Acquire or Inspire

Travel Goods Suppliers Join Forces in the Age of Consolidation

BY SARA ECCLESINE

Mergers, acquisitions, partnerships and industry consolidation are a fascinating and unnerving part of today's global economy. In the last decade, we in the travel goods industry have tracked the number of domestic U.S. airlines as they went from 18 carriers to 10. Four of the remaining airlines (American, United, Delta and Southwest) now make up 80% of domestic capacity. The remaining six regional (Alaska, JetBlue, Hawaiian) and budget carriers (Spirit, Frontier, Allegiant) each command less than 5% of the market. While the smaller players may reshuffle, most experts believe that no additional mergers are possible for the big four carriers without violating anti-trust regulations. This, to everyone's best guess, is the final, mature form of the airline industry, post-consolidation – and we all watched it take shape.

But the airline industry is not the travel goods indus-

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try, even if we feel like close cousins. Looking around our industry, it's clear that some supplier consolidation is occurring (and has been going on for a while), side-by-side with more unusual and creative partnerships. This places us squarely in line with the rest of the global economy, which has seen a surge in mergers and acquisitions (M&A). According to a *Forbes* article, "The 4 Biggest Trends in Mergers and Acquisitions for 2017," 2015 was the largest year on record for M&A, with 2016 following as the third largest year on record. The record for most mergers in a month was set in October of 2016.

While it's widely believed that all mature industries go through a consolidation phase (as with the airline industry), what is driving this current cross-industry international trend? The largest factor is also the simplest: *because they can*. Companies that survived the recession have been conservatively stockpiling cash. But now that the economy feels more stable and interest rates remain low, executives are looking to put that money into circulation. How much money? Cash balances for the S&P 500 (excluding financial companies) were widely estimated to be at $1.5 trillion at the beginning of 2017. In an informative survey of 1,000 corporate executives conducted by Deloitte, "M&A Trends Report 2016, Year-End Edition," respondents detail their motivation, strategy and plans for 2017. Executives at 65% of the companies surveyed said their cash reserves have increased, up from 58% at the end of the second quarter of 2016. With those increasing war chests, 75% forecast more deal activity, and 64% believe deal size will also be larger. What is driving these deals? Predictably, expanding and diversifying products and services is the number one reason for M&A activity, at 22%. Right behind it, 19% report technology acquisition as their primary driver, up from 7% in 2015. Also at 19%, executives hope to expand their customer base in a specific, strategically important geographic location. Talent acquisition comes in at 8%, a number that has doubled from the previous year.

While international business trends are fascinating to study, they don't necessarily apply to our industry, or predict our future. We're a mature industry with a twist, where new technology, traveler and airline requirements have the power to shake up the status quo. And while our industry has seen its share of traditional M&A activity, travel goods companies seem unusually partnership-oriented. Whether it's expansion and diversification or technology and talent acquisition, our industry is full of creative collaborations that are successfully achieving M&A goals – without the merger or acquisition.

LifeGear stays fresh and relevant with a dual strategy of growing their own LiteGear collection and development deals with inventive partner brands such as A-STAND.

Mutually Assured Success

While many people in the travel goods industry know Magi Raible, not everyone knows that LifeGear Design was originally conceived as a quiet, low-profile, private-label design and sourcing company. After founding LifeGear in the summer of 2013, Raible stuck to her private-label plan for only a matter of weeks. Then a successful sales pitch to TravelSmith became a gear bag featured on the cover of the *2014 TravelSmith Gear Guide Summer Insert*, which in turn inspired a collection, which only six months later was launched at The 2014 International Travel Goods Show.

Raible credits part of her success with seeing unmet market demand at a middle price point for lightweight, recycled-fabric bags. She was one of the first to identify and design specifically for personal-item requirements and under-the-seat space, so as budget airlines began charging for a carry-on, travelers could beat the system. Raible describes that first Show in 2014, when "people were thanking me for developing the products their customers wanted. It was an incredible feeling, getting hugged and getting orders at the same time." Perhaps as important as finding a niche in the marketplace, Raible's career at The North Face and Kiva gave her 30 years of innovation inspiration to draw on, working with materials, fabrics and engineering techniques found in the outdoor industry but not in the travel industry. Talking to Raible does give the sense that her restless curiosity could find inspiration from any source: "One day I got into a conversation with the phone-repair guy about his tool bag. I took pictures, and I can see a personal item we can develop out of that."

