PRADA'S FRESH FINANCING/2 TARGET AIMS AT BOOMERS/7

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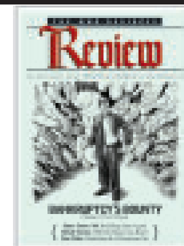
WWD MONDAY

Accessories/Innerwear/Legwear



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ALL SUMMIT PHOTOS BY VINCENT RICARDEL

Fashioning the Future

NEW YORK — In these constantly changing times, the only way companies can thrive and survive is to focus on today and tomorrow. But how? The seventh annual WWD/DNR CEO Summit at the Ritz-Carlton Battery Park addressed some of the challenges and opportunities facing the industry — including the need to transform the department store, the still-nascent Internet revolution, how to reinvent a brand and global trade. For coverage, see pages 11 to 28.

Vestimenta Names Green U.S. CEO

By Eric Wilson

NEW YORK — As Vestimenta tackles the final stages of taking over the Calvin Klein collection business as a licensee, the Italian manufacturer is building an expanded infrastructure for its U.S. operations, including a new chief executive officer and showroom, and potentially, new stores.

Bob Green, who formerly headed the U.S. arm of Ermenegildo Zegna, has been named president and ceo of Vestimenta Inc., overseeing its American operations and the integration of the Calvin Klein business here. In an interview at Calvin Klein headquarters last week, Green said Vestimenta, which got the license for the designer line in February, was moving quickly to expand its business in New York to handle sales and marketing of the line.

As reported, Calvin Klein Inc.'s deal with Vestimenta, which was signed shortly after CKI was acquired by Phillips-Van Heusen, called for a phased-in approach to taking over the running the collection business. Vestimenta has already completed the initial stages of production and distribution of the line, beginning with fall merchandise currently in stores. The final step — taking responsibility for sales and marketing — is expected to be complete by January.

As part of that strategy, Vestimenta is opening a showroom for Calvin Klein in the Fuller Building at 595 Madison Avenue, where it currently houses its Vestimenta men's and women's collections. The company has taken on a separate floor for the Calvin Klein men's and women's collections, Green said. The move of Klein's collection from its longtime offices at 205 West 39th Street to Madison Avenue in Manhattan will affect about two-dozen jobs, including sales managers and store coordinators, although Vestimenta has not yet determined whether it will rehire the same employees or bring in new ones.

Green was formerly executive vice president for sales and marketing at Ermenegildo Zegna USA, where he worked for nine years. Prior to that, he had worked for the Baltimore-based

Continued on page 8

Prada Finds New Financing

By Amanda Kaiser

MILAN — Prada has found some fresh funding and it's made in Italy.

Prada said it has reached a preliminary agreement with a pool of Italian banks to provide "long-term financial support" for its development strategy. Prada declined to quantify the size of the financing, but daily paper MF reported Friday it is for $498.7 million, or 425 million euros converted at current exchange.

The banking group — which comprises Banca Intesa, Unicredito, Centrobanca and Banca Popolare di Lodi — will replace a syndicate of other banks that guarantee some of Prada's indebtedness. Those institutions are Deutsche Bank, Barclays and BNP Paribas. As reported, Prada was renegotiating its financing terms with these banks amid challenging market conditions that negatively affected the company's results.

Prada did not provide further details regarding the agreement with the banks, adding that "discussions are continuing."

"After 10 years of exceptional development and the slowdown in 2002 and 2003, we have reached all the necessary conditions — organizational, industrial and financial — to move ahead on the path of sustained growth, starting in 2004," chief executive Patrizio Bertelli said in a statement.


Patrizio Bertelli

Prada said it's reorganizing on both an industrial and commercial front and those efforts are starting to pay off. The company cited "strong revenue growth and net improvement in profitability" in the third quarter of this year and the positive trend accelerated in the first half of the fourth quarter.

Prada has yet to release financial figures so far this year. Weekly magazine Il Mondo reported recently that Prada's earnings before interest and taxes for the six months ended June 30 fell 51.1 percent to $21.7 million, or 18.5 million euros, while sales shed 16.9 percent to $732.6 million, or 632.9 million euros. The company declined to verify those numbers.

Friday, Prada reiterated full-year forecasts made by Bertelli last week. The company said 2003 net profit should rise 48 percent to $58.7 million, or 50 million euros, from $31.7 million, or 27 million euros, while sales should be in line with the 2002 figure of $1.76 billion, or 1.5 billion euros, excluding the effects of currency fluctuation.

Prada is working to chip away at the debt pile it amassed from a buying spree to build a portfolio of brands that includes Jil Sander, Helmut Lang, Genny and Car Shoe. After thrice postponing its plans for an initial public offering to reduce its debt, Prada has been forced to explore other methods of financing.

Prada has $821.3 million, or 700 million euros, worth of convertible bonds that expire in 2005. They must be paid back if Prada hasn't listed on the stock exchange by then.

Last week, Prada finalized a deal to sell 55 percent of the British footwear firm, Church's, to Swiss Equinox Investment. Prada said the sale will help it lower its net debt to around $762.7 million, or 650 million euros, by yearend. That figure stood at $1.11 billion, or 950 million euros, at the end of 2002. Prada added it will substantially cut its debt through a real estate spin-off in the coming months.

WWD MONDAY
Accessories/Innerwear/Legwear

GENERAL

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COMING THIS WEEK

TUESDAY: The U.S. Labor Department releases the October Consumer Price Index.

Burberry reports interim results for the first half.

Saks Inc. reports third-quarter earnings.

WEDNESDAY: Phillips-Van Heusen, Talbots and Hot Topic report third-quarter earnings.

THURSDAY: Beijing International Jewelry Fair (through Nov. 23).

Gap Inc., Limited Brands, Nordstrom and Charming Shoppes report third-quarter earnings.

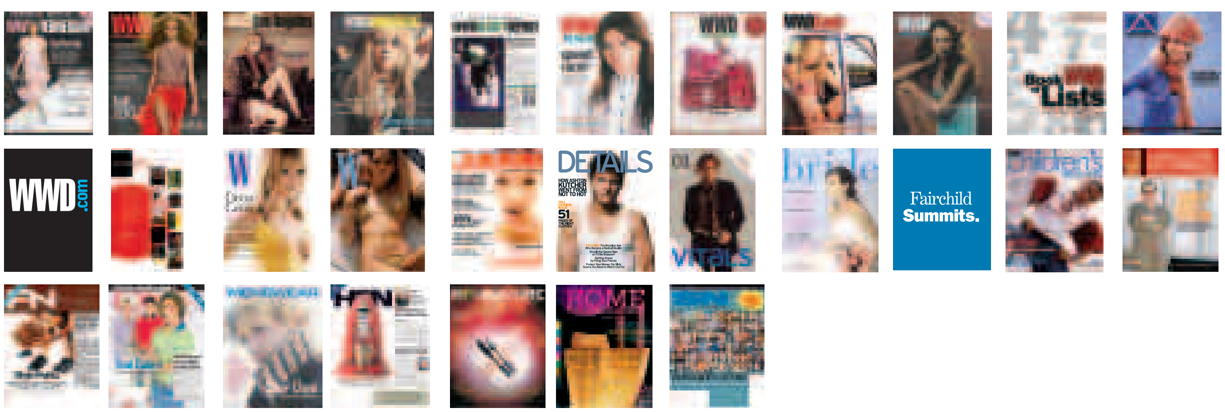
In Brief

- **BLUE MOVES:** Blue Concepts LLC, a division of Commerce, Calif.-based Innovo Group Inc., the maker of Joe's Jeans, has signed two denim licensing partnerships with designers: Los Angeles-based Henry Duarte and Rick Owens, creative director of French furrier Revillon. (Owens was previously based in Los Angeles.) Duarte Jeans will bow at Fashion Coterie in New York next February, with wholesale prices at $90 to $110. Owens Slabs will launch at Pitti Uomo in Italy in January, with a wholesale range from $100 to $120. For both deals, Owens and Duarte will design the collections, which will entail men's, women's and kids' jeans; T-shirts; sweatshirts, and sweaters, while Innovo will oversee merchandising, production and sales. Paul Guez, chief executive of Blue Concepts, which makes Yanuk jeans, said, "The big picture for us is owning and developing brands." Duarte still will design Henry Duarte and retain his two stores. Guez expects sales of both collections to total $8 million.

- **MAKING MORE ON LESS:** Cost-cutting efforts helped Benetton, the Italian apparel and retail company, increase net profits in the third quarter while the sale of its sports equipment division cut into total revenue. For the period ended Sept. 30, net income rose 10.1 percent to $31.6 million from $28.1 million in the same period last year. Dollar figures are converted from the euro at current exchange as Benetton reported profits of 27 million euros versus 24 million euros in the year-ago period. Consolidated revenues, hurt by the recent sale of its sports equipment division and negative currency exchange rates, fell 10.2 percent to $483.4 million, or 413 million euros, from $538.4 million, or 460 million euros, in the same period last year. Operating profits for the third quarter also slid, declining 5.8 percent to $52.7 million, or 45 million euros, from $56.9 million, or 48 million euros. Benetton did not break out sales per region but said for the first nine months, revenue from its apparel division rose 2.6 percent. In a statement, it said that full-year sales and profits should be in line with 2002 results.

F1rst with the last word.

The Authority on Retail and Style



Fairchild F1rst

Great Dane


Maria Jensen
PHOTO BY TYLER BOYLE

LOS ANGELES — Maria Jensen is the first to admit that not many soul artists make it big by way of Scandanavia. "I'm just a little girl from Denmark, so none of this should have been possible," she says. And yet the 25-year-old's debut album "My Soul," can be heard playing nonstop on the radio and in venues like Lotus in New York and The Roxy in West Hollywood, where Jensen is rehearsing for a gig one Tuesday afternoon.

The half-Danish, half-Guyanian singer, who dropped her last name because "it's the Danish equivalent of Smith," is inspired by soulful, moody musicians like Sade and Massive Attack. The tracks on her record are both rhythmic and personal. "It's not something that you can dance to, but you can certainly relate to it," says the artist now known as Maria.

She wrote most of the album in the aftermath of a breakup. "It's like opening up my diary from the last couple of years," Maria says, noting that the first single, "I Give, You Take," is about an ex who "was a bit of an ass, though he inspired a great song."

On the other hand, the idea behind "Intoxicated" came from a Maya Angelou novel. The soul singer's occasional literary angle comes thanks to her parents, who were convinced she'd be a lawyer one day and encouraged her to stay in school. But hoping to follow in the footsteps of Michael Jackson and Tracy Chapman, Maria signed with the Danish producer Soulshock at 15 instead, and has worked with him ever since.

After signing with Dreamworks three years ago and recording the album, Maria moved to L.A. at the beginning of the year. But Jensen is unlikely to be found cruising any of the city's clubs where her songs are so popular. She says she's more of a homebody, preferring songwriting and backgammon to clubbing. Even getting dolled up for photo shoots and videos isn't really her thing. "My mom is a seamstress, so she spoiled me when it comes to clothes. I tend to have disagreements with tailors at my fittings," she says.

And Maria's style is decidedly un-flashy. "If I can find something that doesn't look forced, than I'm happy," she says. "I'm definitely not a bling-bling girl."

— Marcy Medina

Run, Blaine, Run

Blaine Trump may have come in toward the end of the pack last year, but on Nov. 23, she promises to hit top speeds while running a 4-mile course around Central Park as part of the annual race to benefit God's Love We Deliver. "The upper loop of the park is hilly," warns Trump, who has been training every day for the past three months at Equinox. She's hoping to break her 11-minute mile. "And that last hill really does you in."

Tomorrow night, however, Trump will trade in her Nikes for Manolos to co-host a photography auction at the Chelsea Art Museum along with **John Dempsey, Calvin Klein, Michael Kors, Natasha Richardson** and **Anna Wintour** in memory of Herb Ritts and to benefit GLWD. Catch her if you can.


Blaine Trump
PHOTO BY DAVID TURNER

PAINTING THE TOWN

The fall auction season turned up the heat under New York's artists and patrons who all spent the last couple of weeks running from one event to another. First came the Dia ball, where **Jeanne Greenberg Rohatyn**, **Helmut Lang** and **Rena Sindi** rubbed shoulders with curator **Christine Kim** and artists like **Francesco Clemente**. "Years ago, they'd say if you dropped a bomb on the Dia gala, the whole New York art world would disappear," said Prada's **Katherine Ross**. "But now, you'd hit a few designers, too."

At the Guggenheim Museum's Pop Art Ball, sponsored by Hugo Boss and honoring **James Rosenquist**, guests, including **Anh Duong** and **Simon de Pury**, **Maurizio Cattelan**, **Jeff Koons**, **Ross Bleckner**, **Thaddeus Ropac** and **Julian Schnabel**, traveled the museum's spirals, in search of action. "I was around Andy Warhol most of his career," said **Dennis Hopper**, who arrived with a camera and his son, **Henry**. "I guess those were the original pop balls."

The guest of honor wore a re-creation of his famous paper suit from the Sixties, but his wife, **Mimi Thompson**, reminisced about another era. "The party reminds me of many nights in the 1980s when I was out very, very late," she said.

The next night, Hugo Boss again feted the artist, inviting **Lillian von Stauffenberg**, **Renee Rockefeller**, **Daniella Luxembourg** and **Bianca Jagger** to a more intimate dinner in an East Village spot turned dreamy by **Anthony Todd**. Rosenquist, dressed in another paper suit, seemed to be having a hell of a time. "Last night, a woman asked me to autograph her bare thigh," Rosenquist told **Marjorie Raein**.

"If I'd known," said her husband, **Reza**, "I would have shaved my legs."


Katherine Ross in Prada.


Hope Atherton at the Rosenquist dinner.

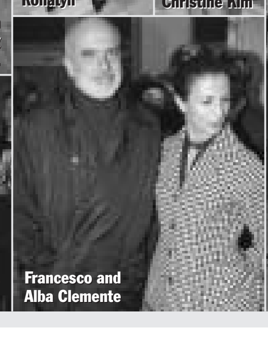

Lillian von Stauffenberg in Balenciaga.


Jeanne Greenberg Rohatyn


Christine Kim


Daniella Luxembourg


Henry Hopper, Julian Schnabel, James Rosenquist and Dennis Hopper.


Francesco and Alba Clemente

PHOTOS BY STEVE EICHNER

Wholesale Women's Apparel Benefits From Fewer Discounts

By Kristi Ellis

WASHINGTON — Wholesale prices for domestically produced women's apparel rose 0.3 percent in October, as retailers eased up on discounting, economists said.

For the 12 months, wholesale prices for women's apparel made in the U.S. fell 0.2 percent, according to the Labor Department's Producer Price Index released Friday.

The wholesale prices for all domestically produced apparel mirrored the women's prices, with a 0.3 percent gain for the month, but a 0.2 percent decline compared with October 2002. Producer prices for girls', children's and infants' apparel remained unchanged last month and rose 0.7 percent against a year ago.

"It is a reflection of demand, which is starting to improve, and therefore, we don't see the acute competitive pressure that we did earlier in the year or in 2002," said John Mothersole, chief economist with Global Insight. "I took this to mean the back-to-school season was pretty good and this reinforces the idea that apparel markets and retailers might see a reasonably good Christmas season."

For all finished goods, producer prices rose 0.8 percent for the month, driven primarily by rising food prices.

"There is a debate on how the market reads this, if there are fears of inflation and whether the Federal Reserve will step in to take control [by raising interest rates]," Mothersole said. "If the glass is half full, you see this as a sign of margins being restored and profit growth looking better next year."

Meanwhile, wholesale prices for gray fabrics rose 1.4 percent in October, but fell 0.3 percent for the year, while finished fabric prices remained unchanged for the month and fell 0.2 percent against October 2002.

Wholesale prices for the majority of women's apparel categories tracked by the Labor Department remained unchanged in October, but were still well below October 2002.

Prices for knit outerwear, sport shirts and sweatshirts were flat last month, but fell 4.5 percent against a year ago, while wholesale prices for slacks, jeans and dungarees remained unchanged, but fell 2.3 percent compared with October 2002.

Domestically produced prices for dresses were flat last month, but fell 1.8 percent against a year ago, and prices for blouses and shirts were even in October, but fell 1 percent year over year.

Prices for skirts were flat last month, but rose 0.4 percent compared with October 2002. Prices for finished sheer hosiery and tights fell 1 percent in October, but rose 7.8 percent against a year ago.

Clothing and Accessories Stores See Slight Sales Gain in October

WASHINGTON — Sales at clothing and accessories stores edged up by a seasonally adjusted 0.1 percent in October, continuing to rebound in a relatively weak retail environment, the Commerce Department reported Friday.

Apparel and accessories store sales increased 4.6 percent year to year to $15.14 billion in October, which was a slower pace than the year-over-year comparisons in September, which gained a strong 8.7 percent.

However, department stores failed to get out of the doldrums in October, posting a 0.7 percent decline in sales to $18.32 billion against September and a 3.9 percent drop in sales against a year ago. Sales at general merchandise stores were flat for the month at $40.5 billion, but sales rose 4.6 percent against October 2002.

"On a year-over-year basis, growth slipped a bit for apparel and accessories stores, but they still look pretty healthy," said Steve Spiwak, an economist with Retail Forward.

Sales at department stores, on the other hand, were less robust.

"Department stores are still bleeding sales, as they have done every month this year," Spiwak said. "It is tough competition from the discounters and, of course, a lot of people are turning to apparel specialty stores for apparel purchases."

In the overall economy, retail sales fell 0.3 percent in October, marking the second decline in two months. The drop was driven by falling auto and gasoline prices. There were bright spots, however, including sales at furniture, consumer electronics and home furnishings stores, as well as restaurants.

Many economists argued that the tax cuts implemented by the Bush administration wouldn't stimulate the economy in the long run and some claimed October's retail sales are a reflection of that.

"We saw a strong summer surge that was driven by tax cuts, refinancing and tax-rebate checks, but now we are seeing a fading impact," Spiwak said. "The cash flow impact that initially sparked retail sales has started to fade and will continue going into the fourth quarter."

However, the National Retail Federation was bullish about the overall retail picture, despite a softening in sales.

"Retail sales are continuing to gain momentum in time for the busiest shopping season of the year," said Rosalind Wells, chief economist with the NRF.

The NRF has forecast a 5.7 percent increase in holiday sales in November and December. It would be the highest increase since 1999.

— K.E.

Zen and the Art of Jewelry Design

By Melanie Kletter

NEW YORK — The paintings are up, the computers are buzzing and David Yurman and his jewelry company already seem right at home in their spacious new Zen-inspired corporate headquarters in TriBeCa here.

"We wanted this to be a place that inspires us, where we can feel relaxed and creative," the designer said during a tour last week of the 64,000-square-foot space, located on the top two floors of a converted printing factory on the corner of Vestry and Hudson Streets in Manhattan.

Sybil Yurman, his wife and business partner, said, "We feel this new space positions us for growth for the next 10 years because we have extra space to grow into."

The move comes at a time when the David Yurman company is poised for expansion. The firm plans to roll out more company-owned stores next year, and it has recently hired key executives to oversee its retail, watch and marketing divisions. The Yurmans said they are on track to reach sales of $500 million at retail this year and are currently seeing double-digit growth.

The two-floor location, which costed about $10 million to design and renovate, is more than triple the size of Yurman's old corporate home on Madison Avenue in Midtown, where employees sometimes had to hold meetings in the hallways. Designed by Danish-born architect Thomas Juul-Hansen, the new space is open and airy, with large windows and soft lighting. It is designed to match the firm's approach to its jewelry, which David Yurman describes as "relaxed luxury."

To that end, visitors entering the 12th floor are greeted by an open room with a Zen-inspired rock garden complete with a jade sculpture and large plants in the center. The floor houses the design studio and executive offices, marketing and sales, creative services and a small production area, while the 11th floor is home to shipping and receiving, and other back-office functions, such as accounting and information technology.

A 1,200-square-foot deck and roof garden are in the process of being completed. The floors are made of materials such as limestone and bamboo, and much of the furniture is crafted in rosewood and mahogany. Some of the pieces are vintage items from Denmark.

The company has its own entrance on Vestry Street, with high tech security and newly installed elevators that go directly to its two floors on the top of the building.

Sybil Yurman said she and her husband looked for nearly two years to find a space that would suit their needs and desires. Longtime residents of the TriBeCa neighborhood, they now work just four blocks from their home.

The new David Yurman headquarters has an open and airy feel.

PHOTOS BY GEORGE CHINSEE

The studio area where David Yurman and his team design the jewelry.

Among the new key executives hired is Carl Barbato, who is vice president of retail and the first Yurman executive dedicated exclusively to the expansion of company-owned stores. There are currently two David Yurman stores — on Madison Avenue here and in Costa Mesa, Calif. — and the firm plans to open a 1,000-square-foot store in the Bal Harbour shops in Bal Harbour, Fla., in April. The firm also recently opened a 500-square-foot in-store shop at Bloomingdale's New York flagship and a 1,000-square-foot boutique is expected to open at the Americana Manhasset mall later this year.

"We think we could support between 10 and 12 freestanding stores," Barbato said.

David Yurman noted the company is exploring such markets as Houston, Atlanta and Las Vegas for additional boutiques.

At the same time, the firm has scaled back its wholesale distribution slightly so that its jewelry is now sold in about 390 doors, down from about 450 a year ago, as a way to be more exclusive and go deeper in the doors it is already in, said Carol Pennelli, senior vice president of sales and education.

Other recent hires are Tom Kennedy, a former executive at Unilever, who is director of watch timepieces, and Arlene Brickner, who is vice president of marketing. Pennelli, Kennedy, Brickner and Barbato all report to executive vice president Terri Eagle.

On the merchandise front, Yurman is developing an extensive diamond jewelry collection slated to bow at the Basel, Switzerland, show in April. While the firm is still best known for its cable jewelry, in the last year, it has stepped up its focus on watches and has opened a watch facility in Switzerland to oversee production of its timepieces. It also has introduced more jewelry with pearls and larger gemstones such as amethysts and garnets, as well as more yellow gold, and has seen a strong reaction to its new children's line called Cable Kids.

"We are also planning to do more limited-edition pieces," added David Yurman. "We didn't have the space before, but now we do and we can pursue more creative endeavors."

Fashion Scoops

THE SAKS DENOUEMENT: After weeks of reports, Saks Fifth Avenue is expected to let analysts in today on the news that **Fred Wilson**, chief executive officer of Donna Karan International, will be taking over the helm of the department store from **Christina Johnson**, who left last month. What's more, when the official announcement is made — sources said on Tuesday — Donna Karan's parent company LVMH Moët Hennessy Louis Vuitton is expected also to announce that Wilson's hand-picked replacement will be **Jeffry M. Aronsson**, ceo of Marc Jacobs, as has been rumored. While other candidates had been approached last week, Aronsson was said to have received the final approval on Friday.

Some insiders are also saying that LVMH will take the opportunity to issue an official denial over recent speculation that it's considering a sale of either the Donna Karan or Marc Jacobs businesses.

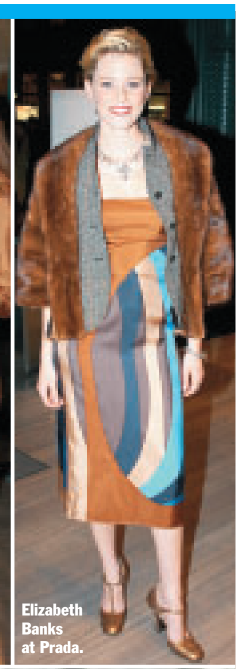
ENGAGED: Robert Downey Jr. announced his engagement to "Gothika" producer **Susan Levin** Thursday night at the movie's Los Angeles premiere. The film's star gave Levin an engagement ring in London on her birthday, Nov. 6, that was designed by his friend and former manager, **Loree Rodkin**. The delicate band features a tunnel of diamonds and a dark green and purple sapphire in the center. Rodkin said Downey came to her two weeks ago and asked her to design a custom ring. No word yet on whether she will design the pair's wedding bands, though she has done so for **Lauren Holly**, **Virginia Madsen** and **Helen Hunt**. And no word yet on the date — you see, Downey is still married to first wife **Deborah Falconer**. But he already has his co-star **Halle Berry**'s stamp of approval. "Anytime people fall in love and decide to connect, that's a good thing," she said.

EYE SPY: Reading restaurant menus is a strenuous exercise in some New York restaurants. When **Danny Meyer**, Union Square Cafe's owner, started noticing how patrons squint while looking the menu, he took an unusual step: Rather than opting for a new font, he decided to team up with eyewear firm Morgenthal Frederics. Patrons can now pick from an assortment of fashionable Morgenthal Frederics reading glasses, which, like the menu, have to be returned after orders are taken. But no need to fret: The specs are available at Morgenthal Frederics boutiques for $295.

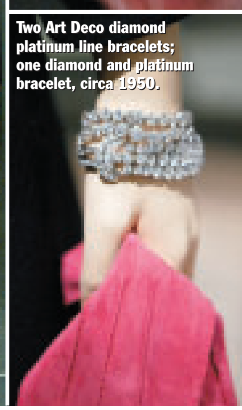
Nineteenth-century diamond and natural gray pearl choker; 19th-century diamond brooch; 1950s gold, diamond and emerald evening bag.

Art Deco diamond and natural pearl brooch in platinum by Cartier Paris, circa 1910.

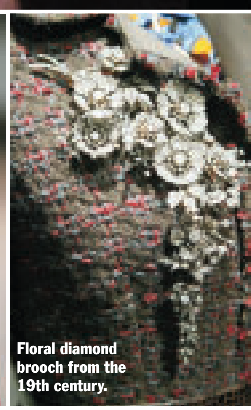
Fred Leighton and Kristin Davis at Prada.



Elizabeth Banks at Prada.



Two Art Deco diamond platinum line bracelets; one diamond and platinum bracelet, circa 1950.



Floral diamond brooch from the 19th century.

Nineteenth-century ruby and diamond brooch and a 19th-century diamond brooch.

JEWELRY PHOTOS BY KYLE ERICKSEN; PARTY PHOTOS BY STEVE EICHNER

The Jewels in the Gowns

By Anamaria Wilson

NEW YORK — The bauble-loving fashion designer, Miuccia Prada, and the Prada-loving jeweler, Fred Leighton, have struck up a rather unlikely partnership, yet one that behooves them both. Prada has handpicked an assortment of estate and vintage jewelry from Leighton's vast collection and is showcasing the elaborate pieces in her SoHo flagship. The coupling serves to take high fashion and fine jewelry to another level entirely.

"The idea was to show Prada's way of merchandising, not a jeweler's way," said Leighton. "So they mixed the clothing and the jewelry on the mannequins in order to show the way that Mrs. Prada would actually wear the jewelry. I think customers will see the jewelry and the clothes in an entirely different way."

According to Leighton, Prada has a penchant for romantic, Old World pieces and for the exhibition selected 19th-century diamond chokers, tiaras and bracelets along with Art Deco pieces and vintage Cartier, Van Cleef & Arpels and Boucheron jewels. Yet she's had the jewelry styled in an unconventional manner. Grand, apparently dated treasures such as tiaras have been made immediately modern by flipping them upside down. Case in point: the 19th-century diamond tiara with spiral designs Kate Hudson wore as a headband to the Metropolitan's Costume Institute gala last April. The mannequins are dressed in both vintage and this season's Prada clothes, further offsetting the antique jewels.

Prada is using estate jewelry where most would use costume, yet she's also taken to mixing high-end jewelry with traditional day looks — offering up the suggestion to women to wear real jewels every day.

"We feel important new ideas can be displayed in an experimental way in this store," said Constance Darrow, chief executive officer for Prada USA. "We have presented Fred Leighton's beautiful period pieces on vintage and current collections to show how estate jewelry can be timeless and modern."

At the cocktail reception last week to launch the Fred Leighton collection at Prada, fashion and jewelry connoisseurs alike gathered to see what the collaboration wrought. "Everyone is dressed so well," said "Sex and the City's" Kristin Davis, scanning the crowd of Prada-clad women and men. "Fred Leighton is always so good to us. I can't get enough of his jewelry, and I often create my outfits around it."

Davis accessorized her tie-dyed Prada dress with a pair of bold vintage Van Cleef & Arpels emerald earrings, borrowed from Leighton for the occasion. "I feel like Elizabeth Taylor," she quipped, stroking the dangling earrings.

Other revelers included actress Elizabeth Banks, Sam Rockwell and model Eugenia Silva. Silva, however, was devoid of jewels, having left her Leighton chandelier earrings at home because she was afraid she'd lose them at a bar later.

As the party wound down, the seemingly tireless Leighton was still working the crowd. He noted that while he always loved the idea of this collaboration, initially, he had some doubt. "I asked Mrs. Prada, 'Is this going to sell?'" he said. "And she said, 'I have clients that fly in on their private planes and spend $50,000 to $100,000 and then leave. They'll spend.'"

"What I love about Prada is that they're not chintzy," laughed Leighton. "I'm the chintz."

— With contributions from Marc Karimzadeh

Target Setting Sight on Baby Boomers

By Katherine Bowers

BOSTON — Target is sweet on Baby Boomers.

The retailer revealed on its third-quarter conference call last week it will launch two apparel lines aimed at the demographic — Linden Hill for women and Breakwater for men — in January.

Target has avidly courted the affluent and active 40-plus customer this year, launching Isaac Mizrahi casual sportswear and VF Corp.'s Blu Jeans by the Makers of Lee denim in the last six months.

To date, Mizrahi's merchandise has been "a smashing success," and the company said it is also "very pleased" with Blu Jeans, according to Target Corp. vice chairman Gerald Storch, singling out those properties as some of this year's stronger launches during a question-and-answer session with analysts.

The Minneapolis-based retailer will also unveil a prototype store in March, with a floor remerchandised to create "worlds" of related goods.

A prominent "consumables world," for instance, will mingle high-frequency household buys like beauty, health and paper goods together, said Target Stores president Gregg Steinhafel. Other new "worlds" include a toys-and-entertainment section for young families and a "baby world" that puts everything from formula to baby furniture together.

Although on the surface the new prototype design and the Baby Boomer apparel push seem unrelated, data gathered from Target's guest relationship management, or GRM, programs drive both initiatives, said Storch.

As the retailer gets better at collecting and analyzing point-of-sale data, it is increasingly able to "identify our guests by name, address and transaction data," he noted.

GRM research, he continued, "has led to our intensified focus on trip frequency, mom-and-baby guests, recent movers and zoomers — the affluent, aging Baby Boomers."

The two new apparel brands, Linden Hill and Breakwater, are targeted squarely at zoomers, who Steinhafel said have a young spirit, an above-average household income and "a desire for a multifunctional wardrobe."

Linden Hill will take styling cues from such demographic "benchmarks" as Eileen Fisher, J. Jill and Chico's, said Steinhafel, while Breakwater references Perry Ellis and Tommy Bahama.

Pieces will retail for $10 to $30, slightly more than Target's core Cherokee offering but in line with other flagship brands like Mossimo and Isaac Mizrahi.

Linden Hill's focus on natural fibers like silk, linen and cotton echoes lines like Eileen Fischer, while the bid to provide looks that are casual but coordinated is reminiscent of Chico's.

While the company didn't offer revenue projections or any guidance on how widely the new lines will be rolled out, Davenport & Co. analyst David Campbell said Target doesn't "make big bets on any one brand or category. It will start out incremental and if it does well, they'll expand it."

Target has also partnered with flea-market decorating guru Rachel Ashwell on an upcoming home linens line dubbed Simply Shabby Chic, to launch next year.

As it inches toward more affluent and sophisticated customers, Target is also expanding its successful test of wine sales in its California stores.

Campbell said the new launches seem "very consistent with what Target has been trying to do."

Both Target and Wal-Mart are working feverishly to persuade their more affluent customers to buy higher-margin home goods and apparel.

Target is "relatively more successful" at this, Campbell said, citing Target's superior skill at translating a lifestyle ethos into goods on a shelf.

In comparison, Wal-Mart has admitted it has been struggling, taking heavy markdowns this summer on an apparel assortment it had geared to be more trend-right.

The Bentonville, Ark.-based retailer is relatively more reliant on a core base of low-income customers. Getting them to trade up to goods like the recently launched Signature by Levi Strauss is a tough proposition, given "spending among those shoppers has been relatively soft," Campbell said.

As reported, Target's holiday TV ad campaign features the Julie Andrews song classic "Favorite Things." Supporting that will be holiday-specific "favorite things" from its flagship labels: a Mossimo cashmere-blend sweater, Swell sleepwear, an Isaac Mizrahi striped turtleneck, a Michael Graves scrabble game and a Sonia Kashuk makeup kit.

Steinhafel said the company has ramped up holiday marketing efforts compared with last year and has stockpiled more inventory on electronics, toys and digital gadgets in a bid to gain market share in those categories.

"As always, we remain vigilant in our long-standing practice of matching Wal-Mart's prices in local markets on identical items," he said.

Loulou, Bergdorf's Prepare for Launch

By Miles Socha

PARIS — After a swing through New York in late September to finalize details of her forthcoming shop at Bergdorf Goodman, Loulou de la Falaise departed the city with much lighter luggage.

That's because enthusiastic buyers at Bergdorf's relieved her of most of her jewelry — along with that worn by her adviser, Ariel de Ravenel — to shoot immediately for the store's upcoming holiday catalogue. "They wanted everything we were wearing," de la Falaise recalled. "They've been particularly enthusiastic and charming, I must say."

It's been less than a year since de la Falaise, the legendary muse and accessories guru of retired couture icon Yves Saint Laurent, hung out her shingle on Rue de Bourgogne in Paris. At the time, she vowed to keep her business centered there, and insisted she would not leap into wholesaling her signature line of ready-to-wear, handbags and jewelry until she revved up her woefully tardy production schedule.

But Bergdorf's insisted, and secured de la Falaise exclusively for North America. The store plans to showcase her jewelry on its main floor, starting at the end of this month, adding rtw and jewelry on the fourth floor come mid-December. A launch event is planned to coincide with fashion week in New York in February.

"What we love about her collection is that it has so much personality," said Robert Burke, vice president and senior fashion director at Bergdorf's. "Fashion is not always about the runway. It's also about very wearable, interesting and unusual pieces and Loulou's collection has such a high taste level, done in a very understated way."

Burke said he dispatched one of his deputies to help the fledgling house ready a collection for cruise delivery. It centers on proven bestsellers, including kimono blouses, pajama pants with buttons running up the sides, suede shirt jackets in vivid colors, raw silk jeans and wrap sweaters with contrasting trim.

