that specialize in selling to retailers, not directly to consumers
- Foreign Distributors - foreign distributors specialize in sales overseas
- Affiliate Sales - individuals or companies that sell goods on other businesses' behalf
- Outsourced Sales - outsource their sales needs to other businesses
- Value-Added Resellers (VARs) - value-added resellers (VARs) purchase a company's products, then alter or otherwise enhance them before reselling them to customers
- Catalog - Considered old-fashioned by some business owners, catalogs are still an effective way to target certain markets for physical products

# Important Considerations When Price-Setting

---

- Who is your customer?
  - Through what channel(s) are you selling?
  - What are you selling?**
  - What is your market-positioning?
  - What are the substitutes?
  - What are the switching costs?
  - Is your offering perishable or seasonal?
- 
- Think in terms of customer needs and benefits
  - There are certain words and phrases that naturally elicit an emotional response in humans
  - As you write your product descriptions, look for any descriptive words or adjectives that could use a bit of dressing up

## Use Power Words That Sell

Amazing	Eye-opening	Miracle
Audacity	Faith	Pluck
Backbone	Fearless	Sensational
Belief	Fulfill	Spectacular
Blissful	Grateful	Spine
Bravery	Grit	Spirit
Breathtaking	Guts	Staggering
Cheer	Happy	Stunning
Conquer	Heart	Surprising
Courage	Hero	Triumph
Daring	Hope	Uplifting
Defiance	Jaw-dropping	Valor
Delight	Jubilant	Victory
Devoted	Magic	Wonderful
Excited	Mind-blowing	Wondrous

Source: Jon Morrow at Smart Blogger

# Important Considerations When Price-Setting

---

- Who is your customer?
  - Through what channel(s) are you selling?
  - What are you selling?
  - What is your market-positioning?**
  - What are the substitutes?
  - What are the switching costs?
  - Is your offering perishable or seasonal?
- Why do people buy from your business instead of from others in the same market?
  - What do you offer, at what price, to whom, and how does your mix compare to others?
  - Think about specific kinds of benefits, features, and market groups, comparing where you think you can show the difference.
  - Describe the important competitive features of your products and/or services.
  - Do you sell better features, better price, better quality, better service, or some other factor?

# Important Considerations When Price-Setting

- Who is your customer?
  - Through what channel(s) are you selling?
  - What are you selling?
  - What is your market-positioning?
  - What are the substitutes?**
  - What are the switching costs?
  - Is your offering perishable or seasonal?
- 
- Substitute goods are highly competitive as they can be easily replaced by a competitor
  - When the price of one substitute good goes up, the demand for the other substitute also goes up – this is known as *positive cross price elasticity*

Direct Substitute Examples	In-Direct Substitute Examples
Pepsi and Coca-Cola	Dancing and bowling
PlayStation and Xbox	Bowling and Video games
Supermarket-branded and Branded products	Banana and Doughnuts

## Why Consumers Choose Substitutes:

- Price
- Quantity
- Quality
- Geography
- Tastes
- Income

# Important Considerations When Price-Setting

---

- Who is your customer?
- Through what channel(s) are you selling?
- What are you selling?
- What is your market-positioning?
- What are the substitutes?
- What are the switching costs?**
- Is your offering perishable or seasonal?

“Switching Costs” are costs that a consumer incurs from switching brands, products, services, or suppliers.

“Switching Cost” is also referred to as “Switching Barrier”

- Switching costs commonly refer to the financial costs incurred by a consumer when they switch brands, products, services, or suppliers. However, switching costs also include non-financial costs
  - Time costs – Does the switch require a significant amount of time?
  - Psychological costs – Will the new product or service be better than the existing product or service?
  - Effort-based costs – Does the individual need to exert significant effort to switch
- Whatever customer problem you plan to solve, understand how your potential customers are solving it now and what their costs would be to switch to your solution

# Important Considerations When Price-Setting

---

- Who is your customer?
  - Through what channel(s) are you selling?
  - What are you selling?
  - What is your market-positioning?
  - What are the substitutes?
  - What are the switching costs?
  - Is your offering perishable or seasonal?**
- 
- Seasonal pricing** means charging different prices for products and services depending on whether it's high season or low season.
  - The idea is to smooth demand by enticing customers with low prices during the slow period, while maximizing revenues with higher prices when demand is strong.
    - Example:* A lawn care business offers customers 10 percent discounts each fall in exchange for paying for a year's worth of service
- 
- For sellers of **perishable goods** to achieve their intended markups, the selling price must be based on the quantity of products sold at the original price
    - Example:* if a tomato vendor anticipates a 20% spoilage rate, the selling price of the tomatoes should be calculated based on 80% of the original stock.

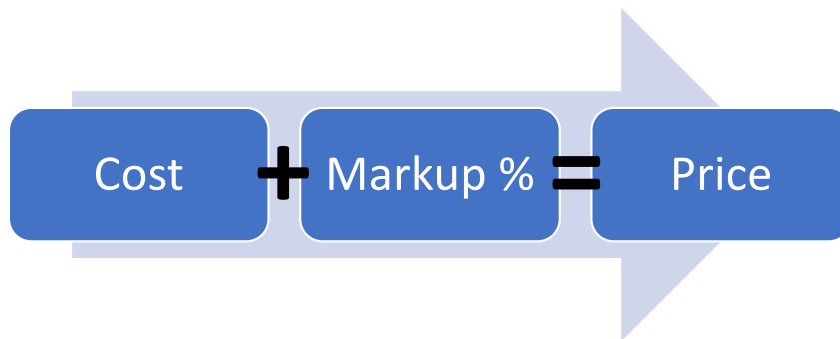
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# 5 Common Pricing Strategies



# 1: Cost-based Pricing

- ❑ Cost-based pricing is an attempt to set price in such a way that a fixed margin is guaranteed for each unit sold



- ❑ What are your costs, really? (Costs change with volume)
- ❑ What if your cost structure is non-competitive?
- ❑ What are your competitors doing?
- ❑ Are you leaving money on the table?

## Cost-Based Pricing Example

You make 100 units of a product at a total cost of \$2,000  
Per unit cost is  $\$2,000 / 100 = \$20$

To make a unit profit margin, or markup, of 20%:  
 $.20 \times \$20 = \$4$

You need to charge:  
 $\$20 + \$4 = \$24$

Total revenue =  $100 \times \$24 = \$2,400$   
Profit =  $\$2,400 - \$2,000 = \$400$

# 1: Cost-based Pricing

---

## **Pros:**

The upside of cost-plus pricing is that it doesn't take much to figure out. You're already tracking production costs and labor costs. All you have to do is add a percentage on top of it to set the selling price. It can provide consistent returns should all your costs remain the same.

## **Cons:**

Cost-plus pricing doesn't take into account market conditions such as competitor pricing or perceived customer value.

## 2: Competitor-based Pricing

- ❑ This pricing method focuses on information from the market rather than production costs (cost-plus pricing) and product's perceived value (value-based pricing)
- ❑ Utilizes competitor benchmarks to set price



- ❑ Who is your competition?
- ❑ Are you assuming your competitors have done the work?
- ❑ Are competitive prices readily available?

## 2: Competitor-based Pricing

---

### **Pro:**

This strategy can be effective if you can negotiate a lower cost per unit from your suppliers, while cutting costs and actively promoting your special pricing.

### **Cons:**

This strategy can be difficult to sustain when you're a smaller retailer. Lower prices mean lower profit margins, and so you'll have to sell higher volume than competitors. And, depending on the products you're selling, customers may not always reach for the lowest-priced item on a shelf.

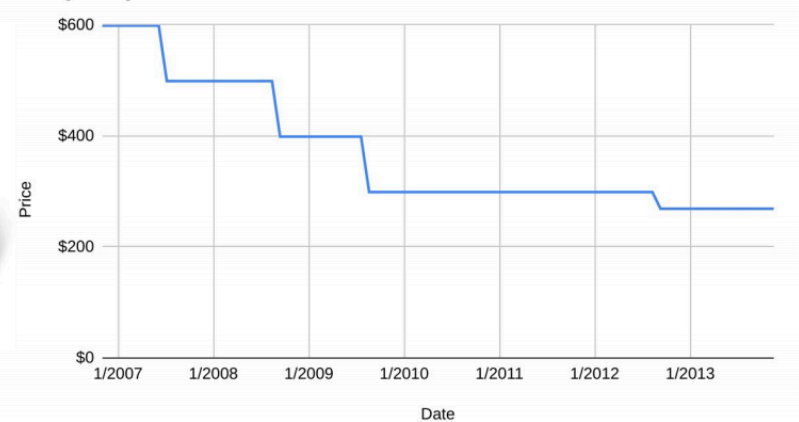
## 3: Skim Pricing

- An attempt to capture multiple segments of the market by offering a high initial price and gradually reducing price over time
- This strategy is mostly used on products that are new and have few, if any, direct competitors when first entering the market
- Generates greater revenue, profit, and profit margins since you are the only one selling the product— customers must buy from you if they want what you are selling
- You must use caution, to not price so high though that customers aren't willing to buy your product even though there are no competitors

- How will initial purchasers feel?
- Are you risking established market share?
- How quickly can your competitors react?
- Are you offering a luxury good or service?



Sony Playstation 3 Price vs. Date



## 3: Skim Pricing

---

### Pros:

Price skimming can lead to high short-term profits when launching a new, innovative product. If you have a prestigious brand image, skimming also helps maintain it and attract loyal customers that want to be the first to get access/have an exclusive experience

It also works when there is product scarcity. For example, high-in-demand low-supply prices can be priced higher, and as supply catches up, prices drop.

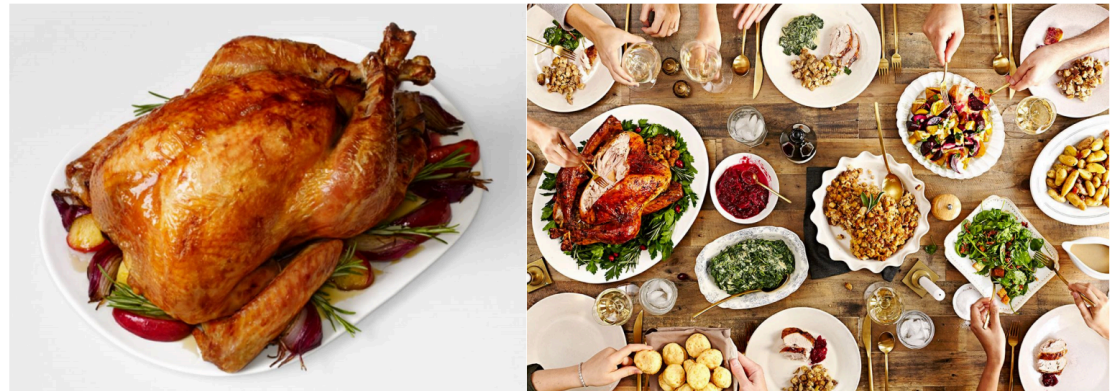
### Cons:

Price skimming isn't the best strategy in crowded markets unless you have some truly incredible features no other brand can mimic. It also attracts competition and can bother early adopters if you slash the price too soon or too much after launch.

## 4: Loss-Leader Pricing

---

- ❑ Refers to products having low prices placed on them in an attempt to lure customers to the business and to make further purchases
- ❑ The goal of using a loss leader pricing strategy is to lure customers to your business with a low price on one product with the expectation that the customer will purchase other products with larger profit margins
  
- ❑ For example, grocery stores might use turkey as a loss leader product around Thanksgiving
  
- ❑ If you come to their store to purchase your turkey, you are very likely to purchase other grocery items at their store rather than going to another store



## 4: Loss-Leader Pricing

---

### **Pros:**

This tactic can work wonders for retailers. Encouraging shoppers to buy multiple items in a single transaction not only boosts overall sales per customer but can cover any profit loss from cutting the price on the original product.

