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Body & Soul

"What I've learned is to be quiet and confident, whether talking to a company that's trying to acquire my company, or negotiating a spot in a store. Be quiet and absorb. Then come home and scramble."

-Tao Miller, President and CEO, Body & Soul

And scramble he has. Tao Miller is a force to be reckoned with and Body & Soul cosmetics is likely, in the next four to five years, to rival such companies as Estee Lauder with its upscale lines of cosmetics for men and women and its worldwide distribution. With over 200 cosmetic products being distributed in locations in Japan, Korea, Hong Kong, China, Singapore, Malaysia, Mexico Canada, Australia, Hawaii and the US mainland, and in Sephora stores throughout Europe, Body & Soul is having a seismic impact on the cosmetic industry. Tao Miller's fashion clothing collections in Honolulu include lots of denim and upscale, trendy styles that have worldwide appeal. Body & Soul cosmetics counts hundreds of celebrities including Britany Spears, Lisa Kudrow, Jennifer Lopez and Denise Richards among his many high profile clients.

At age 33, it would appear that Tao Miller is an overnight success. While Miller never finished college, his entrepreneurial experience and business acumen has been more than 20 years in the making in the School of Hard Knocks, located in The World. One walks away from a conversation with Miller thinking, "What a nice guy...and so quiet." Miller acknowledges that his youth doesn't always favor his side. "Sometimes we have to work extra hard to prove that we're for real, especially with banks or real estate situations," he says. "Being young can be a disadvantage; people automatically assume you don't have experience. That can be challenging in major business negotiations."

This case was written by Carol Anne Dickson, PhD of the University of Hawaii as a contribution to the Project entitled "Innovation in Entrepreneur Development in APEC", conducted under the Asia Pacific Economic Cooperation (APEC) Human Resources Development – Capacity Building Network (CBN). The case was developed with the cooperation of Mr. Tao Miller solely for the purpose of class discussion. The cases are neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. No part of this case can be reproduced, stored or used without the written permission of the author(s) and the Asia Pacific Economic Cooperation.

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Having said that at age 33 Miller has had 20 years of experience, it serves us well to look back with him at what it takes to steadily give shape to, forge and temper the “body and soul” of an entrepreneur.

Is it “in the genes?”

Miller’s parents were representative of the “flower children” of the 1960s and 1970s. Miller’s mother was Danish/Icelandic and his father was the son of Russian immigrants. Both parents were artists. Miller’s mother was a textile artist and his father was a glass blower. The two met while backpacking in Afghanistan. His mother and father were aged 17 and 27, respectively, when they married in a Tibetan temple. Tao was born in 1969, in Moscow, Russia. Tao was the name of a man that Miller’s parents had met in a Tibetan temple in one of their many backpacking treks.

The Millers settled in Sweden until Tao was 15 years old. "My parents didn't have that much money. So if I wanted something, like a new bike, I had to go out and earn the money," says Miller. Hungry for a new bicycle, young Tao started to “scramble” at about age 10, picking strawberries during the long summer days and selling just enough baskets to pay for the bike he wanted. Later, he also sold flower seeds and magazine subscriptions door to door for his other childhood needs His home was what he called a “non-traditional, free-flow household.” Tao says he often felt under-privileged but he always got what he wanted.

Making ends meet

At age 15, Tao and his parents moved to Pahoia, Maui where Tao finished high school. Hungry for an automobile, he continued to work, as many as three jobs at once, busing tables, washing dishes, making pizza - whatever it took, so that he could purchase the car he wanted and other teenager necessities. Soon after high school, Miller went to college in the island of Hawaii. He was a discriminating consumer of academic or college knowledge. He chose to enroll in a small business start-up class but upon finding out that the instructor had never owned a business, he walked out and never went back to that class.