For her part, de la Falaise had to admit she spied a niche for her jewelry designs even after scouring Bergdorf's vast offering. "The things that are in my price range are a lot more timid," she said. De la Falaise is famous, especially for her large-scale necklaces, which combine such diverse materials as river stones, glass, lapis lazuli, quartz, lacquered bamboo, turquoise, amethyst and silk tassels. She offhandedly described the elements, often mounted on silk cord, as "semiprecious or even quarter-precious."

For spring, jewelry groups are inspired by such disparate themes as China, Africa, flowers and animals, with pearls and crystals rounding out the options. Retail prices range from about $300 for earrings to about $1,500 for necklaces.

Jewelry looks by Loulou de la Falaise.

PHOTO BY STEPHANE FEUGERE

Jewelry represents about a quarter of de la Falaise's business, with knitwear being the other major category. Rtw prices range from about $400 to $700 for knitwear up to about $2,000 for a suede jacket.

Meanwhile, other retailers have approached de la Falaise about carrying her line, but she insists she won't expand her distribution before fall 2004. But what if they insist?

"We're not in an aggressive mood," she demurred.

Tommy Discussing Dillard's Distribution

By David Moin and Evan Clark

NEW YORK — Dillard's status as the number-one retailer of Tommy Hilfiger product is likely to change.

On Friday, the Little Rock, Ark.-based Dillard's Inc. and the New York-based Tommy Hilfiger Corp. said they are reevaluating their strategy for distribution, which almost certainly means reducing it. Hilfiger merchandise currently sells in 325 Dillard's stores and in fiscal 2003 accounted for $240 million in sales. Business with Dillard's represents approximately 13 percent of Hilfiger's consolidated net revenue.

It remains to be seen whether Hilfiger and other retailers will similarly reevaluate their relationships. In most cases, the brand's distribution through department stores is already quite mature.

The number two and three distributors of Hilfiger are Federated Department Stores and May Co., respectively, each representing about 10 percent of Hilfiger's overall sales, according to the vendor's annual report.

At Federated, at least, no major swings in its Hilfiger distribution are foreseen, according to store officials. May Co. officials could not be reached late Friday.

"Macy's, in keeping with its strategic direction of buying limited-distributed product and product that is only distributed at Federated Department Stores, is very optimistic about our future with Tommy Hilfiger," said Hal Kahn, chairman and chief executive officer of the Macy's East division of Federated. "We feel better about Tommy's business going forward than we have in years."

Part of the reason for that upbeat feeling is that Federated has a one-year exclusive on selling the upcoming H Hilfiger better-priced line from Hilfiger. Kahn said it will be launched in the stores in August.

A Macy's West spokeswoman said there are no major changes in Hilfiger's distribution. "Business is the same," she said. Macy's West and Bloomingdale's also will sell H. About two years ago, Bloomingdale's sharply curtailed Tommy Hilfiger, dropping the men's wear from many of its doors while keeping the designer's women's and children's lines in all Bloomingdale's locations.

Hilfiger indicated that the Dillard's plan is in line with its previously announced strategy to reduce its distribution to U.S. department stores. The strategy reflects Hilfiger's saturation at retail, some uneven performances with the product over the last few years and recent better performances in Europe, where the company sees greater growth in the future. Hilfiger said it is working with Dillard's to "mutually agree on the level of distribution to enable each company to better achieve its business and financial goals." Hilfiger said with discussions with Dillard's ongoing, it couldn't predict the outcome or impact on future financial results, though any decisions could materially reduce revenue and net earnings below the estimates for the second half of its fiscal year, ending March 31, 2004.

"Over the longer term, the company believes it can mitigate the impact through increased sales to other retailers, improved regular-price selling, improved gross margins and expense reductions," Hilfiger said.

The vendor distributes men's and women's sportswear, jeanswear and children's wear under the Tommy Hilfiger trademarks and related apparel, accessories, footwear, fragrance and home furnishings through licensing arrangements. The products are sold in department and specialty stores in the U.S., Canada,

Continued on page 8

LVMH's Day in Court

PARIS — A key battle in the luxury wars will be waged today in the commercial court here.

LVMH Moët Hennessy Louis Vuitton, which lodged a $115 million (100 million euros) bias suit against investment firm Morgan Stanley one year ago, will finally argue its plea before a panel of judges. The case is considered a first in Europe and is bound to be followed closely by other luxury players and Wall Street watchdogs.

Lawyers for LVMH are expected to make their arguments first, with Morgan Stanley then outlining its defense and the reasons behind its counterclaim of $11.5 million for procedures it describes as "abusive." The judges are then allowed to ask questions of both parties before adjourning for deliberations. Sources familiar with the case said a judgment could be delivered as soon as next month.

Since Morgan Stanley's counterclaim was joined with LVMH's original suit, it is expected the judges will rule on both issues at the same time.

Claire Kent, the Morgan Stanley luxury analyst who is at the center of the case, accused by LVMH of waging an anti-LVMH, pro-Gucci campaign in her research reports and the media, is not expected to be present. Morgan Stanley advises Gucci on mergers and acquisitions, and has denied any bias or conflict of interest.

The case has been slowly winding its way through the courts amidst a backdrop of mounting fear of reprisals by equity researchers.

Morgan Stanley presented its defense last May, accusing LVMH of manipulating Kent's writings to construct its case. In the interim, LVMH submitted conclusions and new evidence, and Morgan Stanley responded in turn. No documents were made available to the media, but today's hearing is open to the public.

Vestimenta's Plans for Calvin

Continued from page 2
Schoeneman company for 17 years, where he started as a sales trainee and left as a senior vice president.

His selection to head the Vestimenta business in the U.S. was seen by executives at both companies as an important point of connection between Calvin Klein and Vestimenta. Because of his long history of working with a family-controlled Italian business, he also was seen as having the necessary experience of understanding the intricacies of a collection that is designed in New York, produced in Italy and then sold back in New York.

"Vestimenta is taking a new strategy in the global market," Green said. "Vestimenta has had a great luxury brand for a long time with its own product for men and women, but now we are marketing other products, as well."

Roberto Zanetto, managing director and ceo of Vestimenta SpA, added that Green's immediate focus will be on the physical collaboration with the Calvin Klein organization.

"All of the organization is working in a very positive direction with this collection," Zanetto said. "We think the production of the collection of Calvin Klein is a good opportunity for us because the level of the product really corresponds to our point of view in terms of image, quality, character and the balance of the collection."

From the vantage point of CKI, the transition of the production of the line has gone better than expected, although there were a few bumps with fall deliveries, which, in some cases, were behind schedule. However, the quality and fit exceeded expectations, and current sell-throughs for fall have been "very good," said Tom Murry, president and chief operating officer of CKI.

The women's and men's collections continue to generate in the neighborhood of $30 million to $40 million in retail sales annually, but moving the production and distribution responsibilities to Vestimenta is a key strategy for CKI under its ownership by PVH, since the collections also have posted losses of roughly $20 million annually in recent years. Vestimenta is taking on the responsibility of making them profitable within its own operations.

"We're right on schedule," Murry said. "We were really looking for someone with Bob's kind of background and experience, who has a thorough understanding of the business in the U.S., to make sure we capitalize on all the opportunities that exist for the collection."

In the near future, the company has identified several opportunities for building all of its collection businesses, including the men's and women's lines, but also in augmenting the scope of its accessories lines.

Through Vestimenta's existing supply relationships with Trussardi, Calvin Klein expects to improve the quality of its accessories and hopefully develop that area as a more significant business for the house. Zanetto added that the Calvin Klein accessories business has increased by 30 to 40 percent within Europe since Vestimenta took over the production there in March, and he anticipates the gain could be equally significant in the U.S.


PHOTO BY JOHN AQUINO

Bob Green and Tom Murry

Also in the immediate future, Murry disclosed plans to open a Calvin Klein store in Moscow next spring in the Crocus City Mall, in a location adjacent to existing Versace, Byblos and Emanuel Ungaro boutiques. The 2,000-square-foot space is being developed as a joint venture with a local company, a template for retail franchising that could be replicated in cities around the world. Another area the company is closely looking at for retail expansion is Italy, where CKI is currently exploring locations in Rome, Milan and Venice.

While CKI is looking at a number of partners to operate overseas locations, he noted that "we're not opposed to owning and operating them ourselves."

Hilfiger, Dillard's in Supply Talks

Continued from page 7
Europe, Mexico, Central and South America, Japan, Hong Kong, Australia and other countries in the Far East, as well as the company's own outlets and specialty stores in the U.S., Canada and Europe.

In addition, Dillard's, like the rest of the department store sector, is doing what it can to differentiate itself from the competition. The chain, for instance, is exclusively launching Intuitions, one of Liz Claiborne Inc.'s new better lines for spring. At Dillard's, private brands made up 18.2 percent of total sales last year, up from 15.4 percent the previous year.

Hilfiger's new chief executive, David Dyer, who hails from Lands' End, recently outlined a future of more selective distribution for Hilfiger, while reporting stronger second-quarter earnings.

"The brand is powerful and offers potential for further growth," he said on a conference call at the time. "This isn't to say that there aren't challenges and many strategic decisions ahead."

Dyer added: "What we need to do is bring the supply and demand — market by market, door by door — back to a realistic level where we all can make money, at least those that choose to carry our brand in the broad-based way that it needs to be carried."

With the help of an upswing in its European business, Hilfiger's profits for the three months ended Sept. 30 rose 6.1 percent to $64.7 million, or 71 cents a share, while revenues inched up 0.3 percent to $547.9 million.

However, Hilfiger is looking for its U.S. wholesale volume to drop by about 20 percent in the second half of this fiscal year.

Prior to Friday's after-market announcement, shares of Hilfiger dropped 2.4 percent, or 37 cents, to close at $14.86. Dillard's stock was off 9 cents, or 0.6 percent, to close at $15.13. Both issues trade on the New York Stock Exchange.

Settlement Reached in Warnaco Case

NEW YORK — Linda J. Wachner, the former chief executive of The Warnaco Group, and two other company officials have agreed to pay $12.85 million to settle a three-year-old lawsuit accusing them of defrauding investors.

The agreement follows a long court battle in which a federal appeals court in Manhattan reversed a trial court's original dismissal of the lawsuit in July 2002.

The lower court had dismissed the action on grounds that the shareholders had waited too long to sue because they were alerted to possible inventory and accounting issues much earlier than the firm's official regulatory filings. One filing in question had been the 1998 revised annual report that Warnaco filed in April 1999.

This settlement follows a separate ongoing investigation by the Securities and Exchange Commission into Warnaco's financial statements for fiscal years 1998, 1999 and 2000, according to a company filing with the SEC on Oct. 30. Warnaco had said the SEC might bring a civil action against the company and "certain persons" and that it was negotiating a settlement.

Wachner was once the one of the highest paid female ceo's in the U.S., having earned more than $158 million in salary, bonuses and options from 1993 to 1999. Judge Lawrence M. McKenna of Federal District Court of Manhattan gave preliminary approval to the settlement last week.

In addition to Wachner, the two other defendants are William Finkelstein, Warnaco's former senior vice president and chief financial officer, and Stanley Silverstein, former general counsel. Finkelstein currently is chief operating officer of American Enterprises Inc., a maker of children's sleepwear, and Silverstein remains with Warnaco as a senior vice president.

Victoria's Beauty Secrets

NEW YORK — The backstage experience at the Victoria's Secret Fashion Show is bigger than anything found at Fashion Week. But what would you expect to find behind the scenes at the world's most-watched fashion show?

"It is very different," said Charlie Green, Victoria's Secret Beauty's premier makeup artist and spokesperson. "You've got a room full of the most beautiful girls and the biggest supermodels in the world." She compared this with a "normal fashion show where you have four or five big girls and then the rest, great. This show, there's nobody that's your average joe."

"I was a lot more nervous this year," added Green, who joined VSB in November 2002. "Last year, I went into the show not really knowing what a huge media circus it was."

Also backstage was star stylist Luigi Murenu for Streeters. Murenu noted that he was excited, as it was his first time working on the event. He described the look as "very sexy bedroom case. "It's kind of cool because I don't actually have to take the usual trolley of makeup," said Green, who added the colors in the box "work on everyone," including Naomi Campbell, Heidi Klum, Tyra Banks and Gisele Bündchen.

Green said there was a starting point for the look and then she tailored it to each of the girls. "I think with lingerie, if you put too much makeup on, it can get a bit X-rated. So I'm pur-

BEAUTY BEAT

posely keeping it on the down low — these girls are sexy enough!" To get a feminine and pretty look, she used pale, shimmery shades around the eye and "lots and lots and lots of mascara." Mosaic Bronzer was employed to make "the skin very radiant." On the lips, a "nudey, pinky" color called Sex Kitten was topped with clear gloss.


PHOTOS BY KYLE ERICKSEN

Charlie Green puts the finishing touches on Tyra Banks using gloss from the Super Model Lip Kit. Green perfects Gisele's look with the Supermodel Runway Kit.

hair with an accent of style." A curling iron, hair extensions and falls were used, as well as styling products from the VSB hair care line, due to launch in spring 2004.

To determine the makeup look, Green said she considered the qualities of the models, the clothing and the accessories. "I just have to create a look to enhance that — not compete with it." When asked about the challenges of doing makeup when there is such a focus on the body, Green explained that she does whatever it takes to make sure the models are perfect from head to toe. It's important the skin is "very sensual, touchable and sexy." VSB's Dream Angels Shimmer Body Lotion was used to help with that.

She described the face as "very sexy, fresh and feminine." Naturally, she used the VSB Supermodel Runway Kit, which features 10 multipurpose products packed together in a red case. Then there was champagne-colored shades on the eyes with a touch of sparkly gloss under the the eyebrow and eye. "You need to look good from all angles," noted Green. "Like 360 degrees of perfection."

Green also used VSB's Super Model Lip Kit, which will be featured in VSB's very first commercial. It will debut during the airing of the lingerie show on Nov. 19 on CBS. The spot will feature Tyra Banks and Gisele Bündchen having the product applied by Green. She joked that at first she was excited, then horrified.

"I'm next to Gisele and Tyra — how do you think I feel? They decided to shoot the commercial backstage during the fashion show [which is pretaped]," said Green, who said it is a busy time for her and explained that although she does have a crew of assistants, "there are 27 models and 20 dancers to work on."

— Kristin Finn

EUROPE WATCH

SLOW MOTION: Fast-fashion chains in France slumped for three consecutive months for the first time in more than 10 years, said François Forget, director of retail research firm Conseil Nationale de Sucursalistes de l'Habillement. For the period July through September, sales fell 10 percent. "The drop can be traced to rising unemployment and the unusually hot summer," explained Forget. "August was the toughest month — there was a 15 percent drop." Sales declined 10 percent in July and 5 percent in September for chains such as Hennes & Mauritz, Gap, Zara, Morgan, Etam and Kookai. Through the first nine months of the year, sales among fast-fashion chains in France have fallen 0.5 percent. "October's not been better," said Forget. "There was zero growth." To kick-start sales, chains have extended the traditional fall promotional period, putting a greater number of items on sale than is typical. "The discounts are also greater than usual," said Forget. Meanwhile, H&M reported on Friday that its sales in October gained 10 percent. The firm did not provide a breakdown by market. **— Robert Murphy**

Accessories Report

Full Uptick Brings Spring Orders

By Melanie Kletter

NEW YORK — With the economy showing signs of a pickup, accessories firms of all stripes were breathing a little easier during the November market.

After a challenging year, companies said fall retail sales have been better than expected and they are upbeat about business for spring. A number of makers said this was one of the best markets they have had in two years.

"I feel very encouraged by what we have seen this market," said Helen Welsh, president and chief executive of the multiline showroom, The Helen Welsh Group. "Business is good at retail right now, people are feeling positive and stores are planning up for spring, particularly in handbags."

Cynthia O'Connor, owner of the eponymous showroom, said, "I am getting a lot of reorders, especially for big bags, and we are seeing more business in categories that were weaker in the past few years, such as fabric belts and hair accessories. We are trying to bring fun items to our customers and layer on interesting items."

Many executives said the $30 billion accessories market is not dominated by one trend at the moment, but by a number of key looks.

While color continues to be the big story in all fashion categories, including accessories, firms also are adding plenty of other novelty items to lure customers into stores for spring, such as print bags, whimsical coin purses and key chains. Mod themes are still garnering attention, and the "jelly" handbag made of plastic or rubber was another hot item and could be found at showrooms around town. Many handbags this season come with little extras inside.

"We are focused on adding value and many of our bags come with something extra, such as a key chain, cell phone holder or cosmetic bag," said Rhonda Brown, president and ceo of Jones Apparel Group's footwear, accessories and retail division. "The price of the bag has to equal the value that customers perceive."

In jewelry, chandeliers and big earrings are still going strong, although long and linear looks are gaining ground, as is silver jewelry in geometric shapes, as seen in new collections from Carolee and Colette Malouf. Bridal jewelry is becoming a more important segment of the business. Among the jewelry companies introducing bridal looks this season were Judith Jack and Givenchy jewelry, both of which are divisions of Jones Apparel Group.

As usual, some firms rolled out new brands and divisions this market. Watch company MZ Berger & Co. launched its watch offerings produced under license for David & Goliath and French Kitty. Watches for David & Goliath, a hip brand best known for its quirky T-shirts and sleepwear, will carry wholesale prices of $35 to $45 and includes styles with leather straps and retro styling with oversized cases.

Also introduced this market were watches under the French Kitty name, which carry average wholesale price points of about $35, and include leather looks and modern styling. Distribution for both lines is targeted at specialty and department stores, said Marci Gordon, chief marketing officer.

New accessories from Nautica and Carolee's silver pendant necklace.

MZ Berger earlier this year introduced a division to focus on accessories and gifts, and it also has moved into new headquarters in the Long Island City section of Queens, N.Y., and updated its logo to showcase a more modern look. The company did not reveal sales projections for the new lines.

Among other firms, Monsac, the handbag company now owned by Echo Design Group, launched the first full handbag collection under the Echo brand. Echo bags were tested this season at a few stores, but this was the first real debut of the line. The bags are designed to coordinate with spring patterns of Echo scarves and are made of materials such as coated linen, silk and straw, and many styles come with a matching scarf.

Monsac has expanded its showroom to accommodate the Echo bags, which wholesale for between $20 and $70. Stephen Roberts, co-president at Echo, declined to give sales projections, but said, "We are serious about this business and we expect it to be a big opportunity."

The Nautica name is best known for its sportswear, but the firm has been steadily building up its accessories offerings, and for spring, it has expanded its handbags, produced by Wathne Ltd. and also has introduced footwear, which is made under license by GBMI Worldwide. Its other accessories offerings include watches, which are produced under license by Callanen International and have been revamped to include more fashion-forward looks. Eyewear, made by Marchon, also has been updated to coordinate with the other accessories categories.

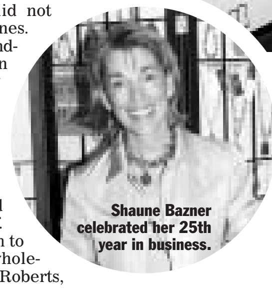
"Accessories are a huge opportunity for Nautica," said David Chu, Nautica's ceo. "We think it could be as much as half of the women's business. Right now, we are focusing on making sure the products are right and are well designed."

The Nautica footwear and handbags are designed to coordinate and feature materials such as suede, nylon, canvas and leather. While the initial handbag line was more athletic-inspired, the new collection includes more styles designed for evening, as well as messenger bags, oversized totes, backpacks and some cosmetic bags and wallets. Wholesale prices for footwear run between $24 and $40, while handbags wholesale for between $25 and $42.

Chu declined to give sales projections for the lines. Nautica, now a division of VF Corp., reported in July that royalty income, which include handbags, watches, eyewear, swimwear, home and men's fragrances, jumped 19.3 percent to $2.4 million in the first quarter ended May 31.

PHOTOS BY DAVID TURNER, ROBERT MITRA AND JOHN AQUINO

Jones Apparel Group has relocated its handbag showrooms, including Bandolino, to 385 Fifth Avenue.



Shaune Bazner celebrated her 25th year in business.

TOP BOOKING SPRING TRENDS

- Lots of color, especially pink and orange.
- Jeweled embellishments on handbags, hair accessories and scarves.
- Handbags made of rubber, PVC or plastic coating.
- Bold and graphic silver jewelry, sometimes paired with leather or suede.
- Zodiac motifs.
- Pearls, especially oversized ones.
- Cargo bags.

Looks from the new David & Goliath watch line.

At the accessories division of Jones Apparel Group, the showrooms have been consolidated so that the full range of handbag and jewelry offerings are in one building, at 385 Fifth Avenue in Manhattan. Jones now makes handbags for its Gloria Vanderbilt, Nine West and Nine & Co., Bandolino and Jones New York divisions, as well as for Esprit, under license, while jewelry brands include Nine West, Judith Jack, and Napier as well as Givenchy and Tommy Hilfiger, both of which are produced under license.

A number of companies held events and soirees around town during market week, including Sector Group, which held a big party at the Bryant Park Hotel to debut its new watch offerings from Valentino, Moschino, United Colors of Benetton, Roberto Cavalli, PZero and Sector.

"We try to keep the soul of each brand," said Franco Bosisio, design director at Sector, who flew in from Italy to show off the new offerings to buyers last week.

Shaune Bazner, the designer best known for her innovative hair accessories sold under the label Mei Fa, held a special event at the Morgan Hotel to celebrate her 25th year in business. The company is in the midst of rebranding itself so that its jewelry and other accessories carry the label Shaun Bazner, while the hair items will still be sold under the Mei Fa name. Her products are now sold in about 3,000 stores, including Nordstrom, Chico's and the Boston Museum of Fine Arts.

"It's been an interesting road," Bazner said at the event, as she previewed her new offerings, which include earrings and necklaces made of semiprecious stones, such as garnets, as well as glass beads and shells. "I have had a lot of ups and downs and ins and outs, and that's what makes it fun."

Innerwear Report

Lingerie Finds a New Formula

By Karyn Monget

NEW YORK — A sense of renewal infiltrated the November innerwear market.

The reason was the abundance of new product and ideas at a time when retailers are increasingly cutting back on the breadth of their merchandise and focusing on key styles, all the while anxiously awaiting the first indications of the holiday selling season.

Retailers said they had a lot on their plates for spring, summer and early fall programs, such as rooting out the brands and items that haven't been performing, and setting a new course with fashion merchandise, labels and categories that will boost margins and build incremental business.

Typically, merchants and manufacturers talk about newness and fashion, and how the marketplace is in need of different ideas and products that will stimulate consumers to buy, thus thinning out inventory levels. But pulling through with new initiatives often has been blocked by strategies that frequently don't push the envelope and open-to-buy budgets that are consistently allotted to mainstream brands that stay close to the basics.

Now, there appears to be a concerted effort on the part of retailers and vendors to step up to the plate with the introduction of new brands and product offerings that break out of the mold, as well as the expansion of classifications that can be sold at full price.

Daywear got the ball rolling this year with contemporary pieces from specialists such as Cosabella and Hanky Panky. Key items are camis, boy-cut pants, thongs, low-rise string bikinis and a variety of dual-purpose tops, and at-homewear is trading up to a new glam identity. But there's still lots of room for trend-specific classifications.

Key ideas include:

- The infusion of fashion colors, prints and embellishments for full-figure bra brands, such as Lunaire, Panache, Grenier and Lilyette at Maidenform, and the Curvations label by Bestform at VF Corp. It's a line of business that historically has been basics driven.
- The romantic, antique lace cami by designers such as Leigh Bantivoglio.
- Bridal and special-occasion foundations, including specialty bustiers and corsets by Body Nancy Ganz at Warnaco, Va Bien and One Fabulous Moment by Maidenform.
- Bras and coordinating panties that have the signature look of the brand, including Natori Black Label at Natori Co., DKNY Underwear at Wacoal America, Chantelle, Aubade, La Perla Black Label and Lejaby Rose at Warnaco.
- Signature-looking sleepwear and at-homewear that gives the consumer a sense of luxury from the likes of Lauren by Ralph Lauren and Oscar de la Renta at Carole Hochman Designs, Ying Li, Crabtree & Evelyn at NAP, and Natori Black label.
- Updated renditions of licensed characters at Richard Leeds International, including Betty Boop, Mickey Mouse and Olive Oyl, with amusing logos like "Extra Virgin Olive Oil."
- New names aimed at the youth market are entering the intimates field. Key examples are Necessary Objects at International Intimates and JLo by Jennifer Lopez at Warnaco.

Mary Krug, vice president and divisional merchandise manager of intimate apparel and hosiery at Neiman Marcus, said, "We are thinking outside of the box in terms of advertising and effectively promoting our regular-price business. There was a lot of reflection for fall and strategies for fall. Some vendors did some fall previews and others talked about it. We had a very strong fiscal 2003, which ended in July, and we're happy with our fall business."

Krug said the infusion of lingerie looks like bra straps, camis and bustiers in spring ready-to-wear collections have had a positive impact on intimate apparel business.

"It gave us a new twist for spring and we're having fun," Krug said.

Ann Caetano, dmm of intimate apparel and hosiery at Saks Fifth Avenue, said, "When I entered this market, everyone was always looking at their recaps and bought what had performed last year, especially in sleepwear. The customer doesn't want that. She wants something new. I never understood that thinking because it never delivered stellar results."

Caetano said newness is good, but she cautioned that the emphasis on cutting-edge fashion "will be tough on vendors."

"Retailers will be asking for minimums and more exclusives," she said. "But then they might buy deeper with those exclusives. We've learned that in basics like foundations you want to be narrow and deep, but in fashion you want to be shallow and wide."

Rob Bennet, general merchandise manager of intimate apparel at Proffitts, said a key trend he liked for spring-summer 2004 are the "more romantic looks."

Kim Milligan, dmm of intimate apparel at Proffitts, added, "It's been a very good market, very trend right and lifestyle driven." She cited four classifications as looking fresh: bridal, special occasion, juniors' and young contemporary.

Bob Pawlak, vice president and dmm of intimate apparel, coats and furs at Carson Pirie Scott, said, "We are more open to trying something new and we feel there is a need for change. We have to give customers a reason to buy. I'm trying to grow a better-margin area and develop a niche business."

As an example, Pawlak said the new Lejaby Rose foundations brand at Warnaco "looks great for the fashion customer and special occasion."

Donna Wolff, dmm of intimate apparel and hosiery at Bloomingdale's, stated, "The overwriter for the market was color. I think there's a combination of things that have highlighted this market. Before, maybe we were not ready for the fashion, or maybe we didn't like the fashion that was offered. Now, there's a lot of rich color, the economy is turning around and there is a fashion force."

Wolff said the Lejaby Rose line of bras and coordinating panties looked "terrific," daywear by DKNY Underwear was "spectacular" and Wacoal (bras) had added a lot more fashion, freshness and color. She added that a new line of daywear by Puma for back-to-school 2004 looked "very fresh."

"It hits a whole different customer," Wolff said. "It's a customer we lost when Ralph Lauren went out of the [women's] underwear business. That customer is younger, hipper and has an attitude. It's very logo driven with the Puma cat."

Left: Lunaire's fuller cup-size bras feature lots of fashion treatments; below left: Fashion colors make a major statement in full-figure bras by Panache; here: Leigh Bantivoglio expands her sexy-looking silks and laces.

French Jenny's sassy logos are a big idea at Richard Leeds International.

Maidenform's is looking to push a new category: One Fabulous Moment special-occasion bustiers.

PHOTOS BY JOHN AQUINO

WWD/DNR CEO Summit

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fashioning the future

"When you think the good old days were better, then you make your presence secondhand. It is the worst thing you can do as a crime to your life. So I always think the past is OK, but forget about it. What is important is now."
— Karl Lagerfeld

"I'm not much for, as they say, long-range planning. I say, any figure you write down that's more than a week in front of you, you're just making up, so what's the point?"
— Barry Diller, InterActiveCorp.

"Customer service distinguishes and, to a large extent, drives the specialty store business. I believe the department store customer also wants service. They want to be waited on. But after a few visits where they may leave empty-handed and feel neglected, they take their business elsewhere."
— Burt Tansky, The Neiman Marcus Group

"There's been a heavy, heavy reliance on gross margin dollars from us vendors, and I think retailers need to get back to being great merchants like they were and focus less on promotional activities. They need to drive the business with excitement and energy."
— Lawrence Stroll, Sportswear Holdings Ltd.

"Everything here looks very much the same and department stores have to rethink their business model."
— Heinz Krogner, Esprit Holdings Ltd.

"I think about what I'm wearing today. A Michael Kors jacket, Charvet shirt, Levi's 501's, a Hermès belt, Weston shoes and no socks, ever! I think the reality is we all mix price points."
— Michael Kors

"I feel confident in saying that within the next five years, some retail concept no one is anticipating will have taken the market by storm. And there is really nothing anyone can do to anticipate it or stop it."
— Bruce Klatsky, Phillips-Van Heusen Corp.

"We basically call the next economy the emotile economy, which is a combination of emotional and motile."
— Edie Weiner

"I see a lot of companies that have something strong going for themselves and they want to expand too rapidly and they want to do other things they aren't supposed to do, and they fall apart…Push what you have within."
— Fabien Baron

"We're in Day One of the Internet revolution. The snooze alarm hasn't even gone off yet."
— Jeff Bezos, Amazon.com

"We recognize that globalization is inevitable and we are for free trade, if everybody plays by the same rules. But we oppose — and all free traders should oppose — the foul trade of government subsidies, illegal transshipments to avoid quotas and currency manipulation."
— Wilbur Ross, W.L. Ross & Co.

"Young people aspire to be older, smarter and more mature than their age or experience allows and older folks wish they could reclaim their youth and relive some of their experiences."
— Jed Petrick, The WB

"The most important thing I learned was to control your own destiny."
— Diane von Furstenberg

WWD/DNR CEO Summit

The Automatic Innovator

There is no secret to Karl Lagerfeld's success. There is only instinct. As the world's leading example of the possibilities for reviving a dormant fashion brand, with more than two decades of experience at the house of Chanel, Lagerfeld holds an incomparable position in the modern evolution of the luxury apparel industry. In analyzing the growth of the Chanel brand under Lagerfeld's direction — building the brand from a stale, yet iconic image into a global status symbol that encompasses ready-to-wear, couture, beauty and accessories — it appears to be the result of one of the most masterfully crafted marketing plans ever conceived.

But as Lagerfeld attested during a dinner conversation with **WWD executive editor Bridget Foley** at the United Nations, his is a mind that focuses on all things creative rather than the mundane details of business. Chanel's ability to succeed, he said, has more to do with a rare confluence of circumstances at the house than any master plan etched out when he joined the company in 1982.

WWD: OK Karl...21 years into it, you have your core customers enthralled, you have girls lining up for the first Chanel jacket, you have movie stars all over the world, you have Chanel stores all over the world that say: "sell, sell, sell!" Let's cut to the chase: What is your secret?

KL: There is no secret. The only thing is that you must be 100 percent behind it. You must never think you did it because the minute it's done — what you said, they buy it, they wear it — then it means they have to continue to buy it and you bring something that they don't really expect, but what they want and what they need. It's a very strange thing. But I'm not a marketing person, I don't think by instinct, I don't do meetings, I've never been to a boardroom in my life, I just improvise, I'm a professional improviser.

WWD: So when you started, you had no strategy for Chanel?

KL: No, I don't want to make things look too simple. I spoke to Alain Wertheimer, he just got the company then and everyone told me, "Don't take over that, it's hopeless, it's an old name." You know, because nothing was revived, few labels existed but — don't say boring, but very basic. The good fashion excitement came later. This was another period. Everyone said, "Don't touch it, it's dead. Because if Chanel was dead, she was dead. Cemeteries are full of people you cannot dig up, you'll have to do something else."

There is something at Chanel that no other house has — a label and an initial is not enough — what makes it is that the look is easy to identify. And I don't think there is a label that you can identify that easily. We have the braids, we have the jackets, we have the camellias, we have the quilt. There are all those things. There is a certain number, called Number 5. And with those codes, we can play, you can adopt it to all kinds of coming fashion. What codes do other people have except their initials?

WWD: When you came into Chanel, though, the braids and the chains and the pearls had a certain "madame" aura to them, if you will.

KL: Because they were poorly used. If you look at what Chanel did herself, the braids, the chains, all of this came in a very discrete way. All the jewelry was small, the jewelry wasn't brassy and everything was very dull. After her death, things became even more boring, because if you make collections because you have to respect what you are supposed to do, it means you have no personality, no talent, no nothing. This was a drop that needed fresh blood and a kind of cruel treatment of tradition. Some people say, "It's terrible what you've done with Chanel." And maybe what I've done would have killed her, but without me, she would have been dead.

WWD: You took over Chanel in the Eighties, but you sort of saw that through up to the point of more and more extravagance and opulence.

KL: It came step by step, you know.

WWD: Talk about the steps.

KL: When things are done and you see it from 20 years' perspective, you think it happened in a certain way, but when it happens it's all different: It's slower. It's less evident. You have no distance. You're in the middle of it. So I never really had the feeling that I did something. And, thank God, I still have the feeling I did nothing, because the minute you say, "I did it, I need an exhibition, I am an artist," it is more dangerous. The only person that understood that well was Andy Warhol, he was a fashion artist and loved it. He became an artist for other reasons. He never said he wanted to be Michaelangelo by doing his faces for Vogue. That is a big difference. And you must not forget that people like Madame Vionnet and Madame Chanel and all those people never had an exhibition during their lifetime. The best exhibition for clothes is on the backs of people who buy the clothes, who want the clothes, who are happy in the clothes. Extreme fashion in the past had a reason to exist because there were women who used to wear it, and now it is a kind of runway thing — [for someone] who doesn't want to be caught up in the establishment. They want to be avant-garde, whatever the garde is, I don't know, but that's very, very dangerous for fashion.

WWD: Let's talk about that because you design clothes that are constantly wearable and everything you put on your runways is constantly wearable, yet your shows are utterly editorial. How do you manage that fusion when others don't?

KL: You know I think it is very difficult to explain because there are no rules, and you must never think there is a rule because it becomes a recipe and it will look boring. I finish a show, it's OK, it's OK, I don't know. It doesn't make the next one. That is my favorite line in the business. For me, every collection is a first collection. There was no collection before, and there may be no collection after. So all my future is leading to six months, but I have no vision longer than six months and I think that is very healthy. I take what the Germans call the *zeitgeist* and cook it my way but not sitting down saying we do this, this and this. I improvise, let's try this, let's do this. But you have to do that in order to get to the next step.

Karl Lagerfeld at the U.N.

WWD: Let's talk about if the *zeitgeist* seems to be turning in a direction that is not your way.

