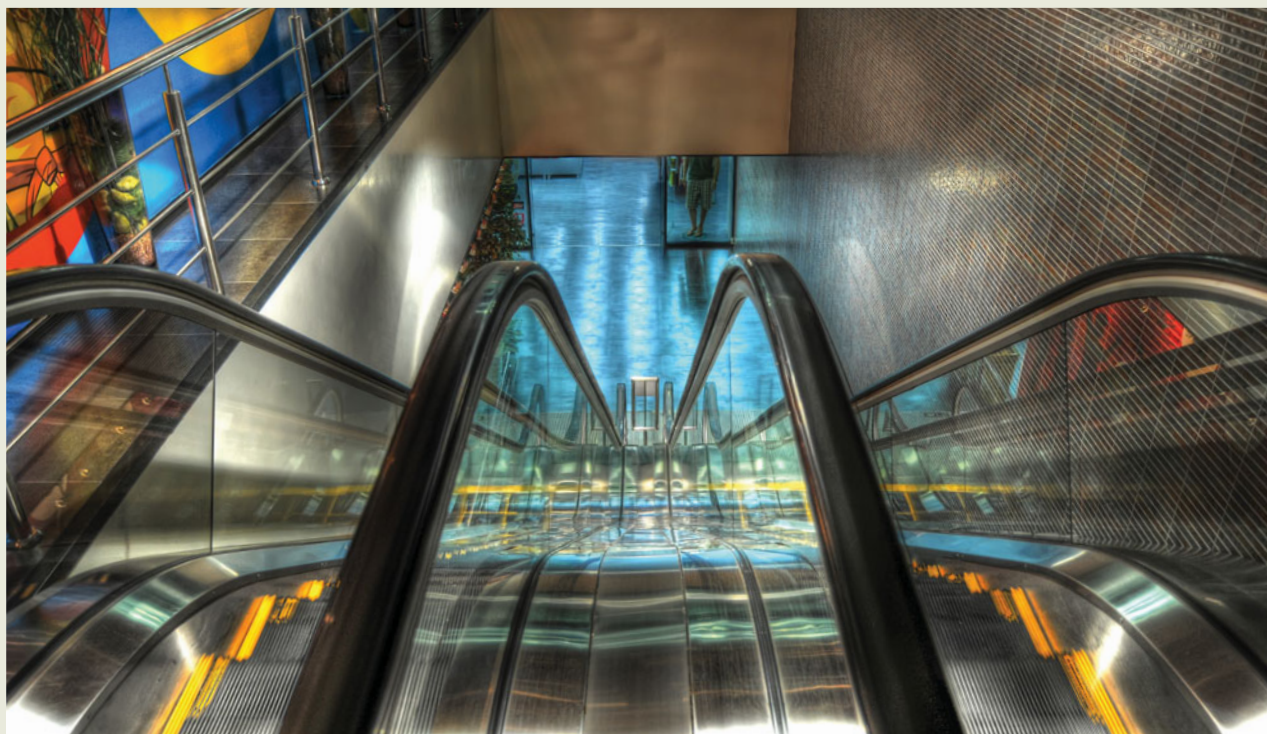


Specialty Retail Feels New Competition Over the Horizon



Though still young, the companies Stio and Kuui seek to pull the double margin sword from the retail stone and sell product directly in response to their customers. This alone isn't so unusual; however, both these companies are headed by former B2B enthusiasts who have spent years polishing their new merchant models.

Kuui was started by Jason Hairston, who sums up the inspiration in starting this 'hard mountain hunting' brand on the company's website;

"From my experience at Sitka I knew this idea wasn't viable or realistic within the existing retail model... So I thought, why not bypass the retailer, why not take the middle-man out of the process and move everything one step closer to the customer. By selling online direct we could make the best products, keep the prices down and manage, to our standards, every aspect of the customer experience."

But the brand's secret is its total transparency and extensive blogging effort. Kuui has in effect crowd sourced its apparel design, and in the

process created a community of product champions;

"Eventually I started writing about researching and designing specific pieces in the line. (and) more and more I started directly asking people for their opinions about specific things... What did they want? Hoods, yes or no? PrimaLoft vs. down?"

"...I decided that I'm going to share everything with the KUIU customer. I'm going to tell them as much as I know about the products, as much as I know about the fabrics, and as much as I can share about who makes each product and where they come from... I want to invite the customer in and share what's happening, from the insider perspective."

No surprise, the product is often pre-sold. The company blogs the arrival dates of different styles and the internet faithful send in their orders;

Stio also looks to build a community, but they are creating a brick and mortar clubhouse instead of a virtual one. Stephen Sullivan,

co-founder of Cloudveil, is operating Stio from a modest store front in Jackson Hole where the company will deliver a web/catalog/specialty experience. He clearly sees their advantage;

"I honestly think we'll set ourselves apart by being ourselves. Living here in Jackson we are intimately a part of the fabric of the outdoor world, and try as many companies have, you just can't manufacture that. We're just some good folks making some good clothes for good people."

We used to call that, 'being for real', and I believe Gerry and Holubar had very much the same formula in the 1960's (minus the web presence). In this case I think Sullivan also sees the modern challenge:

"The biggest hurdle... is achieving brand exposure without the benefit of the wholesale channel, and importantly, getting the business to some measure of scale and cash flow in short order. The business will live or die based on our ability to produce great product

and show that we have a unique brand position in the marketplace."

For both companies the fuel for this distribution model comes from a healthy single gross margin. The irony is that the market price, being inflated by the double margin, B2B system, is what makes their direct product look so competitive. That fattened, normal-old-retail margin is what these companies fight against while preying upon, and sooner or later, these sell-direct Robin Hoods will have to become progressive, or efficient, or, dare I say it, make their product in the United States. But for now, they decimate the standard price structure in the marketplace.

The most vulnerable traditionalists are those big retailers; the REI's and Cabela's of the world, where the extra margin dollars buy the customer almost nothing. The enthusiasts, i.e. the people who know better, will leave the old guard big boxes in droves for internet companies like these that are nimble, attentive and authentic. The last time that happened, the core of a new industry was formed.

The brands like Stio and Kuui emerge with a distinct twist. Instead of being the price driven knock-offs that pundits predicted, the new specialty brands do the unexpected, they connect with their customers and create a community. The immediacy of this relationship can't be reproduced by a company with a rep force that shows buyers their me-too product again and again in order to satisfy a product cycle that takes forever by today's standards. Rather, it is being created with intent, by putting the mutual respect between customer and brand at the forefront of the company's product mission. The benefits of price and delivery follow far behind this basic human need.