

Q2 underscores heft of the outlet channel

Q2 was a mixed bag as apparel and accessories companies generally performed better than pure retailers.

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THE WEAKEST category for retailers during the second quarter of 2013 was juniors. Youth retailers are under considerable pressure as teens flee traditional mall stores. Macy's cited juniors as a soft category, though off-price retailers Ross Stores and T.J. Maxx experienced traffic gains thanks to young girls buying clothing.

Back-to-school was off to a slow start, but for the past 10 years consumers have pushed this spending season further into September and October, reflecting a buying-as-needed behavior.

With value still foremost in shoppers' minds, outlets are seeing traffic gains and quickly becoming the brick-and-mortar channel of choice.

Coach to add 15-plus outlets in 2014

Coach plans to open at least 15 new outlet stores in North America in 2014. According to a July 29 conference call to discuss earnings with analysts, the company's North American focus is on elevating retail environments and re-platforming stores to showcase the full breadth of Coach's lifestyle categories.

"We see an enormous amount of new real estate development [in the outlet channel]," said CEO Lew Frankfort. "We're focusing on select new-market entry and on capitalizing on the men's opportunity with some repositioning in smaller stores."

Coach plans to expand North American square footage 7 percent in FY '14 by opening two full-price and 15 outlet units, mostly dual-gender stores, and one freestanding men's store. Coach will also expand 20 locations, 13 of which are outlet, and will add the men's door as the company builds out its dual-gender presentation. The company will also close 16 less-productive full-price stores.

In China 30 new stores (all dual gender) will increase square footage 25 percent and result in about 155 stores by FYend. Coach projects double-digit comps and looks for sales of \$530 million in China in FY 2014.



Coach continues to rely on its 193 factory stores as part of its global strategy.

In July Coach bought out its European partners and now owns 20 locations with annual sales of \$40 million in the U.K., France, Ireland, Spain, Portugal and Germany. Coach anticipates opening about 70 wholesale and 10 retail locations across the U.K. and Europe.

The leathersgoods company entered the current fiscal year with 351 Coach full-price retail stores and 193 Coach Factory stores in North America, 126 locations in China, 191 in Japan, 48 locations in Korea, 27 in Taiwan, 10 in Malaysia and seven in Singapore.

Steve Madden will ramp up outlets

Steve Madden retail sales rose 14 percent to \$46 million, benefiting from 17 additional stores since Q2 2012 and a retail comp gain of 2.5 percent. Doors open for the 12 months ended June 30 generated \$909 in sales psf. The period was challenged by cold and wet weather that led to weak sandal sales and reorders, but when the weather turned warm, the company experienced better sell-through and reduced closeouts.

"We are particularly excited about the opportunity in outlets, and we are targeted to have 50 to 60 outlets over the next several years," said CEO Edward Rosenfeld during the Citi Global Consumer Conference held in May. "Basically we have a made-for-outlet strategy. We are going to have very little excess inventory in the outlets.

"We are very excited by the initial response of customers, which has been great," he said.

"I think the outlet channel has a bit of a wind at its back, as traffic is moving to that channel. The model seems to work a little better. If you look at many of our footwear competitors, a lot of them lose money in their full-price stores and do quite well in the outlets. We think that over time, there is going to be significantly better profitability or profit margins in the outlets than in our full price stores.

"Right now, we do quite well in our full-price stores," he continued. "Right now, the four-wall contribution margin is quite similar in our outlets and the full-price stores, but once we get to scale in our outlet business, we believe it could be as much as 300 to 400 basis points better.

"We want to get to 50 or 60 outlets, far fewer than what I would consider saturation," he said. "There are probably 125, maybe even 150 outlet centers, as the channel continues to build, that theoretically support Steve Madden in the United States."

Steve Madden entered Q3 with 113 company-operated retail locations, including 12 outlets and three Internet stores.

Jones debuts new apparel line in outlet stores

Jones Group is on track to close more full-price retail and focus on outlets and wholesale.

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Jones New York chose 17 of its outlet stores for the launch of its new apparel line JonesWorks.

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The apparel company saw sales rise 21 percent in domestic wholesale jeanswear but fall 2 percent in domestic retail sales during the second quarter. The company has made progress on profitability by closing 40 stores (it will have closed 170 by mid-2014) so that it will end next year with 350 outlet and 85 full price stores in the U.S. The 45 Stuart Weitzman, Brian Atwood and Kurt Geiger stores aren't included in the restructuring.