KL: That is more dangerous, but more interesting. Because then you have to analyze yourself and ask yourself questions. I'm not right for the time anymore. When you think it was better before, you better go. When you think the good old days were better, then you make your presence secondhand. It is the worst thing you can do as a crime to your life. So I always think the past is OK, but forget about it. What is important is now.

WWD: When fashion changed from the overt flamboyance of the Eighties and into the minimalism of the Nineties...

KL: But look at what Tom [Ford] did at Gucci, it was not that minimalist. It was a double life of sexiness and minimalism in the Nineties, but the Nineties, I think, are really now over. It is another, perhaps a more boring, epoch coming. I don't know, I prefer not to think about it.

WWD: You just said a very interesting thing about Gucci. Let's talk about the role of the designer in the megabrand system. You are a huge presence at Chanel. John Galliano is a huge presence at Dior. Tom has been a huge presence at Gucci, and now suddenly it's over. In this year of house reinvention, how can an organization find a balance between brand identity and designer identity?

KL: When Tom took over Gucci, he had no personal identity because he was not a designer before, he started in that company. Chanel existed before and I existed before. His thing is different than our thing, but it's easier to identify a brand with a person. Initials are okay. But, there has to be a little fun, a little sparkle, a little extreme, because if fashion becomes too boring, it's not fashion anymore. Especially in the area of the red carpet. That is the whole thing, fashion has to be part of that. In the past, the idea of fashion and high fashion where it is a woman of society, that doesn't exist anymore, so they have other faces, other lives, other tastes, you buy other kinds of magazines to see what's going on. People want to know about what is going on with Nicole Kidman and all those people. These are icons of today, and these are important to the designer. I would not say that we are icons, but they need some visibility, too, because otherwise it's boring. Your name on a label is OK, it is a guarantee of high quality, but with the licensing of the Eighties some of the quality of some labels was not so good, that they all killed themselves. And some of them try to get rid of the licensees in order to clean up their image, but you know more about that than I do since I am not a businessperson.

WWD: Can a major house, whether private or public, become too dependent on its superstar designer?

KL: That depends on the house, on the shareholders, on the owners and of all that. I think there is no general rule. You have to take it case by case. My case is different, but my thing is a totally personal thing. I don't have a real contract.

WWD: Is there something to be learned from your relationship with Mr. Wertheimer?

KL: If you find somebody else and another brand without shareholders owning the whole company, then yes! But I don't know anybody like this. I must say that I am pretty lucky because there is no other company to which I can compare my situation to and their situation.

WWD: How have you made it work all these years? Twenty years is a long time for any relationship. Have you had your spats, your tiffs?

KL: They trusted me, they gave me time, finding we needed less, but from the starting point on, Mr. Wertheimer said, "We can take time, we have plenty of time." Shareholders never say "We have plenty of time." They want it back. That's another story. Its much more relaxed. I could do what I want, I do what I want. I could ask for anything and boom, it's there. I don't have to ask for anything. I never hear about budget, I never hear about plans. I feel what I want to do. Most of the time I see it in the early morning and I put it on the paper. So there must be something inside my brain that works like a machine, I don't know, it's a very strange thing but I don't want to analyze because I don't want to do automatic things.

WWD: Do you think that the rush to go public, the fascination with being public has hurt fashion?

KL: Going public was an obsession before Sept. 11, but now they are less into that. That changed the whole world, and this business, too, in a way. This going public to make some cash makes people tired of their company. It's something I've never had to cope with.

WWD: Do you think the money guys in general respect the designers enough?

KL: I can only talk from my own circle. I've never had the feeling that I wasn't respected enough, but Fendi is another story about the family business.

WWD: Do talk about Fendi.

KL: I talk about anything you want because I never make speeches because I have nothing to say. I only speak when I'm asked.

WWD: So what is your relationship with the Fendis?

KL: The Fendis — it is something that goes back to another century. I started back in 1965, which was not yesterday as you know, then it was still the family business with still the mother around with the five daughters who had to do what the mother said because the mother was tough, tough, tough, but divine. Really Roman matron, like in the book, divine. But it was quite a small business with shops in different parts of Rome and they had just bought a huge place to make expensive fur, and they showed at the same time then as the old couture in Rome. In the beginning only the fashion part of the fur collection became popular and then the mother died and the daughters took over. The trouble started when the saturation came in because saturation is always troubling as we all know. Then it was time to sell.

WWD: You mentioned couture. What is the relevance of couture today?

KL: It's a tradition. It's a special job. It has nothing to do with ready-to-wear because ready-to-wear today is what couture was in the past. Today you have expensive ready-to-wear that is beautifully made and you have the Gap and all those things, which means that middle thing doesn't really work and nobody wants it. You can have for little money very modern things, or you can have very beautiful things. If you take a Chanel suit from today, I am talking about that because I only know those prices, it is exactly the price of what couture cost in the past. Today couture is beyond, and thank God there are a few people who are beyond and can buy that. So it's extravagant because of the security things, the taxes, the strange things they have called TVR and all that. It is still out of this world but it still can exist and there is still a need in a way, there is not a need like there was in the past. Women have changed, but what has changed most is the body of the woman. Today, before they spend money on clothes, they spend money on their bodies. When I was very young, when you went to the workroom where they kept all the dummies of the clients, they were monsters, all of them. Today you go to the workroom and you see the same dummies, you have the feeling that they are 40 or 38 because they have model size now. So it's different.

WWD: Karl, you remain a fascination for people. You have umpteen collections for three houses every year, the photography, always on the go, you have this legendary work ethic. How do you do it and how do you keep coming up with new things to do?

KL: For me it's normal. I never did anything else. I don't really want to do something else, it is OK with me. I don't have the feeling I am too good for the job. Often designers, after a certain amount of success, feel they are too good for the job. I don't feel I am too good for the job. I am OK for the job.

WWD: I guess so. Where does the inspiration come from?

KL: I cannot take it only from one thing because when you do a collection you have to have your eyes open — everything can be an inspiration. Sitting here looking at the river can be used as inspiration — you know everything can be an inspiration, everything can be used. It is for the moment, you have to go with your time. When you think your time is over, you stop. But you have always to find something in what is going on for the moment. Suddenly you find nothing, then you may be in trouble. You have to force yourself. Sometimes it's easy because it is spontaneous. Sometimes you like it less, but then you have to make a little effort and you have to ask yourself why you like it. This is a healthy, survivor attitude.

WWD: Karl, it's just that attitude that makes everyone think that you are the ultimate modernist, and yet you still prefer faxes to e-mail. You aren't into technology, computers, right?

KL: No, I am into it but I don't do it myself — the people I work with do. I still cannot do it myself. My little brain is my own computer. I use myself as a computer. I am a human computer.

WWD: Let's switch gears a little. Let's talk about department stores. What are they doing right and what are they doing wrong?

KL: Today the big labels have more and more shops than in the past. In the past European designers, to be known in America, needed department stores. Today well-known European designers in America have labels that have tons of shops. I don't know if department stores have the strength and the money to impose new designers like they used to do in the past. That has nothing to do with the people who are running the store, it has more to do with the shareholders again — that they cannot do it at that level. The thing is, everyone knows that they have to compete with so many big shops. The position of a department store is completely different than what it used to be 20 years ago. So it is very difficult to say what is right and what is not — no, it is another world. They have to reinvent the whole thing because the situation is completely different. Every big label now has a tower — its own department store.

WWD: What, in your opinion, is the area of fashion most ripe for explosion?

KL: I don't know if this is the moment of explosion. You may have now the moment of implosion.

WWD: Well, what do you think may implode?

KL: I think it's the turning point. What is going on — is a new century, it is a new world. The whole attitude has changed. People may have too many clothes, there may be too many labels, I don't know.

WWD: Let's talk about that — are there too many clothes? Are there too many labels?

KL: I mean today nobody buys at this level a new raincoat because their old one is over. They buy a new raincoat because suddenly there is a new exciting raincoat that you want.

WWD: Perhaps a new tweed-trimmed trench?

KL: I don't take it personally.

WWD: I love it, I think it is fabulous!

KL: Whenever people give you advice for a new line, especially in France, people, buyers and women who are running the shops — they say we need a trench- coat. In the past it was only Burberry, and Burberry is still there, but everybody wants to be in Burberry at the same time, too. They all want their trenchcoat, but it is normal. Burberry invented the trench- coat, or the name, or the idea. Like Chanel invented the purse…but Chanel was in fact the first stylist…She reinvented something that people think was always Chanel. And that is genius. Who cares that the little jacket with the braids is a jacket from a luggage man in Salzburg? Who cares — it's what she did with it, is the genius.

WWD: What companies do you see as ripe for growth right now?

KL: I like the idea of small labels, because if you say it becomes too big, everyone has it and suddenly there are people who don't want it because they see it on everybody. And then the crowd who likes to see what everyone wears is bigger than the crowd of the people who like the things you see nowhere.

WWD: But is the small label an endangered species?

KL: It will never be. There will always be shops with smaller labels. They must not become too pretentious. I think it is very stupid when they talk about the young designers, if it needs the label "young designer" it means that they are not very good. The day they are not young anymore, what is left? It gets very dangerous. When I was young, it was something that was played against me because it means no experience.

WWD: But today, one good collection and we in the press are all over someone and the stores are all over the designer. Is that a bad thing?

KL: No, it's not bad but it can be dangerous for the designer and they think that this is there forever and will never change — and in this business nothing is forever. And I think it is very unhealthy to be in retrospective after a few years. Clothes are there for the runway and to be bought. What I like about fashion is that it shows a proposition of an ideal life. Life may be not that perfect but there must be a possibility of an identification. Without the possibility of identification, it is irrelevant to me. That doesn't mean it's not creative — creativity is a good thing. But creativity without reality is something I don't think is genius.

WWD: Do you ever think of retirement?

KL: No, why should I? Chanel started at 71 and died at 86 making collections…I think I have a few years left. I think one should retire when one doesn't like fashion anymore.

— Eric Wilson

Fashioning the Future? It's Anybody's Guess

Most people at the annual WWD/DNR CEO Summit focus on immediate, actionable, best-practicey "take-aways," but that's not to say there isn't a little room for some long-term thinking, particularly when cocktails are involved.

As this year's summit theme centered on "Fashioning the Future," several guests at an opening-night party at the United Nations were asked to gaze into their personal crystal balls to come up with some industry predictions. Given the unexpected nature of recent fashion developments, more than a few were left scratching their heads.

"Let me ask my psychic," snapped Donna Karan. But taking in the East River views from the U.N. delegates' dining room, if not the drab decor, she was suddenly inspired: "You know, the route to world peace is to get the fashion designers in here. They get along better than most people in the world."

Lars Nilsson, the Nina Ricci designer, suggested there is one constantly evolving characteristic customers will be looking for: "Quality." Beyond that, "it's hard to say," he said. "One year you feel color and the next year you feel black and white."

Most executives on hand tended to maintain a sunny outlook, seeing in recent designer breakups and executive shuffles the early signs of good things on the horizon. Graziano de Boni, president and chief executive officer of Valentino Inc., pointed out that fashion — and fashion news — is reaching the masses these days.


Rose Marie Bravo meets Karl Lagerfeld.

"Fashion is getting more and more deep into society," he said. "People overall are becoming more aware of fashion, and they want to express themselves as who and what they are. Fashion is no longer an egalitarian thing the same way luxury is becoming more democratic. I'm very happy about what the future looks like, because it's fun."

Claudio Del Vecchio, chairman and ceo of Retail Brand Alliance, pointed out that as the general population becomes more aware of fashion, fashion executives should expand their scope, as well.

"We are in a very fast-changing environment, politically and in business," he said. "We have to be more aware of what's going on outside of our own world in order to deliver to the customer who also lives in a much bigger world than he used to. We have to understand how the customer is changing, what they are looking for, what they are interested in, how they react to certain facts and events. If we can learn that, we can deliver better service and be more successful. Everything else is logistics."

But logistics and specifics certainly will play a part. Take the outerwear business, where executives are always looking to the outside world for signs of the future, their favorite being snowflakes. "What's affecting me right now is warm weather," groused Glenn Palmer, ceo of Amerex Group. "We want the weather to get cold so we can do more business and see retail pick up again. I'm more interested in the weather turning cold than I am in Tom Ford." And Howard Socol, chairman and ceo of Barneys New York, was frankly a little sick of the outside world and all its rumors, like the one that he was an early contender for the top job at Saks Fifth Avenue. "Don't believe rumors," he said. "Don't believe any rumors. I love Barneys."

Others had specific fortune cookie warnings for the future, like Marc Bohbot, ceo of Brandevelopment, who said, "You've always got to be as good as what they want tomorrow."

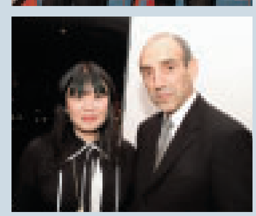
Or Jack Wu, president of Rainforest, who said, "In the mass area you have to continue to send the message to men that they can really dress like a woman."

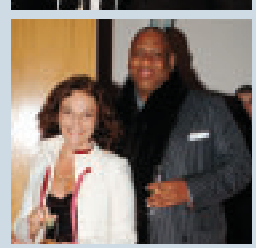
What's that?

"What I'm saying is that they should try to dress and look like their age and situation. If they are in business, they have to be more open. We have to try to educate and send the message to men that they can be more passionate about fashion."

Jeffrey Bezos, ceo of Amazon.com and one of the summit's keynote speakers, pointed out that the fashion category is becoming an important area for his Web site. Looking forward to the start of the event, his thoughts seemed applicable to the future of fashion, as well: "I think it's still the beginning and I think there is a lot of innovation and invention still to come."

— Eric Wilson and David Lipke



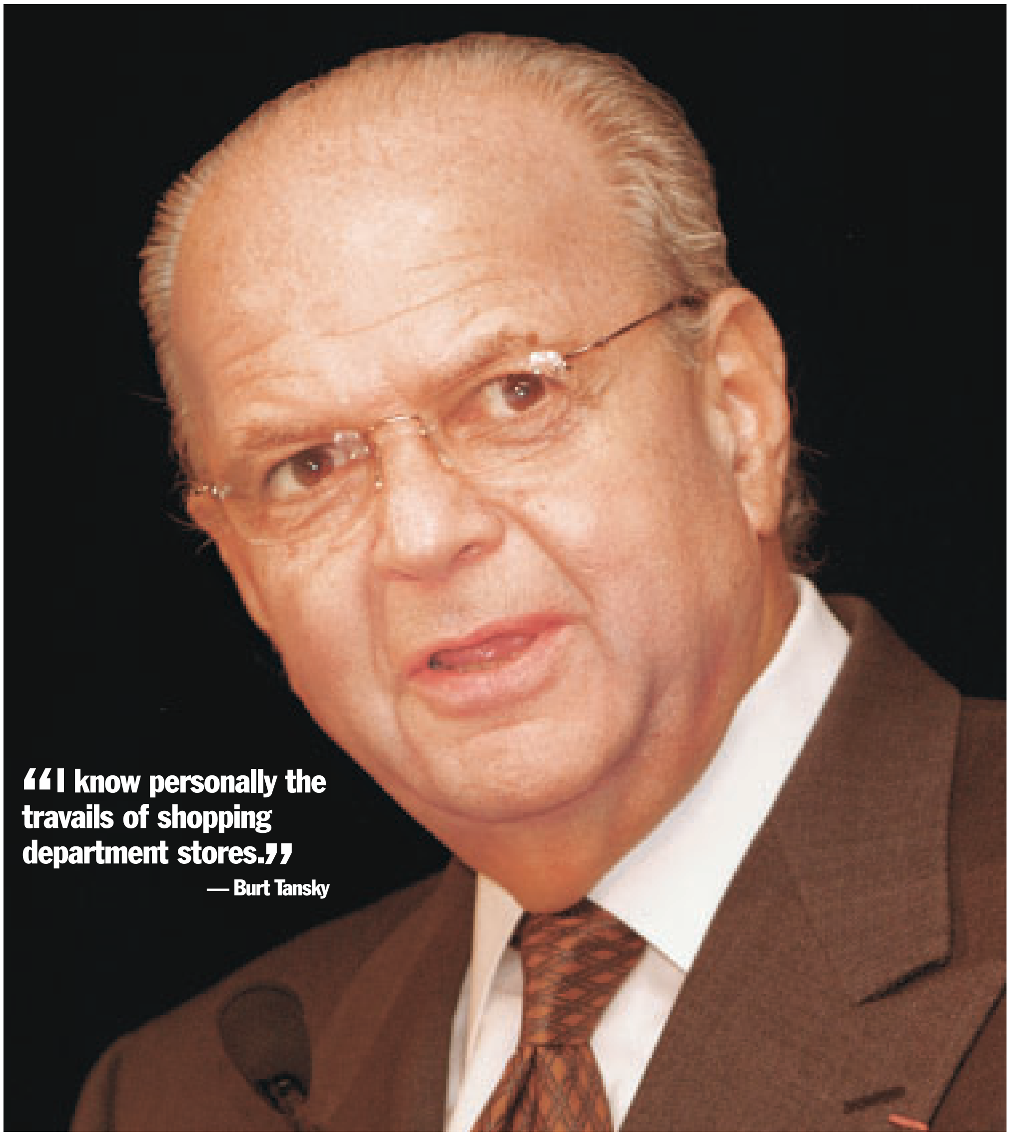


From top: Barry Diller and Donna Karan; Anna Sui and Michael Pellegrino, and Diane von Furstenberg and André Leon Talley.

WWD/DNR CEO Summit

Tansky's Retail RX

By David Moin



Though Burt Tansky has scaled the heights of retailing, rising to president and chief executive officer of The Neiman Marcus Group, he's not always perusing the pages of the ultraexclusive Neiman Marcus magalog or touring the luxurious Neiman Marcus stores. On occasion, the 40-year retail veteran shops mainstream department stores.

"I know personally the travails of shopping department stores," Tansky said during his keynote speech. The last time he visited one — and he was diplomatic enough not to disclose its name — "It was difficult to find someone, anyone, to take my money. Let alone answer a question."

The speech quickly developed into a diatribe. "I have noticed cashier areas have sprouted up in the middle of the store — a development that signals a surrender to personalized service that I find rather remarkable." He also said the merchandise in department stores wasn't differentiated enough, communications to consumers are too focused on price cuts and coupons, buyers have the wrong priorities and there's little service.

Tansky recalled a time when consumers bought all of their essentials at department stores. "When was the last time you did that?" he asked the crowd. "Certainly not in the last three decades. The department stores have effectively forfeited their stature as the store of choice. They abandoned selected businesses, compromised their position and lost their grip on the customer."

But through all the bashing, Tansky never said the "D" word — dinosaurs. Others in the industry have long labeled department stores as a dying breed, though Tansky took a surprisingly hopeful turn in his tone about the sector. "Department stores have an opportunity to regain market share and capture customer loyalty. How? By again placing renewed emphasis on developing long-term customer relationships, rather than a continued reliance on transaction volume driven by price breaks and discounts.

"Customer service…the store environment…the merchandise…and the marketing converge to create the shopping experience. In today's retailing sector, it's the depth of the customer experience that essentially separates and distances specialty stores, such as Neiman Marcus and Bergdorf Goodman, from department stores," Tansky said.

"Quite honestly, I am not so sure that this necessarily has to be the case."

Tansky speaks from experience. He's a survivor, having grown up in the ranks of department stores, holding management positions at Kaufmann's and Filene's. Later, he became a senior vice president and general merchandise manager at I. Magnin and joined Saks Fifth Avenue in 1977, where he rose to president. In the early Nineties, he became chairman and ceo of Bergdorf Goodman and in May 1994, became chairman and ceo of Neiman Marcus. Five years later, he rose to the helm of The Neiman Marcus Group.

His leadership has been paying off, particularly this year, which has been marked by a run of strong comp-store gains, 5 percent or greater since May. For the fiscal year ended Aug. 2, the company eclipsed $3 billion in sales for the first time, and income rose 9.8 percent to $109.3 million. The company is positioned to achieve operating margins of 8.5 percent this fiscal year, a level not seen by the company since 1998.

During Tansky's tenure, there's been more highs than lows and a sustained "trading up." Nothing at Neiman's is priced below the bridge range, and relationships with top-priced designer brands have strengthened through in-depth presentations and marketing partnerships.

Neiman's and Bergdorf's were hit hard by the recession and 9/11, and things were looking bad for a time. But as Tansky said, "We did not deviate." The company stayed its course, selling luxury labels in all their glory, showering shoppers with service and emphasizing regular prices. Consistency is considered a primary reason for NM's above-average track record over the long haul.

There also has been steady investment in upgrading and renovating stores, including about $70 million that is being spent on restoring the town house elegance of Bergdorf Goodman. Department stores, too, are pouring money into their boxes, as Tansky noted. He cited a published report indicating that department stores are investing $1 billion over the next three years on interiors. He called that pace and level of spending "unprecedented and certainly a start."

But it's just a start, and merely one component necessary in the formula for creating a positive shopping experience and turning things around, Tansky said. "I suggest that department stores follow the example of specialty stores and reintroduce shopping and service amenities to entice the customer back into their store."

In Tansky's book, what makes Neiman's, a specialty business, stand out from department stores is unique merchandise, attentive service, innovative marketing and imaginative presentations involving uncluttered fixtures, creative window displays and mannequin displays. Each store, he said, has a dedicated visual team. The company also has an extensive art collection, started by the legendary Stanley Marcus, and each store in the chain exhibits works from the collection.

The bottom line: "Our stores have a distinct allure," Tansky said.

He also underscored the importance of knowing the customer. "I attribute a lot of our success at The Neiman Marcus Group to the fact that we thoroughly understand our customer. We are in touch with how they live, their lifestyles and their aspirations. Our customer is well educated, well traveled, sophisticated, fashion savvy and affluent. Our potential customer base, though, is small — less than 2 percent of the U.S. population, with a high disposable income."

Tansky stressed retailers must thoroughly train their sales associates. "Our training programs reinforce our customer-relationship philosophy and service model," he said. "By the end of their first year, each new associate has received over 160 hours of orientation and training. Topics include relationship management, telephone selling, service standards and product knowledge. They are kept current on fashion and trends at frequent meetings conducted by store management. A tenured Neiman Marcus and Bergdorf Goodman sales associate receives over 120 hours per year of continuing education.

"Our training is just one aspect. We also know the importance and value of recognition. Recognition programs reward performance, sales and service. Our sales leaders are recognized at the half-million, million-dollar and above levels. We give them everything from dinners at five-star restaurants to personalized stationery, cellular phones, personal assistants and expense accounts. It is no coincidence that many of the rewards are also tools to enhance an associate's ability to build sales.

"Customer service distinguishes and to a large extent, drives the specialty store business. I believe the department store customer also wants service. They want to be waited on. They want their questions answered. But after a few visits where they may leave empty-handed and feel neglected, they take their business elsewhere."

The selling function is supported by how merchandise is distributed and purchased on a store-by-store basis and replenished according to need "so that we never miss a sale — almost never," Tansky said.

"More than anything, our merchants are entrepreneurs. They work directly with our vendors and designers to develop exclusive product offerings," whereas department store buyers work directly with manufacturers to get better prices, Tansky contended. At Neiman's, price rarely dictates purchasing decisions.

At Neiman Marcus, regular price thrives, with sales per square foot at about $500, "the highest in the industry," Tansky said. Customers are encouraged to return frequently to the store through the chain's "frequent buyer" program that rewards them based on their spending level.

"I do not believe that convenience, service, suggestive selling and an inviting environment should be the bastion of the affluent. I believe that every customer, regardless of their socioeconomic status, would appreciate a welcoming shopping experience and atmosphere." Customer loyalty is earned "to a great extent because of the attentive service we deliver time and again."

He defined service as "the art of developing and valuing customer relationships and the essence of the specialty store business." It's also "a deficiency endemic to the department stores of today. I believe that the moderate customer also wants service. I am certain that they want to shop in an environment that is welcoming and has a service attitude. They want to matter and be recognized as being an important part of the total approach."

Tansky also wondered if department stores would get more shoppers if they offered a greater degree of differentiated merchandise. Instead, the offering is "very similar and often presented in a very identical way." Consequently, the merchandise appears as a "commodity," he said.

'Just think what today's department store customer would do if the merchandise was engaging and the service was attentive," Tansky said. "I believe that they would pay higher prices and not just shop the sales. To regain market share, the department store must have the conviction of saying, 'This merchandise is special, if you want it, buy it now. It's not going on sale.'

"At the Neiman Marcus Group, we know this to be true and to be very doable. Merchants can create assortments that motivate the consumer to want to purchase at full price. It can be done. Try it."

The Squeeze Is On

While the idea of a "thinning middle" is one that might appeal to most, in the world of retail, the term has more far-reaching and ultimately negative implications.


Marshal Cohen

Such was the subject Marshal Cohen, the chief industry analyst for NPD Group, tackled during his Summit presentation.

Cohen defined the three segments of the fashion business as luxury, midlevel and value. And given the falloff in consumer spending over the last several years, retailers have been looking for ways to sustain their customers' interests and concurrently grow their business.

For the luxury sector, that means they've begun offering lower-priced items and eating into the "middle segment," according to Cohen. Whereas, the value sector, which includes retailers like Target and Kmart, is marketing up by offering consumers apparel lines from such known designers as Isaac Mizrahi, Mossimo and Thalia — thereby eating into the middle segment again. Or, conversely, they are selling similar fashions at lower prices, albeit with a variance on quality, that consumers are opting for. Hence, the midlevel retailers are being "squeezed" by the luxury and the mass or value sectors. "They are starting to feel the pinch," said Cohen.

Part of the issue, he said, dovetails into how retailers are advertising.

"The luxury or upper-end market is sending out coupons or direct-mail programs trying to entice consumers through price…so what they are doing is marketing downward. They're marketing for lower prices, while the lower end of the market is marketing for brand enhancement.

"They are marketing in the opposite direction. We're watching the upper end market downward and the lower end market upward. We're watching the whole world of advertising go backwards and topsy-turvy."

The solution, he offered, rests partly with how vendors can market their lines to retailers to address their concerns and also lure their core customer back.

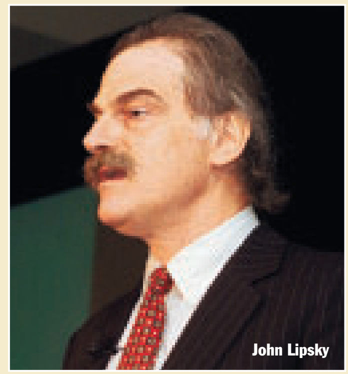
Cohen emphasized the need to connect with consumers and outlined four basic ideas as to how to accomplish that:

- First, there's the idea of micromarketing, which is to focus on age segmentation. "It's critical to recognize that it's no longer about sitting there marketing a product hoping that a 14-year-old and a four-year-old are both going to relate to it."
- There is the importance of understanding consumers' lifestyles and connecting with them through celebrities and cultural trends.
- Cause marketing is another aspect that Cohen thinks is vital, but feels it should be done on a local level to really impact consumers. "They should do things like sponsor walkathons in a local community or sponsor fashion shows at a high school," said Cohen, as opposed to global efforts that have less direct meaning for individual consumers.
- Lastly, Cohen addressed educating consumers on why they should buy a product. "You have to explain why your brand is more important for them to buy," he said, which also ties in with telling a story about a brand to make it compelling to the consumer.

— Anamaria Wilson

Economic Optimist

Economists who focus on America's rising national debt and trade deficits as reasons for pessimism are missing the mark, because the big economic picture is much more positive.


John Lipsky

So said John Lipsky, chief economist at J.P. Morgan Chase & Co., who predicted "impressive" profit gains for U.S. companies as the U.S. economy rebounds to a 4 to 5 percent annual growth rate starting next year. The rebound will be driven by strong growth in economies around the world, stable prices, low interest rates and a boost in business confidence.

"We see above-trend growth emerging in the U.S.," he said. "The pace of growth in household spending is likely to moderate and there will be greater strength in business spending. We expect [inflation] to stabilize somewhere between 1 and 2 percent and as a result there is no reason for the Fed to raise rates."

Evidence of the good news could be seen in recently released figures showing that the country's gross domestic product climbed 7.2 percent in the third quarter.

The growth has been stimulated by the Federal Reserve's decision to keep interest rates down, as well as deficit spending by the Bush administration — giving the economy a level of stimulus that has "no historical equivalent," according to Lipsky.

He marshalled figures to show that, during the recent recession and subsequent slow recovery, it was business, not consumers, that tightened spending. "It was the business sector that got overextended and had to correct in 2000 and 2001. The household sector wasn't doing anything wrong."

In fact, over the last four quarters consumer spending has accounted for the majority of GDP growth, said Lipsky. In the first half of this year, consumer spending grew at a rate between 2 and 3 percent, while business spending was virtually flat and government spending ticked up less than 1 percent.

Doom-and-gloom economists have been too quick to criticize American households for spending too much and saving too little, when, for the most part, households have kept their spending in line, said Lipsky. Since 1990, households have spent between 14 and 18 percent of their income on durable goods and housing, far less than in the Seventies, when expenditures peaked near 22 percent.

As for those who say that consumers are taking on more debt than they can afford, Lipsky said the burdens of debt service and other financial obligations for consumers have stabilized and interest rates are low. "Debt service as a percentage of income is around 13-1/2 percent. That's not so bad."

Five years of rising labor productivity have also helped consumer spending because as workers produce more efficiently they are getting paid more. Productivity growth is now running at an impressive 3 percent a year, Lipsky said. "Increased productivity translates to increases in real compensation, which produces increased demand."

Given the healthy state of consumers, the next phase of economic growth will depend on industry, Lipsky said. While there are plenty of positive trends in the business sector — like a rebound in capital spending and an broad-based upward trend in profits — industry is still reluctant to invest in inventory or new workers, which is dampening growth.

During the downturn and subsequent slow recovery, businesses cut unit costs and boosted productivity. As a result, corporate profits as a percentage of GDP have rebounded to almost 7 percent of GDP, the highest level since the 1960s. And capital spending on information technology, equipment and software started to rebound in 2002 and ran at a 15 percent growth rate in the third quarter.

So if profits and capital investment are up, why haven't economists observed a sustained uptick in employment?

The answer lies in workers' increasing productivity. With productivity growth and GDP growth running neck-and-neck, there is no need for companies to hire new workers. When economic growth exceeds the 3 percent mark, probably sometime next year, companies will start hiring again, Lipsky predicted.

In short, said Lipsky, "all the elements are in place for a sustained and solid expansion."

— Thomas Cunningham

WWD/DNR CEO Summit

The Diller Connection

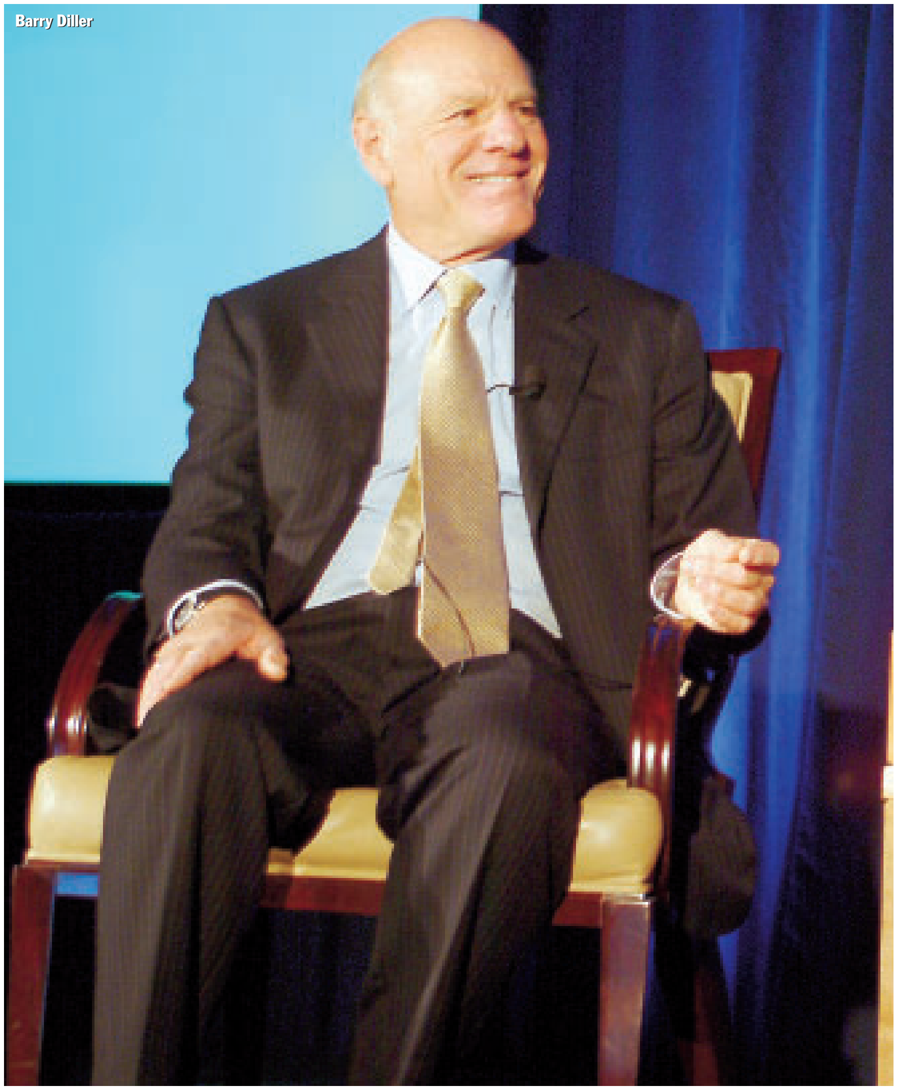
Media mogul, Hollywood studio chief, TV network pioneer, E-commerce czar and deal-maker extraordinaire.

These are all words that describe Barry Diller, chairman and chief executive officer of InterActiveCorp., a conglomerate of Internet-based service businesses in the travel, hotel, financial, dating, entertainment and real estate sectors, among others. But perhaps there are two words that capture him even better: contrarian and visionary. In other words, he goes his own way — and others tend to follow.

When a 32-year-old Diller became ceo of Paramount Studios in 1974, he inherited a dying company. But Diller's contrarian-visionary thinking kicked in and he greenlighted "Saturday Night Fever," "Taxi," "Cheers," "Grease," "Raiders of the Lost Ark" and "Terms of Endearment," to name a few, and it became a hit machine. In the mid-Eighties, when nobody in the world thought a fourth TV network was needed, Diller developed the Fox Network. And in 1992, as ceo of QVC, he went against conventional brick-and-mortar retail rules and brought together telephones, televisions, computers and shopping.