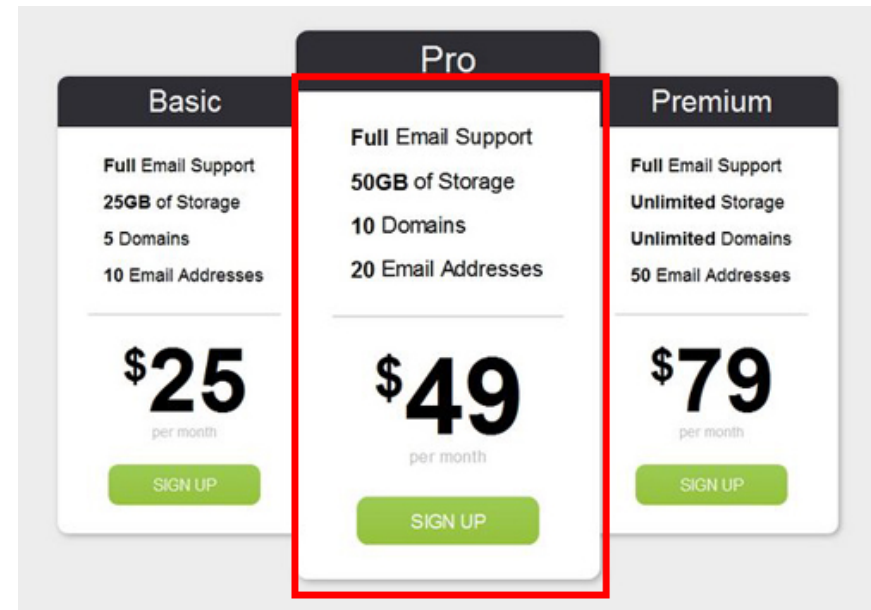
### **Cons:**

Similar to the effect of using discount pricing too often, when you overuse loss-leading prices, customers come to expect bargains and will be hesitant to pay the full retail price. You could also cannibalize revenues if you're discounting something that doesn't increase cart size or average order size.



## 5: Anchoring

- ❑ Providing customers a mental “anchor” (that is higher than your actual price) to make your pricing seem enticing
- ❑ Price is Relative. Price of a good or service is never high nor low if it’s the only option available. It’s only considered cheap or expensive if there is at least a second option to create relativity.
- ❑ Placing premium products and services near standard options may help create a clearer sense of value for potential customers, who will view the less expensive options as a bargain in comparison
- ❑ As the saying goes, the best way to sell a \$2,000 watch is to put it right next to a \$10,000 watch



Class Participation:

- ❑ Do you think generic brand products next to household name brand products is a form of anchoring?

## 5: Anchoring

---

**Pro:**


If you list your original price as being much higher than the sale price, it can influence a customer to make a purchase based on the perceived deal.

**Con:**

If your anchor price is unrealistic, it can lead to a breakdown of trust in your brand. Customers can easily price-check products online against your competitors with a [price comparison engine](#)—so ensure your listed prices are reasonable.

# Pricing can accomplish many different objectives

---



Quantity  
Maximization

Seeks to maximize the number of items sold. This objective may be chosen if you have an underlying goal of taking advantage of economies of scale that may be realized in the production or sales arenas.


---



Profit Margin  
Maximization

Seeks to maximize the per-unit profit margin of a product. This objective is typically applied when the total number of units sold is expected to be low.

---



Revenue  
Maximization

Seeks to maximize revenue from the sale of products without regard to profit. This objective can be useful when introducing a new product into the market with the goals of growing market share and establishing long-term customer base.

*Note: This is only a sample, not a complete list.*

# Shrinkage

---

*Estimated cost to the retail industry ~\$50B per year*

*“Shrinkage is the loss of inventory that can be attributed to factors such as employee theft, shoplifting, administrative error, vendor fraud, damage, and cashier error. Shrinkage is the difference between recorded inventory on a company's balance sheet and its actual inventory. This concept is a key problem for retailers, as it results in the loss of inventory, which ultimately means loss of profits.”*

# Shrinkage – 4 Main Reasons

---

*Estimated cost to the retail industry ~\$50B per year*

1. Shoplifting
2. Internal Theft
3. Administrative Errors – ticketing errors, POS errors, accounting errors, etc.
4. Fraud



Source: Investopedia

SFT Solutions, Inc. © 2021

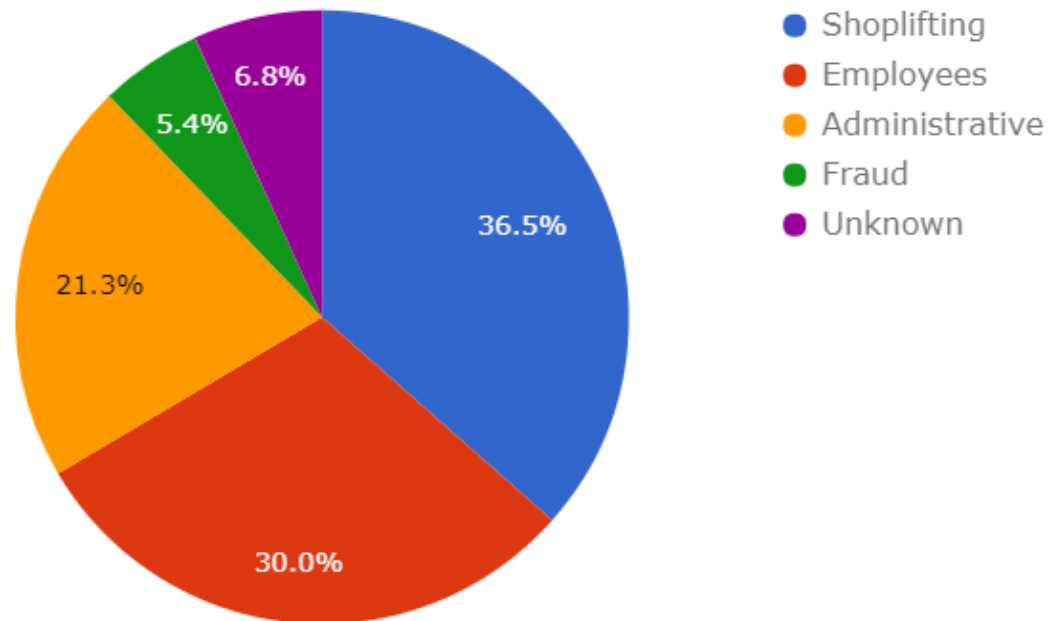


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Strategy | Finance | Technology

# Shrinkage – 4 Main Reasons

Estimated cost to the retail industry ~\$50B per year

Primary Causes of Retail Inventory Shrink



Source: <https://erply.com/uk/what-is-shrink-in-retail-and-how-can-you-prevent-it/>

SFT Solutions, Inc. © 2021



# Shrinkage – 10 Characteristics of High-Shrinkage Stores

---

*Estimated cost to the retail industry ~\$50B per year*

1. Poor customer service
2. Poor operational controls
3. Lack of store cleanliness / Clutter
4. Poor merchandising
5. Poor hiring practices
6. Cluttered and unkempt stockrooms
7. Unattended and untidy fitting rooms
8. Poor attention to details
9. Uninspired employees
- 10. Closed minds**

# Shrinkage – Examples

---

*Estimated cost to the retail industry ~\$50B per year*

1. Merchandise theft
2. “Sweethearting” – employees neglecting to ring up all items when friends make purchases
3. Gift certificate fraud
4. Use of counterfeit currency to purchase goods
5. Return of stolen merchandise for cash
6. Boxes of inventory disappearing from the storage room
7. Water damaged goods
8. Fake sales
9. Fraud
  1. Vendor Fraud
  2. Shipping/Delivery Fraud
  3. Return Fraud



# Shrinkage: Bottom Line

---

*Estimated cost to the retail industry ~\$50B per year*

- 1. Happens at every retail company**
- 2. When someone steals or when mistakes happen, profit is removed straight from the bottom line**
- 3. You must account for it when setting prices**

---

# Other Relevant Factors

## Firms Can Always Improve Efficiency (OPEX)

---

1. Embrace technology
2. Outsource functions
  - Tax planning
  - Accounting
  - Marketing
3. Annually shop for better rates
4. Telecommute
5. Negotiate early payment discounts
6. Cancel unused services
7. Go green
8. Hire Freelancers
9. Change spending behaviors of staff
10. Reduce inventory and/or increase inventory turnover
11. Control the “latte factor”

$$\text{OPEX} = \frac{\text{Operating Expenses}}{\text{Revenue}}$$

---

# Module IV

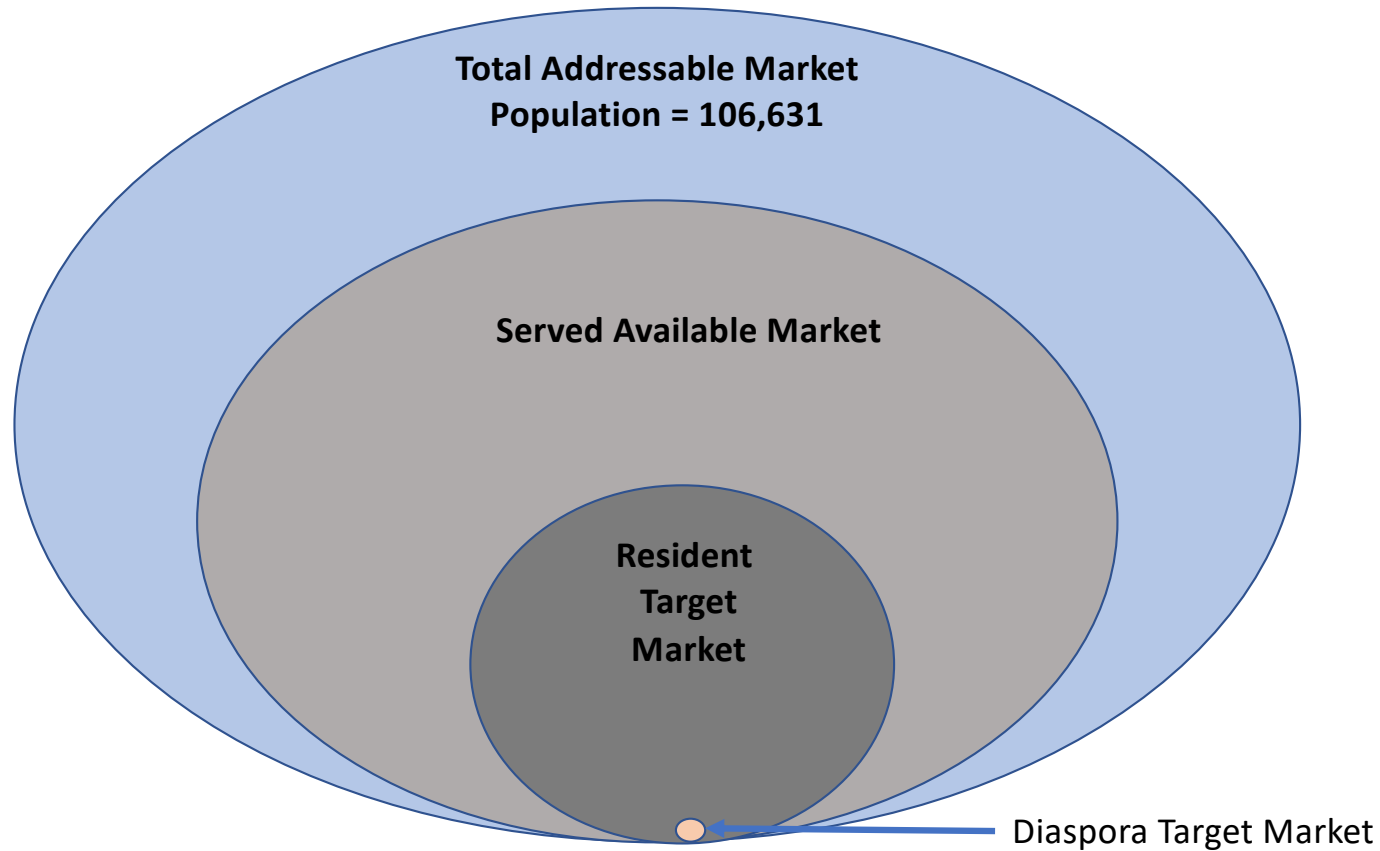
## Digital Marketing for the Apparel Industry