While in college Tao had a job in the athletic department. On the side, he started a business called Island Shapes. Through that company Tao purchased at wholesale and sold supplements to the athletes such as muscle gaining powders and health drinks. A family crisis left him unable to continue his studies and at age 20, he found himself "...concentrating on survival. I came to Oahu with US\$200 and ended up staying on the couches of friends of friends. The first two years on this island [Oahu] were really hard for me. If I passed on dinner - I had too much pride to ask people - I went hungry. I experienced poor times, so that's part of what drives me now."

By age 20 though, Tao knew how to make a living. One of his first ventures into retail was with High Performance Kites in 1989. A move to a motivational seminars company in 1990, as an operations person, offered him the benefit of attending seminars. He wanted to attend a motivational seminar in San Francisco, but did not have the airfare. He created his own fund-raiser, hooking up with a baker in Hilo to pre-sell their artisan bread. In one week he earned enough for his airfare. He

turned over the business venture to a friend and moved on. "My lesson was figuring out how to get there," Miller mused.

Between 1990 and 1992, with the goal of getting into management within a couple of years, Miller went to work for two high-end retailers who were popular with Japanese visitors: Louis Vuitton and then Raku Leather. He studied the Japanese language and the Japanese work ethics but was not able to join the management ranks. It was time to move on again. "If there is little or no return on resources, you have to move on." Miller thinks that flexibility is one of the hallmarks of his generation of entrepreneurs.

Making ends overlap

At the same time that he was working for Raku Leather and learning Japanese and Japanese fashion tastes, Miller started another company which he named Tri-Star Trading Co., an at-home operation. Tristar was a brokerage company. It was an almost overnight success. It was also a 24-7 business and Miller was able to be all things to all people. He learned to be wide awake when a call came into his home at 2:00a.m. If someone wanted to speak to the head of the accounting department, or the purchasing department, Tao immediately "transferred" them. He adjusted his voice a bit and became the head of the purchasing department. No job was too large, or too small. "I always represented myself as bigger than life. I did that to level the playing field for myself."

Miller says he has always felt a tug toward Asia. "For some reason I have a bond with the Japanese people. Maybe it happened in that Tibetan temple, but there is definitely something there," Miller said.

A US -Japanese trader

For those who complain that it is difficult to sell to the Japanese, Miller states, "...it's easy. You just have to sell them what they want." Miller noted, as he worked in other businesses, that Levi's jeans were popular with young style-conscious Japanese travelers. They not only wanted jeans but they wanted used and worn jeans and they would pay well to have them. Ever resourceful at figuring out how to find the help he needed, Miller began searching for used jeans. He found a rag dealer in St. Louis, Missouri in 1991 who sold him used (call that "vintage") jeans for US\$6 a pound. Through Tristar, Miller brokered sales between the US mainland and Japan.

Miller continued to do business with the Japanese. He found out that he could broker deals that allowed him to make a profit without having to front the money. He found sources for whatever retailers and wholesalers from Japan were looking for. "I brokered about US\$1.0 million of merchandise that first year," Miller said. "I didn't have to front the money. I just made the deal and coordinated delivery." Not only was Miller in business, he was also the owner of an international exporting business. Between 1992 and 1993, Tristar revenues reached US\$11,000, 000. Orders were coming in so fast and furious that demand outstripped supply, with a Japanese company opening a US\$2,000,000 letter of credit for Tristar to ship whatever volume of jeans Miller could, whenever he could.

Meanwhile, back in Waikiki, in Honolulu, Hawaii, and just 23 years old, Miller, using his entire life savings of about \$20,000, set up his first retail boutique on Kapahulu Avenue, naming it Body & Soul. The 460-square-foot boutique specialized in men's and women's street-wear. The store featured the blue jeans that international travelers loved, as well as other trendy, high-fashion items, including surf wear. During the Waikiki store's first year, more than 90 percent of its brand names and designs could not be found at any other retail store in Hawaii. Soon after founding Body & Soul, large retailers caught on to the popularity of New York's young designers and sent employees to Body & Soul to investigate its product lines. "We had to kick buyers out," he said. "It was flattering, but it was irritating at the same time." Also, representatives of East Coast designers migrated to Hawaii to drum up business. Miller was fully in the fashion business.