When millions fled the dot-com disaster a few years ago, Diller was drawn to it, and today runs InterActive Corp. With a market capitalization of $27 billion; projected 2004 revenues of more than $7 billion; analyst estimates of a quadrupling of net profits next year to $660 million, and an estimated $7 billion in cash, Diller's desire to forge a path in the world of interactivity is paying off big-time.

Diller sat down with **WWD editor in chief Edward Nardoza** and talked about his Hollywood days, management style and latest online business venture.



Barry Diller

WWD: I think we need to get Hollywood out of the way first.

Diller: I did.

WWD: You were quoted in the Oct. 13 Business Week as saying, "Hollywood is mostly a pain in the ass." Now, assuming you were quoted accurately, would you care to elaborate on that?

Diller: Quotes that live on and on. I've been asked this every day after that. Well, it is. Look, it's not an easy business. It's certainly not now an easy business. I mean, there are all these challenges in front of the entertainment business. I was actually doing it in contrast to the business that I'm in, which every day you wake up and you get a headache after a few minutes because it is a whole different kind of challenge. You get to make up the rules as you go, whereas, in the entertainment business, what you've really got to do, in a sense, is simply try and survive them. And, because people keep saying — as if it's a thing that I am compelled, willed to do — I have to be in the entertainment business again or I have to have a studio or I have to have a network. And I was making the contrast between what is a bloated and endlessly heavy piece of old machinery — the film business — without a new idea in its head, every year actually. I mean, I think this last year was the worst year in movies that I've probably ever seen. You make hugely expensive films in the hundreds of millions of dollars on basically the theory of how far the merchandising will extend. You're selling hats and whistles and T-shirts — not to insult the retail part of my life, God knows. I'd rather be in it purely though, rather than to have to make a movie in front of it. So, I just think that the interactive Internet businesses, where it's very much at the beginning, it's just so much more exciting than the film business. And for those people who think there's glamour in the movie business, my God, go to work for an hour.

WWD: Are we overly obsessed with celebrity and entertainment?

Diller: Am I?

WWD: No. Is the culture at large? And what does that say about us?

Diller: Well, every year, having putting on, for my sins, "Entertainment Tonight" in the early Seventies at Paramount, which was really the first of it. But, each year, of course, it grows ever, Bennifer brighter. And so, I just think, that we're not going to stop until we take close-up pictures of the act itself.

WWD: Can we talk a little bit about your notion of being a contrarian? Does that primarily mean you're a gambler who likes long shots and underdogs?

Diller: No. I don't think I am, I mean, I really don't think I'm much of a gambler. The thing is that if I saw the risk, I don't think I'd take it. But, for whatever there is, they didn't give me that gene that sees risk in certain things — God knows I see risk in other things. But, in terms of ideas and things like that, or things that haven't been done before, but things that are maybe a turn on history or what's kind of known in evidence. I'm intrigued by those things that kind of aren't, and I don't see the risk in pursuing them. I mean, if you tell me it's a gamble, I'd probably run away.

WWD: Lots of people felt burned by the dot-com experience and the promise of a new economy and fled, as we said before. What did you see that other people didn't see?

Diller: First, I had very good grounding. I was really lucky because my life turned when I went to QVC, and I got interested in this kind of primitive convergence and that was three years before the Internet, but it was interactive. It was using a television screen that was something other than I had always known it to be used for, which was narrative and passive viewing, and when I saw the power of that interaction, that it could be turned to that powered by a computer, I thought, "Wow." I didn't know what, but I thought it was going to change things. When the Internet came along, it was actually a stroke of great good luck for the position that we were in and the fact that we had some capital. My colleagues and I learned what retailing is and we learned it in a very fast, unforgiving environment — not that probably any environment is forgiving. We learned a great thing, which is, it's good to sell things for more than you pay for them, which was not what most people on the Internet were doing. As a matter of fact, what they were doing was saying, "Let's do this, let's sell it actually for less than it costs us and we'll make it up on marketing or we'll make it up on other forms of cross-selling." We thought that was kind of stupid. As we got into interactivity, we tended to get into things that made economic sense and were good ideas.

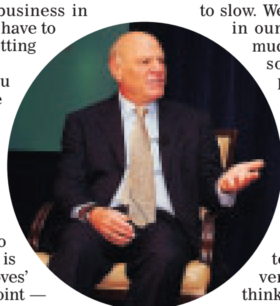
WWD: Can you talk a little about InterActiveCorp? What is the business, how is it structured? Is it a new business model or tool or method?

Diller: It uses the same distribution pipe, the Internet, for all of the things that it does, but all of the things that it does are very different from each other. We are in the real estate business. We're in the mortgage business. We're certainly in the retail business, in several different categories of it. We're in the flirting business with Match.com. Obviously, a huge part of our company is the travel business. We're in ticketing. We're in all of these totally different businesses but they all have in common the distribution pipe of the Internet, so for us that's kind of the core sensibility. So, organizing that is a bitch. But we make progress, a little every day, step back once or twice, but organizing a business that you simply can't manage — I mean, I've never thought of myself much as a manager really anyway — it would be impossible to manage, except with the most dopey superficiality, businesses that take an endless period of time to understand. So what you've really got to do is push authority and responsibility down, which is something I've kind of always believed in anyway — except in the film business. But the great lesson that I learned is that in the businesses I came from, the only people that really mattered were at the very top. I mean, the only people who were creating value, real value, were at the very top. Not that other people didn't do good and valuable things. But in the entertainment business, it's what the programs are and that's where the value is. And, as against this world I'm now in, which is the meshing of so many gears that you have to get right before it begins to work, the management is just upended completely. And learning that for a somewhat old dog is a hard trick. But I try.

WWD: What do you look for in a manager? Is it creativity? Is it drive? Is it originality? What are the qualities that are most valuable to you?

Diller: I look for probably willfulness, an entrepreneurial sense and, now more than I used to, when I would tilt at any windmill I could find, I look for practical. The ideas we have are very good. Businesses we're in and the way we're conducting business in this new world of interactivity provides it all in a sense that you don't have to sit in a room and have a lightbulb come into your head.

WWD: How do you approach the business in terms of strategy versus tactics? Do you have to think three, four years out? Or is it getting the transactions done now and quickly?



Diller: It's tailored to the situation. You used this word visionary before. I've never thought of myself in that way, I think it's a stupid concept. I mean, for geniuses it probably works. I mean, I think you kind of put one dumb foot in front of the other, bounce off the walls, of course correct as you go. Yes, the only time that it is worth, in my opinion, wasting your time on thinking what's going to happen three or four years away, which is impossible, is when you see, in Andy Groves' words, the possibility of an inflection point — where something is going to change. You may not know what it is, but you have little clues and things like that, that you maybe pounce on. But I'm not much for, as they say, long-range planning. I say, any figure you write down that's more than a week in front of you, you're just making up, so what's the point? I see plans, businesses that come in and they have those wonderful columns, '04, 5, 6, 7, 8, 9, and of course in '03, let's say, the year you're in, it's losing $78 million and by '08, it's making a trillion. Now, gee, that's great! Let's just file it and buy it and forget about it. So, I think that's all drivel.

WWD: Well, then how do you manage the Wall Street monster? You seem to do very well. They're intrigued by what you do, and you've done well historically.

Diller: Well, yesterday I'm not so sure that we did. Our stock dropped 7 percent. Though it has had this enormous rise, it dropped 7 percent because essentially we beat all of our budgets for operating the business which, if I was an investor, it's the only thing that I would actually care about. In fact, the Street had estimates that were greater than that. And we also stopped guidance and issuing our budgets, which is what we had done for a couple of years because it was more transparent. And we just said, for the analyzing community, guess what, we can't figure this out that far in advance, so we're certainly not going to give you figures that we, of course, know we're going to beat, because otherwise why would you put them out unless there's some train wreck that happens. So, that con game, we think is actually manipulative and at its core, illegal, because when you're managing numbers, you can't do that. And there's nobody that I know of that actually issues guidance and puts their figures out for the Street to analyze, that is not in the managing-of-their-numbers-business quarterly. We did a lot of that stuff yesterday and we traded 57 million shares, which is extraordinary. I mean, when our average day trades are maybe six or seven million. And we loved it because what's happening then is, we're going to get the shareholders we deserve. And we only want shareholders — I mean, people can buy and sell and do what they want — but we only want people who are going to think about our company at least the way we do, which is simply creating long-term value and making no compromise for the short term.

WWD: What does your gut tell you when you're interested in acquiring a company? What in your gut tells you it's right? Is it the sector that you look at? Is it the individual company? Is it management? The balance sheet? Or just kind of an intuitive feel?

Diller: Certainly never the balance sheet — that's the last thing we need. I mean, all things considered. First of all, for us now, because we are in this world of interactivity, we know when somebody comes to us with an idea, whether it's even in the zone or just an easy "No thank you." That's a good thing. Beyond that, we look to get excited about what the business is. If you're starting something, then you know everything about it. If you buy something, at almost any stage, except very early — we've bought lots of very early-stage companies, thank God — but you buy midstage companies and I don't care if you do due diligence for a thousand years, you're not going to know the rhythm of the business, you're not going to know so many things. So it's a very, very dicey business. And we reserve the right, and we tell people, yeah, we may be serial killer acquirers, but up until the day that our board approves it, we say we may run Venezuela on you, so if you want to go through this process with us, it's OK but understand — we're not going to mislead you — the last hour of the last day we may say, "You know what, we've decided not to do this." And we've done that as many times — no, that's an exaggeration, we've made more than 70 acquisitions — we've done that probably five or 10 times. Not the day of, but close.

WWD: You're sitting on $5 billion worth of cash. Now, are you going to use that for more acquisitions and, if so, will they be in the interactive model or will you look at other formats, maybe a brick- and-click approach? Are there other formats where you might actually own inventory?

Diller: We do own plenty of inventory. In our retail business, we certainly have the goods. I mean, it's almost all ours. Very little of it is returnable. But we actually think that the acquisition pace for our company is going to slow. We have so much that we have to execute in our current businesses and they have so much growth, and extensions of them have so much growth — which is where we probably will concentrate our acquisitions. But I don't think, in the next years, that acquisitions are going to be as prime for us. Now, I know as I say it, that around the corner could come an opportunity and we'll completely contradict that. But, at least in our own thinking, it's not how we're thinking about life. We have more than critical mass now. The bubble is beginning to fill. Even though I think we're at the very earliest stages of the Internet, and I think that its growth is really going to come

> **"You get to make up the rules as you go, whereas, in the entertainment business, what you've really got to do, in a sense, is simply try and survive them."**
>
> **— Barry Diller**

when you get broadband in more than half the homes in the U.S., which I think you'll have in about three years, where you get high-speed and you get this complete convergence of television and data-pipe screens of all sizes. But prices right now, multiples for things, including I've said, our own company, though as of today, I think that we're at a more reasonable multiple…but there are really four leaders in the sector: our company, eBay, Amazon and Yahoo. Our company has profits that are literally the combination of the other three, so we lead it, in terms of revenue and profits and stuff like that. We sell at half, little less than half, the multiple of the other three people in the Internet. We're very happy with that because we don't think these things are sustainable. So, you don't go out and spend cash. You might go out and spend stock, but we now believe that our stock is dear so we're not going to do that too much anymore. I believe that if you're in businesses like ours, you have to have plenty of cash, plenty of reserves, plenty of so to speak, money that you can lose. Because you've got to act with confidence at a time when you're doing new things and they may or may not work. And so, having big, big capital resources is a really good thing for a business that is on the grow. Now, we can't sit there with — it was actually $7 billion — we can't sit there year on year, having it earn a pitiful amount, given that we don't risk it.

WWD: I'd like to just get back to a very interesting thing you've said — you don't see yourself as much of a manager. Richard Nixon once said, "Both love and fear motivate, but fear motivates better." You've got a reputation for being, let's say, a demanding boss. Do you agree with Nixon's statement at all? And how do you get the best out of people?

Diller: Actually, no, I don't. And, look, I'm a noisy person, that's for sure. And I'm willful. But the only thing I ever try to create, and the only thing I'm ever interested in, is a passionate argument and I will do a lot of things to create argument. Because I believe that, if you're dealing with trying to find out what's true, then you have to scratch it from every which way. You get people together and then you try really hard to get creative conflict in terms of discussion. And creative conflict on business, on anything that you can get multiple voices. Because, if you have a good ear, and it's partly training, it's partly just being able to hear, I mean, being able to hear rather than want to speak. If you do that, and you listen, you will figure it out. Now, it may take you 19 hours to do so and people may get tired of it and certain people don't like that. Lots of people say, "Gee, you know what? I don't want to argue. Just be quiet and whatever." And I think that's lovely, but it's not a good idea to put them in the room with me or vice versa only because eventually the pressure's not good. And I don't like that. It's not like I'm trying to do anything but make people want to give out their opinion because that's all I really want to hear. Now, the result of it is, is that it is a noisy process. Those people who like it, really like it. And those who don't, go out of there and say, "Oh my God, what a monster process this is or he is." So be it. What can I do?

WWD: If you were not in the business you are in now, what sectors would you be looking at?

Diller: My curiosity, which is the only thing I've ever followed, is completely contained inside this world of interactivity. Now, that does not mean I don't have other thoughts, and those thoughts still go to things in the world of entertainment. But, no, there's nothing else — if there was anything else, I think I would do it. Somebody said to me the other day, "Why do you work?" And I said, "I work because I'm really still interested." And, believe me, I've changed my life every 10 years, I would feel it if it were any different and then maybe ideas would occur to me.

Audience Question: Have you ever regretted not making an acquisition?

Diller: Oh sure. Lots. I'll give you the best one, well, not the best one, I have many best ones, but I don't dwell on them. But in '93, Steve Case came to me and, I'd gotten to know him — no, this is '94 — the very, very beginning of AOL when it was really pre-Internet. And Paul Allen had owned 25 percent of the company and they didn't get along and he agreed to sell it, and we were going to buy it. And we argued over an insignificant amount, I think it was literally a dollar, I mean, truly, literally. I mean, it's so embarrassing, but there it is. And so because I think there were 40 or 50 million shares, so it was $40 or $50 million dollars, a dollar a share, I mean, even now, it would be worth about a hundred times that amount. That was a really juicy one. But there's been lots. I learned it kind of early in the film business. Somebody once said, you passed whatever movie it was and was berating somebody in our company who had turned it down at a lower level and I said, "It's ridiculous. For what you don't do is of no matter. It's what you do do." Now, if you never do anything, then it matters. But that's how I feel about lost opportunity.

Question: What do you see as the future of fashion online?

Diller: Well, I think retail is only 2 percent of online retail sales. I mean, it's the slowest-moving, so to speak, online part of the universe, of the world of commerce. I really believe it's going to take broadband. It's going to take pictures and it's going to take the pipe being big enough that you can have movement…And we're just starting to get some of those tools. And I think as we get them, I think the fashion and other retail categories are, of course, going to move online. Everything is going to move online. Now, by the way, it doesn't mean that offline, bricks and mortar, is going away. It just means that online is going to be a big part of how everybody does everything. That's inevitable.

Question: How does someone who is chairman of a conglomerate actually manage a conglomerate?

Diller: That's what I said, you can't. In which case, I'm irrelevant. No, actually I'll tell you what I think you can do and what we're trying to do. And we have some great help in doing it. One is a person named Jack Welch, who really knows how to do it, and we are one of the three companies he agreed to consult, and we're, of course, the tiniest because the others are huge things. But what you've got to try and do is put in the right kind of infrastructure without putting in bureaucracy. That is a very, very tough thing to do. And the only way we know how to do it, and we are trying to learn and get better at managing this process, is again, to get leaders of businesses. Give them the responsibility and authority to run their businesses. Spend a lot of time on that process, which is a very new thing for me. The first thing Jack Welch said to people in the company at the senior level is, "There is a missing person in this room." And we said, "Who, Where?" and he said, "Where is the people person, where is the HR [human resources] person?" And we said "HR? I mean, come on." And he almost hit me, he looked at me, and there is no more withering look than the withering look of a Jack Welch stare. Those little blue eyes. And he explained about people and the process of people. And what happens if you don't get that right when you're managing multibusinesses.

Question: You mentioned Amazon, eBay and Yahoo. How much do you see them as competitors to you, and is it possible for new entrants of that scale to enter the market now?

Diller: The great thing about the Internet — and it's really true — is that it's free self-publishing. So you know, you could get any idea up there. Now, of course, you have to have some kind of capital if you're going to do some business behind it, but you can get anything up, you can publish anything. And then the issue is, how do you get an audience? It's a little harder today to get an audience, but the truth is that if you have a good idea, you'll get an audience. The perfect example is something called Google, which you all now absolutely know and most of you, I would believe, if you're on the Internet, are using. Google has never spent anything on advertising — not a penny. Google grew because it was a good idea that people talked about and adopted.

WWD/DNR CEO Summit

The Revolution Has Just Begun

By Anamaria Wilson

While many concede that the Internet boom has gone bust, Jeff Bezos thinks it is still in its nascent stages. And, as the founder and chief executive officer of Amazon.com, one of the most successful companies to emerge in the Internet era, he makes a compelling argument.

Bezos gave a rousing keynote speech charting the genesis of the Internet, Amazon’s progress within it and expounding on his conceit that we are still in “Day One” of the Internet revolution. He said his staff continually asks him whether the day is drawing to a close and the company might be getting ready to enter Day Two. His reply is always no — “The snooze alarm hasn’t even gone off yet.”

While many liken the dot-com boom to the Gold Rush, Bezos contends it’s the wrong analogy.

“With the Gold Rush, when you take the last nugget of gold out of the ground, it’s over....But the Internet is very different because the gold is not actual nuggets, it’s ideas and inventions,” explained Bezos. “And take one invention out of the ground, so to speak, and you often get two more that are produced as a result of that. So it’s a very different thing. It just doesn’t end in the same kind of time frame. In fact, it can be expanding.”

Bezos instead looks to electricity, or more specifically, the electrical appliances, as the more apt metaphor. In the old days people used to have to unscrew their lightbulbs in order to screw in their kitchen appliances — from toasters to washing machines. He showed an ad for electrical appliances from an old Sears catalogue that proclaimed, “Use your electricity for MORE than light!”

“It seems so unbelievable to me that you had to choose between making a piece of toast or having your lightbulb screwed in,” said Bezos. “But that’s exactly what most Internet users today have to do, make a choice of whether they want to use their phone line for a telephone call or they want to use their phone line to have their Internet browser up and working. So it’s exactly the same thing and our children are going to be just as amused as we are. They’re going to say, ‘You mean you had to decide whether to talk to somebody or whether to use the Web? That’s weird.’”

Bezos also spoke to the evolution of electricity and how initially it was used only to produce light, until people began to realize that it had other valuable uses, much like the Internet.

In 1995, when Amazon.com opened its virtual doors, the search box wasn’t visible to users and the company rigged a bell to ring whenever a sale was completed. My, how things have changed.

Now the company invests approximately $200 million a year on technology in order to fine- tune and perfect the technical aspects of the site, like personalization and collaborative filtering.

He credits his company’s success in part to its customer-focused ethos, versus one that is competitor focused.

“What we’ve really tried to do is to base our strategy, at all times, on what we think the customers’ needs and wants are,” said Bezos. “In such a whirlwind of activity, the only stable center of all this activity has been the customers’ needs, which have changed relatively slowly. So, by basing our strategy on the customers’ needs, we’ve been able to figure out a lot of things and make this Web site perform at a high level. I think that’s one of the big differentiators between Amazon.com and some of the other companies that aren’t around [anymore]. We have been genuinely customer obsessed.”

This “obsession” began when Barnes & Noble launched its Web site because, according to Bezos, “they had 30,000 employees and we had 125.” People in the industry thought Amazon would go the way of most dot-coms and collapse under the pressure of such a competitor; however, that’s not what happened.

Bezos gave the following directive to his staff: “I said, ‘Look, I want you to wake up every morning terrified but don’t wake up terrified of our competitors. Wake up terrified of our customers. Because those are the folks who give us money, and we’re never going to get our competitors to give us any.’”

Part of Amazon’s customer awareness lies in its feedback feature, which allows the company to tweak its offering according to customer complaints or suggestions.

“The great thing is, we get so much feedback from customers, and we have for years,” said Bezos. “There is something wonderful about operating online, which is that e-mail, which is how we receive most of our feedback from customers, does a strange thing to the human being — it turns off the politeness gene. Which means that you get very honest feedback and that’s why all of our stores, over time, get better.

“We listen, we learn and then we try to invent on behalf of customers. We try to remember it’s not their job to invent for themselves.”

In addition, Bezos eschews the idea of copying competitors’ innovations, opting instead to perhaps be inspired by them, but then improve upon them. Yet, given that Amazon sells everything from video games to socks, its competitor base is larger and more diverse than many other Internet companies.

With Amazon’s 37 million “active” customers — those who have made a purchase in the last 12 months — Bezos’ customer-driven approach is clearly working.

“The main drivers for us are free cash flow and unit growth,” said Bezos. “So we are, on a trailing 12-month basis, doing roughly $5 billion a year in sales and the last 12 months we generated $245 million in free cash flow. It’s a high-fixed-cost, low-variable-cost business. And so it took about $4 billion in annual sales for the business to cover its fixed costs and, what you’ve seen happen more recently is we’ve gone past that level, in that the free cash flow is starting to fall over that dam. So we’re very excited about that and that’s the primary financial metric that we focus the company on. But that is an output metric. The input metric that we focus on, that drives the free cash flow, is the customer experience.”

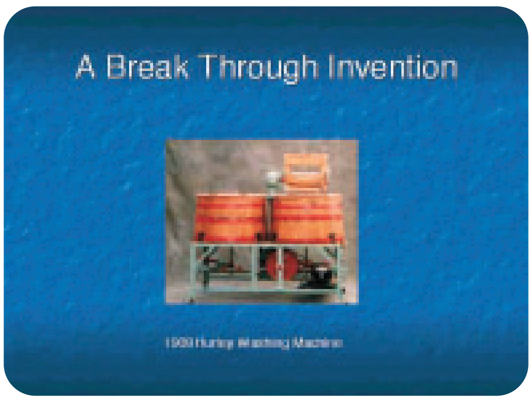
The company also is focused on growth, however, having started an electronics division four years ago, which, according to Bezos, is now almost a billion-dollar business. More recently, Amazon launched an apparel store, which has grown significantly since its inception 11 months ago. It began with 26 retail partners and now has about 150 partners. It also sells approximately 1,500 brands and has 600,000 customers — its retail partners include Nordstrom, Gap and Lands’ End. Yet, Amazon lets the retailers handle their fulfillment.

"[Apparel] is a very complex business in terms of the supply chain and understanding fashion and making sure that you have the right things and trying to predict what people are going to want to buy when," said Bezos. "It's a very difficult job. That's not something we have any expertise in and really our area of expertise is hard enough that we don't need to add that to a set of skills that we someday must learn. But we do think that we can bring the e-commerce experience to a new level in this category over the coming years and that's certainly what we're going to be trying to do."

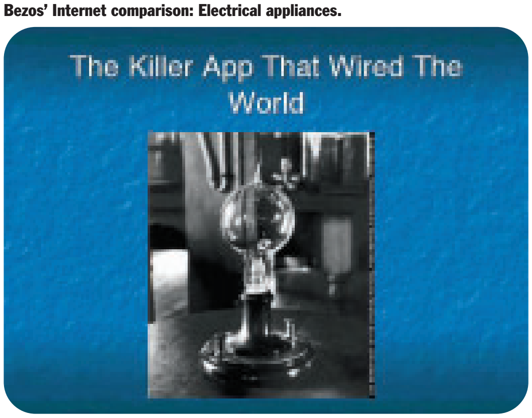
Apparel aside, Amazon also is committed to fine-tuning its existing virtual shopping experience. Within the last several weeks, it launched a feature called "Search Inside the Book," which allows readers to in fact search the entire text of a book for specific words or phrases.

When asked if he would ever consider opening a physical store, Bezos' response was an unequivocal "no." He sees the opportunities on the Internet as being so vast, and thinks his company's expertise is best suited to honing the platform it has created online.

"We have so much opportunity online, there's so much to do, and we're still so bad, even at selling books, that we will get better at this over time," said Bezos. "And so the opportunity there is so large and, if you look at our business, it's horrendously complicated, just as physical-world retailing is horrendously complicated. There are so many details, so many things to do well. The difference between having a great store and having a mediocre store is the execution of a thousand things. And, we don't know anything about those things because the details are all different."



Bezos' Internet comparison: Electrical appliances.



Yet, since part of Amazon's allure is its pricing, the subject arose as to whether Bezos is concerned about price bots — robots that scan the Internet for the lowest price. Bezos believes that the balance of power on the Internet is shifting from the marketer to the consumer and that this will continue to be the case for another decade or so.

"Am I worried about price bots?" he asked rhetorically. "Yes, but I'm worried about price bots the way Boeing is worried about gravity. In other words, it's a part of the landscape."

Also part of that landscape is riding out the wave of consumer empowerment. Bezos thinks it's imperative that companies shift their energies, as well.

"So a company, say, that is an excellent marketing company, that has traditionally put 70 percent of its energy into marketing and 30 percent of its energy into product development, they might start to shift that ratio," explained Bezos. "They might start to become 60 percent marketing, put 60 percent of their energy, time and dollars into marketing and 40 percent into product development. Then 50-50 and, over time, it may even flip around to where people are putting most of their time, not into shouting about their products, but into building great products."

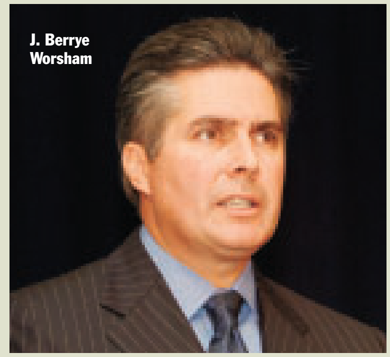
And those are just several of the reasons why Bezos thinks that the Internet revolution is still in its first stages.

"It is absolutely Day One," said Bezos. "The best stuff has yet to be invented and we're incredibly excited about the future."

Cotton Online for the Future

Forget about retail-tainment. Now Cotton Incorporated is trying to make shopping a joyous experience.

J. Berrye Worsham, president and chief executive of the Cary, N.C.-based fiber promotion organization, unveiled a planned Web site devoted exclusively to cotton products from an array of retailers. It is Cotton Inc.'s first e-commerce venture, though not its first presence on the Web.



J. Berrye Worsham

The site is to feature women's wear, men's wear, children's wear, home furnishings and other products. A test version of the site shown at the summit also featured the clay characters from Cotton Inc.'s current trade advertising campaign.

Cotton Inc. aims to have the site up and running by early next year. So far, Worsham said, 35 retailers have signed up to participate in the site, called TheJoyofShopping.com. About 25,000 stockkeeping units have already been entered into the site's searchable database.

Worsham said retailers such as Eddie Bauer, Jos. A. Bank, Pacific Sunwear, Gap, Old Navy, Bluefly, Sears Roebuck & Co., Wal-Mart Stores and Kohl's have signed on to participate and Cotton Inc. is in the process of recruiting additional retailers.

"Our goal is not to have just low-end or high-end merchandise, but to have a wide range of product," he said.

Worsham told the audience of retailers and wholesalers that the site would be "a new way of reaching your consumer."

The key selling point to the trade, he said, is that "it's not going to have any hierarchical listings. There's no preferential treatment given, no advertising on the Web site."

That means that a consumer who searches for a product — such as a knit polo shirt, for instance — will simply get a clean list, featuring photos of all the products available through participating retailers on the site.

The site essentially acts as a search engine, combing through the inventory of participating retailers to show only cotton products. The software engine that drives the site is Arkdom, produced by the Web Commerce Group of Raleigh, N.C.

Once a consumer selects a product, the actual transaction is conducted by the participating retailer's Web site, not by Cotton Inc. But according to an Arkdom official, Cotton Inc. will get a small commission on each purchase.

Cotton Inc.'s other Web sites include CottonInc.com, a trade-directed site that generates 40,000 hits per day, and TheFabricofOurLives.com, a consumer-driven site that attracts 24,000 hits per day, Worsham said.

"What we're trying to do is make it easier for the consumer to shop for cotton products and to shop for products in general," Worsham said. He added that the site makes it "easy for the consumer. They can shop multiple sites from one location. It's great for the retailer, to help them sell more merchandise."

Overall, Worsham said, "This is very consistent with our mission statement at Cotton Inc., which is to try to improve demand for cotton."

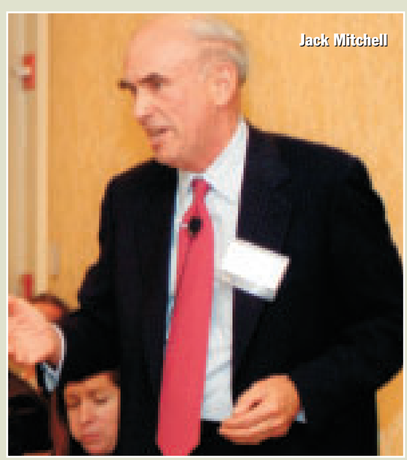
— Scott Malone

Jack Mitchell on Hugging

By Jean E. Palmieri

Hugging pays dividends — just ask Jack Mitchell. The chairman and chief executive officer of Mitchells and Richards, two of the country's most successful independent specialty retailers, has taken the concept of hugging his customers to new heights.

He has also completed a transformation into a bona fide author. His first book, appropriately titled "Hug Your Customers: The Proven Way to Personalize Sales and Achieve Astounding Results," is now in its sixth printing and has sold more than 800,000 copies since it hit bookstores in June.



Jack Mitchell

Founded by his father, Ed Mitchell, in 1958 in Westport, the Mitchells added substantially to the company's coffers by acquiring Richards in Greenwich in 1995. Since then, Richards has built an impressive new home on tony Greenwich Avenue and Mitchells recently completed a renovation of its Post Oak Road store.

"I never dreamt [these stores] would be a business model," Jack Mitchell told a luncheon gathering at the WWD/DNR CEO Summit.

Mitchell said the stores' survival is assured by the simple notion of focusing on the customer. "They're the center of the universe to us," he said.

The Mitchell family — and all the associates at the two stores — can recite sizes, style and color preferences, and more personal information such as birthdays, spouses' names and pets' names for each of their customers. In Mitchell vernacular, that's hugging. "It's a metaphor for a simple deed or act on a personal level," he explained. "It means being caring and thoughtful and making people feel special."

He related a story of one sales associate who bent over backward to get a customer a new business suit before a trip to Zurich. The suit was tailored, pressed and delivered before his departure and when he arrived in Switzerland to make his presentation, he stuck his hand in the suit pocket and found a birthday card from the saleswoman. "That's a hug," he said.

In the stores and in the book, Mitchell said, are "reminders of what is essential — a move from reactive to proactive." And all this hugging pays off on the bottom line.

"Does it work?" Mitchell asked. "I'm proud to say we're profitable, and when you have a personal relationship with a customer, they generally buy at regular price."

WWD/DNR CEO Summit

Fabien's Fruitful Mind


Fabien Baron

Fabien Baron, creative director and owner of advertising and design company Baron & Baron Inc., is an advertising guru, image-maker, video director and photographer, creative director of French Vogue and a furniture designer with a collection distributed by Cappellini. He made his mark with strikingly minimalist layouts as the creative director of Harper's Bazaar under Liz Tilberis and honed his artistic talent at magazines such as Self, Italian Vogue and Interview. In 1992, Baron designed the "Sex" book with Madonna and Steven Meisel.

In the ad world, Baron's client list includes Burberry, Calvin Klein, Michael Kors, Hugo Boss, Balenciaga and Miu Miu. His creative philosophy is simple: One must remain true to one's brand. "You cannot cut out the roots of a tree, or the tree dies," said Baron. "And you cannot pretend the pear tree will grow apples, so why be jealous of the guy with the apples? Why not just sell a lot of really great pears?"

In a keynote conversation with **WWD executive editor Bridget Foley**, Baron explained how companies can get the most out of their advertising and what it takes to establish a company's point of view.

WWD: When we spoke about image building, you said the most important element is singularity of message, to hammer home the point relentlessly. Can you explain that a little bit?

Baron: I think what is important is that the market is saturated, I actually believe that when you go to department stores or you go to [specialty] stores, there is too much of everything. And it's quite confusing for a customer. What is difficult to find is a very precise, unique point of view. So that is why brands like Gucci and Louis Vuitton, with a very precise point of view, are successful.

WWD: Let's take a brand like Gucci. This is probably unprecedented in the interest of what most of us know right now, but do you think it could fall apart? Do you see it transforming into something as powerful or as bold fashionwise? What will it take to maintain Gucci as the power player it is today?

Baron: I think they are going to have a difficult time because Tom [Ford, creative director of Gucci Group] is a star and a great designer. He got that brand to its highest level. I think where they are going to have a hard time is finding a really great designer who will fill the shoes so rapidly and so well. I could see the brand going down a little bit with the editors and with everybody before it regains a little bit of notoriety, but I guess that's what is going on in fashion.

WWD: As a man whose job it is to work with image, you say it is the image that is essential, but it really starts with the product, no?

Baron: Definitely, it starts with the product, and it starts with the person at the head of the company. With someone like Tom, who had a very, very precise vision, he did a product that was really absolutely amazing for the moment. He was in tune exactly with what's going on, he had all the elements together and everything was on the right track. You had the advertising, you had the point of sale together, the store design, the product, the accessories, the models, the photographer, you had the whole package going in the right direction and was from the same voice and everything saying the same thing. So you hammer people on the head by repeating and repeating and repeating. You gain a reputation, and I really believe that. So, I think, in the case of Gucci, you're going to have a new voice trying to fill the shoes of someone else whose product is already existing, and it's going to be a little hectic for a while before that new person can establish their new point of view.

WWD: You said that Tom Ford actually continued in a different way, but on a path that Calvin Klein really established and forged, that singular vision, the relentlessness of focus.

Baron: I believe that Calvin was one of the first designers who understood to use image to make a business. He used image advertising to push his brand to make everything look much larger than it is. Calvin's advertising was genius; the way of taking a product that is so elementary as underwear and putting that on such a pedestal and making it huge in a category that nobody would touch. To be unique in the way that you approach the segmentation of your business is very important, too.

WWD: Let's talk about segmentation and at the same time, the fusion of your business, perhaps using Calvin as an example with fragrance and fashion and how they work together.

