



Q&A With the Hermes Group's Uwe Bald

Hermes Group may be the largest full-service fashion supply-chain company you have never heard of, but that is likely because you are not in Europe. Europeans have long understood the power and prowess of Hermes' parent company, the Otto Group—the juggernaut of the late extraordinary entrepreneur Werner Otto—which, among other things, is the largest fashion e-tailer in Europe and second largest B2C e-tailer in the world behind Amazon.

Hermes was originally set up in 1972 by Otto as a delivery service, a better alternative to the German national postal system. Today, Hermes comprises eleven companies worldwide, whose services cover the entire value chain, from global product sourcing and testing to quality control, transport logistics, fulfillment, and distribution—the only company to do so worldwide.

In recent years, Hermes has turned its considerable expertise to e-commerce, providing end-to-end services for retailers and brands who would like to enter the European e-tail and retail market. After dominating the Continent for decades, Hermes has turned its eye to the West, establishing in 2013 offices in New York, Chicago, and Los Angeles under the direction of Uwe Bald, vice president, international business relations. We caught up with Bald at his Los Angeles office.

Q: What brings you to the U.S.?

Uwe Bald: We're here to expand our activities. Fifty percent of the fashion business that has international potential at this point is headquartered in the U.S. We realized we weren't engaging with them well enough. We want to engage with U.S. brands to help them to expand internationally. We also find that there are very established companies in Europe for which we run e-commerce that have very little exposure in the U.S., so we are helping them to break in here.

Q: How difficult is it for an American company to set up shop in Europe?

U.B.: First of all, Europe is not one market. It's a misperception. The EU is a common market, but you still deal with 28 different countries, 17 different languages, different currencies, because not everyone participates in the euro. Each has different customs and regulations, different competitive environments. It takes a lot of knowledge to be successful in those markets.

Q: What are some of the biggest differences between doing business here and there?

U.B.: Many things would surprise American companies. Shopping behavior is different. For example, credit cards are not as popular in Europe as in the U.S. There are different payment methods that are more locally based—different payment cards in different markets, and people only will pay with those cards. If you don't offer those local cards in your online store, you miss out.

Also, e-commerce is done with an open in-

voice. Here, you pay upfront for what you order with a credit card. There, you only pay for what you keep. Return rates are typically higher than in the U.S. In Germany, for example, we have up to a 50 percent return rate. People will order a number of different sizes and keep the one that fits. Then they are billed. That is something to account for when you are doing business.

Q: Who is paying for all those returns?

U.B.: Well, it was different in every country, but, generally, you had the legal right to return a product free of charge within a week or up to three weeks. There is a new European Union directive that took effect June 1, 2014, that allows retailers to charge for the returns. But a lot of retailers will not charge even with the directive, so it's not expected a lot will change.

Q: How is Hermes positioned to help American brands make the leap?

U.B.: It's a combination of being able to support the B2B expansion into retail, as well as the B2C side of it. We are the largest player in the market, we are a local player, we have the capabilities that no one else has. There are two streams. On one hand, we have market-entrance solutions, which we offer under Keen On Fashion. We created Europe's largest fashion B2B marketplace and can become their agency, with access to distribute to markets in Europe, access to European retailers. Then, of course, as part of a marketing package, we represent those brands at European trade shows. We're a long time in the market and work with the best resources. We sell the product through local marketplaces that U.S. companies haven't heard of. We offer order management technology for B2B. We can support them with establishing flagship stores in prime locations, shop-in-shop stores, and B2C (full service e-commerce). Everyone needs a different formula to be successful in those markets. Unless your product is really unique, you have to have a presence in the stores to build brand recognition. If no one knows you exist, you can't sell online. All of that is the market-entry side.

On the other side, as a service company under Hermes, we support all the functions along the value chain of a fashion brand. Hermes is the second largest apparel sourcing organization, with 23 offices and 1,800 people working around the world. We have a network of quality-control labs that do analytical testing of apparel products, and verifying market compliance, since different markets require different tests. We support all logistics functions

to get the product from the sourcing market to the destination market. We also do warehousing fulfillment and returns management. We have the largest automated returns warehouse on the planet. In Germany, it runs 60 million returns a year. The slogan of Hermes is: You Dream It Up, Hermes Makes It Happen.

Q: What size company are you looking for as a fit for Hermes' diverse services and market-entry solutions?

U.B.: For market-entrance solutions, we are targeting, in general, companies that have sales volumes of at least \$50 million in revenue.

Q: Is there a difference between how a Los Angeles brand enters the European market and how, say, a New York brand does it?

U.B.: Absolutely. New York has high fashion, Los Angeles has contemporary fashion. We see more success with West Coast brands. The typical brand out of New York, you really have to build the brand overseas, because it is more similar to what is available in Europe. West Coast fashion is unique. It almost sells by itself. The hype can be created around the product, it's not necessary to have the brand first. The product itself is the brand. We can service the placement of product into the right stores in the right cities, or establish a flagship in an important fashion area, or run their European e-commerce.

Q: Who are some of your American clients?

U.B.: Hermes is already working successfully together with many international distance sellers such as QVC, Guthy Renker, Lands' End, and Bombay to name a few.

Q: What do you say to potential clients that sells them on Hermes?

U.B.: It's our long history, our market-entrance concepts, it's the capability of providing a brand with the best resources in the market. At the same time, we are a service company, with a parent company that has a very good understanding of retail. And we're doing it on a very big scale. Nobody can scale apparel businesses like we can. Expertise, proof of concepts, and scalability—that is what Hermes has to offer.



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