Miller decided to add cosmetics to his retail mix so he contacted a well-known cosmetics giant. The company that particularly interested Miller was looking into Hawaii as its next location for launching its highly popular cosmetic products. The company refused to sell to him. Miller was determined. He bought the products he wanted from a retailer on the US mainland, paying full retail price, doubled the price at his Body & Soul store in Waikiki, and made a tidy profit.

During a buying trip to New York, he discovered Francois Nars, the world-famous make-up artist whose client list included celebrities, models and fashion designers. Miller instinctively knew NARS cosmetics, sold exclusively at Barney's in New York, had great potential at Body & Soul. NARS, however, did not share that view. Miller's telephone calls, letters and faxes went unanswered. "They refused to speak to me," he remembers.

Miller accommodated and invested in Nars' business. He was as determined as usual. He appointed himself NARS cosmetics' publicist, sending NARS products he had purchased to acquaintances working with two large magazine publications. He touted NARS cosmetics as the hottest new make-up line to hit America and both magazines ran articles on the product. He used his contacts at trendy *JJ* magazine in Japan to get them to write a story about NARS. They did. Miller sent NARS officials the stories and an explanation of what he had done, along with an all-expenses-paid invitation to meet with him in Hawaii. In September 1995, Body & Soul was named the exclusive Hawaii retailer for NARS cosmetics. "Persistence pays," Miller said. For two years, from 1995 to 1996, Body & Soul sold NARS. When the exclusivity contract expired, NARS signed on with DFS Galleria. Miller was disappointed "It was very disappointing, but the economies of scale made it impossible for me to compete."

"... We had to do something with the money," Miller said, referring to the money coming in from the highly successful first store on Kapahulu. In 1995, Miller opened his second Body & Soul boutique at a 1,800-square-foot site in the heart of Waikiki in the popular tourist shopping area known as King's Village. The store immediately gained a reputation for carrying trendy, upscale brands. Miller was the first to bring edgy lines such as Anna Sui, Chaiken & Capone and Tocca to Hawai'i.

Miller and his wife, Tomoko, a Japanese national whom Miller had met while working at Raku leather through a friend and later married in 1996, were bringing on their own line of fashion clothing. At first, Tomoko, was the primary designer working with manufacturers in Hong Kong, China. She teamed up with English designer Tony Crosby (a classmate of John Galliano, who was behind the new look at Christian Dior) to create a line of clothing, under the Body & Soul label, that included everything from cutesy '80s-inspired T-shirts to preppy shirtwaist dresses, wool coats and knit motorcycle jackets.

The new Waikiki store generated US\$2.3 million in revenues in its first year, prompting Miller to open another location at Ward Warehouse in February 1996. Both stores were complemented by a mail-order catalog business, which reached nearly 30,000 Japanese homes each quarter. Miller's company, T.M. Pacific Co. Ltd., parent of the retail and trading companies, by then employed 28 people and pulled in US\$3 million in revenues per year. Miller still did not see himself as a success despite the fact that he had skyrocketed to the top of Hawaii's retail fashion industry stating, "The real success is maintaining success."

Success smelled sweet. A third boutique was opened in Honolulu at Ward Warehouse in 1997. Tomoko brought good luck and additional stores followed: two in Guam and one more in Hawaii.

Miller, with assistance from his wife, Tomoko, built a relationship with the Japan fashion media. Miller had lines of Japanese fashionistas flocking to his boutiques in Waikiki, Ward Warehouse, and Guam. Body & Soul had become synonymous with hip, edgy fashion and beauty.

Look! See! LEARN!

As always, Miller was learning, constantly adding, consciously and unconsciously, to his pool of knowledge. He learned that cosmetics had very high profit margins. He also learned that cosmetics did not suffer the roller coaster volatility that apparel often experienced. He learned that this could probably be a very profitable niche for Body & Soul. He applied himself to learning a lot more about cosmetics and how they were made and how and where to produce them himself. He learned from his experiences that one had to develop sources, and then, to develop international customers who would provide both the push and the pull to develop both US and international markets for his products.