Baron: When we launched CK One, we were at the same time having a campaign going on with the jeans. And with CK One, what we tried to do is double everything. All the models in the commercials and in the [print] advertising were wearing jeans also. We were trying to sell jeans by selling fragrances and vice versa. So every time you could place another product in the advertising, you would double a little bit. You would sell clothes at the same time you sell a fragrance. At the same time you sell a little lifestyle, you sell a little bit of everything. And I think it's good to do that because you're reinforcing your point of view. I think it's important to sell the same thing over and over and over.

WWD: Calvin Klein is a longtime client of yours. That is clearly a company in transition. How do you deal with that now?

Baron: What I think is important for the company right now is to refocus the true values of what Calvin Klein is all about, which is American sportswear, clean, a certain sense of elegance and sophistication and sexiness. And strangely enough, at one point, Calvin's business let go of that because he got into so much trouble with his jeans advertising, and everyone knows about that. But strangely enough, Tom Ford took that [edgy advertising] over, and he built his whole business on what Calvin had built for so many years. So I think coming back to these roots is important and to refocus on what made the company the company is very important.

WWD: Let's talk about those apples and pears. Do you find that's a common mistake, and that people and companies want their brand to be something that it isn't? Does everyone want to be too edgy?

Baron: I see that a lot. I see a lot of companies that have something strong going for themselves and they want to expand too rapidly and they want to do other things they aren't supposed to do, and they fall apart. And I think it's very important if you know how to do something well, do that, and push that. Push what you have within. Especially in the market today, I believe it is really important to look within.

WWD: Let's say I'm a client. I come to you to either create or recreate, and I'm sure they are very different situations, to strengthen my brand's image. First of all, how do we know we're a good match? How does a client know what to look for in a creative director in an advertising agency?

Baron: I think you talk to them and you see a little of their work and what they've done before and their background. A conversation about business in general and image should lead to a fairly good idea of what your relationship will be about or could be about.

"I actually believe that when you go to department stores or you go to [specialty] stores, there is too much of everything."

— Fabien Baron

WWD: What do you expect me to bring to the table?

Baron: A clear understanding of what your company is about, a clear understanding of where you want to go with it, and what are the goals. What I'm going to bring to you is the tools and the ability to pick talent and develop visuals to implement exactly what you want.

WWD: But I know you think it is important to play to what you call the company's DNA.

Baron: Yes, I think what is important is to realize that in a company like Burberry, Rose Marie [Bravo, its ceo] understood right away what the company was standing for. She took the strong element of the company, the roots of the company, and she took care of the roots first. She went into the basement to make sure the roots were totally healthy and perfect, then she took care of the rest. She trimmed the tree and then it blooms at one point. You have to take the risk that for one season, you're going to go down. You never go from one point up, you have a tendency to go down because you have to cut licensees, you have to cut certain things that bring business to the company, and those things have to disappear, and they have to change, and during that change you get lower revenues and it's tricky. In the case of Burberry, Rose Marie really anguished because they went lower than expected, and she stuck with it and she was right because now look at it, it's a huge success.

WWD: Can any brand that may be dormant but has strong brand recognition be revived?

Baron: I think so.

WWD: What if the name recognition is there but there is no strong look associated with it?

Baron: I think it's very important that the name be associated with a couple of really strong elements.

WWD: And how do you know they are there?

Baron: Well, you look at the history of the company, and you can tell if that company has been big at that time.

WWD: How do you reconcile in your work with your clients that bridge between what is new and what people always want and the history and the roots, the DNA?

Baron: Well, there are two things. People want new but they want familiar at the same time. They are willing to take new things from names that are very familiar, that's why big names are important. That's why if you start a new brand, it is very difficult because you need a lot of money to do advertising, to be recognized, to be placed on the map of fashion. It's very tricky. So if you have a name, that's good. Take the example of Dior and what John Galliano was able to do. If you knew the character John, I mean, John the way he is, if he were on his own as a designer, I don't think he would be as powerful as he is being attached to Dior because he's quite cuckoo as a person and everything. It's fantastic. He does a fantastic job, and all that newness he brings to the company is good for the name Dior, and it's good for him, too, so I think it's working out pretty well.

WWD: You have had a phenomenal résumé in editorial: Self, Interview, Italian Vogue, French Vogue, Harper's Bazaar. What has that experience, different readerships, different looks, taught you about playing to the target consumer? And how can you transfer that to advertising?

Baron: The most important thing that editorial has helped me with is first of all, knowledge of the market. You know going to all the collections every year, knowing all the designers, having dinner with them, sitting with them, hearing the business problems, you get overall knowledge about the business in general and sometimes when you're stuck in one company, that's it, and you have absolutely no reference, and you know it's very hard to know about businesses when you already have a business.

WWD: What do you think are the most common mistakes that companies make in their advertising?

Baron: They make a lot of mistakes. I think wrong casting, wrong styling, wrong photography, I mean there's a lot of things that can go wrong. It's very easy for it to go wrong, actually. It's a very organic thing doing a photo shoot. You could have the right photographer, but the wrong casting, then the pictures don't come out the way you wanted, and the message becomes tainted, and the advertising becomes not as big as one could have.

Kors, Stroll Rev Their Engines

By David Lipke

As a student at FIT, Michael Kors launched his Seventh Avenue career with a part-time sales gig at a Fifth Avenue store called Lothar's. Quickly realizing that it was "more fun selling jeans to Cher than it was draping a pattern," the future star designer began working at the store more and going to class less.

"Not the usual way most designers start. But it really was a fabulous experience. It was my entrée into fashion and it was a laboratory. And to me, retail still is the laboratory," he said in a dual keynote address with his new business partner, Lawrence Stroll, co-chairman of Sportswear Holdings Ltd., which earlier this year bought a controlling stake in Michael Kors LLC.

For both Kors and Stroll, the sales floors of America's department stores remain crucial components of the designer apparel business. It's a place where vendors and retailers alike can glean invaluable information about customer shopping behaviors and desires — but it's also a place in dire need of a transformation.

The problems facing department stores currently are manifold, according to Stroll. "I think we are at a challenging crossroads today in the retail environment," he noted. "For reasons self-driven and some pressure from lower-priced mass merchandisers, and from a lack of newness from vendors, a combination of these factors has driven department stores to focus more on price, promotion, coupons, everything to drive the customer into the store in a promotional environment. I truly don't believe, and I think you guys have realized it, that that's not a successful way to fashion the future."

Meeting with retailers over the past few weeks to discuss the fall 2004 launch of the new better Michael Michael Kors label, Stroll noted that he believes department stores increasingly realize that attempting to beat mass retailers at their own game is not a viable strategy. "They've simultaneously come to the same conclusion that I suspected they would come to. And that's that they cannot win at the game of low. There is always someone lower, and that's not what their forte is."

Along with trying to win customers with low prices has come the necessary strategy of wringing markdown money from manufacturers, added Stroll. "There's been a heavy, heavy reliance on gross margin dollars from us vendors, and I think retailers need to get back to being great merchants like they were and focus less on promotional activities. They need to drive the business with excitement and energy."

Stroll's criticism of today's department store environment stems from his own experience growing Tommy Hilfiger from a $25 million business into a $1.8 billion brand, following Sportswear Holdings' 1989 acquisition of that nascent company in 1989. "When we started Tommy Hilfiger 14 years ago in these same stores, it really was a different place. It was about the excitement of the product, of putting in shop-in-shops, of holding events when we opened a shop in a new city. Department stores were much more theatrical. There was drama and it was a fun place to go, and not because you had a coupon. Department stores need to go back to those roots."

A key aspect of those roots involves service, and stores and vendors would do well to increase the number of salespeople on selling floors and improving their training and education, said Kors and Stroll. "It's really not enough that the product sings, it's all about presenting it in the proper environment and never underestimating your partners at the retail level — I'm talking about the people who actually sell the product. Keep them informed because they are the messenger," said Kors.

"[Department stores] cannot win at the game of low....and that's not what their forte is."

— Lawrence Stroll, Sportswear Holdings Ltd.

"The difference is remarkable when you visit a selling floor, rally the troops, cause some excitement and explain the product."

— Michael Kors

One way to do that is for vendors and designers to visit retailers and educate salespeople themselves. "I do know that the difference is remarkable when you visit a selling floor, rally the troops, cause some excitement and explain the product," said Kors. "Show people what a taped seam is. Talk to salespeople about it, open up a jacket, show that it's reversible, unlined, lightweight, doesn't wrinkle. Make them feel involved in the process. The effect is tremendous." So effective, in fact, Kors noted that following a clinic he conducted with salespeople at Bergdorf Goodman this past fall, the store rang up $85,000 in Michael Kors business in the following hour. (Of course, "I certainly don't think I'll be able to visit every door of every store that we distribute our product in," cautioned Kors — to which Stroll retorted, "You didn't get my last note.")

However, the dialogue between the sales floor and vendors can go both ways, added Kors, who emphasized the importance of remaining in touch with customers' real-life needs and preferences. One great way to do that, said Kors, is to meet and talk to customers at events like trunk shows — something the designer has been doing since he launched his company 22 years ago. "I'd always heard about Bill Blass, the king of the trunk shows. I thought he always did this amazing job because he really knew his customer," remembered Kors. "I actually still love doing trunk shows — I'm probably one of the last of the Mohicans. It's still one of the best sources of information."

Other advice Stroll emphasized was that it's important to focus on key retail locations, and not try to market something and believe every door is going to be gangbusters. "It's important to remember that famous 80/20 rule — that 20 percent of your doors are going to do 80 percent of your business. I think we need to focus on the State Streets and Union Squares and Fifth Avenues."

Lacking from the current retail formula are excitement and drama, in either the merchandise offered or the way it's presented, continued Stroll, offering up in contrast glitzy British retailer Selfridges as an example of a retailer doing things right. But part of the problem has been a dearth of powerful new labels at retail, according to Stroll, who is betting a fortune on Kors to fill that void. "I don't think there has been a great apparel launch in the past seven or eight years. We saw that there has not been, and there needed to be, the next great American designer," he said of his and partner Silas Chou's decision to acquire a majority of Michael Kors.

In the quest to turn Michael Kors into a brand as influential and inescapable as a Ralph Lauren or Calvin Klein, the company will continue to expand its men's and women's Collection businesses within upper-tier department and specialty stores, as well as open freestanding stores. (A lease for a new Beverly Hills shop is about to be signed, according to Stroll.) "We're going to be coming after you Burt [Tanksy, ceo of Neiman Marcus], and the Holt Renfrews and the Harvey Nichols and Saks of this world, to put up the most beautiful and luxurious shop-in-shops. We're going to support it with the proper marketing and with all the in-store people. It's very capital-intensive, and it's an investment that we're very prepared to make," said Stroll, who along with Chou also controls the Asprey and Garrard luxury brands.

The second, and more ambitious, component of the growth strategy for Michael Kors is the wide-ranging launch of the new better label, called Michael Michael Kors, intended to catapult the company's sales over the threshold of $1 billion a year by filling the increasing demand for affordable luxury. "It's an unprecedented launch with so many simultaneous products, and that's out of design, not accident," explained Stroll. "We will be launching a full women's collection, a full women's handbag collection, a full shoe collection, a full men's collection, belts, clothing, furnishings, a new fragrance with Lauder. We believe that to be successful, we have to have critical mass in the doors that we are in."

Asked if he was concerned about eroding the brand value of the Michael Kors name with the debut of the lower-priced Michael line, Kors pointed to himself as a prime example of someone who appreciates high and low price points. "I think about what I'm wearing today," he pointed out. "A Michael Kors jacket, Charvet shirt, Levi's 501's, a Hermès belt, Weston shoes and no socks, ever! I think the reality is we all mix price points."

Esprit Returns to Its Roots

By Jean E. Palmieri

Esprit is out to prove that you can go home again. Founded in San Francisco 35 years ago by then husband-and-wife Doug and Susie Tompkins, the brand sold its trademark rights in the U.S. and the Caribbean to Esprit Holdings Ltd., a Hong Kong-based, publicly traded firm, in early 2002. Esprit Holdings already owned the rights to the brand in Europe and the Far East.

Although Esprit currently has about $1.6 billion in revenues worldwide, it's a brand that has "faded away" in the U.S., Heinz Krogner, group chief executive officer and deputy chairman of Esprit Holdings, said in his keynote address, titled: "Back to the Future: Finding Our Way Home." "But we're here now to bring it back. We believe very much in the U.S. as one of our growth markets."

In fact, the company is scouring metropolitan New York for sites to relaunch a retail chain in the U.S. beginning next year, he said. As reported, the first store should open in spring or summer, six or seven locations are under discussion and one lease is ready to be signed soon.

Esprit, under its previous owner, used to operate stores in the U.S. but closed the last seven or eight units about a year ago.

The decision to open its own retail sites in the States again is part of a "homecoming strategy" for the once-California-based company, which still has a brand recognition of 61 percent on the East Coast and 68 percent on the West Coast. The initial thinking was to come to market here with "a concentrated effort," Krogner said. Although Esprit operates 13 divisions, the company decided to focus on edc, its juniors line, as well as a casualwear and collection line for women only. Finding licensees here was also in the cards.

After successful partnerships with department stores in Europe, the firm centered its distribution on better department stores in the States as well, pushing any thought of its own retail stores to the back burner. But Krogner said he was "astonished" at the initial results. "The department stores [here] have shown us a very mixed picture," he explained. "Some of them share our values, but a lot don't."

He said some department stores in the States look at vendors as a "mortal enemy" — a relationship that can be substantially improved. "I believe both parties have to focus on their strengths," he said. "The department stores have the best locations, they're still an institution in the U.S., they know how to manage a big store, they know about space allocation, they know how to market their stores. Some of them are still able to create a strong shopping atmosphere and some of them know the private label business."

That said, "We have to decide who is in charge of the business," he continued. "If the department stores want to do the selection, the pricing, the visuals, the markdowns and promotions, then why do they come at the end and ask me for markdown money? I'm not responsible for it because I have nothing to say. I'd rather run my business in the department store myself, then I can bring my look and image. I believe by doing that we can add a lot of value to make department stores more exciting."

He added: "Everything here looks very much the same and department stores have to rethink their business model."

His experience with the department stores prompted a series of "corrections" in the U.S. market, Krogner said. "As a brand, we have to protect our identity, and we learned we have to be much more selective in choosing our partners here. And now we will not wait three or four years [to open our] own retail. We realize that through the department stores we cannot build our brand again. That was a real misjudgment of our team so we are going to start our own retail as soon as possible."

In fact, Krogner expects the business in the U.S. in five years to be split 50-50 between retail and wholesale. The Esprit-owned stores are also expected to carry men's product, although the firm does not intend to wholesale the men's line for at least two years. "We have to prove that it sells and we don't want others to get into problems if we have to adjust the line," he said.

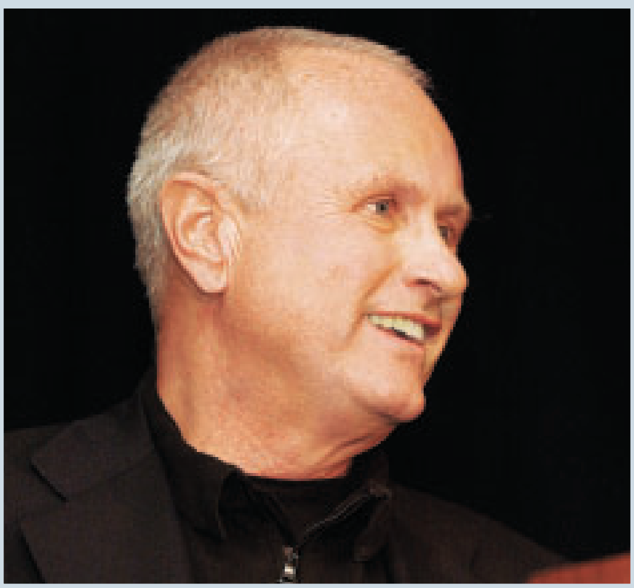
But despite the seemingly intense focus on retailing, Krogner said he views Esprit essentially as a brand. "Esprit is neither a retailer nor a wholesaler," he said, noting that in Europe, some 70 percent of the company's sales come from wholesale.

Overall, he said: "Sixty percent of our turnover comes from wholesale, but mainly from controlled space. We insist that people open shop-in-stores or freestanding franchise stores — all with the image and look of Esprit." In China, there are 600 points of sale, he said, through a joint venture with China Resources, which owns 51 percent of the business. Esprit corporate retains the remaining interest.

The firm's retail operation worldwide breaks down to 215 stores in Asia, 142 in Europe, 154 in Australia — making it that country's number-two brand — and 45 in North America. "And our retail is almost as profitable as our wholesale."

Regardless of where it is sold around the world, Krogner said Esprit is an "international young fashion lifestyle brand" for men and women. We cater to people who are young in mind. Esprit is not about an age but about an attitude, and anybody who shares our lifestyle is welcome to be our customer."

The brand is broken down into "five worlds," or categories, for both genders: better casual sportswear; a collection line, which is more business-oriented; juniors and young men's, through edc; kids, and sports. The sports line was successfully launched with women's wear two years ago at both department stores and the company's own retail stores. As a result, men's wear has recently been added.



"If the department stores want to do the selection, the pricing, the visuals, the markdowns and promotions, then why do they come at the end and ask me for markdown money?"

— Heinz Krogner, Esprit Holdings

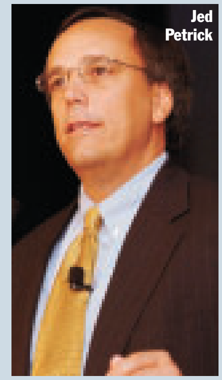
Krogner said that since Esprit Holdings acquired the trademark for $150 million, it has now "unified" all operations under one roof, allowing for synergies and marketing on a worldwide basis to "restart the company." The company's structure reflects its "internationality," he said, with three headquarters: a financial base in Hong Kong, a business base in Düsseldorf and an image operation in New York. The latter was recently relocated from London. This structure "gives a global direction to Asia, Australia, the U.S. and Europe. We operate today in 44 countries."

Including licensed products, the brand's total sales are $3.5 billion. "Despite the difficult environment in Asia," he said, "we were able to outperform our competitors quite substantially," Krogner said. "We reported 10 consecutive years of growth in top and bottom line. Our market cap went up 19 times, our shareholder equity 26 times." This exceeds the results of competitors H&M and Inditex, which operates Zara, as well as Gap.

Capturing Fickle Youth

By Anamaria Wilson

Renowned for their fickleness, teenagers are a tough demographic to rein in. Yet that's exactly what The WB and Jed Petrick, its president and chief operating officer, have managed to accomplish since the network was launched eight years ago.



Jed Petrick

No member of Generation X, Y or other, Petrick freely espouses his Brooks Brothers suits and his middle-aged angst. Yet in his keynote speech, he discussed how he's kept young by his network's demographic — 12- to 34-year-olds — and how in turn he keeps them loyal.

Since its inception, the network has created a bevy of popular shows, including "Smallville," "7th Heaven," "Gilmore Girls," "Everwood," "One Tree Hill," "Reba" and "Charmed" — not to mention long-running hit shows that have now ended, like "Dawson's Creek" and "Felicity."

Previously, Petrick worked at the Fox Network, which pioneered the concept of edgy, alternative programming aimed at a younger generation, like "Beverly Hills 90210," "Melrose Place" and "Ally McBeal." However, once Fox decided to look for older viewers, a niche opened up for The WB.

"We learned many of the basic fundamentals of building a new network at Fox and we've utilized them again here at The WB," said Petrick. "Most importantly, we learned that young viewers would find and eventually embrace a new and immature television station if it provided an entertaining option that specifically connected just with them — and it wasn't easy."

So, what exactly is the magic formula that lures fickle teens to the network and keeps them? "I believe it's a mix of two key items that really live as one," said Petrick. "It starts first and foremost with our brand. We have been very diligent to speak with one steady message over the years: 'The WB is for the young and the young at heart.' The trick lies in the message's consistency."

Petrick maintained that the majority of its programs are crafted in such a way that families can watch them together. The shows feature characters that young people identify with along with story lines and experiences to which every viewer can relate.

"We look for ideas and characters that are aspirational in tone and provide some sense of wish fulfillment," explained Petrick. "Young people aspire to be older, smarter and more mature than their age or experience allows, and older folks wish they could reclaim their youth and relive some of their experiences."

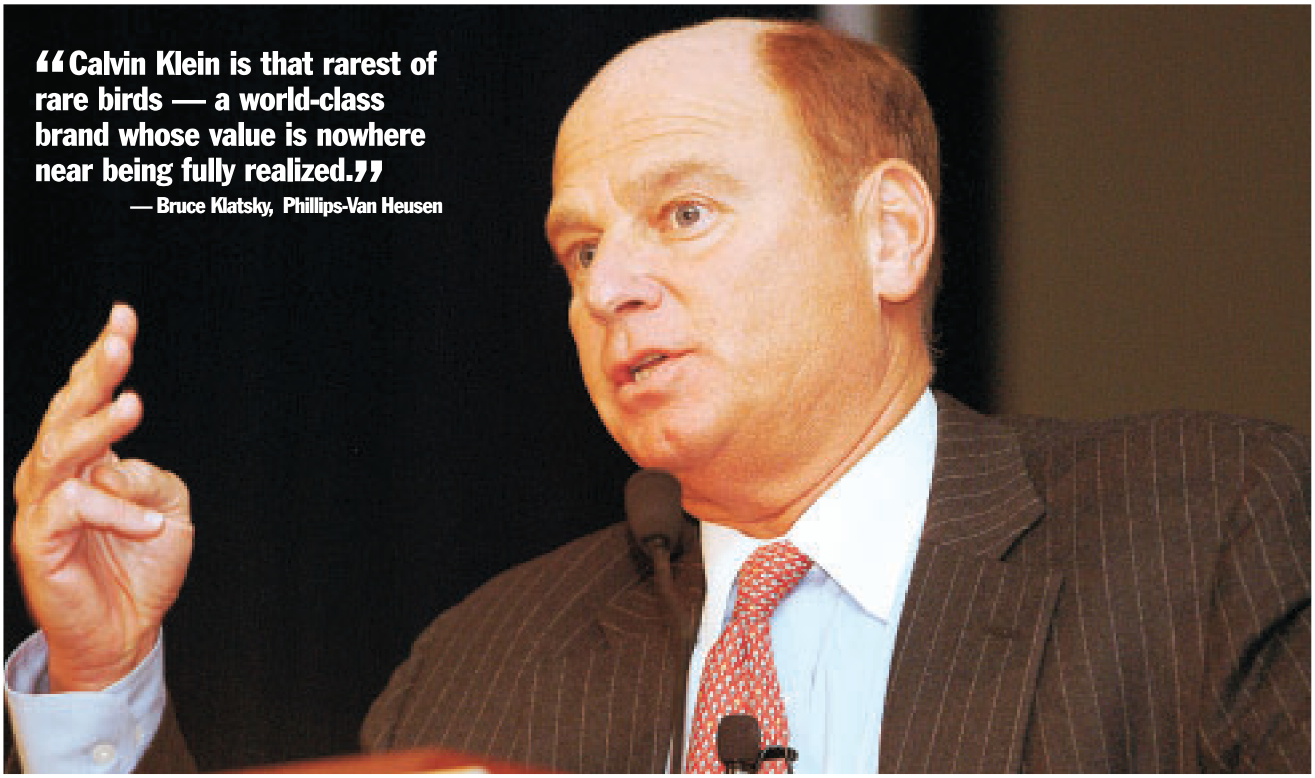
That's why many of The WB programs feature teenage or young adult stars both struggling and striving to live within the confines of their families. By straddling both teens and their parents, the network manages to suck in both demographics.

Part of the key, according to Petrick, is that "it's not about being young, but connecting young." The network's writers typically channel their youthful angst into shows that reflect or parallel their own life experiences. For example, Joss Whedon created "Buffy the Vampire Slayer" as "the ultimate metaphor for his difficulty during his high school years by blowing them up to demonic proportions," said Petrick. Amy Sherman Palladino, the executive producer of "Gilmore Girls," a show about a mother and daughter who are only 16 years apart in age and actually behave like sisters, is reflective of Palladino's wishes she had the same best-friend relationship with her mother.

Asked about The WB's viewer differences with the other teen-focused network, MTV, Petrick didn't mince words.

"MTV is the exact flip of what we do," he said. "They are on the edgy side, but not all kids want to have sex when they are 14. Not all kids want to cut school or whatever. We've got the good kids at The WB."

We've worked hard to educate mainstream marketers of the long-term benefits of capturing a lifelong customer at a young age and their support has grown nicely....It's a customer for life if you do your job right. Creating a brand is one thing and making it resonate with its target is certainly another."



PVH: Making a Grand Brand Grander

By Thomas Cunningham

Will the same branding principles that made Van Heusen one of the biggest shirt brands in America work in the world of high fashion?

Bruce Klatsky thinks so.

Earlier this year the chairman and chief executive of Phillips-Van Heusen Corp. pulled the trigger on a deal to buy Calvin Klein for more than $430 million. Now, as Klatsky oversees the 2004 launch of Calvin Klein better-priced collections at retail, the fashion industry is watching closely to see if PVH, expert at managing midpriced labels like Izod and Arrow shirts, will show the same touch with an iconic American designer label.

Klatsky, in his keynote address, embraced the challenge. "We bought a brand, maybe the Holy Grail of brands," he said. "And you would be correct in assuming that our aggressive pursuit and acquisition of this particular brand says a lot about how we see ourselves and our place in the fashion industry."

Klatsky conceded the acquisition of Klein boldly took PVH to places, especially distribution channels, where it has never been before, but he said the same focus on brand stewardship that had kept labels like Van Heusen and Bass vital for decades and longer would ensure that Calvin Klein could be developed successfully.

"Where [reporters, consumers and investors] see product and distribution channel, we see something entirely different," he said. "We see brand. That's why it doesn't bother me at all to put Calvin Klein couture, Bass footwear and Van Heusen shirts in the same sentence — and even in the same company. In today's fashion world it is eminently sensible."

Although the price points and positioning of Calvin Klein are different from those of Van Heusen shirts, the same principles will drive Calvin Klein's success under its new ownership, Klatsky said. Regardless of their price point or distribution, brands require the same three elements for correct development: a product that is distinctive and true to itself; a distribution strategy that is appropriate, and a marketing proposition that is right for the brand.

"Calvin Klein is that rarest of rare birds — a world-class brand whose value is nowhere near being fully realized," he added.

Asked whether his Calvin business would be affected if women's designer Francisco Costa, a Gucci alumnus about whom there's been speculation as a possible successor for Tom Ford at either Gucci or Yves Saint Laurent, left the firm, Klatsky said, "Calvin is an institution. It's not dependent on [PVH's president] Mark Weber or Bruce Klatsky, or anyone else."

While commending Costa, Klatsky stopped well short of saying he was indispensable. "We want to provide Francisco with an environment he loves. He will contribute to the aesthetic of [Calvin Klein]. He's a key member of the team," Klatsky finally said.

The biggest challenge in the integration of Calvin Klein was transferring its men's and women's collection, previously produced in-house, to Vestimenta. That transfer has been completed and the line is selling "exceedingly well, I've been told," said Klatsky. Van Heusen signed the Vestimenta deal in February.

Design and marketing remains at Klein's offices on West 39th Street, though the back-office operations have been merged with PVH. The men's sportswear business, which was kept in-house as a division of PVH, was moved to the Klein offices as well, he said.

With the relaunch of Klein under way, department stores are a topic close to Klatsky's mind, and during his presentation he made an impassioned argument that national brands were key to the renewal of that sector. "It is not a stretch to say that the future of our company is in many ways linked to the continued health and vitality of department stores," he said.

"The brands that department stores carry set them apart from their competition," said Klatsky. "They establish uniqueness. They add prestige and cachet. They overcome resistance. They create excitement. They facilitate purchasing decisions. They attract customers. And they define the shopping experience."

The department store segment is an area PVH has been carefully watching. Klatsky described the segment as "critical and a growing distribution channel for us…it remains the strongest and best retail concept for selling the kinds of quality brands that we are most interested in manufacturing and marketing."

PVH sells its brands in a variety of distribution channels, including department stores for Van Heusen, Geoffrey Beene and Kenneth Cole dress shirts; middle-market chains for Arrow dress shirts, and mass retailers for private label. It also operates more than 700 stores, mainly outlets.

Although PVH uses a multibrand strategy, it ensures that its execution of that strategy preserves each brand's uniqueness and value, Klatsky said.

PVH is returning Calvin Klein to department stores at a time when radical changes in global sourcing are making it harder for department stores to compete. The flannel shirt sold by a big box retailer is often made in the same factory that turns out designer clothes and, though the shirt may not be quite as well-made as the designer fashions, it still offers good value for its price, said Klatsky.

"Global sourcing has succeeded in delivering quality, fashion and value to mass merchandisers whose great creativity and ubiquity make them incredibly formidable competitors," he said. Meanwhile, specialty retailers like Chico's FAS, which found a niche serving normal-size, middle-aged women, are taking share from department stores as well, Klatsky noted.

The business has changed profoundly from years ago when brands like Gold Toe socks could analyze each market, and choose one department store to sell its products, said Klatsky. Now there is less loyalty on all sides of the equation. Consumers are more price-driven, suppliers serve multiple channels and department stores have turned increasingly to private labels.

As if it wasn't enough to respond to those changes in the retail landscape, the fashion industry should expect there are more to come, said Klatsky. "I feel confident in saying is that within the next five years, some retail concept no one is anticipating will have taken the market by storm. And there is really nothing anyone can do to anticipate it or stop it."

Department stores have turned increasingly to private labels, Klatsky noted, but he cautioned that if department stores depend too much on their own labels, they are essentially competing with specialty retailers on their own level, instead of playing up one of their biggest assets: the ability to offer a range of national brands.

But even if brands are department stores' best defense against the competition, in today's fast-moving world they are harder to develop than ever. In the past, retailers and wholesalers would stand behind a brand until it caught on with consumers, but today if something doesn't immediately catch consumers' attention, there is no room for it on the floor.

The costs of buying media time, as well as the challenges of developing product and establishing manufacturing also make it hard for new brands to be created, said Klatsky. "Hot new brands do emerge occasionally…but it is always serendipity when they do. And without proper attention and support to maintain their relevance to the consumer, such brands seldom last."

To maximize the value of their brands, retailers and vendors need to cooperate as much as possible, Klatsky said. Vendors and wholesalers should be consulting on everything from preseason planning and brand assortment to promotional calendars and advertising, he said. Retailers should also choose their suppliers carefully since how they manage their brands can have a big impact on the bottom line.

Despite changes in the industry, consumers still know the best brands are found in department stores, Klatsky said. That means that brand management, brand development, brand preservation and brand extension are skills that fashion companies must have if they wanted to succeed.

As an example of successful brand management, Klatsky cited Van Heusen, which he called "in many ways the perfect brand," with a large and loyal customer base and single-channel distribution. The brand has retained its unique image and iconic status even while responding well to line extension and updating, he noted.

"After 30 years of wringing value out of the [Van Heusen] name, I can tell you that it is a song that has much to teach us about all kinds of brands. And the message is relevant to brands across the spectrum — humble and post, inexpensive and premium, one-of-a-kind couture and dress-shirt common…

"It is by applying the lessons of Van Heusen and our other powerful brands…that we will orchestrate the symphony of Calvin Klein."

WWD/DNR CEO Summit

"I was just a young girl, and everyone was wearing that famous dress."
— Diane von Furstenberg

DVF: A Fairy Tale With Legs

By Eric Wilson

Most fairy tales end with the girl marrying the prince," said Diane von Furstenberg as she introduced her story during her keynote address. "Mine began that way."

Few designers could describe their careers within the framework of a magical allegory, let alone do that twice. But as von Furstenberg illustrated during her presentation, "Turning a Passion for Life Into a Penchant for Business: The Second Time Around," she has actually had two blessed careers as a professional fashion designer, first in her 20s and then again in her 50s. As she described the history of her two business lives, common threads appeared between them, as von Furstenberg's combination of determination and charm, plus a good bit of sex appeal, were a strong enough recipe to overcome almost any obstacle thrown in her way, not the least of which was her own naïveté.

Her first tale began at the age of 21, when von Furstenberg wed Prince Egon von Furstenberg in Europe. As the glamorous couple was destined for life in New York, Diane knew she wanted to work, "and not be a Park Avenue socialite." Through a friend Angelo Ferretti, a flamboyant Italian entrepreneur who owned factories in Italy for printing, T-shirts and lingerie production, von Furstenberg created a small collection of simple, printed T-shirt dresses that she brought to America and presented to Diana Vreeland, then the editor of Vogue.

"She loved the clothes and put them in her magazine," von Furstenberg recalled. "I had no idea what I was doing. I was only 22. I had just arrived in this country and I was pregnant all the time." She recalled pleading with Ferretti to produce quantities of 20 dresses, something unheard of within the scale of his factories.

"I didn't know how to go about it in a less amateurish way, so I thought it would be easier to become part of a larger company," she said, although there appeared to be little interest in the young, ambitious socialite within the-then clubby confines of Seventh Avenue. John Pomerantz at Leslie Fay was nice to her, though, and suggested she start out on her own by opening a small showroom and hiring a salesman. It was her first lesson — that when most people say, 'No,' she was left to either prove them wrong or simply fade away.

"He introduced me to one [a salesman] who was 40 years old," she said. "That seemed so old to me then."

They became partners, and von Furstenberg took out an ad in WWD, an image of herself with the tag line, "Feel like a woman, wear a dress." The collection took off, first with celebrities and then, once the wrap dress was born, her line became such a sensation "that any store with four walls and a ceiling wanted to carry the wrap dress," she said. Licensees pursued her, and her partner accepted many of them. On her 25-block drive to work every day, she and her driver would count the number of women wearing her signature look — as many as 65 of them. "I was just a young girl, and everyone was wearing that famous dress," she said.

Her fame continued to grow, and on the day her face appeared on the cover of The Wall Street Journal, she was on a plane to Pittsburgh for a public appearance at Kaufman's, when the man next to her asked, "What does a cute girl like you read The Wall Street Journal for?"

"I looked at him and thought, 'Jerk,'" von Furstenberg said, recalling the satisfaction she felt at proving her ability to succeed. "The truth of the matter was I said nothing. Of course, I've used this anecdote over and over, so this poor guy has been used a lot."

