



## The Decline of Fashion

### Will Fashion Spending Ever Rebound?

*By Maureen Atkinson, J.C. Williams Group*

Fashion apparel in North America has been a perennial under-performer for the past five years. As other product categories, such as home products and health care, have grown at a healthy rate, clothing has lagged behind. Four key issues that have slowed down apparel in Canada are shifting demographics, lack of innovation, changing tastes, and general deflation in the category. Canadian apparel growth rates have dipped from 7% in 1998 to 1.1% in 2002. Unfortunately for apparel retailers, the important drivers of growth are not going to turn around soon. Despite this gloomy forecast, retailers like Chico's in the U.S. are beating the odds and showing good growth.

**J.C. WILLIAMS GROUP**

**sas**<sup>TM</sup>  
*The Power to Know*<sup>®</sup>

## Background

Apparel sales accounted for \$21 billion of the \$307 billion in retail sales in 2002. Over half of these sales go to women's apparel (\$11.5 billion), with 29% spent on men's apparel (\$6 billion), and the balance on children's and other clothing. Growth rates have lagged behind total retail sales (1.1% versus 6%), and with an average annual growth rate of only 2.4%, the men's apparel industry has been hit harder than women's (7%).

The structure of apparel retail distribution has changed significantly in the last decade or so. From 1997 to 2002, unisex stores' share of apparel sales has risen from 32% to 36%. New entrants to this category, such as American Eagle Outfitters and Old Navy, have driven this growth. For general merchandise stores, including both department stores and discounters, there has been a decline from 34% to 30%. The drop is mainly due to the "softness" of the department stores, along with the demise of Eaton's. In addition, Wal-Mart has pressed this sector with lower prices.

Specialty stores in apparel distribution also have experienced market share declines, but the women's sector has held up better than the men's. Women's specialty stores still lead with 39% of women's apparel sales, albeit down from 44% in 1997. Men's specialty stores only account for 21% of men's apparel sales, down from 29%. While men's specialty stores have lost out to unisex stores (35% of sales), sporting goods stores have been effective in expanding their share of men's apparel sales (6% to 10%).

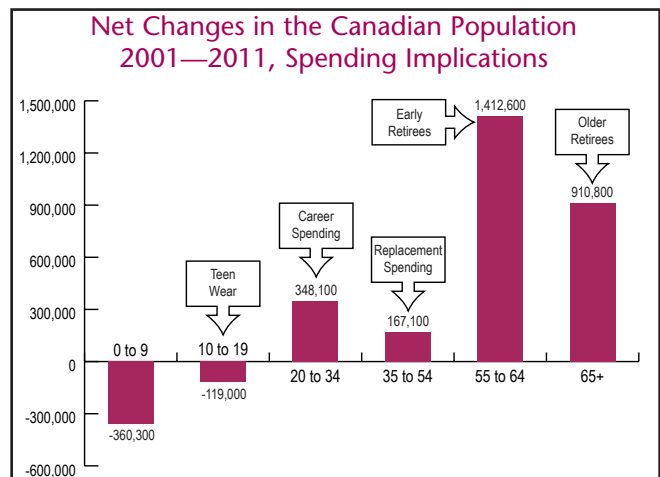
## Issues Affecting Apparel Sales

There are many theories about why Canadians are not increasing their apparel spending, yet the root cause remains elusive. Still, consumer-driven shifts, such as changing demographics and tastes, as well as industry-driven issues like lack of innovation in apparel and product deflation, play an important role.

### Demographics

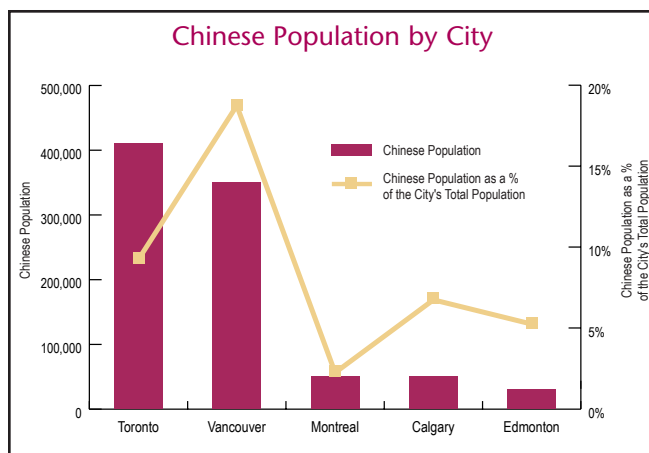
Two major shifts are happening in the Canadian consumer base: Canadians are growing older and they are becoming more racially diverse. Both of these shifts have created challenges and opportunities for all retailers, but nowhere else are these shifts more significant than in apparel.