Tao Miller knew it was about learning. He takes pride in admitting that he learned from "the streets" and that he has, and has had, many mentors. As the challenges got bigger and more complex, he had to learn not to let the challenges overwhelm him. He had to learn to take the challenges in stride and look for appropriate solutions. Describing himself Miller says, "I'm really aggressive, not afraid to take risks." Then, thinking carefully, he amended his description a bit: "But more and more, as my business grows, taking risks becomes more scary. You have more to lose."

Being an entrepreneur was no longer a means to the end of having a new bicycle, an automobile or the airfare to get to a conference... or making a minimalist living as his parents had. It was now about the challenge. It was about new ideas. It was about developing those ideas and making them real. It was about the challenge of developing ideas that would be profitable for himself and others, locally and internationally. It was about creating success. It was about creating jobs for people, nationally and internationally. It was about being 30-something and knowing you could take the risks and still come out whole. It was about work that was downright fun. It was about living a totally full and fulfilling life. It was about due diligence and being careful. And it was about taking risks and being aggressive in a boundaryless market. For Tao Miller and Body & Soul, it is about seeing the entire world as one whole big market and not necessarily seeing the world divided into separate domestic and international markets.

Body & Soul cosmetics

After two years of research and development, including testing by film-industry makeup artists, Miller launched Body & Soul cosmetics at Barney's New York in 1998. The retro look of the graphics on the packaging, created by illustrator Ann Field (who also did work for Levi's and Starbucks), captured the romance and glamour of the 1920s to 1940s. Miller called it "modern vintage."

The line caught the attention of American beauty editors immediately, and Body & Soul's cosmetics popularity soared. Body & Soul cosmetic products have been launched in Japan, Korea, Hong Kong, China, Singapore, Malaysia, Mexico, Canada, Australia, Hawaii and the US mainland, and in Sephora stores throughout Europe with China as one of the next targets. Some might call it guerilla development and guerilla marketing. Miller calls it aggressiveness and being willing to take risks.

Miller has learned not to launch more than a very few new products at once. He likes to create a "hungry" atmosphere within the ranks of his clientele who wait eagerly for the new product to be launched. Body & Soul often creates a frenzy for the next item to be launched by giving clients a ticket to pick up a new product gift at the Body & Soul counter. Media and the public are invited to major product launches, sometimes with two different "buzzes" about the product or the launch and what it will be.

New lessons, challenging lessons

Internet lessons. Just five years after establishing Body & Soul, and armed with the success of having established several successful stores in Hawaii and Guam, Body & Soul, Tao Miller sought to establish an internet presence for the company. His attempts to purchase, for a reasonable price, the Body & Soul name from a Canadian internet publisher failed. The President of the Canadian company had, in the mid-1990s, registered hundreds of domain names. Web addresses have sold for over US\$8 million. But, in the US, there is a law against "cybersquatting," the practice of registering a Web address with no plans to develop a site, but with plans to sell the site or domain name to someone who wants to use it. Miller immediately trademarked his business. In 1999, Miller's attorney demanded that the Canadian internet publisher cease and desist using the trademarked name. In 2000, with

trademark documents in hand, Miller won a ruling through the National Arbitration Forum that stated that the Canadian firm had to give the registration to Miller. The judge declared that the Canadian firm was not able to demonstrate that it had invested US\$30,000 in the site as was alleged and had, therefore, acted in bad faith.

Status lessons. Inc. magazine has reported that research indicated that “status matters” and that “companies held in high esteem are able to maintain a significant lead over the rivals.” Tao Miller, like many entrepreneurs, knew that status among consumers matters, that success breeds success. When Miller was able to get an exclusive contract with the chic New York department store known as Barney’s, he was exhilarated. Then reality set in. Miller paid a very high price for the store displays demanded by Barney’s. Staffing relative to Barney’s rules was expensive, the potential customer base was small ... and the return on investment was even smaller. Two and a half years after landing the Barney’s contract, Miller ended it.