# Who is Your Customer?

## Who *Exactly* is Your Customer?

# Virgin Islands Digital Marketing Landscape

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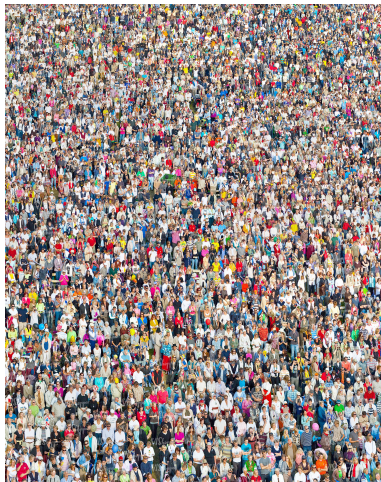


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# USVI Digital Landscape

# Digital: Around the World

## Total Population



**7.75 Billion**

*Urbanization:*  
55%

## Unique Cell Phone Users



**5.19 Billion**

*Penetration:*  
67%

## Internet Users



**4.54 Billion**

*Penetration:*  
59%

## Active Social Media Users



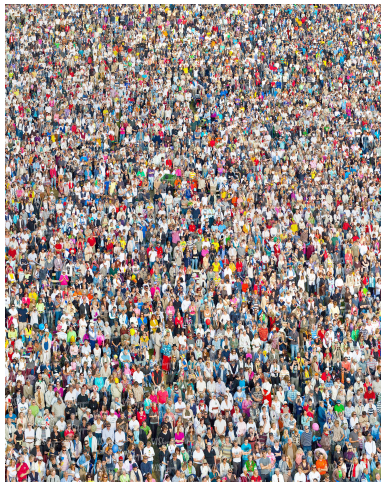
**3.8 Billion**

*Penetration:*  
49%



# Digital: in the United States

## Total Population



**330 Million**

*Urbanization:*  
82%

## Unique Cell Phone Users



**353 Million**

*Penetration:*  
107%

## Internet Users



**288 Million**

*Penetration:*  
87%

## Active Social Media Users

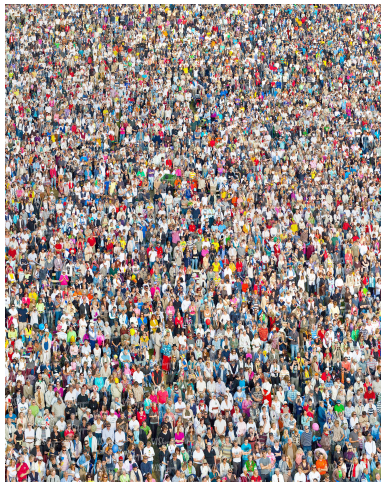


**230 Million**

*Penetration:*  
70%

# Digital: in the US Virgin Islands

## Total Population



**106,631**

**Urbanization:  
96%**

## Cell Phone Connections



**207,100**

**Penetration:  
198%**

## Internet Users



**67,300**

**Penetration:  
64%**

## Active Social Media Users

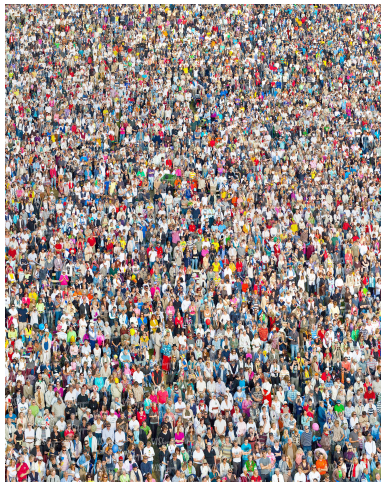


**25,000**

**Penetration:  
24% - 35%**

# Digital: Growth in the US Virgin Islands – Jan '20 v Jan '19

**Total Population**



**-0.1%**

**Cell Phone Connections**



**+0.7%**

**Internet Users**



**-0.1%**

**Active Social Media Users**



**-25%**

# Digital: USVI Social Media Overview

Active Users



25k

% of Population



24%

Change in Users  
Apr 2019 vs Jan 2021



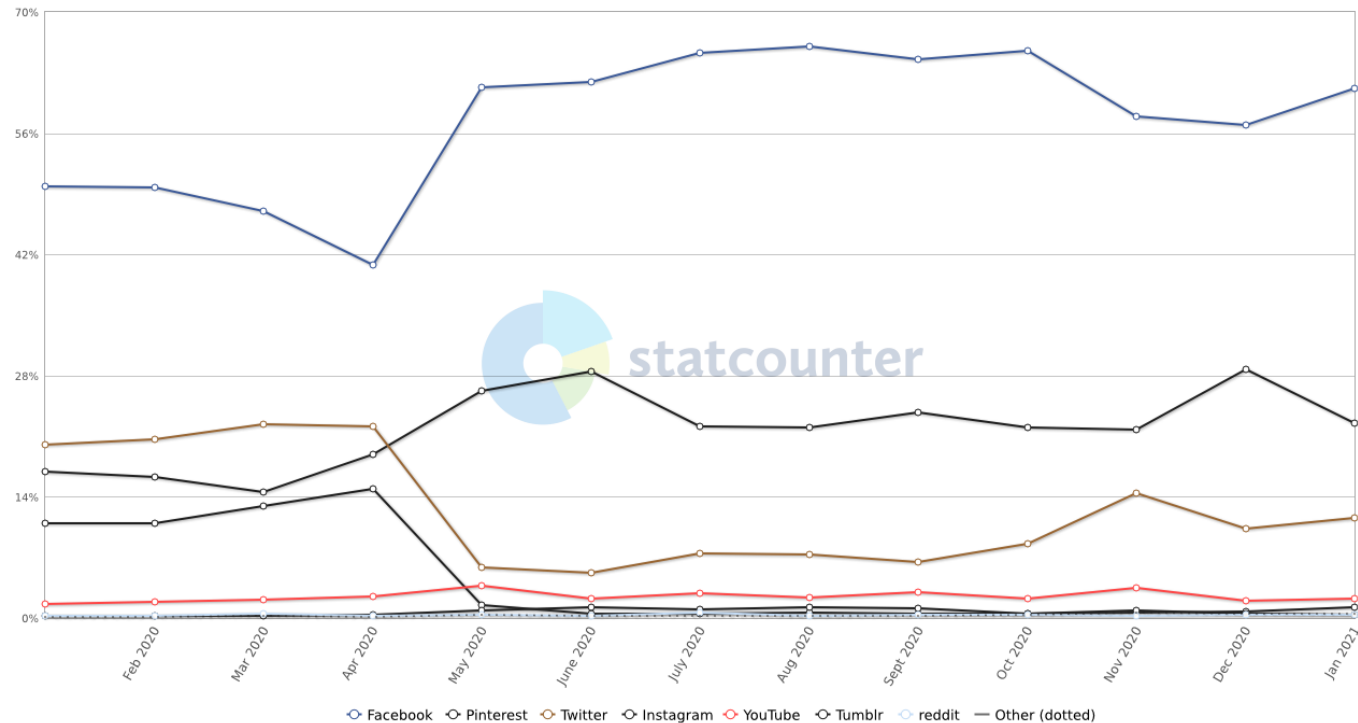
-25%

Percentage of users accessing  
via mobile



99%

# Social Media Stats: US Virgin Islands Jan 2020 – Jan 2021



**Facebook**  
61.2%

**Pinterest**  
22.3%

**Twitter**  
11.6%