The population growth rates shown in the following graph indicate that the greatest growth over the next five to 10 years will be in the 55 to 64 and 65+ age ranges. The younger populations are growing either modestly or, in the case of teens, declining. These changes are not good news for retailers. Average spending on both men's and women's apparel peaks in the teen years and then declines. Older Canadians spend significantly less on apparel; only 90%\* of the total Canadian average for those 55 to 64 years, and 80%\* of the average for those 65 years and older. Not surprising, Canadians' interest in fashion drops in tandem with expenditures on apparel.



\* Source: Print Measurement Bureau

While the aging demographics in Canada may paint a dismal picture for the future of apparel retailers, Canada's changing ethnicity is somewhat more comforting. Asian immigration has dramatically increased, with significant Asian populations in the larger cities. (See the graph below.) Although Asians do not spend excessively on apparel (4%-10% over the Canadian average\*), they are more interested in fashion than the average Canadian (+15%). This interest suggests an opportunity for the industry at a time when other demographics are moving in the wrong direction.



### Changing Tastes

Through the 1990s, changing attitudes towards fashion and dressing has led to lower growth rates. Men's apparel has been particularly hard hit due to the "casualization" of work clothing. Less expensive sportswear items, like khaki pants, have replaced higher priced suits in men's wardrobes. Skin-tight clothes for women have become the fashion at a time when more Canadians are growing older and heavier.

In the J.C. Williams Group National Retail Report\*, the number of Canadians who said they kept abreast of changes in fashion has dropped consistently through the late 1990s. At the same time, Canadians' impression of their sophistication level has increased. This suggests that fashion has

declined as a measure of sophistication, replaced by travel or other activities like wine collecting. This is not good news for clothing retailers.

### Lack of Innovation

Although harder to track than changes like demographics, lack of innovation in fashion has led to a feeling among consumers that they do not need to buy. The prevalence of basics in stores at all price-point levels makes shopping for clothing supremely boring.

### Deflation

In general, most retail goods have experienced strong deflationary pressure. The price of clothing decreased .8% in 2002 and 1.8% in 2003. This deflation has two root causes. First is the different mix of apparel being sold; fashion for both men and women has moved from more expensive structured garments, such as suits, to less expensive unstructured pieces. Second, the entry of Wal-Mart into the Canadian market has demanded that all retailers re-evaluate their pricing structures. This deflation has created problems for manufacturers and retailers who must sell more items just to maintain their current sales volumes. Deflation or very low inflation rates in apparel is expected to continue as more manufacturers move offshore and retailers fight for their share of a stagnant market.

### The Future

Is there hope for apparel retailers in Canada? The answer is a resounding... maybe!

On the down side, many of the issues described here will continue to challenge retailers. In particular, deflation and the aging population are expected to continue for the foreseeable future. Deflation will persist in the apparel sector as chains like Zara and H&M enter and expand in Canada. Wal-Mart will also keep pressure on costs.

\* Source: Print Measurement Bureau

On the positive side, there are opportunities for retailers who think creatively. While most retailers have staked out the higher spending 20-somethings, no one seems to be interested in bringing wearable fashion to the burgeoning plus-40 market. A model for success with this group can be found south of the border: Chico's, a chain of women's apparel stores that targets women 40 to 60 years of age, has had phenomenal success while the rest of the apparel market stumbles. Its formula is a combination of mostly basic pieces and some colourful statement items, all designed to flatter spreading figures.

Chico's sales have grown from \$106 million in 1998 to \$531 million in 2002. It is also enormously profitable with net income rising from \$9 million to \$67 million in the same period.

In addition to the opportunities with older Canadians, retailers should be looking at opportunities with new Canadians. The financial services industry has led the way here. Banks have made a point of participating in ethnic communities with special products and use of the local language.

This is a publication of

**J.C. WILLIAMS GROUP**

17 Dundonald St., 3rd Floor, Toronto, Ontario M4Y 1K3  
Tel: (416)921-4181 Fax: (416)921-4184

Chicago Office:  
350 West Hubbard Street, Suite 240, Chicago, Illinois 60610  
Tel: (312)673-1254 Fax: (312)822-9162

Website: [www.jcwg.com](http://www.jcwg.com) e-mail: [info@jcwg.com](mailto:info@jcwg.com)

Sponsored by

  
*The Power to Know.*

BCE Place, 181 Bay Street, Suite 2220, PO Box 819  
Toronto, Ontario M5J 2T3  
Tel: (416)363-4424 Fax: (416)363-5399

Website: [www.sas.com/canada](http://www.sas.com/canada)