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FELIX SALZMAN

Connie Lim

The worlds of art and fashion collided at the "Line of Style" fashion illustration exhibit. Fashion designer and illustrator Connie Lim's artwork came to life in the form of a runway show featuring dark pieces with intricate detailing of oversize ruffles and layers. For more from the exhibit, see page 8.

Under a New Business Model, Chip & Pepper Debuts Licensed Apparel

By Deborah Belgum *Senior Editor*

Chip and Pepper, the identical twins who parlayed their electrically charged personalities into a premium-denim brand name, have finally gotten separate offices and their own companies after more than 23 years of working together side by side.

In some ways it's a split. In other ways it's not.

No matter how you look at it, the two are still involved in denim, just with different business models as their recipe for success.

Pepper Foster, who is 55 seconds older than Chip and the calmer of the hyperactive duo, recently partnered with his father-in-law, Charles Perez, to form **Venice Intelligence**. Perez is an apparel veteran, having co-founded Los Angeles manufacturer and licensee **Paul Davril Inc.** in 1974.

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Industry Focus: Finance

Signs of Improvement, but Caution Remains Key for 2010

By Deborah Belgum *Senior Editor*

Retailers and apparel manufacturers have been scrutinizing the U.S. economy for nearly two years, searching for signs of life.

Retailers reported strong sales in March (see related story, page 4), but mixed economic indicators cloud the long-term forecast.

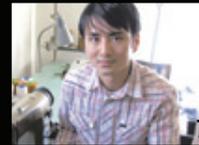
Hints of improvement began popping up late last year and continue at a steady but slow pace this year with unemployment remaining stubbornly high. In February, California had the country's fourth-highest unemployment rate, at 12.5 percent, surpassed only by Michigan, Nevada and Rhode Island and tied with South Carolina.

Things improved slightly in Los Angeles County, which

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Garber Tapped to Lead First Capital's West Coast Office

First Capital has promoted Ron Garber to executive vice president and Western regional division manager of the commercial lender's Los Angeles office.

Previously, Garber was senior vice president and factoring portfolio manager for First Capital.

With more than 40 years of experience in the finance industry, Garber is a director and chairman of the **Commercial Finance Conference of California** and a member of **The Professional Club of Southern California** and the **Commercial Finance Association**.

Based in Boca Raton, Fla., First Capital provides secured lending, credit protection and outsourcing. In addition to its Florida headquarters and its Los Angeles office, the company has offices in New York, Atlanta and Oklahoma City and has subsidiaries in the Philippines and Hong Kong. For more information, visit www.firstcapital.com.—Alison A. Nieder

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active. But a brand has to be of a certain size before they can successfully license. Otherwise no one will buy their licensed sunglasses, handbags and shoes.



Sunnie Kim
President and chief executive officer, Hana Financial Inc.

How tight is credit for retail stores now, and how are apparel manufacturers dealing with it?

On the positive side, the good news is that liquidity is improving for 2010. This year, I believe that we will see secured lenders providing more creative ways to finance their customers' business and will attempt to provide enough flexibility so their customers can get through 2010. I don't expect to see the wave of bankruptcies we saw in the prior two years.

While there seems to be some optimism out in the marketplace presently, the caution flag is still out.



Dave Reza
Senior vice president, Milberg Factors Inc.

How tight is credit for retail stores now, and how are apparel manufacturers dealing with it?

As retail performance has improved, credit has opened up. The biggest challenge is trying to maintain sales with substantially less doors to sell. The good news is that in the last three or four months, our clients are seeing a lot more activity, more orders and better retail sell-through. This all leads to more replenishment and more program sales. We are still a ways away from pre-2008 sales numbers, but we are optimistic about the current trends.



Ken Wengrod
President FTC Commercial Corp.

How tight is credit for retail stores now, and how are apparel manufacturers dealing with it?

The retail industry is a case-by-case study. For example, **The Buckle** is doing exceptionally well. They can get the credit they need to support themselves. But if a retailer is not doing well, it is going to be tougher for them.

Good people will continue to get the credit that they need. It is the marginal accounts that are struggling.

Suppliers and factors will continue to

support the people who warrant it. But let's not talk just about bricks-and-mortar stores. Apparel is a shifting market that is going more online.

The other thing is that you are seeing more requests in terms of guaranteed sales, which is called "swapping." For example, if a manufacturer ships 10,000 of a certain style and it doesn't move, the retailer sends it back and swaps it for new goods. Manufacturers are also setting up shops within shops in department stores, which is what the cosmetics section has been doing all along. With the space that is available, it gives newness and freshness to a department store.

Retailers are looking at export sales, not only in Europe but China and India. This is a new, open market.



Nick Hart
Regional managing director, Bibby Financial Services Inc.

How tight is credit for retail stores now, and how are apparel manufacturers dealing with it?

Credit has eased a little, and I think a degree of confidence has returned now that the winter holiday season has washed through. Retailers have adjusted their inventory levels, changed product lines and adjusted price points in conjunction with their suppliers. The post-holiday season's cash reserves have been assessed, and restructuring has either been done or is underway.

As a result there is more confidence in the credit situation. Insurance companies insuring receivables are opening up lines again now that they are comfortable with their own retail exposures. However, coverage on large exposures is still hard to come by if there is a high concentration in the ledger.

Manufacturers have to be aware that business is more than ever a combination of working hard with retailers to hit the required markets and price points and also ensuring that they are able to finance the sales. It is no longer a given that finance will be available for all businesses and unlimited credit available on major stores.