Buy out lessons. Several well-known international companies with interests in the fashion or cosmetics industries have approached Tao Miller about buying Body & Soul. In 2001, a well-known international conglomerate contacted Miller regarding a buyout. He met with them, analyzed what they could offer, and rejected it...but not until he had poured US\$15,000 into attorneys’ fees alone. There were also the additional costs of travel and time away from the pursuit of the interests of Body & Soul. Miller reminisces briefly, recalling the many parties given for and by him, the many back and forth trips and offers... situations which now seem to Miller like events that were meant to divert his attention. Now, Miller usually gives potential buyers the bottom line number to purchase Body & Soul, take it or leave it. Again, Tao Miller learned: Negotiating now requires at least a US\$100,000 non-refundable deposit from the potential buyer, just to set up a merger or acquisition team.

Small lessons learned have sometimes been the most difficult to handle, especially where people you care about are involved. At one time, Miller’s father headed up his mail order division and Miller says, "No matter what, a parent is always going to treat you like a son, even when you're the boss." Another time, he was forced to lay off a best friend, when he had hired him with the best intention.

That was the hardest thing to do. It wasn't because he was a bad person, but he had no prior experience. I saw it as an opportunity for him, and I took responsibility for hiring a person who wasn't qualified. It got to a point where he couldn't do the job and it was harmful to my business, and he wasn't happy either. Having friends and family involved is very difficult. Business is business, family is family, and friendship is friendship and you have to be clear cut on that. Sometimes it works out. Sometimes it doesn't and there's no in-between. I wouldn't recommend it.

Current Challenges

Tao has special concerns about his family relative to his business. He says that his personal life is too close to his business life. He is concerned that every “bump” in the business affects his personal/ family life and he wants to change that. Miller states that he has a keen awareness of the fact that men are more selfish than

women, that men are the hunter-gatherers and that women are more loyal and desirous of meeting the needs of family and friends. In his family he wants to achieve a balance for himself that includes more time for family. He does not want to be on edge when he is trying to spend time with family. He wants to remain healthy, not putting his family and his life on the line for his business. At the same time he wants to provide his family with a nice home and the luxuries he did not have. And he wants to maintain the energy and creative edge that his business requires. He is trying to achieve a happy balance between the two.

He says he will never be happy retiring to that mansion on a private island. "Of course I want to have my mansion, but I'm a real hands-on person. I don't think I could handle not working," says Miller. Even if one has the vision, there will be down moments. "So many times I've had to ask, 'Why am I doing this to myself.' I've been in tears some days," he admits. But he tells other would-be entrepreneurs, "Stay positive, stay focused and don't give up."

As a member of Generation X, Miller says that he almost always finds himself surrounded by older, more experienced men who have already dealt with some of the problems that he now faces. That situation, he says, is common for GenX business owners. He tries to learn as much as possible from his older colleagues and draws many mentors from amongst them.

Future plans

Miller sees Body & Soul as a lifestyle company. Staying successful means staying fresh, staying just ahead of the fashion curve, or setting the curve, for cosmetics. "I really believe in gut feeling," Miller says. Staying successful means being creative and creating the buzz that draws media and clientele. Staying successful means being loyal and seeking loyalty. And staying successful means having the right team of people working with him.

"Our buying process is creative and strategic, and it has become increasingly the case since 9-11" Miller said. "We know our customers' likes and dislikes." Weekly staff meetings to seek feedback on new lines, coupled with an open-door policy throughout the company, has made Body & Soul a firm that encourages ideas and empowers its employees. Miller is consciously trying to take more "down time" to strategize.