**YouTube**  
2.2%

**Instagram**  
1.2%

# Digital: USVI Facebook Audience Overview

---

Advertised # of people that Facebook can reach



**35k – 40k**

Advertised reach of population 13+



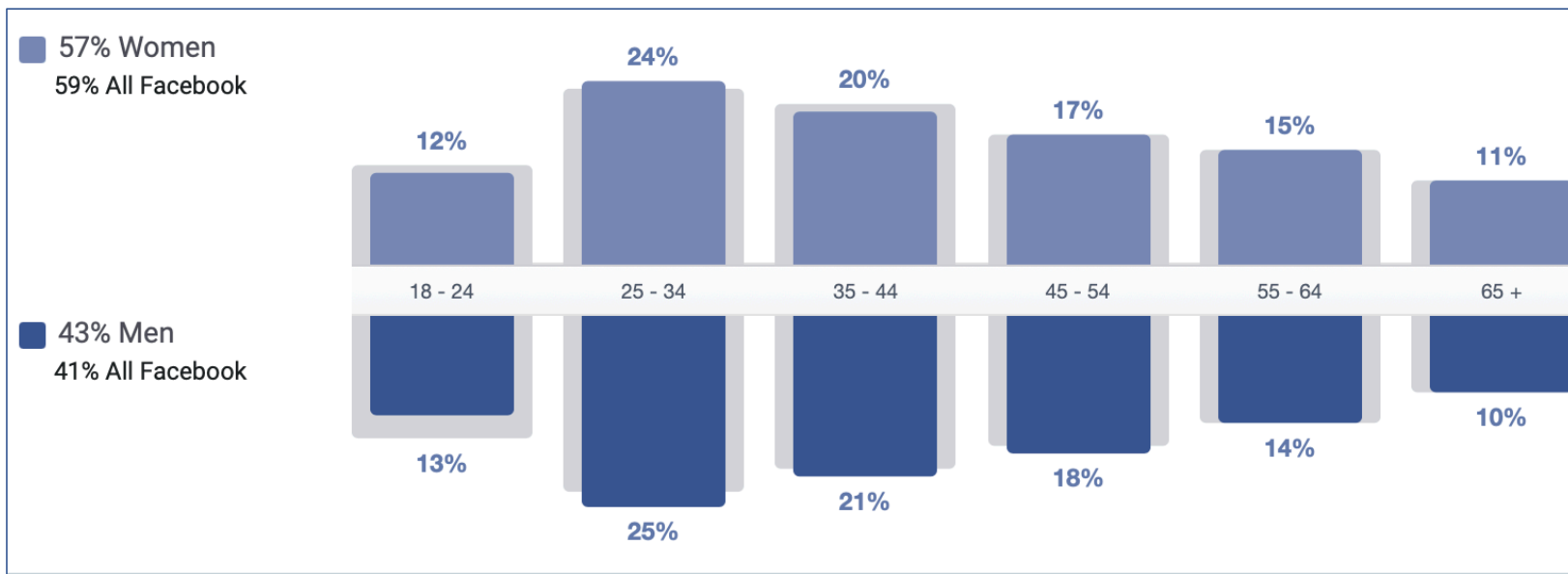
**36%**

Quarter-on-Quarter change in Facebook's advertising reach



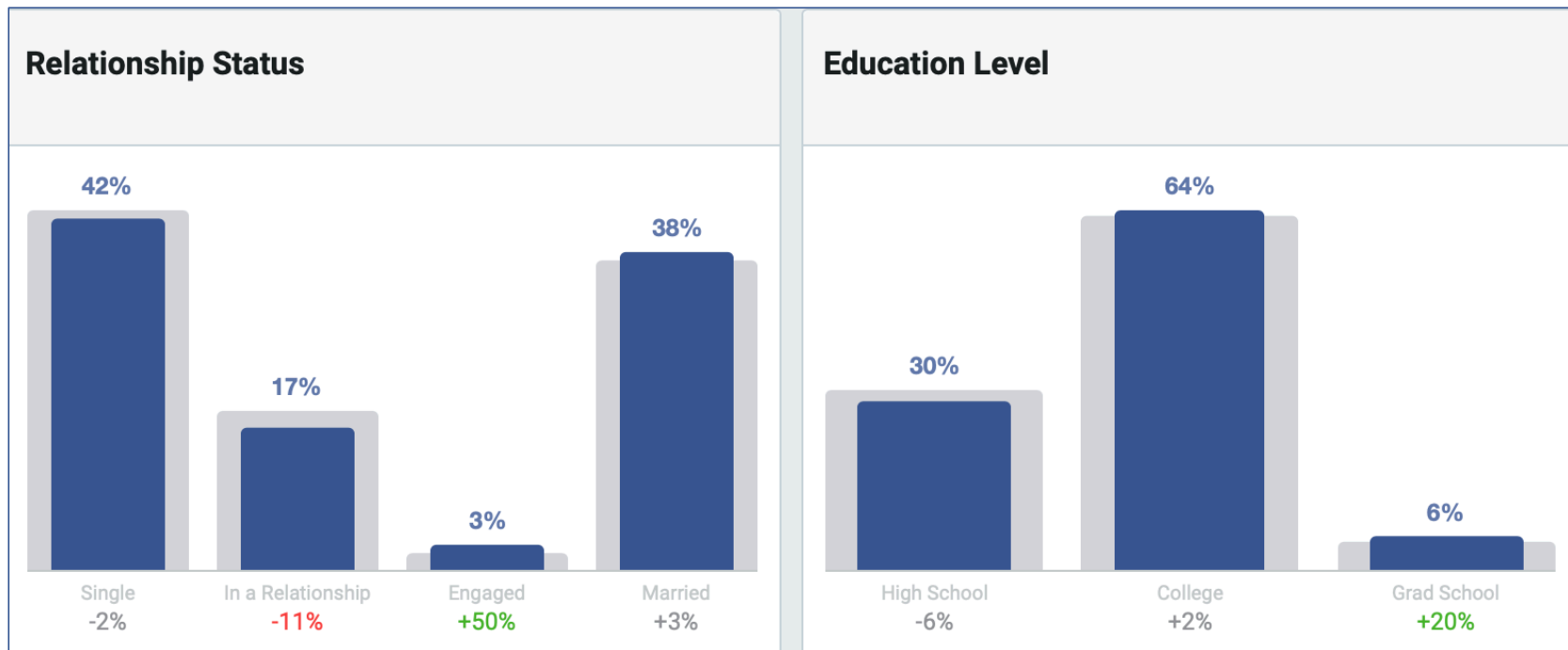
**-4.2%**

# USVI Demographics: Age and Gender



Source: Facebook

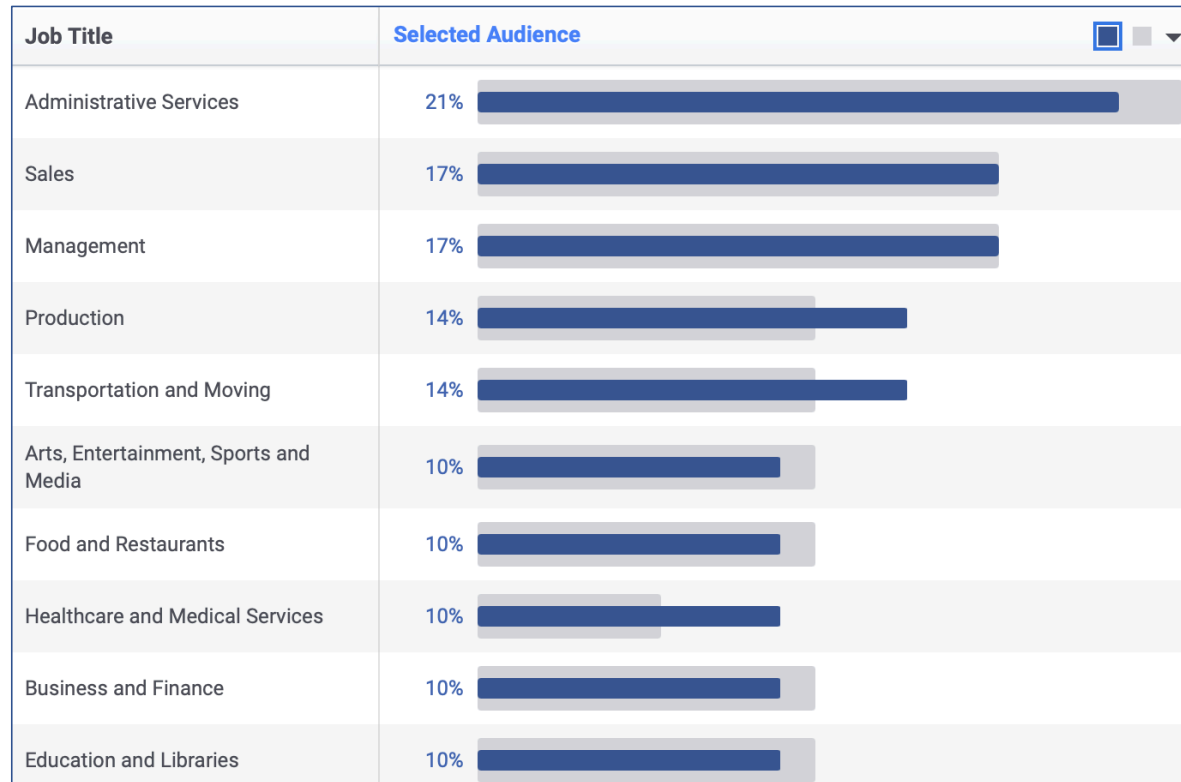
# USVI Demographics: Relationship Status and Education



Source: Facebook



# USVI Demographics: Job Title



Source: Facebook

# Digital: USVI Instagram Audience Overview

Advertised # of people that Instagram can reach



11k

Advertised reach of population 13+



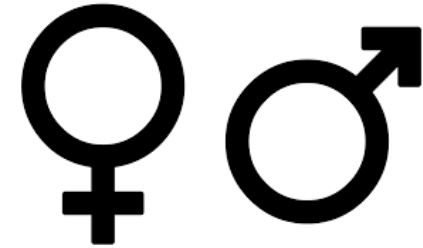
13%

Quarter-on-Quarter change in Instagram's advertising reach



-2.8%

Demographics



Female 58%  
Male 42%

# Digital: USVI Twitter Audience Overview

Advertised # of people that Instagram can reach



24k

Advertised reach of population 13+



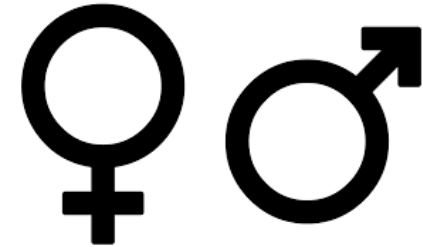
28%

Quarter-on-Quarter change in Instagram's advertising reach



+143%

Demographics



Female 47%  
Male 53%

## Top Google Searches – Jan 2021 TTM

---

1. COVID-19
2. Zoom
3. Edmentum
4. Discord
5. Microsoft Teams
6. England vs West Indies
7. Edmentum login
8. Think Central
9. Virgin Islands Consortium
10. Oriental Bank USVI
11. Coronavirus
12. Island Direct
13. Outlook 365
14. Weather Tomorrow
15. Tiktok
16. Tap and Still
17. Google Classroom
18. VIDE VI
19. USPS Tracking Number
20. Schoology

## Top YouTube Searches – Jan 2021 TTM

---

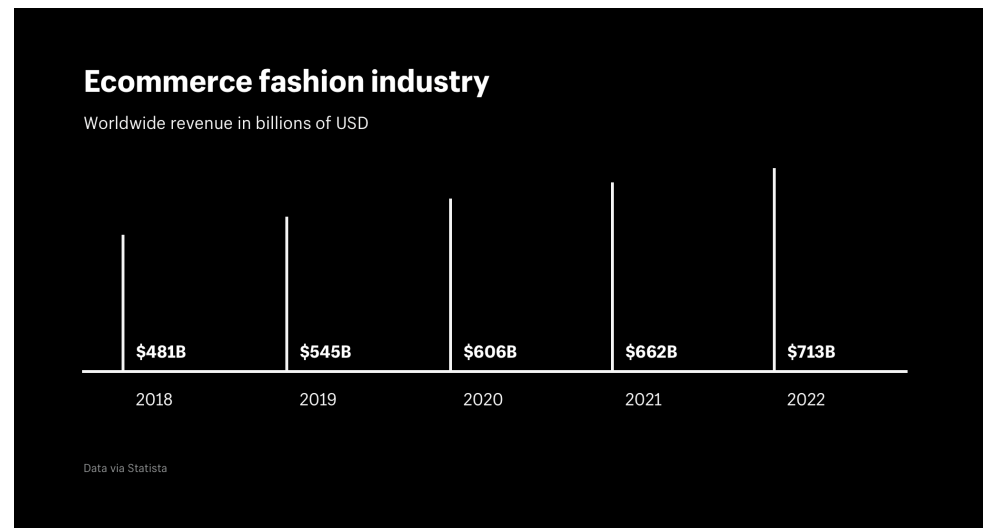
1. Pop Smoke
2. Among Us
3. King Von
4. Megan Thee Stallion
5. Tik Tok
6. Minecraft
7. Roblox
8. ABC
9. Shenseea
10. GTA 5

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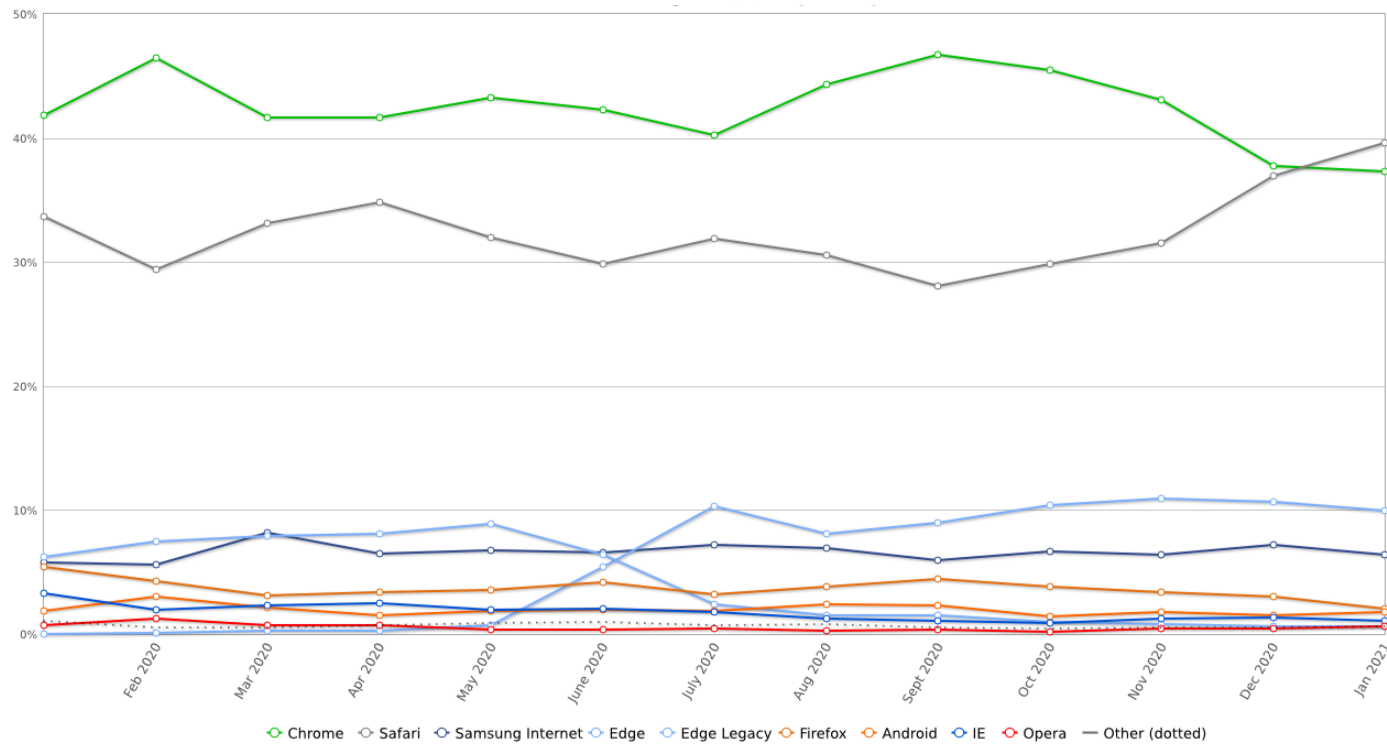
# Website Design