Raible has continued to fuel the success of LifeGear with unconventional inspiration from development partnerships. Private label projects in the last year include an L.A.-inspired luggage collection produced in Italy, an anti-theft tote bag, and a fashionable millennial-focused collection of casual acid-wash denim, canvas and leather bags. LifeGear was also responsible for the first production runs for

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industry newbie and 2015 Buzz Award winner ShelfPack by McKaba Luggage, and also introduced a fledgling Aero-Tray (now A-STAND) to factories and helped them with distribution. Last year LifeGear signed an agreement to distribute high-technology luggage brand Numinous London™. While development projects provide inspiration and a diversified income stream, as these partnerships evolve LifeGear receives the very benefits sought by the executives in the Deloitte survey: diversification, new technology, and access to new markets and talent. Finding the benefits of M&As in relationships that are closer to friendship than marriage is possible because Raible is able to look at these relationships more creatively. As Raible reports: "Return on my investment is good, but it's not merely financial, it's in the form of knowledge, technical know-how, shared talent and connections. The knowledge flow is not one-way, these are mutually beneficial partnerships."

A Winning Partnership Plan

LCI Brands got its start in the travel goods industry in 1971, with the production of a wheeled luggage trolley. Since those early years, LCI Brands has developed a full accessory line, changed ownership, introduced the Lewis N. Clark® brand name, began offering a private label and product development service, and started distributing partner accessory brands. Throughout its evolution, LCI Brands has stayed focused on becoming a complete supplier of travel goods accessories.

In order to achieve their healthy rate of growth, LCI Brands could have chosen to pursue an M&A model rather than a distribution model. (Only LCI's two house brands, Lewis N. Clark and UrbanGear, are owned by LCI, while Cabeau®, GoGirl™, humangear® [GoToob®], MosRepel®, No-Jet-Lag®, Pomchies™, and Wrinkle Wiz™ are distributed to various markets by LCI Brands.) Why has LCI not purchased any of its smaller partners? The answer lies somewhere between a respect for the integrity of the other business, and a shrewd understanding of the psychology of the industry. Travel goods retailers accurately see themselves as travel connoisseurs, curating a collection for their customers. A catalogue full of nothing but Lewis N. Clark-owned product is an anathema to that self-understanding. As Franz Wieshuber, SVP sales and marketing explains, "this is real 'expert' business. GoGirl is a great example. If we made that product, it wouldn't be as cool."

For a travel goods retailer, the only thing cooler than discovering an unusual niche product is a private label accessory, produced to match the unique value proposition of their specific customer base. And this is where sometimes, with luck, the magic happens. Wieshuber says, "While we do a good business in basic promotional products, like a private-label 3-dial combination lock, there have been times when our retailers' market-savvy forced us into a different design and development paradigm, and ended up proving concept for us and opening up a whole new area of product development."

And as with Raible's experience at LifeGear, LCI Brands as a distributor has received the same technology know-how as a company which pursues an M&A strategy for technology acquisition. Wieshuber observes, "They're getting the distribution, but we're getting experience with both technology and the frequent updates to go with technology. I guess we could hire a team to develop that knowledge in-house, but this works so much better for everyone." Over the course of nearly a half-century of partnerships, LCI Brands has developed a reputation for fairness and integrity that often results in getting the first-pick of interesting new travel accessories. "A lot of people come to us with ideas," observes Wieshuber. "We could be bigger but we want to choose our partners wisely. We're in this for the long haul."

LCI Brands aims to provide retailers with a single source for travel accessories. Their curated collection of innovative partner brands – including GoGirl and GoToob – complement in-house offerings from Lewis N. Clark and UrbanGear.

Acquiring Diversity

Movers and Shakers

While the travel goods industry is full of interesting collaborations, it also has experienced its share of recent M&A activity. In the last year, French luxury group LVMH (Louis Vuitton) purchased an 80% stake in Rimowa. Advantus acquired Mercury Luggage in August of last year, attending The International Travel Goods Show for the first time with their new brand in 2017. In May of last year, private equity firm MidOcean Partners picked up Travelpro, including previous Travelpro acquisition Atlantic Luggage. At the beginning of this year, Voltage Valet was purchased by the owner of the Bergman's Luggage chain of specialty stores, Hardial Gill. These acquisitions represent the recognition of a unique opportunity, rather than a

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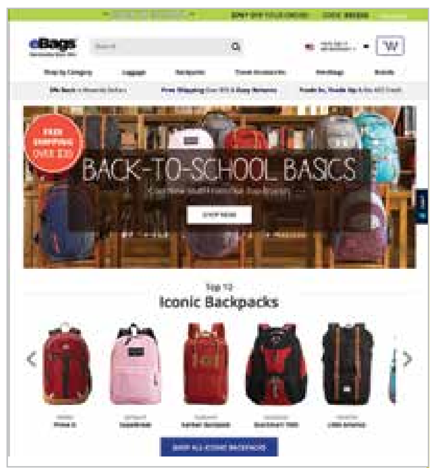
dedicated acquisition strategy. But that also exists in our industry, as practiced by Samsonite, the world's largest travel luggage company – the largest, and still growing.