After von Furstenberg pursued her own deal with Sears to design a home collection, which generated $100 million in sales despite the reservations of her department store clientele, she began to grasp the expanse of her exposure. But when it suddenly hit the point of saturation, she was not prepared, and found herself sitting on $4 million worth of inventory, and on top of that learning about markdowns. Von Furstenberg was fortunate to meet Carl Rosen, "a real cowboy of Seventh Avenue," as she called him, and struck a deal to turn over the apparel business to his company, just as it was coming out with Calvin Klein's licensed jeans collection. She turned her attention to her own beauty business, again with no experience, "like Willy Loman," she said. "I go on the road and make an appointment." To promote it, she wrote a book, which von Furstenberg recalled as an ironic marketing ploy.

"How can you write a beauty book when you're 28 years old?" she said. "When you're 28 years old, of course you're beautiful."

While her first fragrance, Tatiana, was a big success, von Furstenberg didn't realize that her partners had actually borrowed $10 million to finance its launch, and when the banks demanded her personal signature on the loan, she balked. Instead, she sold her beauty company to Beecham Pharmaceuticals in 1984. "By that time, I had lost control of everything," von Furstenberg said. "I had very little involvement in the product, other than taking pictures for the licenses that I had."

So von Furstenberg packed up and moved to Paris, where she took up with a writer, novelist Alain Elkann. "My heart had a little escapade in Paris. My children by then are teenagers, and when children are teenagers, you always love them, but you don't like them anymore," she said, to laughter. "They went to boarding school and I said, 'The hell with this, I'm going back to Europe.'"

She was getting millions in royalties, and spent her time conceiving decorating books. But after five years, von Furstenberg decided to come back, and this is when she began her second fairy tale life. The only problem was, when she approached several retailers and manufacturers, and even some of her existing licensees, "they looked at me like I was really a has-been. It was really bad."

Her next big opportunity didn't come until February 1992, when she was called to QVC to explore a potential deal. "The minute I got there and saw Susan Lucci selling shampoo, and in one-half hour she sold $600,000 of shampoo, I said, 'Oooh,'" von Furstenberg said. Then, as an inside joke, she told the audience, "I heard myself say, 'I want to own this place.'"

(Barry Diller, now her husband, acquired the company shortly after von Furstenberg introduced her Silk Assets collection on the network. Sales during her first show totaled $1.2 million in two hours.)

Von Furstenberg's success on QVC led to other offers and inspired her to discontinue many licenses as they expired, eventually enabling her to restart her signature line at a higher price point. Even though a proposal to design private label for Federated Stores was turned down after a focus group determined her brand was "too old," Rose Marie Bravo, then at Saks Fifth Avenue, encouraged the designer to bring back her famous wrap dress, which was relaunched at the store in 1998. But they were even more popular at specialty stores like Scoop, which introduced the designer to an entirely new generation of young women.

"To them, it was the hottest little dress," she said. "Scoop sold thousands of them."

What's happened since, of course, is the happy ending. Von Furstenberg's collection has ripened into a powerful contemporary brand. She has opened signature stores in New York, Miami and London; introduced a new beauty collection; outfitted Venus Williams in her Rbk by Diane von Furstenberg collection with Reebok and, most importantly, proved that a brand that some had derided as "too old" could still have another pair of legs. And sexy ones at that.

"The most important thing I learned," she said, "was to control your own destiny."

Edie's 'Emotile' Way: Educate, Entertain, Inform

By Evan Clark

Get ready to get emotile. That is the name futurist Edith Weiner gave for the new economy.

In a far-reaching keynote presentation, Weiner, president of the Weiner, Edrich, Brown Inc. consultancy, said the economic world we see is really four economies layered onto one another: the agricultural, industrial, post-industrial and the still-forming emotile.

The name emotile is a combination of emotional and motile, reflecting the highly personalized and intensely frenetic nature of the new economy.

Though the emotile economy is on the horizon, it doesn't require destruction of what has gone before. The economies have not replaced one another, but are built on the base of their predecessors.

"The U.S. is still an agricultural economy," said Weiner. "We depend a great deal on our agricultural output. But we only have about 3 percent of our workforce, our active working population now employed, in agriculture. Which is why we are no longer an agricultural society."

The shift from an agricultural to industrial economy came about when technological advancements made agriculture more efficient. While this displaced a large portion of the workforce, it also drove people into jobs that were part of the growing industrial economy. It was the same when production efficiencies helped push the workforce into the more service-oriented post-industrial economy from the industrial.

So it is the same now.

"Ten years ago you could easily see what was happening," said Weiner. "Technology was yet again creating efficiencies in the post-industrial economy and putting people out of work."

The U.S. is not losing jobs to China or other regions with low-cost labor, she noted, but to the next economy.

"China can take them, India can take them because they are made more efficient," said Weiner. "We are losing those jobs, not because another country is more competitive, but because we've created the technology that allows other countries to take them."

The nature of the new economy will be defined by the shifts in the workforce and what sectors are creating new jobs.

Weiner identified five major growth industries. Each of these sectors is situated to benefit from the consumer's disposable income and each pays special attention to the individual's personal well-being.

That is the emotional side of the emotile economy.

The motile side describes the economy's modus operandi, which is characterized by movement that is very fast, very short-lived and highly potent — basically the emotile economy will open the door to many different options, very quickly, to see what works.

Weiner's first example of a new-growth industry was an area she described as "the augmentation of the intellect." This industry acknowledges that information has become a commodity and will be combined with education and entertainment to pack a more powerful punch.

"The combination of education, entertainment and information underpins everything," she noted. "You can't create athletic shoes without the combination of the three."

Sneakers used to be a modest product and were priced accordingly. Now, the consumer is purchasing not only a pair of athletic shoes, but the price also buys the consumer the technology that goes into them, which is information; the education about which shoes work well under which circumstances, and entertainment in the marketing.

Health — physical, as well as mental and emotional — is the second of the growth businesses.

> **"Fashion underpins a great deal of the professional servant class that is emerging."**
>
> **— Edith Weiner**

"Science is proving to us that you cannot segregate mind and body," she said. "The study of genetics, the study of the brain — hormonal studies show that mind and body are one and the same."

To meet this new understanding, a vastly different medical system, one that takes things like stress more seriously, is arising.

"The stress of shopping is just another stress in people's lives," said Weiner. "So we have to take a look at this seriously and understand how fashion and retailing fit in with the combination now of physical and mental well-being, because that is the health model."

The third growth business is customization, which comes in a couple of flavors. Increasingly, people are relying on what Weiner described as the professional "servant class," which would include people employed as personal trainers or personal chefs.

In providing their services, this emerging class takes on an important gatekeeper role. "Fashion underpins a great deal of the professional servant class that is emerging, whether it is fashion in the kitchen, fashion in the gym or fashion in the home," said Weiner.

Customization also could grow in importance on the mass scale. "We will discover enormous inefficiencies in mass production and now that we have driven the costs out of everything else in the value chain and the distribution model we have to get back to our very beginning assumption," she said. New technologies are on their way to making products customized for a specific customer much more affordable.

After all, there's never any reason to mark down a pair of customized jeans.

The last two major growth industries are security and areas that include an element of personal fulfillment.

Security will grow as a business as the dynamics of financial and personal safety change. The financial safety nets, such as lifelong employment, reliable pensions and a lifelong marriage have been degraded, leaving people to, in some cases, choose between investing in their 401K plan or their wardrobe.

Personal security can impact fashion, as well. Weiner pointed to schools, for instance, that require students, in an effort to prevent bullying, to wear uniforms.

The final major growth industry is the area of personal fulfillment. Groups with ethnic and religious affiliations "are now driving a lot of the GDPs around the world," she said.

"If you know what is going on in the book world, for example, you know that spiritual and religious book sales are very, very big," she said. "Ethnic design, manufacture, ethnic interior design — very, very big." Not-for-profit businesses also fit into this category, offering work with an eye toward more than the bottom line.

While the nature of the U.S. workforce is changing along with the economic shift, fashion also will have to adjust itself to new realities.

This is something, though, that fashion has already learned how to do.

Stepping back in time, Weiner noted the leading cause of premature death among women in the 19th and early 20th centuries was fire.

"Women were in the kitchen cooking and the clothes they wore, the fashion of the time, killed them," she noted. The same held true when women began working in factories.

"It was the fashion that had to change because women were now in the workforce and things were changing in the world," she noted.

Likewise, when women started entering into the white-collar world once dominated by men, fashions needed to change to accommodate them.

"Fashion has played a very vital role in the health and well-being of each of the economies, and it will play a vital role in this next economy," said Weiner.

WWD/DNR CEO Summit

Ross Talks Tough on Trade

By Scott Malone

The textile industry hasn't taken seriously enough the need to really, really cut a lot of costs out…Part of the psychological problem is too many of the textile people simply complaining about imports, rather than trying to figure out a way how to design around them or operate around them."

Those were the strong words of financier Wilbur L. Ross, who over the last nine months has injected a much-needed spark of energy — as well as capital — into the struggling U.S. textile industry by acquiring the apparel-fabrics operations of Burlington Industries, seeking to acquire the bankrupt Cone Mills Corp. and launching the Free Trade for America Coalition, a pan-industrial group including representatives of the metals and agriculture industries. (Ross is also active in the steel business, serving as chairman of International Steel Group, a conglomerate he assembled out of three bankrupt steel makers.)

Ross delivered a keynote address in which he sketched out his argument as to why Washington should make a greater effort to preserve the domestic manufacturing base and what the surviving elements of the domestic textile industry need to do to ensure their survival.

He contended that the U.S.'s rising foreign trade deficit threatens the stability of the U.S. economy. According to preliminary Commerce Department data, the U.S. had a $138.67 billion current-accounts deficit in the second quarter, with a $528.69 billion deficit for the 12-month period ended in June.

"Some economists think we can overcome this huge trade deficit by developing service businesses," Ross said. "This is not true because, unfortunately, it's easier to export service jobs than it is to export the services themselves. Therefore many good service jobs, like software, call centers and engineering are also moving to India and elsewhere at a fraction of U.S. wages."

He offered a vivid analogy of why he does not believe the trade deficit is sustainable.

"In terms of purely domestic economics, a pure service economy also doesn't work," he said. "It doesn't work any better than an individual household of unemployed people, where the husband hires the wife to cook and clean and the wife hires the husband to drive and mow the lawn. You can guess how long that would last. It's the same with the economy. The fact is, unemployed people don't buy a lot of services or goods."

He further argued that because of the "multiplier effect" associated with manufacturing — which takes into account economic activity generated when a factory needs to bring in an outside service provider to fix a piece of machinery, or when a foreman stops off for a drink on the way home from his shift — the loss of manufacturing jobs has a negative effect on the rest of the economy.

With the current trade deficit exceeding $500 billion a year, he said, "That means that every hour, 24 hours a day, 365 days of the year, $50 million is leaking out of this country in trade deficit. That's a pretty big number. When the Department of Commerce, Bureau of Economic Analysis says for every $1 in final manufacturing sales that are lost, there's a multiplier effect so that's about $2.40 from the whole economy. That means that $500 billion trade deficit is really a $1.2 trillion drain on our country. That's 12 percent [of the U.S.'s gross domestic product]. If we could cut the trade deficit just in half, back to where it was a couple years ago, we wouldn't have unemployment. And that's what's really at issue, and I don't think the free-trade people realize the speed with which this change would occur. And I'm sure they would have no idea they were really risking the whole standard of living."

Ross argued that the U.S. is perhaps the only country in the world that does not make trade policy its key concern in diplomatic conversations.

"In the U.S., and only in the U.S., trade policy is largely dictated by diplomatic policy," he said. "In other countries, trade policy tends to dictate diplomatic policy. The problem with our system is that the State Department always wants some favor from every imaginable country. So we make lopsided trade deals."

Ross contended that the World Trade Organization, which was set up to handle international trade disputes, is inherently flawed.

"The WTO was set up to enforce trade rules, trade agreements, but it fails to do so because it operates by consensus," he said. Ross argued that the vast majority of WTO nations have focused their trade policies on improving exports to the U.S. That belief has led him to dub the entity the "Wealth Transfer Organization."

"It's not possible for U.S. textile workers who are earning $12 to $13 an hour in wages to compete against people earning less than a dollar," he said. "It's not possible for American companies to pay health care costs when their foreign competition slubs them off on their government. It's not possible for U.S. exporters to pay 35 percent income tax when their foreign competition recoups all of the value-added tax on exports. It's not possible for American companies to spend billions of dollars a year to protect the environment when the foreign competition pollutes with impunity. It is not possible for our companies to compete with foreign companies whose government-owned banks subsidize them by making expansion loans that everybody knows will never be repaid. It is not possible for American companies to live up to the worker safeguards of OSHA when the competition does not. It is also not possible to have truly free trade without freely floating foreign exchange values that can accurately reflect economic relationships among countries. The reason I'm harping on all of these broad truisms is that unless we're able to change the frame of the trade dialogue, we will not prevail on any individual issues."

Still, Ross emphasized that he is no opponent of free trade, so long as it is conducted fairly.

"We recognize that globalization is inevitable and we are for free trade, if everybody plays by the same rules," he said. "But we oppose — and all free traders should oppose — the foul trade of government subsidies, illegal transshipments to avoid quotas and currency manipulation."

Ross said his lobbying coalition, the Free Trade for America Coalition, is growing: It now has 70 members from the textile, steel, sugar, cattle, citrus, copper and brass industries as well as state manufacturing associations and state AFL-CIOs. "Our purpose is to make it politically unacceptable for foul trade to continue under the pretense of being free trade."

On the apparel and textile front, he said that one of FREETAC's key goals is to extend the deadline for the U.S. to lift quotas on Chinese imports. WTO nations are set to drop their quotas on garments and fabric in 2005.

"I believe that the quotas should not just go away on Jan. 1, 2005 as scheduled, because that would really be rewarding China for having failed to live up to its WTO obligations," Ross said. "Instead, I believe the President should use the threat of the powerful safeguards that were built into China's WTO entry…to negotiate a voluntary, more gradual phaseout over a bit longer time period."

He further argued that the $69 billion domestic apparel and textile industries are not doing enough to make their voices heard in Washington.

"If all the domestic producers were to allocate one-tenth of 1 percent of revenues to lobbying, advertising and a p.r. campaign, we'd have a $69 million fund, a powerful weapon even by Washington standards. The actual amount being spent is a tiny fraction of this," he said.

While Ross has been very politically active on the industry's behalf in recent months, he acknowledged that lobbying alone will not save domestic textile manufacturers. He said domestic textile makers need to do three things to survive: consolidate, strengthen their brands and develop new technologies to set them apart from foreign competition.

"Historically, the industry has been very fragmented, both horizontally and vertically. There's too many of everything. Therefore there needs to be horizontal integration so that a few larger operators, by using the most efficient equipment are using close to 100 percent of capacity," he said. "There also needs to be vertical integration. In the future, there will probably be room only for one set of SG&A and one profit margin all the way through. I believe that the industry will go through unprecedented consolidation in the next few years, partly because of the onslaught of bankruptcies."

As might be expected from an executive who has spent his career dealing with troubled companies, Ross spoke highly of bankruptcy, calling it "the corporate form of Darwinism." Ross said from the beginning of 2002 through the end of September, textile and apparel companies carrying a debt load of $4.7 billion have filed bankruptcy. He predicted that metric would hit $10 billion by the end of 2005.

Overall, Ross argued that after a period of aggressive lobbying and consolidation, that the U.S. textile industry could continue to thrive.

"My ultimate vision of the industry therefore is one that is much more politically active, highly concentrated and integrated and focused on value added, from technology and design," he said. "It will be a real challenge, but $69 billion of our economy and a couple of million jobs depend on it."

Wilbur Ross' name for the WTO: The "Wealth Transfer Organization."

Shakeups on the Sourcing Front

By Thomas Cunningham

Vanishing quotas. Price deflation. Market disruptions. Trade tensions. The sourcing industry is buckling itself in for a bumpy ride in 2004 and beyond. "The only certainty we see ahead for the next five years is uncertainty. The industry will see more turmoil than it's ever seen," said Charles Turlinski, executive vice president and chief administrative officer of Express, who made the comments during a roundtable discussion on global sourcing.

Also presenting at the panel were William Fung, group managing director of Li & Fung Ltd., and Peter Brink, chief operating office of Warnaco Intimates Apparel Group, a division of Warnaco Inc.

The panelists sketched a picture of an industry responding to rapid changes in technology and sourcing, even as it prepares for its biggest transition ever — the elimination of quotas in 2005. Starting Jan. 1 of that year, quotas among the 164 member nations of the World Trade Organization — including China — will be eliminated.

"Everyone is focusing on 2005, but the problem really starts in 2004," said Fung. "And the big question is what the U.S. is doing about it, especially in relation to China."

The U.S. has dismantled only 7.5 percent of its quota structure in advance of 2005, while Europe has phased out 75 percent of its quotas, said Fung. That means a "big bang" for the U.S. when quotas are lifted in 2005.

Fung, who expects 2004 to be the most difficult year he's ever faced, said it looks like the U.S. administration will end up reimposing quotas on certain categories using the so-called "safeguard" mechanism that was written into the agreement that brought China into the WTO.

Textile groups already have sought to trigger the safeguard for categories like brassieres and dressing gowns where quotas have already been eliminated and imports from China have surged as a result. "It looks like [the administration] will invoke it," said Fung.

The elimination of quotas will take away a major cost of goods, forcing sourcers to reevaluate the entire production matrix. The impact on countries already receiving quota exemption through initiatives like the North American Free Trade Initiative or the Caribbean Trade Preference Act will be significant, said Fung.

"The quota premium varies, but it runs on average at about 15 percent of the garment cost," said Fung. "That's a significant cushion that will be eliminated in 2005."

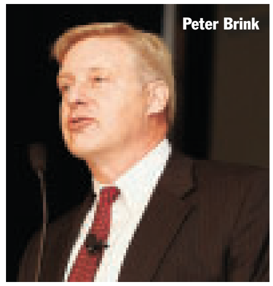
Quota elimination also will change the allocation of production within each country, said Fung. That's because certain inefficient producers were able to compete in the global market because they had access to quotas on favorable terms. With quotas eliminated, those factories will lose their cost advantage and other, more efficient local suppliers might be more cost competitive.

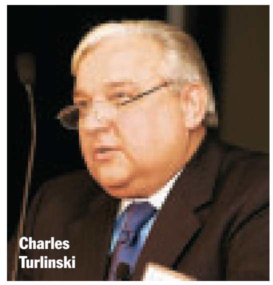
Fung also pointed out another wrinkle in the quota-allocation game, namely that in 2004, factories will no longer be able to borrow against future quota allocation — because there won't be any. That could cause all sorts of complications as quotas covering spring 2005 shipments start to run dry.

"The forward market for quota in China has already shot up," said Fung. "And it's really going to hit in the second half." On the other hand, companies that can push orders into the beginning of 2005 will pay no quota, creating the potential for chaos on the docks starting Jan. 1.

A sharp price deflation will come "virtually overnight" when quotas are eliminated, Fung said, especially because some big retailers are passing "every penny saved" on to customers. And although there have been increases in cotton, wool and polyester costs, those haven't led to higher prices because they've been absorbed by manufacturers.

"Every member of the production supply chain is being squeezed," he said.


Peter Brink


Charles Turlinski


William Fung

As if the prospect of no quotas wasn't enough to grapple with, sourcers must cope with a number of new technologies that could shake up the industry even as they promise to bring lower costs, according to Brink.

Chief among these is the radio frequency identification label, an advanced form of the EAS labels that the industry now uses mainly for theft prevention. Unlike the small-capacity EAS technology, the upgraded RFIDs use a 96-bit chip, which means they can carry as much, or more, information as a bar code, all on a chip the size of a quarter.

The RFID chips could eventually be used to track products from the factory floor until they leave the store, said Brink. That could lead to the elimination of chargebacks, 100 percent inventory accuracy, the elimination of shrinkage and a better in-stock position on the retail floor.

Highlighting the importance of the emerging technology, Wal-Mart recently gave its 100 largest suppliers two years to implement RFID technology on pallet deliveries.

Long after the collapse of the dot-com bubble, the Internet is still creating profound changes in the economics of industry, said Brink. The latest unforeseen development is the transfer of support staff overseas as companies use cheap e-mail communication and cheap overseas labor to trim their selling, general and administrative costs.

Brink said he expects fashion companies to follow the lead of firms like Dell and Oracle that have already relocated important support functions offshore. The move is easier than transferring manufacturing because there are no duty or quota issues to solve. "In the next decade, it may be cost prohibitive to retain SG&A in the U.S.," he said.

Collaboration, planning and forecasting systems and replenishment, which connect members of the supply chain, will be an important tool if the industry wants to approach the speed of Zara, which claims it can get goods from design table to store within three weeks. "Zara's success is not easily duplicated, but one of the critical elements is good CPFR," he said.

Other technologies that should speed time to market: three-dimensional modeling software that will cut design and sampling times, and Web-enabled systems to track the status of products during the design-and-development phase.

Another innovation that would shake up the industry is a ground effect cargo aircraft, said Brink. Boeing Co. has proposed building the Pelican, a massive cargo plane that would save fuel by flying very close to the ground. If it works as planned, the cost of air transport could come down to only double that of steam freight, which would have a big effect on quick-response business out of Latin America, Brink said.

Air freight currently costs five or six times more than steam freight.

As they fine-tune their supply chains in advance of 2005, fashion companies should focus on their abilities to deliver in three areas: speed, flexibility and price, said Turlinski. While shifts in global economics create opportunities for cheaper deals, companies should beware of becoming "nomadic" sourcers that search the world looking for the best price.

"It's not good," he said. "We seek to take 15 percent of a factory's business so that we can establish a relationship."

In today's shifting landscape, companies can benefit from sourcing agents even if they have an in-house production office, said Turlinski. For example, when cashmere was hot, Express bought all the production it could in North Africa, then used an agent to secure another 500,000 units out of Madagascar.

Companies that are entirely focusing their efforts on China might lose out on such opportunities, he said. "The thinking used to be that if you had an office in Shenzhen, you should be covered [in 2005]. But that's just not the way the world is going to be."

After the demise of the quota system, countries like Indonesia, Pakistan and Madagascar will still be formidable competitors in various niches, the panelists agreed.

KSA Survey: Why Consumers Are Unhappy

By David Moin

"Angry women in tight pants." That's how Phil Kowalczyk, managing director of Kurt Salmon Associates, described the vast majority of America's female consumers after they enter fashion stores seeking style, fit and comfort and leave squeezed at the waist and thoroughly dissatisfied with the experience.

It's an overly simplistic depiction, of course, but there's some truth to it. Consumers are getting tax breaks and are open to buy, but according to KSA's latest consumer survey, they're reluctant to purchase much of anything because stores and suppliers are plagued by poor fits and stockouts, as well as unimaginative design and uninspired display.

"Your customer is mad, and you know an angry customer just doesn't spend," Kowalczyk said during his presentation.

He disclosed the results of a KSA survey of 1,000 U.S. consumers conducted during the summer, which concluded that the number-one reason consumers will pay full price is if the item fits well and flatters the figure. Being an innovative retailer or supplier "may be as simple as masking a figure flaw or highlighting a figure feature," Kowalczyk said.

Among the survey's other key findings:

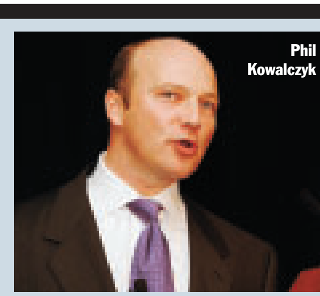
- Two-thirds of consumers feel they are not the primary concern of the stores they shop.
- Eighty percent think manufacturers produce too many styles for customers that are young.
- Seventy percent of the women surveyed said products don't fit. "That's a lot of angry women in tight pants," Kowalczyk noted.
- Nearly half of the consumers said it's easier to find products online than in the stores, half like shopping from catalogues, but the direct channel only accounts for 4 percent of apparel purchases.
- Forty percent of the customers see no reason to buy something new because everything looks the same. Even more agree that they will have a hard time finding apparel that everyone else doesn't have. "It's about personalization," Kowalczyk said.

KSA data also shows that 90 percent choose comfort over fashion, 74 percent don't care much for fashion trends and 70 percent of consumers are frustrated because they can't find what they want in the stores when they want it.

Offering the right products at the right time of year is more complex than ever because of the buy-now, wear-now philosophy, Kowalczyk said. "Less than 20 percent of the women and less than 16 percent of the men surveyed buy clothing before the season starts. [Designers and manufacturers] put the product out there two to three months before they are ready to buy it. That's a problem for them and a problem for us."

There is some good news, however. "Consumers are giving us the green light to give them a reason to buy," Kowalczyk said. "Our economic analysis indicates that this year we may see the unwrapping of the merriest holiday season since 1999. But better yet, after the festivities are over, the consumer is telling us they are going to spend more even in 2004."

Kowalczyk suggested the retailers be aware that where consumers shop and where they purchase are no longer necessarily the same; shoppers are smart and savvy and looking for inspiration and ideas; it is no longer an option to be a multichannel retailer or brand because customers expect it; retailers must close the gap on stockouts by focusing on lead time and reinventing the merchandise and need to improve conversion since raising it 1 percent adds 4 percent to the top line, and stores must focus on reducing lead times and collaborate with supply chain partners.


Phil Kowalczyk

"You need real big-time innovation. Big-time innovation gets you big rewards...To achieve that kind of innovation, retailers have to invest with suppliers in true research and development to understand what consumer needs are and to push further for the unarticulated need. Retailers can't expect suppliers to do it alone, and suppliers shouldn't be expected to bear the cost of real research and development only to have the retail partner knock it off with a cheaper source next year. You've got to have a longer-term perspective here in the common interest of the consumer. We are at a turning point."

WWD/DNR CEO Summit

The Right Mix Makes a Merger

By Vicki M. Young

Having a reasonable acquisition price will get a buyer to first base, but often it's the chemistry and compatibility among the key players that will determine whether the proposed merger makes it to home plate.

For apparel consolidators, the quality of the existing management team and the likelihood of its members staying on post-acquisition were concerns frequently raised in a financial panel discussion on the "Season of the Deal."

Participants were: Hal J. Upbin, chairman, president and chief executive officer, Kellwood Co; Philip F. Bleser, senior vice president, J.P. Morgan Chase, and Gilbert W. Harrison, chairman, Financo Inc. The panel was moderated by Arnold J. Karr, WWD's senior editor, financial.

For firms such as Kellwood, the quality and chemistry of the management team is in some ways just as important as the purchase price. "We always keep management. In fact, we buy management, so it is important to us that they're not going to retire and, of course, there's the chemistry factor," Upbin said.

The ceo disclosed that he spends a great deal of time focused specifically on analyzing issues involving chemistry of the individuals and their potential compatibility in a large company environment.

"We at Kellwood are proud to stay in front of the curtain. The merchandising, design, sales and so on are really left alone. For the most part, that is what you're buying. So it is crucial that [the existing management team] understand that they are going to be able to focus in those areas and run the businesses that they have and be free of the corporate guys," the ceo said.

He acknowledged that sometimes situations can get dicey, noting one instance where one brother went after another with a baseball bat.

Bleser observed, "We've had a few that sat face-to- face with each other and literally didn't talk for four or five years."

Harrison noted, "Chemistry is all important in a deal and we've seen more deals blow up because the principals get in a room and just blow it."

He gave as an example an apparel firm that was keenly interested in acquiring a specialty retailer. According to Harrison, when the key executives — the chairman of the buying firm and the owner of the specialty retailer — met, the chairman said, "Hello, Dick," in greeting. The owner's immediate response was, "My name is Richard." The investment banker said that he knew immediately that the deal wasn't going to happen.

"The chairman told me that as much as he wanted [the retailer], there was no way he was going to buy this company," Harrison said.

Harrison pointed out that while it is sad when those situations occur, sometimes that becomes the driving point for people to sell their businesses.

"In many [instances] partners have irreconcilable problems and the only way to solve them is to let a third party buy them. Sometimes, unfortunately, you end up losing both of them because one won't work without the other [or] one won't sell unless the other leaves. People are crazy," he said.

Bleser added that sometimes, too, sellers can be their own worst enemies while waiting for the sales process to conclude.

"You have to run a good business and have a good brand. The chemistry is all important, but as you go through a transaction, I've seen a lot of owners who just take their eye off the ball. They're moving toward a [completion of the sale] and exit as opposed to continuing to run a business, which remains all important," he noted.

All of the panel members said they expect to see more mergers in the coming months.

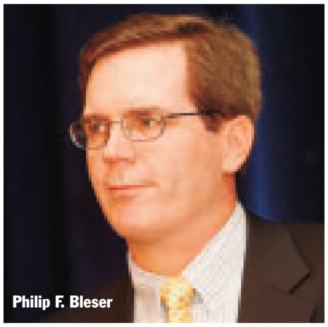
According to Harrison, "In the past 12 months, we've seen a huge pickup in activity. At the same time, the size of the deals has gone up slightly. It [averaged] $150 million in the last 12 months and $136 million last year."

Bleser observed, "We see sustained financial growth and the financial market's in great shape. There's a lot of money out there."

The banker was referring to the availability of different financing vehicles. One example involves firms using cash on hand to fund the so-called bolt-on deals, such as VF Corp.'s acquisition of Nautica or Liz Claiborne's purchase of Juicy Couture. Another vehicle for financing deals involves access to the high-yield bond market, a favorite among firms utilizing the transactional scenario such as Phillips-Van Heusen's purchase of Calvin Klein International or Oxford Industries' buy of Tommy Bahama. For much smaller acquisitions, he noted, there's no lack of private equity firms with cash on hand looking for a place to invest.

For Upbin, there are two questions that he gets asked frequently: What is the process? What does Kellwood look for?

The ceo described a process that he refers to as the "half-life." The firm looks at about 100 possible acquisitions annually, quickly narrowing that number to 50 and then cutting that down in half again to 25 possibilities. At that level, others within the Kellwood company start to get more seriously involved in the process to help eliminate at least 12 more companies. Once the number is lowered to six, the company begins active negotiations.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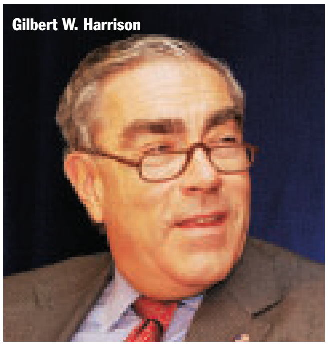
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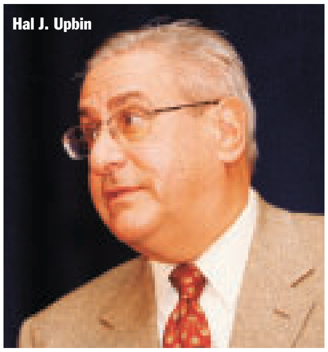
Hal J. Upbin

"From that point on, price is a major factor. At the end of the day, we wind up with three deals or so. We've had 27 deals in the last 12 years," Upbin said.

With Kellwood a major consolidator in the industry, one would think that the firm itself has played a key role in contacting potentially new family members.

Think again.

"Almost none [of those deals were] initiated by Kellwood. We found out early on — at one point we sent letters out — that when we meet the people at firms we admire, invariably the companies are not for sale or are priced insanely. We really do rely on our investment bankers and lawyers [to identify possible candidates]," Upbin said.

According to Bleser, many of the deals that get done do not involve turnaround situations. "Turnarounds can be difficult. They take a lot of time and effort and if the brand is slipping, it takes a lot to bring it back. In the distressed situations, there will be a bargain here and there because [of] overleverage. In the Liz Claiborne/Monet deal, [Liz] got a real bargain and it was a great acquisition for them, but those deals are few and far between."

Harrison noted that in his experience in the last two to three years, he's seen a few companies in need of restructuring that have required the capital of larger firms to effect the necessary changes.

"However, I will say that the majority of the companies are profitable, healthy and growing companies where the owners have a special need that [requires them] to sell," he added.

Upbin concurred, observing that in the last couple of years, many of the companies that his firm looked at were for sale, not because of estate planning issues, but because of some other need.

"Probably more than any other reason, the company reaches a certain plateau in size, whether it is management capabilities, inability to source or the inability to deal with the Wal-Mart and Target that have gotten very large and very demanding in how you distribute the product and how you source. So there are a lot of reasons why a company today under $100 million, or even over $100 million, would find it very difficult to go forward and be competitive. We source for $2 billion of sales. It makes quite a difference," the ceo observed.

Harrison added, "It is becoming harder for smaller companies to get on the buying matrix of [the large retailers]. They need the 'big brother' that Kellwood is going to offer them."

Graj: Let's Get Physical

By David Lipke


Simon Graj

Build it and they will come. A picture is worth a thousand words. Seeing is believing. Familiar phrases to be sure, but Simon Graj, a principal and co-founder of brand consultancy Graj+Gustavson, has taken them to heart as the guiding themes in his work for clients like Levi's, Sears, OshKosh, and Carter's. By using a technique called "stage-setting," Graj helps apparel marketers test brand strategies, develop brand extensions, clearly disseminate a brand's essence to company employees, and create work processes that encourage idea-generation.

"Stage-setting is the art of sculpting your vision into reality," explained Graj, a former design director at Gap.

So how does it work? For Levi's, Graj helped the jeans giant clarify what the brand stood for — not to consumers, but to the company's own employees, in order to clarify its platform for licensing. "The goal was to come to an understanding about what Levi's is as a brand, and more importantly, what its potential is as a brand," said Graj.

But rather than just using words, which can be interpreted differently by different people, Graj+Gustavson created a physical, visual representation of the brand — a stage set full of artifacts, pictures and objects that represent the Levi's brand and lifestyle.

"We immersed ourselves in the brand, and became archeologists digging for nuggets of truth, through history, culture, and spirit. Adding each truth to the mix, we built the set and arrived at an ever more truthful portrait of the brand. A physical snapshot that you could walk up to say, 'Yes, I see it and I get it.'"

The result? Levi's employees could clearly understand the direction and vision of the brand. "We presented these brand stage sets to large groups of Levi's management and, for the first time, they were able to make decisions together, simultaneously, because they were all experiencing the same things as a group and could really get a feel for the big picture."

Besides facilitating "team buy-in," as Graj terms the benefit of "getting everyone in the company on board and aligned with your vision," stage-setting also has other uses. The technique is a good way to get the most relevant and useful data from focus groups — as was the case when Graj+Gustavson helped OshKosh reposition by expanding on its brand proposition as America's family brand.

"One of our goals was to create a new retail concept that would be the ultimate expression of the new platform," explained Graj. To do so, the company built a life-size model of what the store experience might be like, including prototypes of adult, children's and home product, packaging, fixturing, signage, advertising, lighting and in-store music. Once the mock-up was completed, it was packed up and sent around the country, allowing focus groups to walk through the model and provide feedback.