# An Online Presence Provides Direct Access to Buyers

- Having direct access to your buyers is one of the big benefits of selling clothing online through your own store.
- For maximum exposure, consider selling on marketplaces (e.g., Amazon) and your own website.
- Pay attention to what your buyers are telling you.
  - For example, if you're getting a lot of the same questions, you might want to add some text or tweak certain features to make them easier to use.
- To sell clothing online and grow, you'll need to monitor your eCommerce website and adjust based on what you learn.
  - The easiest way to do this is through great customer service.
  - Make sure visitors can contact you and ask questions or give feedback.
  - When sending order confirmation emails or check-ins, include an email address the customer can respond to with issues or to thank you for a fantastic experience.



# Browser Market Share: US Virgin Islands Jan 2020 – Jan 2021



**Safari**  
39.4%

**Chrome**  
37.5%

**Edge**  
10.0%

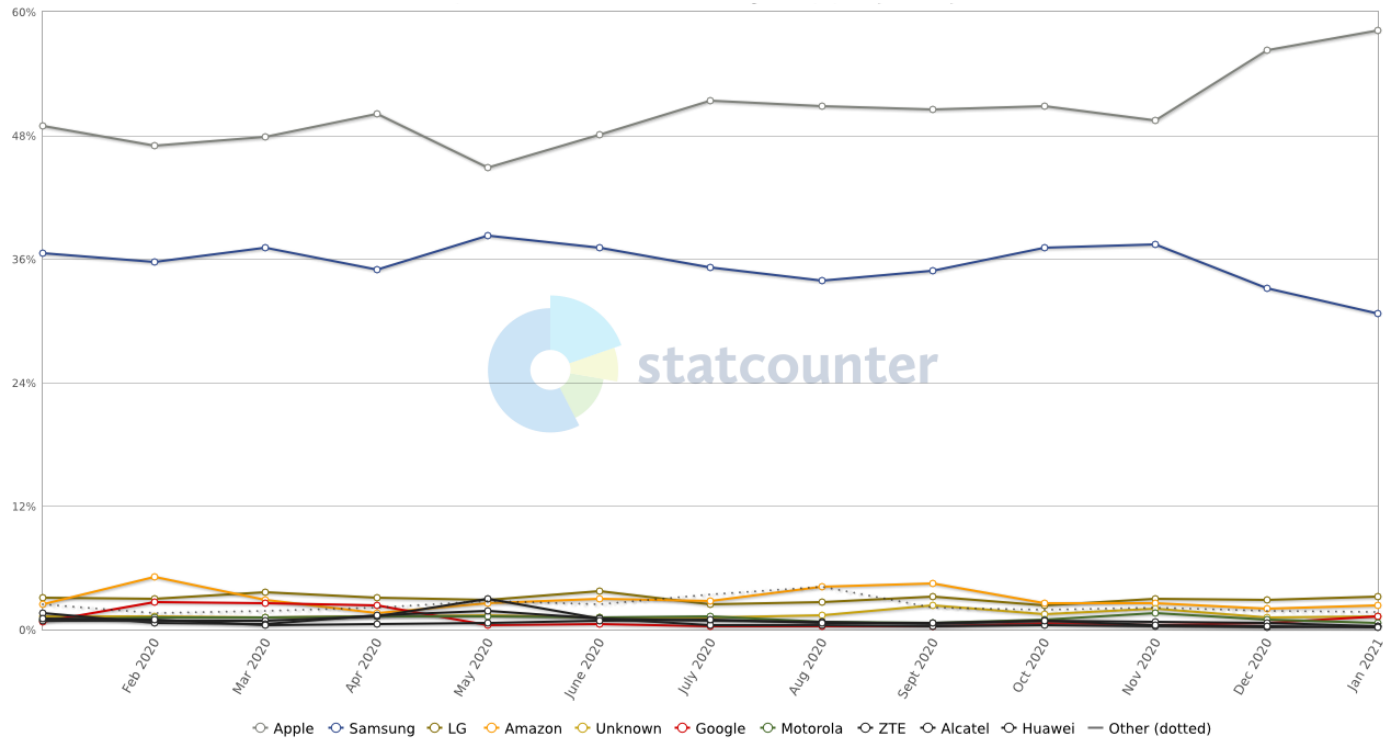
**Samsung**  
6.3%

**Firefox**  
2.0%

Source: Statcounter



# Device Market Share: US Virgin Islands Jan 2020 – Jan 2021



**Apple**  
58.2%

**Samsung**  
30.7%

**LG**  
3.2%

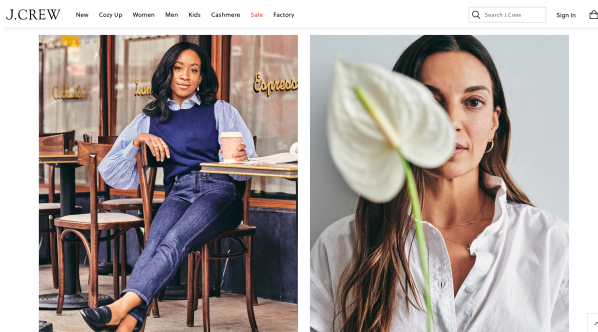
**Amazon**  
2.4%

**Google**  
1.3%

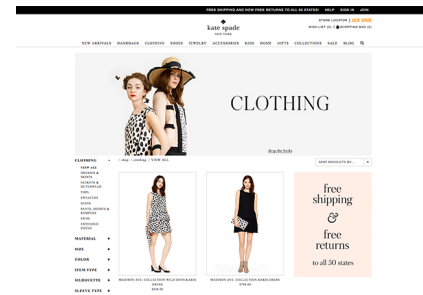
Source: Statcounter

# Create a Fashion-Forward Website

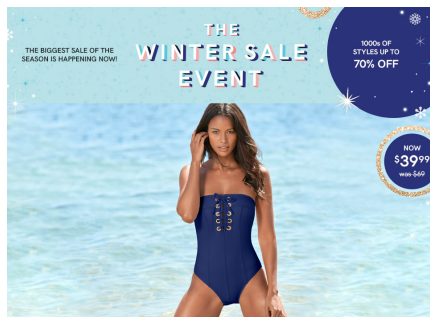
## Use large, professional photography



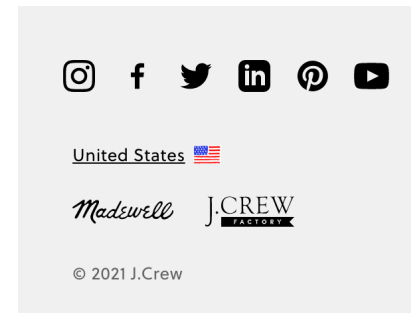
## Embrace a minimalist approach



## Showcase seasonal sales & trends



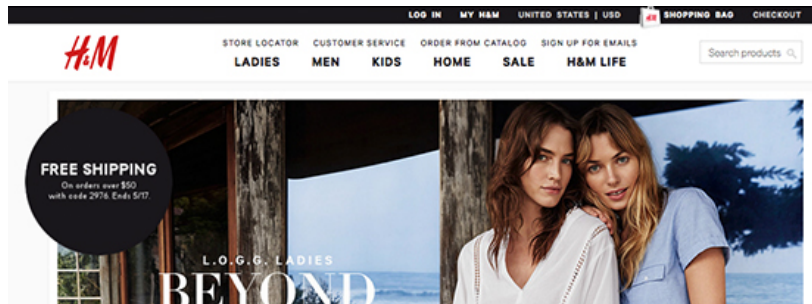
## Promote with social media



Sources: J. Crew, Kate Spade,

# Create a Fashion-Forward Website (Continued)

Use a clear navigation structure



Allow customers to shop by occasion



Create a lookbook page



Look for inspiration

Look at other sites for inspiration.  
What are similar brands doing in  
other markets?

---

# Social Media

# Advantages of Establishing a Social Media Presence

- Increased brand loyalty
- Drives traffic to websites
- Promotes good customer service
- Increased customer engagement
- Provides more conversion opportunities
- Access to more accurate customer insights
- Allows brands to promote products to more people

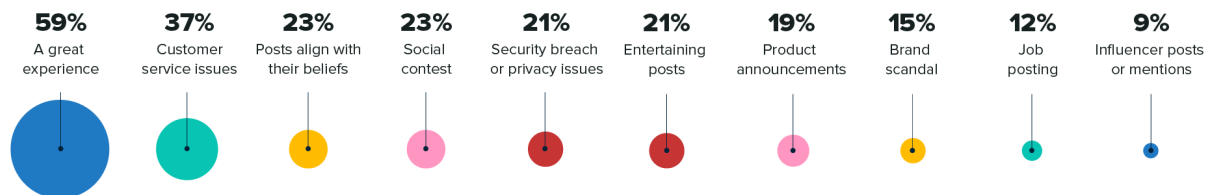
## Actions consumers take when they follow brands on social



sproutsocial • Sprout Social Index™

sproutsocial.com/index

## Why consumers message a brand on social media



Source: Sprout Social Index

# Six Visual Social Media Platforms for Apparel Businesses

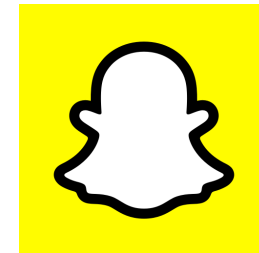
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Best for targeting men and women of all ages



Best for targeting women in their mid-twenties to mid-forties



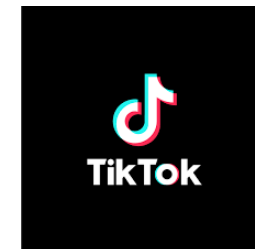
Best for targeting men and women in 18- to 24-year-old range

**tumblr**

Best for targeting teens and young adults



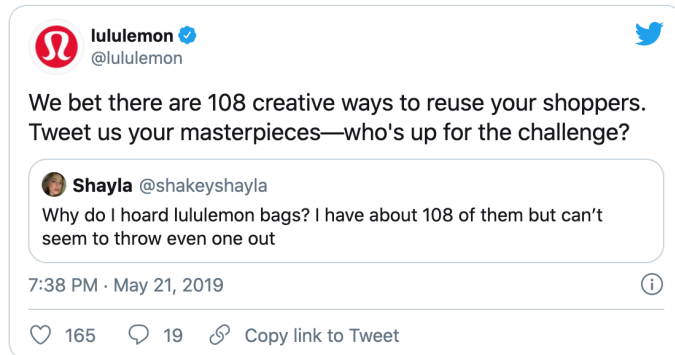
Best for targeting men and women ages 18-40