Samsonite Takes All?

Samsonite was founded in 1910, and has grown to encompass the Samsonite®, Tumi®, American Tourister®, Hartmann®, High Sierra®, Gregory®, Speck®, and Lipault® brands. American Tourister was acquired in 1993, with a break in acquisitions until 2012, when Samsonite purchased High Sierra and Hartmann. In 2014 Samsonite added Lipault and Speck, and in 2016 Samsonite rounded out its collection of brands with premium luggage leader Tumi.

AMERICAN TOURISTER® By Samsonite



Samsonite's accelerating acquisition strategy is in line with national trends in corporate deal activity. Starting with American Tourister in 1993, Samsonite purchases have accelerated since 2012. The most recent additions to Samsonite's portfolio include High Sierra, Hartmann, Lipault, Speck, Tumi and innovative online retailer eBags.

Samsonite's latest and most creative acquisition is the largest online luggage retailer, eBags. "As the number one online luggage and bag specialist in the U.S., eBags is an excellent complement to Samsonite's existing business," said Ramesh Tainwala, Chief Executive Officer of Samsonite. "The acquisition provides us with a strong platform to significantly expand our direct-to-consumer online presence, not just in North America but around the world. With eBags' immediate resources and digital expertise, we are able to expand our online retail capabilities in a meaningful way, driving stronger sales growth across all the brands in Samsonite's portfolio. E-commerce is fast becoming a vital part of our business, and will continue to be central in our strategy moving forward."

With their most recent acquisitions of eBags and Tumi, Samsonite checked off both the primary reasons for A&M cited in the Deloitte report. They expanded and diversified products and services, and acquired key technology. "Our recent acquisitions of Tumi and eBags has furthered our capabilities in both e-commerce, direct to consumer and the breadth of our offering to include a more premium price point," says Tainwala. "Our acquisition strategy has always been led with the success of our global reputation in mind. We choose firms with a similar outlook that complement all our portfolio of brands without ever compromising on quality. With these new additions, we are now very excited by what the future holds."

Putting Consolidation in Perspective

Ten years ago, VFC (Vanity Fair) bought Eagle Creek. It was the last in a head-spinning series of acquisitions of key outdoor and travel brands over the previous five years, including JanSport, Eastpak, The North Face, and Kipling.

"We forget that one of the most significant events of the past, VF's acquisition of Eagle Creek, from a retailer perspective was totally seamless," says Guy Paquette, director of corporate operations, Bagot Leather Goods, Luggage Plus. "In fact, VF made a substantive improvement for us, by allowing me to pay in Canadian dollars."

Industry observers are nearly unanimous in concluding that the VF long-term strategy has yielded positive benefits to brands and retailers. VF's divisions run on their own, and brands are allowed a large degree of autonomy. VF backroom support has yielded efficiencies that are estimated to have reduced operating expenses by as much as 10%, increasing profits that are split between VF and retailers.

But at the time the acquisitions were taking place, VF's mergers and acquisitions were the stuff of legends.

Tim McGuire, director of sales, North America for Eagle Creek, does not dispute this industry assessment. McGuire had a unique front-row view of the path to VF acquisition followed by Eastpak, JanSport, and The North Face.

"While I was at Eastpak, we were sold to Coleman," McGuire explains. "Al Dunlap, author of *Mean Business,* was then the CEO of Sunbeam. When Sunbeam, in turn, purchased Coleman, I jumped on a flight to meet with Dunlap to see if I could save the jobs of the people at Eastpak, or tell everyone to polish their resumé, pronto." Seeing Dunlap's obvious disinterest in Eastpak, McGuire made a career move to JanSport (which had been recently purchased by VF), and from there led the acquisition team that rescued Eastpak.

McGuire summarizes VF's culture, saying "They only pursue conservative brands with slow, steady growth, and don't interfere with their core competency. Eagle Creek today is very autonomous, we can compete with JanSport and The North Face if we want to." McGuire believes "The beauty of VF lies in their back-office functions and supply chain. VF Asia has enabled us to qualify for green manufacturing certifications."

His overall assessment? "Acquisition can be extremely positive, it certainly was for Eagle Creek. VF has supported us while allowing us to stay true to our DNA, to tell our story."