Miller said he is consciously and conscientiously preparing the company for long-term success by building a quality core-management team. "I don't want to be one of those companies that quickly shoots way up, then back down," he said. "I feel that I'm here to get something started, like I'm catching the fish and bringing it to my team to prepare or nurture it, then I'll go after the next fish. I'm here to find new products, new opportunities and they'll take care of it from there." Miller has plans to expand Body & Soul products to include fragrances and a skin care line. Eventually there may be a line for men. Both the cosmetics and fashion line, including wholesale, are expected to bring in revenues of between US\$3 and US\$3.5 million this year in 2003.

Like almost everyone else in the world, the events of what has come to be known simply as "9-11" have had a sobering impact on Miller and his business. Travel for pleasure, particularly in Asia and Southeast Asia, fell most sharply, fell the farthest and has been the slowest to make a comeback. After 9-11 Body & Soul closed all but one of its stores that were primarily clothing oriented. They had already learned that cosmetics were the most profitable and the most promising for Body & Soul and the least subject to the sharp up and down roller coaster ride of most fashion products. Just six months before 9-11, in March 2000, futurist Dr. Jim Dator of Hawaii stated of GenXers that "They haven't ever known adversity as a group; having lived in both peace and prosperity, they expect that to continue,"

For Tao Miller and Body& Soul it was time for self examination and for "...taking five steps back so that we could take fifteen steps forward." Though Miller has a great team working for him, he realizes that everyone is replaceable. If everyone quit, Tao would rebuild the team.

Miller recommends to new entrepreneurs that they make sure that they not only have a business plan but that they also have a cash flow plan. Stability and strategy are the keys for the future. He is encouraged because Body & Soul is on the rise again, having re-grouped and survived down-sizing.

Finding the right people is important to any business, and perhaps his most monumental business decisions have involved business and personal relationships. Choosing the right partner to represent one's business abroad may be one of the most important elements of expansion, he says. Finding the right distributor can be a challenge.

In Japan, Miller credits his success to working with a good distributor who is able to aggressively market and maximize the potential of his products to retailers. Aggressive marketing efforts led to features in 50 different magazines in Japan alone within six months, adding up to nearly US\$500,000 worth of free publicity. "With our cosmetic distributor, we took time to negotiate the deal and spent a lot of time together planning the strategic launch and every aspect of the distribution," he says.

Miller has experienced trouble with another partnership. "On our fashion side, it was done without planning and we're having problems with that situation now," he says. "I was quiet disappointed with the situation because the results were not what I wanted them to be and that's mainly because we rushed things. Building a good relationship and communication with a partner is key to successful expansion," he said. "Ultimately it's based on trust and friendships. Contracts are very important, but it's that handshake that really counts in the heart," he says. "I try as much as possible to really get to know the distributor. I spend a lot of time with them and show my support and have a real open door to them -- it's a mutual thing."

When choosing a partner in another country, Miller carefully analyzes which brands are successful in a specific market and then looks at the distributor behind it. He also takes the time to learn about the company's background. Miller discusses how keeping a brand name consistent in each country is another challenge of overseas marketing because each store tends to have its own rules and twist on how your product is represented. "The core marketing strategy of your brand is sort of the

religion of your company," he says. "You always have to stick to that and represent the same thing you're trying to convey."

In addition, understanding the culture of the countries you are dealing with is an important part of the communication element. "In order to do business internationally, we have to adapt to cultures and traditions of specific countries," he says. Body & Soul has been negotiating distribution contracts for a location in the Middle East, where beliefs about women and their role in society are a part of the culture and sharply different from those found in the US. "If we want to sell our products in a country, we have to cope with the restrictions of their beliefs or their cultures," he says. "As a business entering those kinds of areas you have to adapt as much as possible and at the same time maintain the integrity of your brand."

Miller's take on entrepreneurs is in general, "You either have it or you don't." He admits, however, that if you have the entrepreneurial spirit it can be expanded and honed. "Luck is always a part of it. The way I do business is I'm real honest, up-front, loyal. I do things pure and clean and as long as I do it that way, I think luck will come," says Miller.