Best for targeting teens and early adults

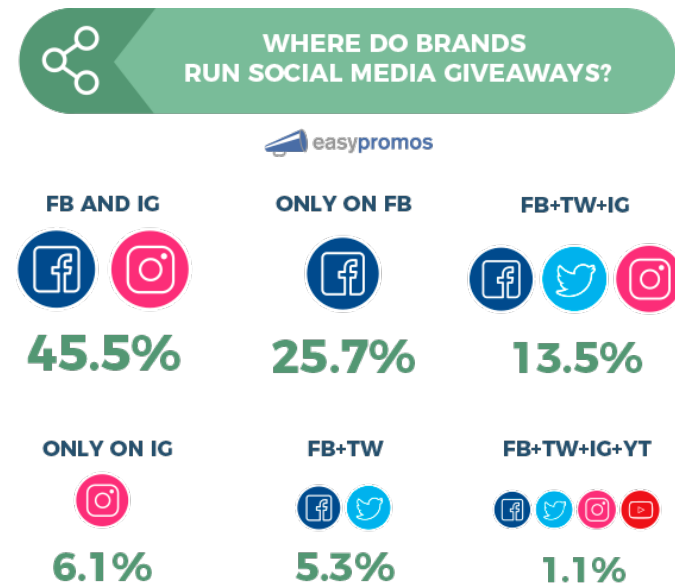
# Social Media Best Practices

- Respond to comments and inquiries in a timely manner.
- Be personal! Tailor your message to your specific audience.
- Create and post images.
  - Don't just post pictures from your website. Create custom graphics that highlight your brand's personality and showcase your clothing in real life.
    - Tools like Canva can help with this.
- Expose the behind-the-scenes aspect of your industry.
  - Sometimes seeing the effort that goes into making a clothing item or stocking a particular product sparks interest and prompts a purchase.
  - This also helps build the brand



# Social Media Best Practices (Continued)

- ❑ Conduct giveaways and unique contests.
  - ❑ Use holidays and sales cycles to influence your giveaways.
  - ❑ Don't be afraid to have fun with it.
- ❑ Promote discounts and giveaways in social media advertisements.
- ❑ Stagger content and do not post duplicates.
  - ❑ Duplicate content is not just bad for SEO, it's a waste on social media.
  - ❑ Even if it's just changing a few words, make sure you're not constantly posting the same content on different platforms.
- ❑ Make sure messaging appeals to your target market.
- ❑ Listen to customer feedback and make an effort to truly understand your audience.
- ❑ Post information relevant to your audience, not just internal company news or new products.

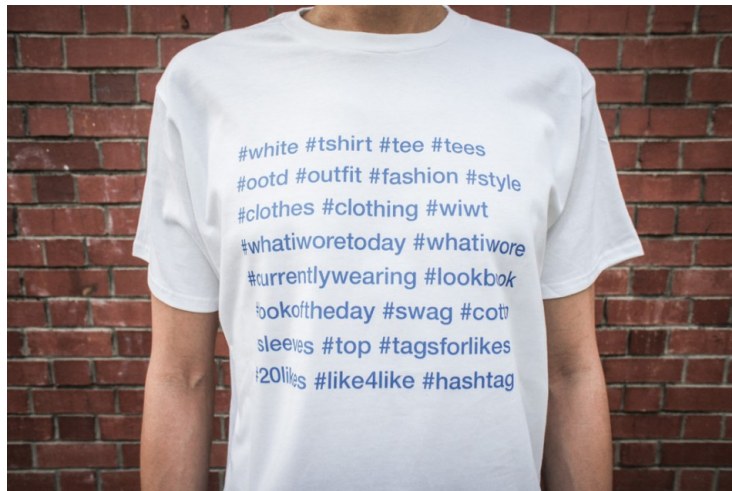


Source: Survey carried out by Easypromos, November 2018







# Social Media Best Practices: #Hashtags

- ❑ Use relevant hashtags on Pinterest, Instagram and Tumblr, but don't go overboard.
  - ❑ Using too many hashtags could have a negative effect.



### A QUICK GUIDE to #HASHTAGS

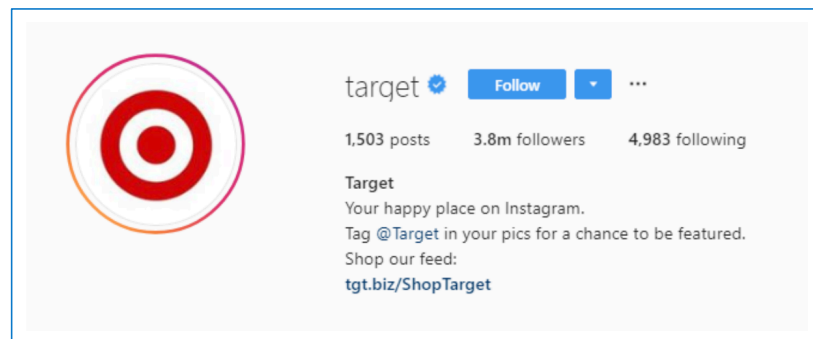
 <b>2X</b> Tweets with hashtags get two times more engagement than tweets without	 <b>↓ 17%</b> When you use more than two hashtags, your engagement drops by an average of 17 percent.
 <b>11+</b> Interactions are highest on Instagram posts with 11+ hashtags.	 <b>NO #</b> Facebook posts <i>without</i> a hashtag fare better than those with a hashtag

[www.gemmasands.co.uk](http://www.gemmasands.co.uk)

# Tell Your Customers How to Interact with Your Brand

- ❑ Customer photos are noted to increase conversions and engagement among social followers.
- ❑ Your customers want to talk about their latest purchases, granted you give them a chance to do so.

Target encourages followers to @mention them within posts which allows followers to be featured in their feeds.



Anthropologie uses the branded hashtag #myanthropologie to entice customers to post their photos.

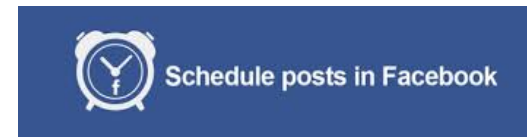


# Social Media Scheduling Tools

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- ❑ Save time by scheduling posts ahead with free tools like Hootsuite, Tweetdeck, Facebook Scheduler and Buffer.

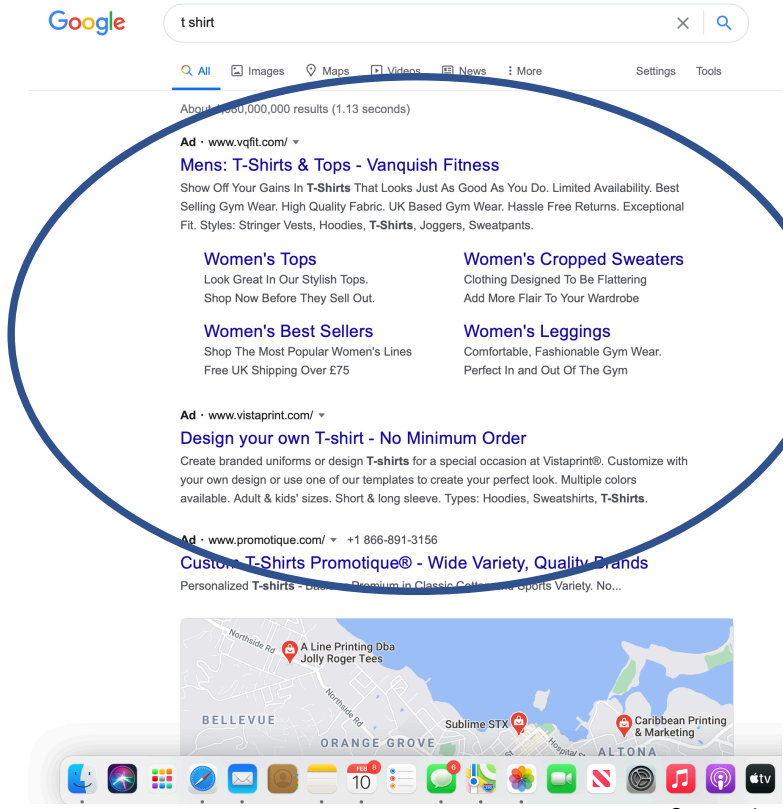
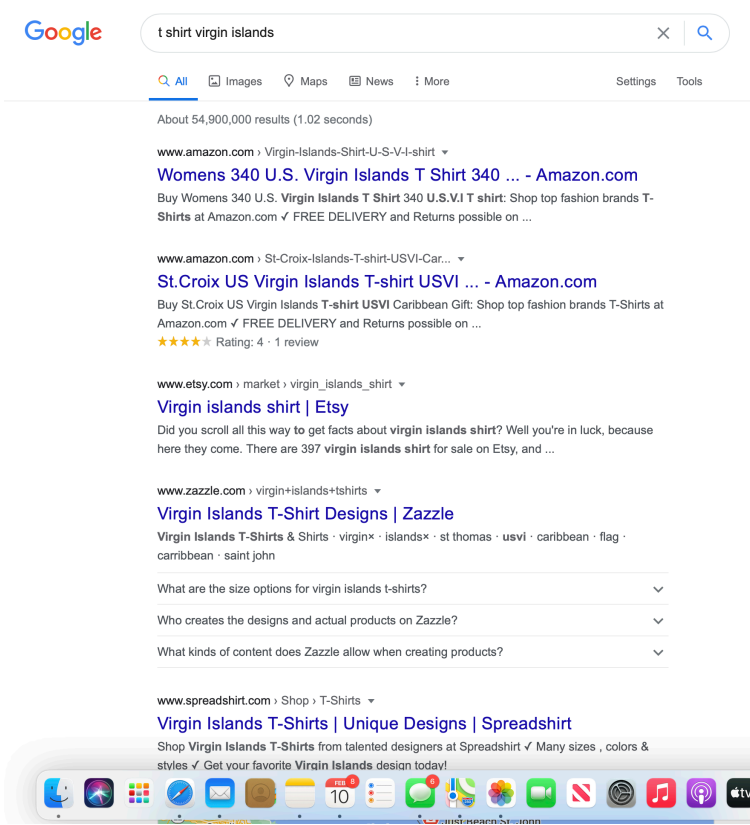
## Commonly Used Scheduling Tools:



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# Pay-per-Click (PPC)

# What is Pay-Per-Click (PPC)?



Source: Let Us Proceed PPC

# What is Pay-Per-Click (PPC)?

**PPC**  
A digital advertising model that stands for pay-per-click in which advertisers are charged a certain amount every time the ad is clicked.

**KEYWORD**  
A word or a phrase that matches what people are Googling. Every PPC ad contains certain keywords.

**CTR**  
Measures the number of clicks advertisers receive on their ads stand for click-through-rate.

**CPC**  
Stands for cost-per-click, and it's the final amount you are charged for a click on your PPC ad.

**QUALITY SCORE**  
Google's rating of the quality and relevance of both your keywords and PPC ads, which depends on your CTR, account performance, and keyword/text/landing page relevance.

**HOW ARE ADS RANKED AND PRICED?**

**HOW ARE PPC ADS RANKED?**

$$\text{Max CPC Bid} \times \text{Quality Score} = \text{AD Rank}$$

**EXAMPLE:**

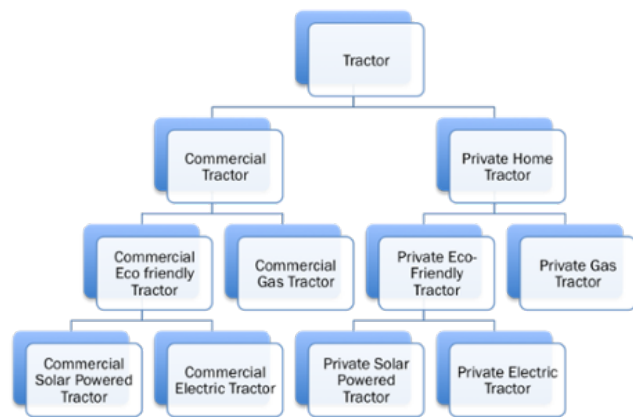
AD Position	Advertiser	Max CPC Bid	×	Quality Score	=	AD Rank
1	YOU	\$3.00		8		24
2	PPC AGENCY	\$4.00		5		20
3	XYZ BRAND	\$5.00		3		15
4	ACME	\$6.00		2		12

XYZ bid \$1 more than PPC but ranked lower because their quality score was 2 points lower.

