

Retailers discuss outlets' prospects

Outlet retailing may have enjoyed comparatively smooth sailing during the last 18 months, but nobody's saying the ride hasn't had its scary moments. Can the sector maintain its edge? Will consumers continue to discover outlet shopping? Will those consumers be pleased with what they've discovered? *VRN* Editor-in-Chief Linda Humphers recently spoke with four retailers who shared their insights about where the industry is and where they expect it to go. Here's what they had to say.



Charles Devine
Partner

Devine Lerner Serwer, handling real estate for Dress Barn, Maurices and Justice
242 stores



Josh Podell
Vice President

Jones Apparel Group
614 stores



Gregory Rainforth
Senior Manager of Real Estate

Timberland
62 stores



Robert T. Wallstrom
President

Saks Fifth Avenue
Off Fifth
55 stores

VRN: What are your concerns for the coming year and how are you addressing them?

Josh Podell: I'm wondering what type of consumer shifts will take place regarding outlets vs. full price stores. We've seen a shift toward value since the economy started facing challenges, but will this behavior continue if the economy improves? What will be the impact of Simon controlling approximately 80 percent of the better outlet projects? How will Bloomingdale's Outlets affect those brands that are carried in their stores and that also have specialty stores in the same outlet centers?

Charles Devine: The lack of new outlet centers is my major concern because Dress Barn is pretty well saturated in existing outlets. Fortunately, Dress Barn has had a complete revamp in recent years and a good remodel program, so we keep things fresh that way.

Robert T. Wallstrom: We're encouraged that the economy is stabilizing, but it remains fragile. We've launched an "extraordinary values" program that offers items of impressive design and quality priced at least 60 percent off. We had great success with a few items in the fall, and we're expanding that program to include 12 to 15 categories, to coincide with different selling seasons.

Greg Rainforth: The lingering high unemployment rate, and its effects on consumer sentiment and spending, is of utmost concern. In this environment, converting traffic is as important as ever, which requires having the right product in the right stores at the right value.

VRN: What do you hope to see landlords doing this year? What kinds of developer strategies will help your business?

Devine: We want to see more marketing this year. Keeping our name in front of customers is essential. We draw from a large radius, so we need to remind shoppers we offer something that makes it worth the trip. Increasingly, we're going to fixed CAM, which seemed like a good idea. However, fixed charges are turning out to be higher than pro rata, so what was good in theory has worked against tenants.

Wallstrom: We'd like to see development of more outlet centers because that is essential to our expansion. We'd also like to see aggressive marketing, especially in centers with a strong tourist component.

Podell: I'd like to see more proposed

projects become committed projects. Exciting centers have been marketed, but there have been delays and indefinite holds because of the economy.

Rainforth: We want to see holes filled with the appropriate lineup of single-brand stores. The recent influx of multi-brand stores is hurting our differentiation from value megamalls. I would also love to see landlords take a hard look at their CAM and marketing expenses and pass along the savings to their tenants. Extras aren't insignificant and any efficiencies our landlord partners can find will help our business directly.

VRN: What seems to be the mindset of your customers these days – are they demanding more value? Are they showing loyalty to your brands?

Devine: Customer loyalty is tied to quality and pricing. Our business has been up over the last seven or eight months, which is consistent with the elevation of our fashion element.

Rainforth: Customers are absolutely demanding value these days, and they do remain loyal, but only to a point. You must offer a compelling product or story at a price point where value is perceived. If you don't, your customers will go elsewhere.

Wallstrom: Our customers are demanding more value and they're shopping with us because they know we deliver design, quality and price.

Podell: All our market research shows a continuing loyalty to our core brands.

VRN: Are you picking up new customers in this economy? Have you done anything different to attract new customers, or are you simply enjoying the influx of people discovering outlets?

Rainforth: We decided to invest in marketing last year, despite our tight overall control on expenses. That decision has paid off by generating new customers and increasing interest in the brand. We plan to build on that momentum this year.

Wallstrom: Our rewards program has been well-received and has helped us bond with our customers. By reducing costs on the supplier side, we have been able to provide better pricing while also maintaining a healthy margin.

Podell: There was likely a "shopping down" effect from customers who switched from luxury goods to bridge and upper mod-

erate. This helped all of our brands, especially Nine West, which has a good image with regard to fashion and affordability.

Devine: We constantly attract new customers. We're definitely not your mama's Dress Barn anymore. We've evolved with the needs of the American working woman.

VRN: What is the one thought most often on your mind about doing business in 2010?

Devine: Because my focus is on real estate, I'm always thinking about what rock I can turn over to find a new location. I'm searching for new sites for Dress Barn, and for Maurices, which is almost saturated, almost where we want it to be. And now I'm looking for sites for Justice, which we just acquired.

Wallstrom: While sales have been challenging overall, Off Fifth is trending above company average, so we're going to continue to expand. We plan to add three to five new stores this year and to renovate a couple of existing stores.

Podell: I'm thinking about how we will maximize growth, both at the existing store level and through expansion. There aren't enough good opportunities for new stores when you have presence in almost every good outlet center around. This problem applies to several of the core outlet retailers like us, P-VH, Hanes, Nike and others.

Rainforth: The big question is: Will we have a V economic correction or a W? Whichever occurs will have big implications on how we run our business. At this point, we need to plan for both.

VRN: Where do you think outlet retailing will be by 2015 -- bigger than ever? Or still a niche?

Wallstrom: We expect the value channel will continue to expand because the customer is going to want a mix, not exclusively one or the other. This story says it all: One of our customers went to the Oscar De La Renta boutique on Rodeo Drive, to buy an evening gown, then got into her car and drove to Camarillo Premium Outlets to shop for accessories at our store there. That's the perfect example of today's customer. Buy something special at full price but fill in with great deals. Less than 10 percent of Saks customers are crossover shoppers today, but I love seeing the marriage between the different market segments.

Podell: I think outlets will main-

tain about the same amount of overall square footage, but there will be fewer projects. The number of outlet centers that are likely to be re-developed into alternative uses over the next five years should exceed the relatively small number of new outlet centers that will be developed. You still have dozens of struggling centers that are facing real challenges to their existence. The good news is, those that will remain will continue to prosper, expand and re-merchandise.

Devine: I expect the industry to go back to a better growth phase. We've been somewhat stymied by the economy, but people will continue to shop in outlet centers, and new tenants will continue to keep the industry fresh.

Rainforth: Outlet retail is a very small

percentage of total retail sales in the U.S., and is likely to still be small in 2015. But outlet retailing isn't a dirty little secret anymore. There is growing acceptance from consumers and retailers that outlets are a legitimate distribution channel that serve a distinct consumer and need. It is no longer "brand damaging." By 2015, I believe it will commonly be accepted that outlet distribution can actually enhance your brand. I am concerned, however, that if the outlet industry doesn't continue to provide a distinctly different consumer shopping experience it will leave itself susceptible to competition from the growing "value channel" outside of its centers. Without differentiation, the outlet center landscape could be much different in 2015. ■