Manufacturers should work with their financier ahead of peak requirements to understand the dynamics involved and what they can do jointly to maximize available funds. Always consider a worst-case scenario and have an emergency action plan to cope with it. A financier will feel a lot more confident if they know the client has thought through a variety of business outcomes in their planning.

In summary, the market has improved, orders are up and manufacturers that have dealt with their structural issues are cautiously optimistic. ●

Chip & Pepper *Continued from page 1*

(He closed it in 2008.)

The formula behind Venice Intelligence is to license the **Chip & Pepper** label in the United States for anything from shirts and sunglasses to surf boards and sneakers. Recently, Venice Intelligence, whose offices are in the Los Angeles seaside community of Venice, unveiled its new Fall 2010 collection of denim, T-shirts and woven shirts licensed to **Makers USA** in Los Angeles.

Chip Foster, who says he is a "true denim guy," is still manufacturing clothes with his **Lake Capital** company, located a mere five blocks from his brother's office. He is responsible for the merchandise that fills the one Chip & Pepper store left in Canada and others to follow. He also has the licensing rights to Japan, New Zealand, Canada and Australia. In addition, he has the **Mill Iron** label with **The Buckle** chain of stores. Profits from Lake Capital stay with Chip, and profits from Venice Intelligence remain with Pepper and his crew. However, an umbrella company called **VPC** owns all the Chip & Pepper brands worldwide. Partners in VPC are Perez and the twins.

The new business model and divisions come after the economic downturn put a crimp on the premium-denim business. Many companies saw their sales fall and credit tighten.

Last December, a Los Angeles Superior Court lawsuit filed by Richard Koral, an off-price seller of branded apparel goods, sought repayment of a \$2 million loan made in 2007 to **L.A. Lab Inc.**, parent company of the old Chip & Pepper manufacturing venture. While Koral did not return calls for comment, the 46-year-old Canadian twins said the issue has been resolved.

Brand extension

With apparel companies having a harder time producing profits, the licensing model seemed the best direction for the blonde twins, who have done everything from host their own cartoon show on **NBC** to launch a store on Melrose Avenue called **Golf Punk**. They are following in the footsteps of other Los Angeles brand names, such as **Mossimo** and **Cherokee**, that gave up manufacturing for lucrative licensing deals with **Target Corp.** and mid-range retail chains.

A few years ago, Chip & Pepper extended its brand name by offering moderately priced **C7P** jeans at **JCPenney**. That line is no longer offered, but they still supply **Foster** jeans for \$44 to misses customers at the mid-tier retail chain.

"We have never taken advantage of our brand, Chip & Pepper, and now we are going to the next level," Chip said.

Chip & Pepper's old offices were in Vernon, Calif., the industrial area that is home to several large apparel companies as well as other businesses. The brothers worked in an industrial neighborhood ever since they formed their denim company in 2003. But with a new direction comes new goals—and new digs.

Inside his new offices, fashioned from a recently constructed two-bedroom loft-style apartment on Abbot Kinney Boulevard, Chip hunkers down with a compact team of long-time collaborators. "I like making clothes for the boutiques, and, on their side, they want to extend the brand," Chip explained.

From the third-story balcony, which stretches the length of the office/apartment, there is a postcard view of the Santa Monica Mountains and the Hollywood sign. Chip is quite taken with the view and points out the Hollywood sign. "Look, you can see the Hollywood sign," he gushes three times in one hour after sitting on a kitchen counter and continuously swinging his legs back and forth.

Down the road, Pepper's offices, also on Abbot Kinney Boulevard, are a tad more commercial but with an artistic flair. Open ceilings and well-placed windows let in an abundance of light. This is the nerve center for the licensing operation. "I'm pretty pumped up about what we are doing," Pepper said. "I would rather do what we do best, design and marketing, and let someone else ship the goods."

Head of licensing is Tadd Zarubica, a former partner in **Denim of Virtue**, who said the company will be looking for deals in several categories. "There are so many products that can be licensed, from hunting gear to outdoor lifestyle to beachwear to



DOUBLE VISION: Chip and Pepper Foster are moving into a new business model for their brand.

towels, and none of that could be done while managing a denim business," Zarubica said. Two licenses are pending for footwear and childrenswear.

Licensing is a great way to grow a brand if done in the right way, said Meyer Janet, president of **Design Plus**, a company in Atlanta that builds brands through licensing. "You need for your brand to be iconic or have some sort of unique selling proposition that is an emotional trigger for the consumers," Janet said, noting that **Juicy Couture** has been one of the more stellar branding success stories recently. However, over-extending the brand to things such as car fresheners can have a detrimental effect.

Right now, Chip & Pepper has one license with **Makers USA**, which recently produced the Fall 2010 collection of basics with lower price points than last year. "We tried to fit the brand into new price points of \$110 to \$130 [retail] instead of \$175 to \$200," Zarubica said.

The pared-down collection consists of skinny jeans, T-shirts with graphics and woven shirts. One of the best-selling items so far has been the skinny cargo for women, a skinny jean with cargo pockets on the side, said Melinda Lima, who represents the line at the **Nine O Seven** showroom in **The New Mart**. Also popular is the moto look, which incorporates cross-stitching at the knees and elsewhere, replicating motorcycle wear.

Chip and Pepper still guide the design direction for the label, but Chip admits that Pepper and Perez have a little more influence than he does. "I don't have total control on what they do. If they want to make polka-dot pants and I don't like polka dots, it is up to them. My brother has 100 percent approval rights of what goes in and out of there," he said. "So if anything goes out crazy, we'll just blame Pepper." ●