Source: Let Us Proceed PPC

# PPC for the Apparel Industry

- ❑ Use the right keywords
  - ❑ While selling apparel online is competitive, using the right keywords can really set your store apart. When selecting keywords remember:
    - ❑ Bid on brands
    - ❑ Be descriptive
    - ❑ Stay away from broad terms



KEYWORD LEVELS OF INTENT	REASONS WHY
<p><b>LOW INTENT</b></p> <p>ford truck parts                      ford truck parts diagram                      ford truck parts and accessories                      ford aftermarket truck parts                      ford spare parts                      truck body parts</p>	<ul style="list-style-type: none"> <li>- High Cost &amp; Competition</li> <li>- General interest</li> <li>- Most likely comparison shopping</li> <li>- No mention of Truck Model &amp; year.</li> <li>- Possibly looking for information only</li> </ul>
<p><b>MED INTENT</b></p> <p>ford f-150 truck parts                      ford f-250 parts                      f-150 truck accessories                      ford crew cab accessories                      ford superduty truck parts                      ford ranger truck parts</p>	<ul style="list-style-type: none"> <li>- Model specific interest</li> <li>- Better Landing Page Identification</li> <li>- Optimal Text Ad Relevancy to Model Type</li> <li>- Visitor has faster ability to find products</li> </ul>
<p><b>HIGH INTENT</b></p> <p>f-150 truck bed liner                      ford ranger seat covers                      exhaust pipe for f-150 quad cab                      2006 f-150 superduty mirrors                      '08 ford ranger oem bumper                      Ford F-150 Pickup FX2 5.4 Parts</p>	<ul style="list-style-type: none"> <li>- Lower Cost &amp; Competition</li> <li>- Product Page Level Landing Pages</li> <li>- Optimal Text Ad Relevancy to Product</li> <li>- Visitor knows exactly what they want</li> <li>- Less site navigation by visitor</li> </ul>

Source: <https://neilpatel.com/blog/launch-successful-ppc-campaign-first-time/>

# PPC for the Apparel Industry (Continued)

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- ❑ Filter irrelevant traffic with negative keywords
  - ❑ Taking advantage of negative keywords is a must-do for any PPC strategy. By placing descriptive negative keywords in a campaign, you'll prevent irrelevant traffic from triggering your ads while saving that ad spend for the searches that matter most.

## What Are Negative Keywords?

Negative keywords are words you add to a PPC campaign to deliberately prevent your ads from being shown and clicked on for specific, unwanted searches.

*Example:* You only sell inkjet printers online. So, in your PPC ad campaign you might have 'laser' and 'scanner' as negative keywords. Anyone searching for 'laser printer' or 'printer scanner' would not see your printer ads.

Negative keywords improve your **ROI** because they increase the chances that a click-through to your website is relevant and therefore more likely to convert to a sale.

You can use negative keywords in either Google AdWords or Bing Ads campaigns.

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Source: 47 Insights



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# E-mail Marketing

# Use Email Marketing to Boost Sales

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- Email marketing is a great opportunity to reach your customers who opt in to be a part of your company.
- This unique tactic allows you to highlight other marketing efforts like showcasing social media, blog articles for SEO and even give email-only promotions.
- Using email marketing to highlight your company's new arrivals or industry trends help subscribers feel like they're receiving VIP access into the fashion industry.
- Segmenting your email list is a great way to build a more customized experience for your subscribers and increase the likelihood of making the sale.

## Commonly Used Email Marketing Tools:



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# Module V

## Recommendations for VI Apparel Entrepreneurs

# Companies Researched

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DPMNM

A



UpperClass OG



Legendz  
640

Kultured Caribbean Wear

# Startup Budget: Brick-and-Mortar Store

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Line Item	Budget
Inventory	\$25,000
Labor	\$18,000
Overhead	\$10,000
Rent	\$9,000
Advertising	\$6,000
Design	\$5,000
Contingency	\$9,000
<b>Total</b>	<b>\$80,000</b>

*Includes recommended 6 months of operating expenses*

# Startup Budget: Online Only

---

Line Item	Budget
Inventory	\$5,000
Overhead	\$5,000
Advertising	\$6,000
Design	\$5,000
Contingency	\$4,000
<b>Total</b>	<b>\$25,000</b>

# Tips on Improving Customer Experience

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1. Greet each customer on entry. Walk them around store. Sales focus.
2. Engage all the senses. Retail shopping is a full-body experience
  - **Hear** – soft (not loud) music appealing to clientele
  - **Sight** – use light, color and balance to guide customers through stores
  - **Touch** – allow customers to feel texture/materials. No products in plastic bags
  - **Smell** – smell is the longest lasting memory. How your store smells is part of your brand. Use this opportunity to create a lasting memory
3. Invest in signage – signs help guide customers around the store and alert them of specials, new products, etc.
4. Refresh displays and layouts – constantly. Customers get bored easily. Every shopping experience should be unique
5. Make your store social media ready. Have something unique about your store that encourages customers to post while in-house. Free advertising!
6. Utilize mannequins
7. **No cell phones when customers are in store**

# Tips to Choose a Good Factory

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- 1. What is the factory's specialty?** – Every factory has a different specialty. There is special personnel and equipment needed for different products. Ensure that the factory you are working with is proficient at dealing with the garment requested. Ask for 5 references and call everyone.
- 2. Quantity** – The order quantity will affect the ultimate price of the good. Your MOQ will determine manufacturers that are willing to work with you. Some may not consider orders smaller than 500 pieces.
- 3. Payment Terms** – These are negotiable. Some factories will accept payment when items are delivered, for small orders.
- 4. Samples** – Visit factories if you can. It's worth the hassle and time, rather than working remote from VI. Factories are willing to send you items but be mindful that they will only send out their best items. An in-person visit may reveal more. Here are quick things to check for:
  - 1. Focus more on quality/workmanship than fabric. You can always dictate fabric**
  - 2. Quality of stitching**
  - 3. Are the sleeves the same length?**
  - 4. Are the inside seams neat?**



# Tips on Partnerships

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1. Fashion collaborations can help both brands, by:
  - Expanding audience
  - Decreasing production costs (larger MOQs)
  - Creating content
  - Engaging customers
  - Create buzz
2. Choose business partnership that will not cannibalize existing sales. Note that brand collaborations do not only have to be Apparel Company x Apparel Company Y. If there is a company that is popular with your target market, approach them to see if there is an opportunity to collaborate
3. **Start slowly, with low risk for both parties and increase collaboration if early projects work well**

# Shrinkage – How to Mitigate

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1. **Continuously track inventory**
2. Implement checks and balances
  - Require bag checks for all employees at the end of each shift
  - Only allow store managers or owners to issue/process gift card purchases
3. Install anti-theft signage
4. Utilize security tags
5. Implement thoughtful store layout
  - Minimize stock kept on floor
  - Place cash register by door
6. Monitor cash management practices
  - Eliminate cash purchases, or charge a cash purchase premium
7. Monitor return policy
  - Require identification for all returns. Track abuse
8. Monitor trash removal process
9. Hire and train employees well
  - Educate employees how shrinkage affects them
10. Practice strategic staffing
11. Cultivate open culture amongst employees and customers
12. Limit inventory
13. Adopt technology – cameras, barcodes, POS, credit card machines, etc.

# Financial Tips

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1. **Raise Prices. Remember the *Anatomy of the \$25 t-shirt***
2. Sell more higher priced goods – jeans, dresses, shoes etc.
3. COGS = 35% *absolute* maximum
4. Do you really need a brick-and-mortar store? Evaluate whether you can achieve your business goals via a combination of online and pop-up shops
5. Do not pay employees minimum wage. It is bad for moral and, ultimately, you get what you pay for.
6. Utilize freight forwarders such as VI Cargo and Paradise Freight as much as possible. Utilize USPS (non-air freight). While lead times are longer, it saves to plan ahead
7. Consider starting an S-corporation to minimize taxation
8. Reduce inventory. Inventory is dead money/trapped cash
9. Sign up for Quickbooks → track financial performance daily
10. Create a budget → Predict financial outcomes
11. Invest in marketing. Professionals are better than moonlighters. 😊
12. Actively solicit consumer feedback. It's much cheaper than designing products that they don't want.

## Pricing Example

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**\$29 T-Shirt**

**x 33% COGS**

**= \$9.57 max price paid for T-shirt**

## Overhead Allocation

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**Step 1 – Gather all bills**

**Step 2 – Separate into categories and divide each by 12**

**Step 3 – Count number of items sold each year and divide by 12**

**Step 4 – Divide total from Step 2, by total from Step 3**

**Step 5 – Add each category to COGS**

*Tip: QuickBooks makes Step 2 very easy*

# Overhead Allocation - Example

	Annual	/ 12	/ 1250
Rent	\$18,000		
WAPA	\$6,000		
Labor	\$36,000		
Business License	\$2,500		
Insurance	\$4,000		

- 15,000 items sold in CY 2020
- 1,250 items per month

*Tip: always round up!*

# Pricing- Example

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	Annual
COGS	\$10.00
Rent	\$1.20
WAPA	\$0.40
Labor	\$2.40
Business License	\$0.17
Insurance	\$3.20
Shrinkage	\$2.00
<b>Subtotal</b>	<b>\$19.37</b>

Assume at least \$2 per item

# Pricing- Example (Continued)

	Annual
<b>Subtotal</b>	<b>\$19.37</b>
Credit Card Fees	\$1.00
Gross Receipt Taxes	\$1.50
Corporate Taxes	\$4.00
<b>Total</b>	<b>\$25.87</b>
Profit	\$3.13+
<b>RETAIL PRICE</b>	<b>\$29</b>

x 5% Round up to nearest \$1

x 7.5% Round up to nearest \$1

x 20% Round up to nearest \$1

Round up (or down) to nearest "9"

### Check COGS

$$\$29 \times 35\% = \$10.15$$

*Tip: \$29 price leaves room for markdowns/discounts*



# Pricing Tips

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1. **Charm Prices** – Prices ending in 9, 99 or 95 make goods appear cheaper than they really are
2. **No Cents Prices** – Sends message that consumer is at a high-end place
3. **Prices Without Dollar Signs** – Disassociate money and the good received. Use for high-end goods
4. **10 for \$10 Trick** – Make customers think they have to buy multiple items, when they don't have to
5. **Per Customer Limits** – Creates scarcity and/or illusion of price concession
6. **“Free” promotion** – Consumers love the word free, so use it liberally to entice customers. Free shipping, BOGO
7. **Innumeracy** – BOGO? Or 50% off? Consumers are turned off by math
8. **Simple Prices** – On products that are marked down, which makes it easier to do math
9. **Artificial Time Constraints** – One Day Only Sale! Manufactured scarcity
10. **Time of Day** – Bargain hunters come out during the day
11. **Visually Highlight Price Differences** – When offering a sale price, change the font size and color of the new price
  - Tip: The pricing difference should be no more than \$10
12. **Limit Options** – Too many options causes analysis paralysis
13. **Weber's Law** – A change in something is affected by how big that something was prior
  - Tip: Keep price increases under 10%
14. **Shorter is Better**
  - \$1,499.99
  - \$1,499
  - 1499

# Business Development Tips

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1. Seek mutually beneficial partnerships
2. Professional Development
  - **Attend MAGIC Fashion Apparel Trade Show every year – Las Vegas**
    - Actively seek
      - Advisors
      - Mentors
      - Suppliers
      - Business Partners
      - Investors
3. Growth
  - If you have been in business for 3+ years, grow beyond current product offering, but do it carefully
  - If you have been in business for <3 years, focus on greatness of existing business

<https://www.magicfashionevents.com>

## Remember: The Anatomy of a \$25 T-shirt

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- Loss leader pricing **only** works if the customer packs the shopping cart with other high margin goods
- If not, the entrepreneur loses

**Equivalent owner salary of  
\$11,400 per year or \$5.48 per hour**

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# Module VI

## Branding

## Special Guest: Rahshiene Taha

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Rahshiene is a strategic and creative executive with over 15+ years of experience sitting in the intersection of brand strategy, digital media, experiential, content, and culture. He most recently joined Rock The Bells as a GM/VP overseeing all Content & Experiences.