"The model helped us confirm and validate ideas before financial commitments were made," said Graj.

This ambitious act of stage-setting allowed OshKosh to eliminate 30 percent of the fixtures, find out which products worked, and discover new product categories, he said. "Home, in fact, was one of their favorites. We even learned which type of music people loved to hear in that environment. We were able to implement these and many other discoveries and changes, prior to the final design, engineering, architecture or product commitments were made, and most importantly, before rollout money was spent."

But even before ideas are tested via stage-setting, the technique can be used to create work environments that help draw ideas out, which is what Graj+Gustavson did in its work for Carter's, the children's wear maker.

"Winston Churchill said we shape our buildings, thereafter they shape us. What that means is that [physicality] has space, it has a great deal of power, and the idea is to use this to your company's advantage. Too often, when a process is just rules on paper, it gathers cobwebs and people go back to their old ways."

Financial

Factory 2-U Lowers Loss

By Ross Tucker

NEW YORK — Factory 2-U Stores managed to narrow its third-quarter loss despite wildfires, labor strikes, a purge of field management and what its chief executive termed other "acts of God and men."

Concurrent with its earnings announcement last week, the San Diego-based store said A.J. Nepa had joined the firm as executive vice president and general merchandise manager. Nepa assumes merchandising duties that had been handled by William Fields, chief executive officer, on an interim basis. Nepa most recently served as merchandise manager for Forman Mills.

For the 13 weeks ended Nov. 1, the beleaguered off-price retailer recorded a loss of $3 million, or 17 cents a diluted share, beating Wall Street's consensus estimate of a 19 cent loss. Comparatively, the company reported a loss of $3.5 million, or 27 cents a share, in last year's quarter.

Top-line trends weren't encouraging, however. Sales for the period receded 9.4 percent to $121.9 million against $134.5 million in last year's like period.

Comparable-store sales declined 6.9 percent during the quarter, widening from a 5.6 percent decline last year.

"Hopefully we don't have any more acts of God and men to contend with," said Fields during the company's conference call when referring to the negative impact of the California wildfires and labor strikes during the quarter.

More to the point, perhaps, were depressed apparel sales across the board, ultimately keeping the company in the red.

"We definitely had an issue with sales of apparel," said Fields during the call.

Sales in the ladies segment were down 14.1 percent, misses' and juniors were down 21 percent and girls were down 6 percent. Men's and young men's apparel sales were down 12.4 percent and 15 percent, respectively. Boys' wear sales were down 19 percent.

Fields — who had previously served stints as ceo of Wal-Mart's flagship division, Blockbuster Entertainment Group and Hudson's Bay Co. — is marking his one-year anniversary at the helm of Factory 2-U. His efforts to turn the once-hot off-price operation around have been hindered by major changes in operations and personnel.

According to Fields, all three divisional managers, between 90 and 95 percent of district managers and two-thirds of store managers have been changed during his tenure. "To operate up to our standards we've had to make some fairly dramatic changes," he said. "I didn't think we would have to make that dramatic a change in the field organization. We're not there yet."

"We definitely had an issue with sales of apparel."

— William Fields, Factory 2-U Stores

For the year to date, the company reported a loss of $11.1 million, or 71 cents a diluted share, compared with a loss of $12.5 million, or 97 cents, last year.

Sales for the period were down 7.8 percent to $349.9 million from $379.5 million last year.

Factory 2-U operates 243 stores in 10 states in the West and Southwest. Of these, 128 are in California, divided between the northern and southern halves of the state.

Strong Sales Aid The Buckle's Net

NEW YORK — The Buckle Inc. posted increases in net and same-store sales as well as profits in the third quarter.

The Kearney, Neb.-based retailer said that income rose 8.2 percent for the three months ended Nov. 1 to $12.2 million, or 56 cents a diluted share, from $11.3 million, or 53 cents, last year. Sales increased 6 percent to $121.3 million from $114.4 million, while same-store sales inched up 1.3 percent.

For the nine months, income decreased by 4.4 percent to $18.8 million, or 87 cents, from $19.6 million, or 90 cents, a year ago. Sales gained 3.9 percent to $288.7 million from $277.8 million. Same-store sales dipped slightly, down 0.1 percent for the period.

The Buckle operates 319 specialty stores catering to young men and women in 37 states. Another unit is planned for this year at the Westfield Shoppingtown South County mall in St. Louis.

Biggest Percentage Changes For Week Ending November 14

Gainers	Close	Change
Bluefly	4.52	50.67
Tarrant Apparel	4.35	15.97
Gap	21.57	4.71
Fossil	28.53	4.47
Coach	37.70	3.40
Losers	**Close**	**Change**
Warnaco	14.50	-17.80
Delta Woodside	1.53	-10.00
Guess	13.85	-8.28
Pacific Sunwear	20.69	-6.72
Tommy Hilfiger	14.86	-6.25

WWD Stock Market Index for the Week Ending November 14

Composite: 116.05	-4.01
Broadline Stores: 113.55	-6.66
Softline Stores: 123.37	2.41
Vendors: 117.55	-0.52
Textiles: 90.09	-4.30

Index base of 100 is keyed to closing prices of Dec. 31, 2002.

Weekly Stock Index

52-Week High	52-Week Low		P/E	Sales (00's)	Last	Amt Change
		Broadline Retailers				
14.59	3.39	Bon-Ton Stores	15.3	2410	13.60	-0.49
20.17	12.32	Dillard's Dept.	28.7	33318	15.13	-0.30
50.60	23.51	Federated	16.4	101521	48.86	0.24
4.00	0.94	Gottschalks	-	195	3.83	0.04
25.55	15.57	J.C. Penney	23.3	104938	23.55	0.36
30.41	17.81	May Dept. Stores	16.8	83190	28.46	-0.76
6.30	1.48	Retail Ventures	-	3888	5.91	-0.23
15.40	6.66	Saks	36.6	34413	14.95	0.14
54.99	18.25	Sears	11.1	159811	53.58	0.48
41.80	25.60	Target	20.9	269016	38.64	-0.22
60.20	46.25	Wal-Mart	27.8	633146	55.00	-3.42
		Softline Retailers				
38.21	17.05	Ann Taylor	19.4	41419	37.22	1.03
5.00	0.70	Bluefly	-	30984	4.52	1.52
22.50	15.40	Burlington Coat	15.3	2567	21.55	-0.20
6.85	2.70	Charming Shoppes	23.1	23315	6.40	-0.24
39.20	16.75	Chico's FAS	41.2	46437	37.49	-0.26
15.32	12.20	Dress Barn	55.3	2283	14.12	-0.50
19.20	9.28	Foot Locker	16.4	32234	18.83	-0.08
21.99	12.01	Gap	23.7	326238	21.57	0.97
71.70	46.18	Kohl's	27.3	258834	51.80	-0.11
18.50	10.88	Limited Brands	16.1	92231	17.80	0.15
52.25	25.90	Neiman Marcus Group	19.8	9336	51.50	1.29
32.11	15.00	Nordstrom	24.9	34736	31.17	0.63
24.56	10.73	Pacific Sunwear	23.2	128356	20.69	-1.49
55.10	32.58	Ross Stores	19.9	33608	52.74	-0.44
8.40	6.02	Syms	-	447	7.02	0.17
38.65	22.00	Talbots	15.7	17867	31.21	0.31
23.70	15.54	TJX	20.2	166037	22.25	-0.50
		Vendors				
64.40	47.08	Alberto Culver	22.3	10767	61.74	-0.81
69.75	48.93	Avon	27.0	45874	68.32	0.26
22.61	13.65	Cherokee	13.4	1512	21.75	0.70
38.73	14.52	Coach	41.6	92834	37.70	1.24
59.39	31.55	Columbia Sptswr	19.9	7880	57.62	-0.05
30.75	17.10	Del Laboratories	12.3	364	24.52	-0.37
38.75	25.40	Estée Lauder	28.6	42437	37.64	0.39
29.82	15.95	Fossil	21.6	21997	28.53	1.22
12.00	4.62	G-III	18.0	182	11.09	-0.16
99.80	83.91	Gucci	30.5	3809	84.92	-0.17
15.60	3.30	Guess	-	13581	13.85	-1.25
37.65	25.61	Jones Apparel	13.7	41050	34.80	0.43
38.53	22.65	Kellwood	40.1	10251	36.01	-2.10
31.40	18.55	Kenneth Cole	17.8	7200	27.60	-1.15
38.90	26.23	Liz Claiborne	14.4	34621	35.25	-0.76
7.00	3.40	Mossimo	8.1	3160	4.91	0.06
27.50	16.20	Movado	15.8	810	26.72	-0.11
71.65	22.01	Oxford	22.1	3289	64.95	-3.73
17.45	11.16	Phillips-Van Heusen	14.7	2808	16.78	0.08
31.52	19.30	Polo Ralph Lauren	15.4	10968	28.48	-1.69
19.55	12.10	Quiksilver	17.0	30614	17.02	-0.48
4.60	2.05	Revlon	-	9439	2.50	0.06
21.15	14.94	Russell Corp.	13.7	9324	17.70	-0.35
4.79	2.45	Tarrant Apparel	-	1753	4.35	0.60
16.60	5.61	Tommy Hilfiger	8.9	18409	14.86	-0.99
11.69	3.78	Tropical Sportswear	-	1718	4.59	0.10
44.08	32.62	VF Corp.	12.7	18405	41.92	-1.03
18.23	8.80	Warnaco	-	39312	14.50	-3.14
		Textiles				
6.15	1.35	Delta Woodside	-	774	1.53	-0.17
0.08	0.01	Galey & Lord	-	148	0.01	0.00
12.30	2.25	Guilford Mills	-	18	12.10	0.00
7.37	4.25	Unifi	-	10792	4.85	-0.06

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Carolee Designs, the premier designer of prestige jewelry and accessories is looking for the following individual for its Greenwich, CT Headquarters:

MANAGER, RETAIL MERCHANDISING
• Develop private label accessories, optimize license relationships and work closely with allocation team to maximize seasonal opportunities.
• Strong buying/merchandising background in accessories/home within a multiunit specialty environment necessary. Online and/or catalogue experience helpful.

We offer an attractive compensation package including salary and bonus potential every six months, a comprehensive benefits package including 401(k) and pension plans and a generous merchandise discount.
Submit resume and salary requirements to Retail Brand Alliance, Attn: Recruiter, Human Resources, 100 Phoenix Avenue, Enfield, CT 06082. Fax 860-741-3171.
Email: hr@retailbrandalliance.com. EOE

DIRECTOR OF PRODUCT DESIGN AND MARKETING

Manzella, a leading outdoor and fitness, glove and accessories manufacturer, is seeking an energetic Glove Designer to set and implement "look and message" of existing and new product lines. Will direct both design and marketing communications.
Candidates should possess 3+ years of apparel or accessory design experience with knowledge of outerwear for active outdoor sports (ie. camping, climbing, running) Textile degree preferred.
Salary, bonus program and competitive benefits. Western New York offers great community, culture and outdoor activities.
**Please send resume and salary history to:
Manzella Productions, Inc.
80 Sonwil Drive, Buffalo, NY 14225
www.manzella.com**

HOME TEXTILE DESIGNER

Leading Home Textile Importer located in mid-Manhattan is offering an exciting, diversified growth opportunity in our rapidly growing in-house Textile Design Studio. Very talented and highly motivated designer experienced in the Home Fashions industry needed. Computer textile design knowledge required. Only qualified candidates having 5+ yrs professional experience need apply. Must be able to take designs from concept to full color product reality through CAD proficiency in Illustrator, Photoshop, Freehand or proprietary textile design software using Mac platform. This leading fashion forward home textile importer offers an exciting, diversified growth opportunity for the right person. Looking for a flexible goal oriented team player. Excellent benefits and retirement / 401k plan. Send cover letter w/resume & salary requirements to: Email: TXDSGN@pbsltd.com or Fax to: 212-683-7546.

CONTROLLER
Women's Apparel Co. seeks a highly organized, detail oriented individual to handle all aspects of financial & logistic functions including EDI, Customer Service, Shipping, Traffic, Customs, Factor Chargebacks, Bookkeeping, and Financial Projections. Salary commensurate with experience.Great opportunity for the right candidate. E-mail resume to:
conresume@yahoo.com

Costing Coord to $50-65K. Current exp in costing woven sportswear, bottoms, twills, etc. Costing out samples, follow-up trim.Call 973-564-9236 Jaral Agcy

Customer service supervisor to $50K. Current exp. in apparel co. required. Exp. supervising others. Trouble-shoot retailers problems + confirmation of goods shipped. Excell/AS 400 proficient. Fax: 973-379-1275 Jaral Fashion Agcy

Design
Assistant Designer
Entry Level Position - Great Potential
Costume Jewelry Co. is seeking a detail oriented person with basic computer skills for Jr. Trend & Kids. Advancement possible. Experience preferred but not essential. Fax resume: **212-714-0046**

Designer $60-$70K. Current exp. in girls or jr. intimate apparel. Panties, bras, tanks, crops, color concepts etc + creative + tech. Hang w/ Vandale, Sarah lee, Inner Secrets, Berlin, etc. Call 973-564-9236 Jaral Fashion Agcy

DESIGNER
Apparel company seeks talented creative Designer with experience for girls 4-16. Fashion Denim background and Junior inspired looks a plus. Must be proficient in Photoshop and/or Illustrator.
Fax resume to: 212-239-2766

Designer Assoc to $50K. current exp. in missy cut & sewn knits. 1-2 yrs. min exp. ok. Creative + tech. Illustrator/Photoshop proficient. Call 973-564-9236 Jaral Agcy

DESIGNER -BOYS to $55K
Infant I-20 activewear.Illustrator
Jennifer "Just Mgmt" 800-544-5878
Jennifer@justmgt.com

DESIGNER - Freelance
Contemporary Knitwear Co. seeks creative individual with strong background in better knitwear. Please Fax or E-mail resumes to:
415-440-5045 / ana@portollc.com

Designer
Great opportunity for dedicated and innovated designer to create exciting new contemporary casual line for a moderate women's label. Must have strong background in woven bottoms, cut & sew knit tops and sweaters. Candidate must have ability to identify emerging trends and silhouettes. Must possess great color, print and pattern sense. Must understand fabrics, washes, weights, finishes and yarn applications. Must be organized, detail oriented, able to meet deadlines and a team player. Knowledge of fit and specs essential. Proficiency in U4ia, Photoshop/Illustrator a plus. We are a well established apparel company with great work environment and benefits.
Please Fax all resumes to
Lisa Jimenez at: **212-764-4342**

Designer - Headwear/Bags
Accessories company with multiple licensed brands looking for experienced designer mainly in headwear and bags. Must have knowledge in Mac based Illustrator/Photographor.
Please fax resume to 646-366-7635

Designer Immed
Childrens $90K
Sportswear $90K
fgellis@winstonstaffing.com

Help Wanted

NINE WEST FOOTWEAR CORP.

a division of Jones Apparel Group, a fashion leader in the footwear and apparel industry, is seeking candidates to help support expansion in White Plains, NY and New York City Offices:

*White Plains Opportunities:
Merchandise Planner (Job code PL)
Retail planning and analytical exp in managing inventory levels, driving sales, controlling markdowns, turn and margin.

Footwear Buyer (Job code FB)
2+ yrs. exp. Resp for buying and developing footwear product; requires the ability to strategize the overall business. Must have a strong fashion sense in order to spot trend, Travel req'd.

Merchandise Analyst (Job code MA)
Ability to impact business through merchandise placement, manage stores inventories, excellent communication skills req.

Fit Model (Job code FM)
Perfect size 6 foot, MS Office and excellent communication skills req'd.

Sketcher/Graphic Artist (Job code AS)
Entry level, Must have the ability to sketch footwear and deliver graphic design solutions. Design degree req'd.

Linebuilder (Job code LB)
3+ yrs of women's footwear exp req'd.

Sr. Designer (Job code SD)
5+ yrs of footwear design req'd. Must be proficient in Illustrator and Photoshop. Must have knowledge of manufacturing, blueprints, patterns and trends.

Technical Assistant (Job code TD)
2+ yrs of technical shoe making exp req'd. Extensive travel oversees req'd.

Dir of Materials and Components (Job code MC)
3+ yrs of related exp req'd. Extensive knowledge in footwear textiles and leathers.

***NYC Opportunities:**
Business Manager (Job code BM)
2+ yrs of accessory sales exp req'd. Knowledge of retail math and excellent computer skills req'd. Mgmt exp a plus.

Design Associate (Job Code DA)
Ability to sketch, Illustrator a plus. Proficiency in MS Office and excellent communication skills req'd.

Jewelry Designer (Job code JD)
3+ yrs exp in jewelry/accessory design, exp in white metal and manipulated designs. Excellent computer, communication and analytical skills req'd.

Growth Opportunities!
Send resume, salary requirements and job code to jobs@ninewest.com or fax to 914-640-2417.
No calls please. Please visit our websites at www.jny.com and www.ninewest.com.
EOE M/F/D/V

LUCKY BRAND

Women's Daywear and Panties

Komar Sleepwear, Licensee of America's favorite Lucky Brand Dungarees, has an exciting opportunity for a top caliber **Manager** to be involved in merchandising and selling daywear and panties.

- Must have strong Department and Specialty store following
- Able to work with design and production to create a complete package
- Self-motivated and creative
- Organized and works well in a fast paced team environment
- Proficient in excel and word

We are also looking for **CAD Artist** that is strong in graphics and prints.

- Must be proficient in Photoshop/Illustrator or U4IA
- Excellent graphic & color sense a must
- Self-motivated and creative
- Organized and works well in a fast paced team environment
- Minimum 2 year's experience.

(Positions are New York City based)
Please e-mail resume to: **job_post@compuserve.com**

INTERMIX
We are accepting applications for:
Managers
Assistant Managers
Sales Associates
Email resume to:
info@intermix-ny.com

BOOKKEEPER

Midtown apparel co seeks F/T bookkeeper. Must have exp with A/P and bank recs. Computer literate a MUST; exp w/Solomon acctg system a big plus.
Fax resume with sal history to attn: HR, 212-695-8958

Designer
JEWELRY DESIGNER
Leading Girls' Accessory Co. seeks creative Jewelry Designer to design, source & manage our existing line. 3 yrs. relevant design & sourcing exp. a MUST! North Jersey location. E-mail resume & cover letter to: **jobs@highintencity.com**

DESIGNER
Major apparel company seeks dynamic experienced designer. Must have experience with Infant/Toddler Boys. Must be proficient in Photoshop and/or Illustrator. Mass Market experience a plus. Excellent salary and benefits.
Fax resume to 212-239-2766

Designer-Men's
A major athletic footwear brand with 125 yrs. heritage is seeking a Sr. level Men's Apparel Designer. This qualified candidate will have 8-10 yrs. experience in Men's design candidate must have proven successes in sporting goods, athletic specialty and or dept. store distribution channels. Responsibilities will include design development, merchandising, board presentations, spec sheets, tech pkgs, communication with overseas agents, market research, fittings & knowledge of garment construction & fabrics. Candidate must have a BA/BS Degree in Fashion Design & computer/ graphic skills in Mac Illustrator & Photoshop.
We offer a unique environment with competitive salaries & comprehensive benefits. Send resume with salary history to:
MEJ1411@yahoo.com
We will only contact those candidates for further consideration.
Equal Opportunity Employer

Designer/Merchandiser to $100K. Current exp. in product devel of branded or private label womens full-fashion sweaters. Creatve and technical. Call 973-564-9236 Jaral Fashion Agcy

Designers Immed
Top Name Firms
Growth Oppty
Assts To Sr
sspielman@winstonstaffing.com

DESIGNER - SOCKS
Seeking an experienced (4+ years) and talented sock designer for growing company. Knowledge of yarns, construction, market trends, important. Experience with computer sock graphing is required. Proficiency in Illustrator, Point Carre or any other sock graphing software a must. Please send resume Attn: Design 212-251-0076.

Designer to $110K. Current exp. in missy cut & sewn tops & sweaters. Branded. Dept. store level. Call 973-564-9236. Jaral Fashion Agcy

Designer to $125K. Current exp. in dept. store womens woven & knits sportswear. Must hang w/ Gap, Ann Taylor, Talbots, Limited. Classic Ralph-Lauren genre preferred. PC Illustraor/Photoshop. Must come form structured corp. environment. supervising others. Call 973-564-9236. Agcy

Designer to $80K. Current exp in girls 4 + up sleepwear. Licensed. Generic. Branded. Jr flair. MAC/ Illustrator/ Photoshop. Call 973-564-9236 Jaral Agcy.

Designer to $90K. Current exp in updated missy dresses + 2 piece dressing in import co required. Georgettes, etc. Strong knowledge of fit Product devel. India co background helpful not nec. Must hang w/ CDC, ICI, Johnny Was. Call: 973-564-9236 Jaral Fashion Agcy

FABRIC COORDINATOR
We are a womens private label apparel company seeking an experienced and energetic individual skills to work in our growing fabric department. Min. 3 - 5 years fabric sourcing experience. Some travel required. Merchandising background is a plus. Good computer skills required.
Please fax your resume to: 212-382-2421
Attn: Anne

FABRIC MANAGER
Established Intimate Apparel Manufacturer seeks person with strong experience in fabric research, development, sourcing to a price, market trends. Candidate must be highly proficient in Excel, be detailed self-starter. Minimum 5 years experience working with Far East vendors.
Email resume to:
jobs@maxxapparel.com

Graphic artist $45-65K. Current exp. in newborn, infant, toddler or 4-6 X girlswear. Licenced and generic. MAC proficient. Photoshop/Illustator. Full time perm. background required. Call: 973-564-9236 Jaral Agcy.

GRAPHIC ARTIST
F/T: Need Graphic Artist with 3 yrs exp working with licensed characters in apparel/t-shirt design. Rapidly growing Long Island co. We have: Nickelodeon, Mattel, Disney, NFL, MLB, etc.
Email resume: wwd4art@mac.com

GRAPHIC ARTIST
Major apparel company seeks graphic artist with experience in infant/toddler -boys. Must be proficient in Illustrator/ Photoshop.
Fax resume to 212-239-2766

MALL VISITOR
Hedge Fund seeks outgoing, energetic indiv. to visit stores for store merch. evaluations. Call (212) 201-7983 or email to retailshoppers@hotmail.com

MERCHANDISER
Queens accessory mfr seeks a "visionary." Will be in charge of prod devel / merchandising / new biz devel. Strong retail & mfg backgrnd in accessories or apparel. Mass merch exp a must. Send resumes to: bonnie@susanharris.com

PATTERNMAKER
Asst. Patternmaker
Must have Bachelor's degree in Patternmaking. Must be able to finish off patterns, make facings, cutter's musts, etc. Please fax resume to:
212-244-6384

PRODUCT DEVELOP. ASSOCIATE
Wanted for mens/boys swim-wear and wovens importer for execution of product packages communication skills with overseas factories essential. 3 years exp. required. Fax resume to 212-695-1050

Production Artist
Production Artist needed for creating complete production packages.
Experience with prints, repeats, color separations, embroidery etc. Mastery of Photoshop & Illustrator a must. Must be fast, accurate & detail oriented & ready to work in a fast-paced environment. This position requires the skills to take artwork from designers ideas to finished production.
Email: gracel@renerofe.com
Fax: 212-695-4508 Attn: Grace

Production Assistant
LONG ISLAND LOCATION
MAXX NEW YORK, leading mfr. of Designer Handbags, seeks responsible, extremely organized, detail oriented individual to assist Product Development Mgr. and handle administrative duties in Jericho office. Fashion/Accessories & computer background a must. Fax resumes to Andrea at: **516-933-0278**

Production Coordinator
Sportswear Company seeks organized and highly detail oriented individual with strong sense of color and knowledge of any phases of production from design to final product. Responsibilities include tracking and approval of fabric quality, lab dips, costing, and quota knowledge shipping, ticketing and excellent. Communication skills with overseas factories. 3+ years experience required. Fluent English & Chinese. **Fax resume to: 212-221-3726**

Production Immed
Assts To Mgrs
$35K to $80K
jrentner@winstonstaffing.com

Production Manager
High profile designer house seeks a detailed, organized person with 5 years exp.. garment construction & fabric knowledge a must. Fax: 212-398-7765

Production Manager
Major apparel company is looking for a Production Manager with minimum 5 years experience. Some responsibilities include overseeing approvals of fabric quality, lab dips, and accessories, analyzing weekly production status reports, preparing for weekly tracking meetings, and following up with design on factory packages. Should be detailed oriented and have excellent communication skills.
Fax resume to 212-239-2766

PRODUCTION MANAGER
New Jersey based ladies mfg looking for highly motivated person with 5 to 7 years minimum experience in handling knits and wovens ladies apparel. Must be computer literate. Salary commensurate with experience.
Fax resume to 973-836-0260

Product Line Builder/ Merchandising Manager
Fast-paced, rapidly growing San Francisco area based footwear/accessory company is seeking a Line Builder/Merchandiser. Candidate must have proven ability to assess market opportunities, identify fashion trends, understand seasonal products, build profitable collections and lines, and effectively and creatively manage merchandising programs for inline and new products. This position requires a strong fashion-sense, an eye for color and trends, and the ability to clearly communicate ideas, execute merchandising strategies and establish open communication lines within the industry and with internal personnel. Person must possess strategic and tactical skills - detailed and big picture - and be a team player. This is an exciting opportunity for someone with at least 8 years merchandising/line management. BA/BS is required. Some travel will be required. Please send resume to:
Box#M 1132
c/o Fairchild Publications
7 West 34th Street, 4th Fl
New York, NY 10001

PRODUCT MANAGER $75-100K
B/G. PLanning calendars, market anal, etc.
Jennifer *Just Mgmt* 800-544-5878
Jennifer@justmgt.com

Quality Control Immed
$36,000
Full Cycle Thru Factory
fgellis@winstonstaffing.com

Sales/Mktg Manager
Great opportunity to grow with an innovative women's herbal company. We are looking for a bright, self-motivated/ detail-oriented sales/mktg manager with 3+ years experience. The ideal candidate will have excellent writing, communication and follow-up skills. BA/BS req. Salary 38K + performance bonus. Email cover letter/resume to:
frontdesk@oonausa.com

Sewer/Samplehand
10 years experience working in high-end women's designer house a must. Fax resume to: 212-398-7765

SHIPPING MANAGER
New Jersey based ladies mfg looking for highly motivated person to supervise warehouse. Must have experience in shipping to department stores and discount chains. Must be computer literate. Fax resume to 973-836-0260.

SHIPPING MANAGER
Shearling & Fur Importer is seeking an organized individual to run Shipping & Receiving Dept. Computer skills and exp. in the fur/leather industry is req'd. E-mail resume/salary requirements to:
myampol276@aol.com

SPEC TECH
Childrenswear Company seeks experienced Spec Tech for Girls and Boys division. Should have working knowledge of specs, grading and production with overseas factories. Candidate must be strong in Excel and have good follow up and tracking skills. Must be organized and detail oriented.
Fax resume to 212-239-2766

SALES HELP WANTED

Sales Help Wanted

RETAIL SPECIALIST
Three Dots Shop Manager at Bloomingdales. Must be enthusiastic, articulate and motivated. Retail experience necessary. Please fax resume to:
212-869-6612

Accounts Manager to $150K base ++. Current exp. in private label cut & sewn knit tops, missy and large size, 4-12 dollar wholesale. Min 5 yrs exp in this mkt req'd. Must hang w/ Golden Touch, E.S. Sutton, ISG, Regatta etc. Take over established accts. Call 973-564-9236 Jaral Agcy

Acct Mgr $100-150K. Current exp in mod. to better casual womens sprtswr. Private label or branded exp. ok. Must hang w/ Ms. Erica, Lemongrass, Sag Harbor, etc. Call 973-564-9236 Jaral Fashion Agcy

Children's Salesperson
NY mfr seeks experienced children's salesperson. Resume, salary history and requirements to 212-689-1729.

Children's Wear
High-end French children's line seeks energetic Sales Reps for East Coast, NY based. Must have at least 2 years experience with high-end dept. stores & specialty boutiques. Strong follow-up skills a must. Great benefits package.
Fax resume to: 212 706 9532

Children's Wear
Well est'd. NJ Based Wholesaler seeks exp'd. Salesperson. Excellent opportunity for right candidate. Fax resume/account list in confidence to: **201-553-1960**

DESIGN ASSISTANT
Established Legwear Company seeks bright, energetic, efficient, design assistant to act as liaison between design, manufacturers, and quality assurance, establishing and managing approval archives for product and color on a seasonal basis. Also, responsible for maintaining design room and product library and assisting in preparing presentation boards. Must have good eye for color and design detail, strong communication skills and terrific follow through.
Fax resume to: 212-629-8150

EXCITING OPPORTUNITY
Domestic/Import Contemporary Sweater Co seeks experienced salesperson. Must be organized, detail-oriented and self-motivated. Minimum 3 years experience. Room for growth. Fax resume to:
212-768-2102 ATT: Kim Famoso

Sales Help Wanted

LIFESTYLE BRAND ISO: OUT OF THE BOX THINKER!
Leading high-end accessories co. seeks ambitious hard working salesperson to expand fast growing niche business that crosses many different types of retail opportunities! Great potential for growth. Must be creative organized business thinker. 3-5 years high-end sales exp. req'd. Knowledge of ACT.
Fax resume to 718-620-3600

Madison Ave. Sales
Luxury Madison Ave store seeks sales person with at least 4 yrs upscale sales experience. Must be computer literate. Please fax resume to:
Manrico Cashmere 212-794-8515

READY FOR A REFRESHING CHANGE?
Well est'd. better/moderate Sportswear Co., specializing in knitwear seeks Sales Pro w/strong relationships. Current business w/ Dept./Chain Stores & Catalogues for branded /private label a plus. Fax resume in confidence to: Peter @ SML Sports Limited 212-391-4030

Sales Associates LA PERLA
Strong retail and mgmt. skills for NY stores. Please fax resume to Sarah @ (212) 459-3413

SALES
Busy NJ based co. seeks Sales People for children's/infants'toys & accessories division. Must have sales experience, and be computer literate. Travel is required. Please Fax or Email resume and salary requirements to:
201-567-2366 / sales@dgetoy.com

SALES EXECUTIVE
Est'd NYC pvt label kidswear co. seeks exp Sales Mgr for new exciting t-shirt line. Must have contacts in better market for this ground floor opportunity. Will also participate in growth of pvt label at all price points. P/T flex hours.
Fax resume: 212-967-2038

SALES EXECUTIVE OUTERWEAR
Est'd sweater/knit & outerwear importer seeks experienced pro w/ strong dept/specialty store relationships to expand our exciting faux fur, suede & leather line. Positive energy & strong follow-up skills a must. Call, fax or email resume to Lisa Cheung
Tel: 212-302-3744 Fax:212-302-8589
email:eminlisa@aol.com

SALES REP./ACCT. EXEC.
Est'd LA based Jr. (Budget/Moderate) cut & sew garment mfr. w/ 15 yrs. history seeks a strong exp'd NY based Sales Rep w/ significant Dept. & Chain store contacts to work from our NY showroom. Serious candidates must be highly motivated, organized & have a min. of 5 yrs. exp. Pls. fax or email resumes to:
(213) 765-0305 or bexzro@yahoo.com

LINES

Lines Offered

Sales Representative
Jr.'s Apparel
Experience with Large Retail Stores
Midwest Location
Send cover letter & resume to:
openposts2003@yahoo.com

Fashion Jewelry Line
Well-established New York/Hong Kong based Co. is, for the first time, seeking U.S. Professional Rep(s). Must possess strong Dept. & Specialty Store contacts.
Fax resume to 212-564-8811 or
E-mail to Ronald@joannshe.com

LINGERIE
Seeking exp'd. Sales Rep with est'd. Specialty, Drug & Dept. Store accts. for promotional & successful lingerie line.
Tel: **800-716-7999** / Fax: **323-277-8919**

SWEATER SALES
Import Co. seeks Reps connected with private label sweater buyers, dept/chain stores, mass market retailers. Fax to: 212-736-1087 / rechards@verizon.net

POSITIONS WANTED

Positions Wanted Agencies

***APPAREL EMPLOYERS ***
Do you need exp'd DESIGNERS, PRODUCTION, ACCOUNTING, TECHNICAL etc. staff?
CALL 973-564-9236 Jaral Fashion Agcy.

Positions Wanted

CFO/Controller
Years of experience as a hands-on Accountant in Apparel Manufacturing & Import. Key player and proven leader.
Call: 516-521-3124

Thank You!

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Alliance Data Systems Jim Sullivan 614.729.4111
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New Generation Computing Alan Brooks 305.556.9122
Fashion Real Estate Eric Silverman 305.607.7442
UCC Capital Corporation Robert D'Loren 212.277.1101

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CEO SUMMIT

THE WWD BUSINESS
Review
THE RETAILERS' DAILY NEWSPAPER NOVEMBER 17, 2003 SECTION II

BANKRUPTCY'S BOUNTY
Chapter 11 Isn't Cheap

Store Chore '04: Building Sales Again
Retail Stocks: Will the Boom Go Bust?
Fore-Tales: Prediction Is a Precarious Art

COVER STORY

THE HIGH COST OF HITTING ROCK BOTTOM

BANKRUPTCIES EXACT A VERY HIGH TOLL ON EMPLOYEES AND SHAREHOLDERS ALIKE, BUT ADVISERS RECEIVE LESSONS IN LARGESSE.

BY VICKI M. YOUNG

ILLUSTRATIONS BY MATT COLLINS

In the musical "Cabaret," it was the clinking, clanking sound of money — whether a mark, a yen, a buck or a pound — that made the world go round. But in a bankruptcy, the important debate that abounds for those with hands outstretched — each wanting more, more and still more — is what is left to go around.

Of course, by the time a debtor is done with the so-called reorganization, most likely there's even less to hand out. What gives? Attorneys' fees, accounting expenses, restructuring costs and even the costs of investment banking advice drive the tab for these distressed firms ever higher. Welcome to the high costs of bankruptcy.

Certainly it takes money to run a business. However, it takes even bigger bucks to go bankrupt. Depending on which side of the fence one is on, there are pros and cons to the skyrocketing costs.

Andrew Miller, managing director of the financial restructuring group in the Los Angeles office of investment banking firm Houlihan Lokey Howard & Zukin, notes the fee structures in bankruptcy cases have remained consistent over the years. He points out that what has changed in these large, complex cases is the increased number of creditor constituencies who, in turn, feel they should have their own set of professional advisers.

Miller notes while the fees may seem high, the fact is that the creditor groups who see fit to hire their own team of experts are really using their own money.

