

The Business of Fashion

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## CEO Talk | Brian Hill, Chief Executive Officer, Aritzia

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*Brian Hill, Chief Executive Officer, Aritzia*

VANCOUVER, Canada — Vancouver may be far away from the traditional centres of the fashion world, but in recent years this laid-back Canadian city has produced two fashion success stories that are taking the North American market by storm. The first, of course, is Lululemon. The second is Aritzia, a vertically-integrated fashion chain targeted at 15-30 year old women with a penchant for style and the disposable income to buy it.

The company seems to have hit its mark. With over \$200m in sales and more than 40 stores, some of which are said to approach a whopping \$2000 in sales per square foot (reportedly four times the industry average), Aritzia is one of the top performing retail chains around. The company's recent U.S expansion has been fueled in part by an injection of capital from Berkshire Partners, the Boston-based private equity firm which took a majority stake in the business in late 2005.

Reached at his Boston office by email, Josh Lutzker, a Principal at Berkshire Partners explains: “[we] invested in Aritzia because of the strength of the management team, led by Brian Hill, and because of Aritzia’s outstanding position in the market. Aritzia’s connection with its consumers, the strength of its product design and its excellence in store design and retail operations have all led to very strong retail economics and a unique opportunity for growth.”

As Aritzia celebrates its 25th anniversary and Vancouver enters the global spotlight of the 2010 Winter Olympics, I sat down with Brian Hill at the company's headquarters in the city's industrial East side to learn about the retail model that has everybody talking.

**BoF: Tell us a bit about the history of Aritzia and how you first started in the fashion business.**

I grew up immersed in my father's business, and my grandfather's business. My grandfather was a senior executive at the Hudson's Bay Company, one of the oldest companies in the world, and my father started Hills of Kerrisdale, a high-end retail store in Vancouver. So, I guess you could say retail is in my blood.

Back in 1984 I saw a market opportunity, somewhere in between the luxury market and the junior market in women's fashion, for young women who have significant disposable income, but don't want disposable clothes. These young women were seeking the experience of a boutique but didn't really have access to it. I opened the first Artizia in a mall in an affluent Vancouver suburb and we slowly grew from there. The first and second stores did okay, and by the third store we started gaining real momentum. Soon we had five stores in Vancouver. Today those same stores have amongst the highest sales per square foot of any retailer in North America.

In the late nineties we decided to expand nationally. It was clear at that point that we had the foundation for a great retail chain, but in order to step up to the next level we needed to get the back end of our business in order. We wanted to automate our point-of-sale software, vertically manufacture our own product, standardise our administrative and operating procedures and revamp our concept. It was a lot of work, but we succeeded and the concept clicked right away, especially in Toronto.

**BoF: Expanding within Canada was one thing, but you have now taken Aritzia to the U.S. as well. How did you make the leap?**

Well, first of all we needed to sort out the financing. If I financed the whole thing myself, it would have meant putting everything on the line again, something I have had to do over and over again in building Artizia. It was time for me to take some money off the table and find a financial partner.

We decided to go with Berkshire Partners who took a majority stake in the business. We just clicked with them from the start. Over the years, I've learned to trust my instincts and everything about Berkshire felt right. We really see eye to eye. They let us run the business and we turn to them when we need their expertise and support. It works very well.

**BoF: What have you found to be the biggest differences between the Canadian and American fashion markets?**

We've been finding the U.S. a bit more challenging, not least because the timing of our U.S. launch coincided with the global recession. But, we're still in the top quartile of industry sales performance in our U.S. stores and are confident in the long-term opportunity.

That said, there are important differences between these markets and we have found that we need to adapt our approach to address the diversity of the U.S market — its climates, its cultures. We are doing a lot more research in the U.S. to really understand what consumers want; you really have to tweak your model to match the specific market you are in, understand the other players, adapt your assortment to the local climate, and on and on. Thankfully our business model, with our multi-brand assortment, allows us that flexibility to be responsive to the customer.

**BoF: You mentioned earlier that you have moved to more of a vertically-integrated model for Aritzia and even have sub-brands such as TNA which have their own stores. What was the rationale for this approach?**

We do design, pattern-making and product development all from our Vancouver head office, and then we manage production ourselves at factories all over the world. Most people would think we did this for the higher margins, which of course is a benefit in a vertically integrated model, but our main rationale for this is to ensure that we have the product that we know our customers want and are able to respond quickly to customer demand. Regardless of whether your margin is 50 points or 70 points, if you don't have what consumers want, it doesn't matter what your margins are. And because we are able to react to sales much more quickly, bolstered by real-time data from our POS software, we are able to achieve exceptional results.

**BoF: While more than 70 percent of your revenues comes from own-label product, you do carry many Contemporary brands as well. Why do you think this market is suffering at the moment?**

I think it comes down to the shopping experience. True luxury has a better product, but also a better shopping experience. And while Contemporary brands may have adopted design and marketing approaches from luxury, the shopping experience for Contemporary brands feels more mass market. This is why we're so bullish on Aritzia in the USA. Not only is our supply chain model more efficient, we pride ourselves on our expertise in providing an excellent shopping experience, with well-trained staff in great stores. This makes a huge difference for us.

**BoF: No Vancouver interview would be complete without mention of the 2010 Winter Olympics this coming February. How is Aritzia participating in the festivities?**

Using our internal design team, we are designing the clothes for the medal awards presentations and we are an official licensee, designing and manufacturing Olympic-themed merchandise for our stores under the label Park Life for Aritzia. It's a great opportunity for Aritzia to be part of a preeminent event in Vancouver's history.

Imran Amed is Editor of The Business of Fashion.