He has built global brand and content campaigns for Nike for the 2016 Olympics and Beats by Dre and PlayStation while at Anomaly. Rahshiene also has an extensive entrepreneurial background. He was previously the founder of K.O.T. Marketing Group, a Hollywood based sports and entertainment marketing firm and 7IX, 7IX, a community based experiential platform for multicultural millennial leaders.

Rahshiene received his B.A. from Stanford University in Sociology and his MBA from Northwestern University - Kellogg School of Management. He is currently serving as a Board member of the Stanford National Black Alumni Association (SNBAA). Rahshiene is a proud New Yorker but fell in love with California palm trees years ago and now calls LA his second home.

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# What Makes A Great Brand?

# What Makes a Great Brand?

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**Consistency.**  
**Distinct Point of View.**  
**Speaks to me. Makes me feel.**



*Supreme*





# Consumer Mission Vision

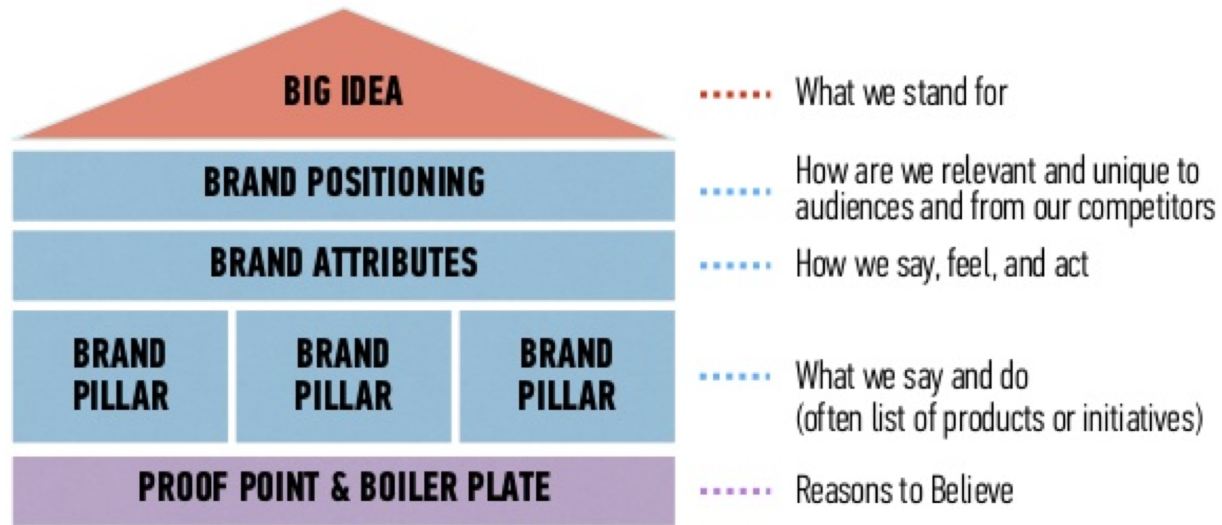
## Brand Book / Bible

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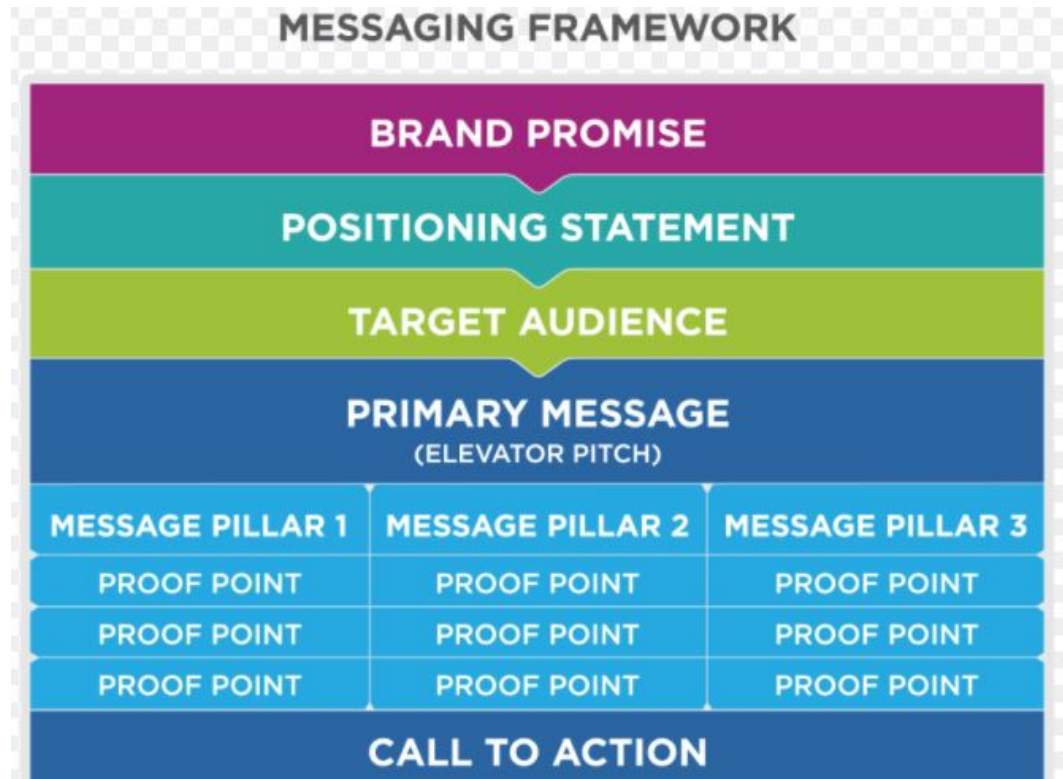
The document you give to anyone who wants to understand the essence of your brand

# Brand House

## BUILDING YOUR BRAND HOUSE



# Brand Messaging



**BRAND PROMISE**

"To be youthful and timeless at every age, you deserve skincare that works as hard as you do"

**POSITIONING STATEMENT**

Skincare that is positioned at the intersection of Lifestyle and Clinical entry.

**TARGET AUDIENCE**

Primarily women ages 25-65, HHI \$50-\$100K, follows celebrity gossip, primarily in a household with a child

**PRIMARY MESSAGE**

Ageless used to be a mindset. Now you can live without limits

<b>Message Pillar</b> Ageless Beauty	<b>Message Pillar</b> Leverage founder	<b>Message Pillar</b> Potent, powerful and effective products. Results with no downtime	<b>Message Pillar</b> Self-Love/Beauty from the inside out	<b>Message Pillar</b> Community & Inclusion
<b>Multi-generational beauty, ages "17-77"</b>	<b>Aspirational and luxurious, yet accessible</b>	<b>Innovative Ingredients/Olive complex</b>	<b>Positive Affirmations</b>	<b>Age inclusive models, influencers, ambassadors</b>
<b>"Beauty has no expiration date"</b>	<b>Aspirational and luxurious, yet accessible</b>	<b>Clinicals/Claims/B&amp;A</b>	<b>Limitlessness</b>	<b>Emphasis on connecting LatinX community</b>

## Strategy

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What you are trying to accomplish that supports your brand?

# Tactics

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How you plan on getting it done.

# Channel Strategy

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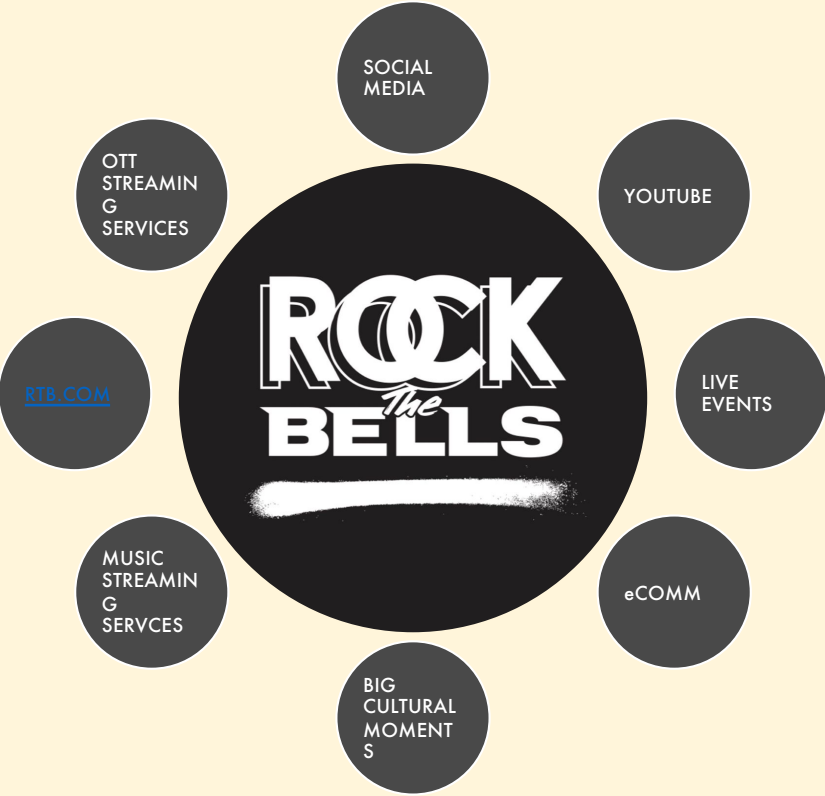


Each channel is unique. One size does not fit all.  
You must your tactics for each channel



# RTB WILL BE PRESENT WHERE THE MODERN AUDIENCE IS

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# Influencers / Ambassadors

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**Hyperlocal.  
Micro-Influencer.  
Influencer.  
Celebrity.**

# 5 Rules of Brand Building

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1. Be Specific
2. Be Authoritative
3. Be Consistent
4. Be Honest
5. Be Relentless

*Consistency, Consistently.*

# Stay Positive and Keep Working Hard

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"Only the paranoid survive." -*Andy Grove, former CEO of Intel*

"If we tried to think of a good idea, we wouldn't have been able to think of a good idea. You just have to find the solution for a problem in your own life." -*Brian Chesky, Co-founder of Airbnb*

"Ignore the hype of the startups that you see in the press. Mostly, it's a pack of lies. Half of these startups will be dead in a year. So, focus on building your business so you can be the one left standing." -*Jules Pieri, Co-founder and CEO of The Grommet*

"Your ability to attract, evaluate, and forge strong working relationships with co-founders, early employees, and investors often mean the difference between failure and success." -*Clara Shih, Co-founder of Hearsay Systems*

"Most of us want to tell our coworkers or friends, or husbands or wives, our ideas. For what reason? We want validation. But I feel ideas are most vulnerable in their infancy. Out of love and concern, friends and family give all the reasons or objections on why [you] shouldn't do it. I didn't want to risk that." -*Sara Blakely, founder of Spanx*

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." - *Warren Buffett*

"Your most unhappy customers are your greatest source of learning." - *Bill Gates*

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# Questions

# Thank You and Keep in Touch

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