Richard Dickson, CEO and president of branded businesses, said in July that the company's new JonesWorks sportswear line is doing well. "The new product has recently hit select Jones New York outlet stores, and while very early, sales have substantially exceeded plan with 10 percent sell-through in the first week."

Jones CEO Wes Card said, "We did a test in 17 doors – Woodbury Common would be a very good example – where we reset the floor around the core JonesWorks product. We're off to a really good start...we are seeing excellent results versus our initial plan."

American Eagle is expanding its outlet chain

Q2 for American Eagle Outfitters was generally blah, but CEO Robert Hanson said the company's outlets "performed relatively well considering the tough environment, comping slightly down but with total revenue growth of 29 percent.

"We opened 18 new factory locations in Q2, where we continue to see strong response," Hanson told analysts during the Aug. 22 earnings call with analysts. "Our made-for-factory products, which is now 40 percent of the assortment and tracking to over 50 percent by holiday, is being well-received and delivering high margins. Our online business increased 11 percent."

In response to a question on the impact of AE Factory Stores on full price, Hanson said, "With the factory business, we're not seeing any material cannibalization or impact on the stores. In fact most of the factory stores we're opening are in areas where we have distribution voids. We look very carefully at the regional mall stores around factory store locations we're planning to open. If there's an impact, it's relatively minor, in the 10 percent range. But when you look at the positive net result for the company in total, it's accretive."

He added that AE would like to replace some underperforming stores with outlets in the market. "The factory stores are delivering returns – productivity greater than 50 percent of our mainline doors."

As of Aug. 3, American Eagle Outfitters operated 1,056 stores: 836 U.S. and 76 Canadian Ameri-

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Toys R Us will open nine outlet stores by the end of 2014.

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can Eagle Outfitters stores, 97 U.S. and one Canadian American Eagle Factory store, 118 U.S. and 17 Canadian Aerie stores and three American Eagle Outfitters in China, Hong Kong and Mexico.

Toys R Us embarks on outlet expansion

Toys R Us said in August that it would open nine new outlet stores in the U.S. by yearend as part of the chain's 100-unit global expansion plan.

The new outlet stores will open in Simon Property Group's Premium Outlets in Camaril-

lo and San Diego, Calif.; Dawsonville, Ga.; Chesterfield, Mo.; Barceloneta, Puerto Rico; and Round Rock, Texas. A unit will also open in Simon's Opry Mills in Nashville.

The remaining Toys R Us Outlets will open in Horizon Group Properties/CBL Properties' Outlet Shoppes at Atlanta in Woodstock, Ga., and in Spectrum Capital's Outlets of Mississippi in Pearl. The openings will bring Toys R Us Outlets to 25 units.

Most of the company's expansion is concentrated in China, where 22 new stores will open, and in the U.S., where the nine outlets and 10 new, converted or relocated Toys R Us/Babies R Us side-by-side stores will open. In 2012, Toys R Us launched an ecommerce site in China, laying the groundwork for the brick-and-mortar stores.

By the end of the year, the company plans to operate 51 stores in 27 cities throughout China. In October 2011, Toys R Us acquired the majority stake in its Chinese business to take back control of its product.

The remaining stores will open in Canada (6), France (2), Germany (3), Hong Kong (2), Japan (10), Malaysia (4), Poland (4), Spain (1), Taiwan (3), Thailand (3), United Kingdom (1), Denmark (1), Egypt (1), Israel (2), Norway (2), Philippines (4), Saudi Arabia (2), South Africa (3) and South Korea (7).

"Eye-opening" describes A&F's outlet study

At Abercrombie & Fitch a strategic review of the outlet channel could suggest a new growth strategy. Same store sales during Q2 declined 10 percent reflecting an 11 percent comp decline in the U.S. and a 7 percent drop internationally.

During Q2 the company opened two outlet stores, one at Taubman Prestige Outlets in Chesterfield, Mo., and the other at MacArthurGlen's Ashford Designer Outlet in the UK.

When queried by analysts about outlets, CFO Jonathan Ramsden responded, "Outlets are part of our strategic review and at this point, we're not ready to share our conclusions. We expect to be able to do so pretty soon and outlets certainly have been a question that we've been examining."

CEO Mike Jeffries added, "It's an issue that we are looking at very hard. I spent a Sunday two weeks ago at the Ashford center. Very eye-opening. We have a lot to learn there."

Abercrombie & Fitch operates 1,057 stores worldwide, including about a dozen outlet units. ■