"Look, if they believe that they were spending money foolishly and impairing their gains, they wouldn't be hiring the advisers. The fact that they do hire them suggests a belief that the advisers will get them a higher rate of return," he says.

Louis J. Cappelli, chairman of Sterling National Bank, observes, "Professional fees go in tandem with the rest of the business economy. No doubt that if you employ an attorney in New York City and another one from a different state — whether South Carolina, Utah or Montana, as examples — the fees in the other state would be less than those charged by the New York firm. Much also depends on the expertise of the individual, although I don't necessarily believe that the more you pay, the more you get."

The bank chairman remembers a time when many of the smaller firms sought relief elsewhere so they wouldn't have to air their dirty financial laundry before a bankruptcy court judge.

"The trend many years ago was for the smaller companies to go to their trade organization, which would help facilitate a settlement, and the firm would be reorganized in an informal way. The costs were significantly less because what happens these days is that sometimes the professional fees eat up a good deal of the estate," he says.

Of course, he acknowledges, it is considerably much more difficult for the larger public firms to effect out-of-court settlements when there are so many creditor-interest groups with their hands outstretched.

Allan Ellinger, senior managing director of Marketing Management Group, a consulting firm with extensive reorganizational credentials, wouldn't mind seeing more informal workouts, which he considers to be a much more efficient process.

He explains: "I think the way bankruptcies are run is so inefficient. When we get involved in a crisis situation, the first thing we do is determine whether a company can survive as a freestanding firm. It if can't, we immediately convert it to a merger and acquisition and attempt to sell assets as a going concern to stop the bleeding. You have to focus on what's best for the business and its creditors and shareholders.

"The informal process can be much quicker. Not all bankruptcies need to be public, and when all the creditors are onboard, you can

CONTINUED ON PAGE 4


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BANKRUPTCY'S BOUNTY

CONTINUED FROM PAGE 2

accomplish the same thing informally. It's also cheaper than an actual bankruptcy filing with the courts, which have gotten so expensive because of the special interest groups feeding at the trough."

Wilbur L. Ross Jr., chairman and chief executive officer of investment firm W.L. Ross & Co., observes that the professionals vying for the restructuring work have in some situations turned the bankruptcy into a "feeding frenzy."

Ross was the chairman of the unsecured creditors' committee in the Burlington Industries bankruptcy. His firm bought most of the assets of Burlington.

"I think in many cases it has gotten out of hand. In some of the recent bankruptcies, the courts have authorized equity committees to look out for the interests of shareholders even though in most cases, you know that there won't be a return to the equity holders.

"In Burlington, unsecured creditors are getting between 30 cents and 40 cents on the dollar. Yet the court let money be spent on behalf of the shareholders. That's a waste because creditors wouldn't be settling for 40 cents on the dollar if there was enough to pay them and the equity holders," he says.

According to Ross, the fees can reach a very high amount, particularly when the debtor, its bankers and different creditor groups each have their own set of legal and financial advisers.

He observes: "It's not unusual for the total professional fees to be 10 percent to 20 percent of the unsecured creditors' total recovery. Each time a committee files papers in court, the professionals for the other committees have to file their answer, and the fees just multiply. The more constituencies you have who feel aggrieved, the bigger the market for professional expenses."

But exactly how high can some of those fees climb?

In the case of Kmart Corp., the sky was the limit. The retailer listed $16 billion in assets on Jan. 22, 2002, the day it filed its Chapter 11 petition in a Chicago bankruptcy court. While its sheer size made it a megacase, the fast-track approach meant that the retailer was in bankruptcy proceedings for only 15 months. Yet, the tally for professional fees in the case is expected to climb to at least $140 million, or an average minimum of more than $9 million in fees billed per month.

When it shed the oversight of the bankruptcy court in May, Kmart emerged with a healthier balance sheet, having wiped away nearly $8 billion in debt. In the process, however, it paid millions in retention bonuses to its top executives. At the same time, it left many others in the dust. In its restructuring, the discounter shuttered 600 stores, left 67,000 former employees without jobs or severance pay and forced its shareholders to swallow more than $6.3 billion in lost equity.

When The Warnaco Group emerged from Chapter 11 protection in February, it, too, had an improved balance sheet that was "deleveraged," as well as leaner operations and a corresponding volume smaller than at its peak. And there was also one key personnel change — longtime ceo Linda J. Wachner was no longer with the firm.

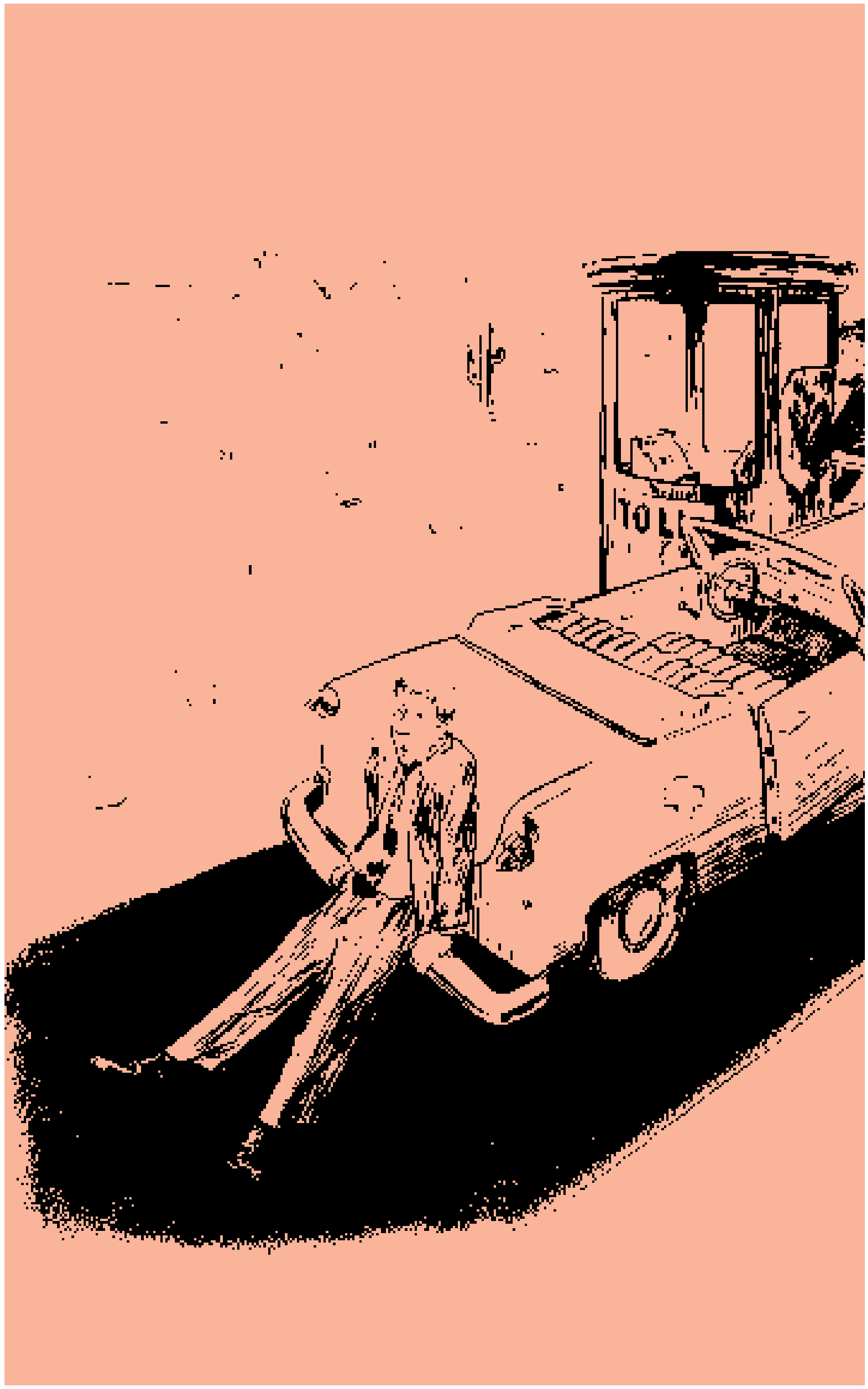
As for reorganization costs, it didn't matter that Warnaco is a manufacturer instead of a retailer. A bankruptcy is a bankruptcy, each one with its share of professional fees and experts.

When all was said and done, Antonio Alvarez of Alvarez & Marsal Inc., the turnaround expert hired first as chief restructuring officer and then as ceo, succeeding Wachner, received an aggregate payment including bonus and salary of $5.7 million in cash, subordinated notes and a percentage of newly issued reorganized Warnaco stock. The company said part of the payment represented a vote of approval from creditors for his role in helping to quickly move Warnaco out of Chapter 11 status.

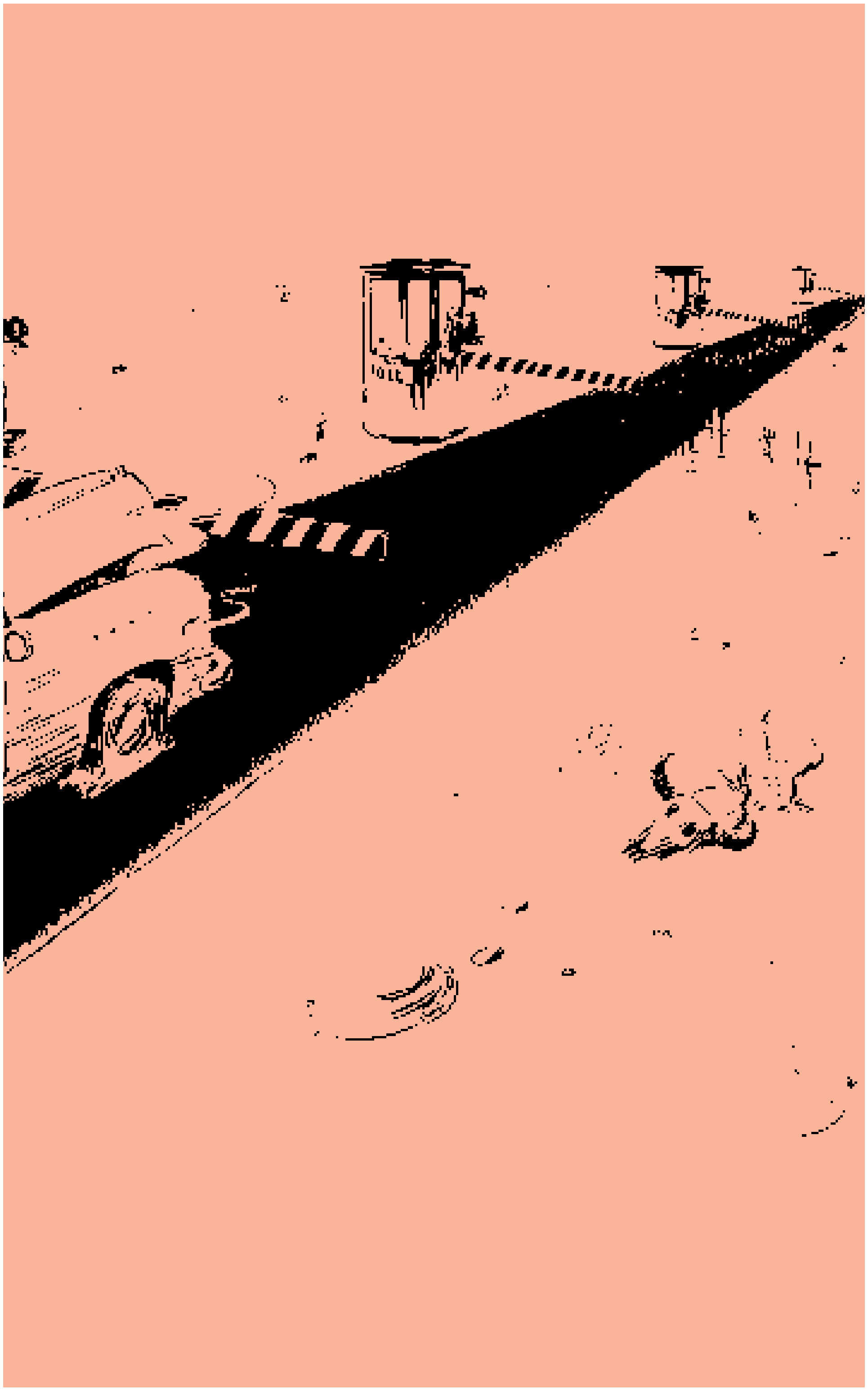
Unfortunately for former Warnaco shareholders, they didn't get a return on their equity stakes, either, although they were allowed to hold onto their memories.

Sometimes even former executives get included when companies about to emerge from bankruptcy dole out little somethings from the creditor pot, whether as a "thank you" gesture for sticking around until the bitter end or a gratuity check to speed them on their way.

Gene and Bob Pressman, for example, didn't do too



"IT'S NOT UNUSUAL FOR TOTAL PROFESSIONAL UNSECURED CREDITORS' TOTAL RECOVERY."



FEES TO BE 10 PERCENT TO 20 PERCENT OF THE
—WILBUR L. ROSS JR., W.L. ROSS & CO.

badly as consultants to the luxury chain they once commanded. Although no longer co-ceo's at Barneys New York, the reorganization plan provided one-year consulting agreements that entitled the brothers to each receive $1.4 million for their respective services, which were left undefined in the reorganization plan.

Ross doesn't expect the fees and costs associated with bankruptcies to change anytime soon.

"I don't see it changing as long as bankruptcies are as plentiful as they are. There's no price competition because there are so few individuals with the expertise that is required when a firm is bankrupt, and there is so much demand for their services. Right now it is a seller's market. If we ever get to a point where there are a lot less bankruptcies, maybe we will see some price competition," he notes.

According to Bryan Lawrence, managing director at investment bank Lazard Frères & Co., the griping about the high costs of bankruptcy is "much ado about nothing."

He explains: "I don't believe that the bankruptcy costs are too high at all. The perception of high costs in the American bankruptcy process has to be measured against the alternatives, which, in many other countries, has more to do with punishing the company and its management team because they failed.

"Debtor's prison is a European concept. But here, second chances are a big part of our culture. Look at how many times [Wal-Mart founder] Sam Walton failed before he succeeded. Under the bankruptcy process in Germany, liquidation is the custom. That's not a good answer. In America, we have a process that preserves asset values and jobs as much as possible, while reconstituting the capital structure."

For Lawrence, the process in the U.S. is clearly superior, even if American debtors get to stay in bankruptcy longer than their overseas counterparts, and in turn incur more costs.

Lazard Frères served as financial adviser to Fruit of the Loom after it filed for bankruptcy protection in December 1999. "It stayed in for what is a typical time period, given its size," Lawrence notes. "FTL is a strong brand, with a high-quality asset and a difficult balance sheet. Part of its problem was that it hadn't been able to get offshore fast enough. A reorganization plan was filed in March 2001, but the brand was strong enough that Warren Buffett wanted to own it. Buffett buying it was the best solution for everyone."

Buffett's investment vehicle, Berkshire Hathaway, surfaced in late 2001 as a potential buyer of FTL, and in January 2002, it received bankruptcy court approval to purchase FTL for $835 million.

In what is likely to be the next post-bankruptcy successor story, John Idol, chairman and ceo of bankrupt Kasper A.S.L., says the best advice he received was to take his time and proceed slowly.

Kasper filed for Chapter 11 bankruptcy court protection on Feb. 5, 2002. It expects that by Dec. 1, it will be out of bankruptcy and have a new parent, Jones Apparel Group, which agreed to purchase the firm for $232.5 million, plus the assumption of certain liabilities.

According to Idol, "We are a fortunate model to look at. The creditors will get paid in full, the equity holders will get some money and we will still have enough to pay our lawyers and accountants. It has been an extraordinary process, a very expensive and costly process.

"When a company already is in a difficult financial position, spending millions on the different fees is just more assets taken away from the company that ultimately belong to the creditors and shareholders."

Yet Idol believes that the costs incurred in Kasper were "very much worth it." He adds that the creditors were also instrumental in the restructuring process because they allowed the firm the time it needed to maximize the opportunities that were available for the company.

"Too often companies are forced to get out quickly so creditors and equity holders can have a monetary piece of paper that they can go trade, but what is really needed is to get the company restructured so it doesn't go back into a Chapter 11," Idol says.

Too often, however, the opposite happens, exacting an even greater cost. ■

STOCK ANSWERS

BY DAN BURROWS

A RUN-UP IN RETAIL SHARES AND AN ECONOMIC REBOUND NEEDN'T BE MUTUALLY EXCLUSIVE.

Can retail stocks keep up their torrid pace?

The next few months will tell us, but there's no doubt that they have been sizzling hot. Buoyed by a confluence of improving economic indicators and events, the major market indices have seen their strongest gains in years, and retail stocks, supported by expectations of a pickup in consumer spending, are leading the pack.

Since bottoming out eight months ago, the Standard & Poor's Retail Index has shot up by more than half, or 50.3 percent, since the end of February. That performance more than doubled the gains seen in the Dow Jones Industrial Average, which rose 24.2 percent over the same period.

With the National Retail Federation projecting holiday sales growth of 5.7 percent, an extra shopping day versus the prior-year period and easy comparisons to last season when retail sales rose only 2.2 percent — the worst performance in 10 years — retail stocks would seem poised to add to their already impressive gains.

confidence and, critically, how much the bullish holiday expectations are already reflected in share values. And with some stocks having doubled and even tripled this year already, there is the question of just how much higher can they go.

But even after taking all that into account, industry observers for the most part are very upbeat regarding the holidays.

"If you look at the retail group as a whole, I don't think valuation is an issue. By and large I think it's fairly valued," said Robert Buchanan, an analyst with A.G. Edwards & Sons, which is expecting a 3.4 percent comparable-store sales increase for the holidays. "But valuation is just one consideration. It's such an art picking stocks."

Buchanan stressed that the members of the retail group must be evaluated on an individual basis. Moreover, he pointed out that the retail group's remarkable gains must be put in context with the larger market and economy in general.

"I think consumer trends tend to lead the broad economy," Buchanan said.

> "THE STARS ARE IN ALIGNMENT RIGHT NOW. ECONOMICALLY, WE HAVE LOWER TAX WITHHOLDING RATES, A REDUCTION IN GAS PRICES AND CONSUMER SPENDING IS UP. MALL TRAFFIC IS PICKING UP AND THE HIGH-END CONSUMER IS DEFINITELY BACK."
> — DEBORAH WEINSWIG, SMITH BARNEY

"This year's sales comparison is the easiest since 1990, when sales were flat with those of the prior year," wrote Lehman Brothers analyst Robert Drbul in a research report. "Holiday sales are expected to be more robust than they were last year because of the combination of low interest rates, low inflation, improving equity markets, the surge in mortgage refinancings and higher disposable income from the withholding tax cut and child tax credits. We believe retailers' strong performance during the back-to-school period bodes well for the upcoming holiday selling season."

Of course, it almost goes without saying that there are complications in predicting the future movements of share prices, an activity many analysts liken more to an art than a science, despite the wealth of data they plug into their elaborate and arcane forecasting models.

Among the more salient — and unknowable — factors muddying analysts' and investors' predictions are the movement of gas prices, future employment trends, consumer

As the rest of the economy and industrial averages pick up, the gap between the retail sector and the other indices will narrow, he said. However, that doesn't mean retail values have no place to grow.

"It's true that some retail stocks have seen a big run-up," Buchanan noted, "but that is coming from depressed levels. Aeropostale, if anything, is undervalued. Too Inc. and Dillard's are overvalued. At Too Inc., it's just not happening in their core business. I just don't see a 10-year-old girl making a bee-line to a Too in the strip mall. In the case of Dillard's, I think they're late on taking their markdowns."

Aeropostale led WWD's sample of retail stock performance for Feb. 28 to Oct. 31, soaring 211.3 percent to $30.85 from $9.91. That beat the S&P Retail Index over the same period by 161 percent, and the Dow by 187.1 percent. Dillard's and Too, for their parts, underperformed both averages, growing just 16.9 percent and 8.2 percent, respectively.

CONTINUED ON PAGE 10

SAMPLE OF 50 RETAIL STOCKS

RETAIL STOCK PERFORMANCE, MARKET CLOSE 2/28/03 VS. 10/31/03

Stores	2/28	10/31	CHANGE
Aeropostale	$9.91	$30.85	211.3%
Christopher & Banks	$9.49	$29.20	207.7%
Retail Ventures (Value City)	$1.85	$5.66	205.9%
Gottschalks	$1.46	$3.72	154.8%
Sears	$21.50	$52.63	144.8%
Cache	$10.56	$25.34	140.0%
Charming Shoppes	$2.90	$6.58	126.9%
Gadzooks	$3.00	$6.57	119.0%
Chico's FAS	$18.07	$37.54	107.7%
Bebe Stores	$13.83	$27.88	101.6%
Pacific Sunwear	$11.81	$23.08	95.4%
Hot Topic	$14.73	$28.71	94.9%
Federated	$25.34	$47.55	87.6%
Ann Taylor Stores	$19.40	$35.80	84.5%
Nordstrom	$16.85	$30.49	80.9%
Saks	$7.69	$13.90	80.8%
Neiman Marcus	$27.08	$47.55	75.6%
Claire's Stores	$22.70	$38.70	70.5%
Wet Seal	$6.97	$11.05	58.5%
United Retail	$2.10	$3.30	57.1%
Stein Mart	$4.78	$7.29	52.5%
Limited Brands	$11.63	$17.60	51.3%
Ross Stores	$34.12	$50.10	46.8%
Gap	$13.01	$19.08	46.7%
May Department Stores	$19.23	$27.96	45.4%
Barneys NY	$3.80	$5.50	44.7%
ShopKo Stores	$10.95	$15.48	41.4%
Target Corp.	$28.55	$39.74	39.2%
Talbots	$24.67	$32.87	33.2%
TJX Companies	$15.98	$20.96	31.2%
Cato Corp.	$16.60	$21.10	27.1%
Wal-Mart Stores	$47.82	$58.95	23.3%
J.C. Penney Co.	$19.46	$23.65	21.5%
Dillard's	$13.83	$16.17	16.9%
Kohl's Corp.	$48.90	$56.07	14.7%
American Eagle Outfitters	$14.47	$15.99	10.5%
Too Inc.	$15.25	$16.50	8.2%
Abercrombie & Fitch	$27.50	$28.50	3.6%
Deb Shops	$19.05	$19.21	0.8%
Mothers Work	$28.86	$28.01	-2.9%
S&P Retail Index	255.99	384.85	50.3%
Dow Jones Industrial Average	7,891.08	9,801.12	24.2%

SOURCE: YAHOO! FINANCE. AMOUNTS REPRESENT ADJUSTED CLOSING PRICES.

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INNOVATION OFF THE WALL

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TOP OF THE HEAP

BY JENNIFER WEITZMAN

TIRED OF CUTTING COSTS AND WIELDING AXES, RETAIL EXECUTIVES ARE LOOKING TO REJUVENATE REVENUES AND BUILD TOP-LINE RESULTS AS A RECOVERY LOOMS AHEAD.

As earnings results trickled out this year, many retailers glossed over their sales results on their conference calls and then boasted about how cutting inventories and other costs had helped them protect their bottom lines.

However, lean inventories often exacerbate soft sales, making for disappointed shoppers and creating a vicious cycle of weak volume.

Retail executives and industry watchdogs are hoping that things are about to change during the fourth quarter and in 2004 as they attempt to counteract two years of weak retail performance and waning consumer confidence with a return to top-line growth.

Banking on the belief that consumers are ready to shop again, retailers are hoping to raise the numbers and amounts of transactions through managing customer relationships and creating a store environment that makes the shopping experience easier and more enjoyable.

"Over the past year or so, we are starting to see retailers 'anniversary' major cost-cutting initiatives, and the next area to cut is store payroll and that is the Golden Fleece you don't cut," Adrienne Tennant, a specialty retail analyst with Wedbush Morgan Securities, said. "I suspect we are going to see companies start to actually build up and start to invest in the way the stores look."

Daniel Barteluce, a New York-based architect who has worked on stores including Burberry, Bergdorf Goodman, Kate Spade, Cartier and Temple St. Clair, said current themes prevalent in retailing design today include less merchandise on the floor to avoid looking like a discount store and making stores feel more residential, like the shoe department at Bergdorf Goodman, and less gimmickry. Other trends are neutral colors and creative lighting.

He also said stores are looking to become regionalized in their appearances to attract different customers. For example, the Burberry store in Beverly Hills was built with a small stage and it was a hit with its customers.

Another way to generate sales is through improved customer service, particularly by honing in on existing customers.

David Siever, a global consumer packaged goods practice leader with Archstone Consulting, said he faults retailers for cutting the quality of training and the recruitment process, causing their service levels and point-of-sale accommodations to suffer.

Now, Siever said, stores are looking to expand their "share of wallet" by increasing their sales among customers with whom they already have a relationship. To do this, he said retailers need to collect more data on the existing customer, the primary target for promotional efforts.

Analysts point to high-end retailers such as Saks Fifth Avenue Enterprises, Neiman Marcus Group and Nordstrom as leading the way out of the sales doldrums through top-notch customer service.

The luxury crowd finished October with a same-store sales flourish, as its consumers got back to shopping with a vengeance, picking up designer handbags and suits.

Leading the way SFA logged a 14.2 percent increase last month, followed by NMG, up 9.7 percent following its 13.6 percent gain in September. Nordstrom managed a 3.5 percent rally.

"Increasing top-line sales has been one of the key initiatives of the company for the past three years," a Nordstrom spokeswoman said. "We have been looking at improving the merchandise mix to make sure we have the right item, at the right price at the store when the customer wants it," she said. "To do this, we need to make sure we have the sales people on the floor who are knowledgeable and passionate about taking care of the customers' needs."

Staying in stock is critical. She credits Nordstrom's perpetual inventory system, which was recently rolled out throughout all of its stores. For example, in July, men's sales increased by $16 million with $18 million less inventory.

And at SFA, the company has intensified attempts over the past four years to get cozier with its customers, determine their needs and get them to shop the store more often. The company has been conducting extensive qualitative and quantitative consumer research, as well as using focus groups and a Gallop survey, to improve service and enhance loyalty programs. In the process, it's built up a warehouse worth of data.

As reported, SFA formed a customer relationship management division and hired Rob Rosenblatt, a former American Express executive, as senior vice president to run the unit.

"CRM is the single most important initiative we have at the company as a means of growing and insuring our vitality," Sheri Wilson-Gray, executive vice-president and chief marketing officer, said. "We want to understand the needs of our customers and make sure we are meeting them."

At Talbots, a spokeswoman said customer relationship management is now at the heart of its brands. "We are doing a lot more appointment selling where a customer can set up a private time to shop our stores with one associate dedicated to her at her convenience, including before and after store hours," she said.

But at the root of all customer relationship management is how well consumer data can be mined

PHOTO BY C SQUARED STUDIOS/GETTY

and incorporated into a retailer's assortment, advertising, prices and store layout. After all, as Chuck Rubin, a partner in Accenture's retail practice, said: "Those retailers who are able to transfer the tremendous amount of customer data available to them and convert that to real insight and to real action are seeing sales growth."

Retailers are just beginning to realize the value of the data they have and their ability to use information to increase sales, by targeting infrequent shoppers, by letting them know about upcoming sales or, for instance, by letting a customer who buys a lot of sweaters know about a new shipment.

And thanks to the powers of the Internet, retailers today have many more ways of reaching out to their customers.

J. Jill, a Quincy, Mass.-based multichannel retailer of women's apparel and accessories, knows the intricacies involved in managing a retailer's customer database since it began as a direct business. That business, which consists of its catalogue and Web site, represented almost two-thirds of Jill's total sales volume in fiscal 2002. Sales from the catalogue channel represented 44 percent of its total sales volume in fiscal 2002, a year during which it mailed pieces to about 78 million catalogues. Through Dec. 28, 2002, it had 1.1 million customers who had placed a catalogue, e-commerce or intranet order with the company in the last 12 months and 3.2 million names in its customer database.

Their long experience with database management may give some retailers with roots in the catalogue and Internet worlds a bit of an advantage going forward.

Olga Conley, chief financial officer of J. Jill Group, said, "In the catalogue world, if you don't know how to manage a database down to the most minute level of detail, then you are out of business."

Conley said retailers can use databases to glean how often the customer shops, what she spends and the last time she made a purchase.

Many stores have deferred investments in store appearance and fixturing during the last few lean years, but store appearance again is becoming synonymous with customer satisfaction. Retailers are looking for facelifts again as they seek to further differentiate themselves in ways other than product.

"Anytime you improve your relationship with a customer, you improve loyalty and loyalty is what is going to drive sales to you as opposed to someone else," Conley said.

While that's true for all stores, it's particularly important in the teen sector, where the "same old look" doesn't cut it in either merchandising or decor.

"There is something about the coolness factor being in and around the store," Wedbush Morgan's Tennant said, noting that stores such as Hot Topic, Hollister and Abercrombie & Fitch derive traffic and sales benefits from their popularity as places to be as much as they are places to shop.

Dawn Stoner, a specialty retail analyst with Pacific Growth Equities, pointed out, "The value equation won't go away even as the economy improves, but there are a variety of ways to convey value to consumer apart from being cheap and discounting. You can do it through unique products, customer service, through an interesting shopping environment and exclusive products."

The analyst pointed to Hot Topic being able to muscle its way ahead of its teen peers by partnering well with its vendors and developing unique and often exclusive products, even if the duration of the exclusivity is limited.

"They are the only ones out there with a particular color or a twist that gives them an edge," Stoner said. "That is how some of the companies are able to generate strong top-line growth, despite being in a challenging economic environment."

Still, industry consultant Emanuel Weintraub said price and product are still the name of the game, although not always in the ways that people discern.

"Businesses are looking at those elements that don't add value because consumers at the end of the day ask first if they like a product and then how much it costs," he said. "If you have bad food in the best restaurant, you aren't going to go back there." ■

STOCK ANSWERS

CONTINUED FROM PAGE 6

Other hot stocks include Christopher & Banks, which advanced 207.7 percent over the eight-month period to $29.20 from $9.49; Retail Ventures, formerly Value City, with a 205.9 percent gain to $5.66 from $1.85; and Sears, whose shares have traded up 144.8 percent to $52.63 from $21.50.

Smith Barney analyst Deborah Weinswig is also bullish for the holidays and said some strong stocks still have plenty of life in them. "We're expecting sales to increase 4 to 6 percent," she said. "I think the stars are in alignment right now. Economically, we have lower tax withholding rates, a reduction in gas prices and consumer spending is up. Mall traffic is picking up and the high-end consumer is definitely back. And retailers have been very conservative with their inventories, so there is potential for gross margin improvement and selling, general and administrative expense leverage."

For the holiday season, Weinswig wrote in a research note that Federated Department Stores "continues to be our top pick. It is one of the most leveraged companies [going into] the holiday within our broadlines coverage universe, with approximately 55 to 65 percent of annual earnings per share generated in the fourth-quarter alone."

Based on that and other factors, last week Weinswig upgraded Federated to "buy" with medium risk from "hold" with medium risk. Over the eight months covered, Federated's stock expanded 87.6 percent to $47.55 from $25.34, easily outperforming the S&P Retail Index and Dow by 37.3 percent and 63.4 percent, respectively.

"VALUATION IS JUST ONE CONSIDERATION. IT'S SUCH AN ART PICKING STOCKS."
— ROBERT BUCHANAN, A.G. EDWARDS & SONS

At the high end, Neiman Marcus Group, Saks Fifth Avenue parent Saks Inc. and Nordstrom have seen their shares advance 75.6 percent, 80.8 percent and 80.9 percent, respectively, and there is good reason to think they'll continue to grow through the fourth quarter as the evidence continues to mount that the sector has rebounded.

But before investors get too irrationally exuberant, bear in mind that there is, as always, a more cautious view. Some fear that investors and analysts may be oversold on the correlation between back-to-school and holiday sales increases, which, according to Lehman Brothers, have mirrored each other by 89 percent since 1993.

Elizabeth Pierce, an analyst with Sanders Morris Harris, for example, said she was concerned there could be some stock give-back in the coming weeks leading up to Christmas as the battle between two consumer spending theories plays out. Pierce said while she expects consumers to embrace the holidays, she said the recent runup in stocks reflect the strong back-to-school sales and the expectation that holiday sales will follow suit. However, as most consumers have become procrastinators, she said stocks could be weakened as investors may not see the desired comp trends in November.

So investors, of course, must pick wisely. Whether they get capital gains or lumps of coal in their Christmas stockings, only time will tell. ■

BEAUTY REVIEW AND OUTLOOK

THE ESTEE LAUDER COS. began its new fiscal year much as it ended the last one — with healthy bottom- and top-line gains. For the first quarter ended Sept. 30, the New York-based beauty giant reported a 4.9 percent gain in net income to $77 million, or 33 cents a diluted share, from $73.4 million, or 28 cents, a year ago. Lauder's earnings per share beat the Wall Street forecast by 1 cent. Net sales for the three months pushed up 8.8 percent to $1.35 billion from $1.24 billion last year, as the company experienced sales growth across all product categories, in most geographic markets and from currency fluctuation, as well. In local currencies, sales increased 6 percent. The company formed a strategic alliance with Kohl's Corp. to create and manage color cosmetics and skin care departments in Kohl's stores beginning in fall 2004. Lauder also confirmed that it is investing $15 million in fiscal 2004 primarily to develop the new business with the Menomonee Falls, Wis.-based department store chain. By product category in the first quarter, recent launches of wrinkle and refinishing creams elevated sales of skin care products 10 percent to $462.9 million, or 7 percent before giving effect to currency translation. Makeup sales rose 6 percent to $494.1 million, or 4 percent in local currencies; fragrance sales grew 12 percent to $331.1 million, or 9 percent in constant currency, and hair care products saw sales improve 9 percent to $54.8 million....The ongoing financial crisis at **REVLON INC.** continued as the beauty giant again languished in the red during the third quarter. In the three months ended Sept. 30, Revlon experienced a net loss of $54.7 million, or 78 cents a diluted share, extending its losing streak to 20 quarters in a row. This compares with a loss of $22.1 million, or 41 cents, in the same period last year. Overall revenues in the quarter declined 2.1 percent to $316.5 million from $323.2 million in last year's quarter, reflecting lower sales in North America that were only partially offset by favorable foreign currency translation. Excluding the positive exchange impact, sales declined about 5 percent. The quarter's results were hit by charges of $5 million associated with its growth plan, bringing the total anticipated charges for the year to $31 million. Last year, charges for the plan hit $104 million. An additional $25 million next year and after will lift the plan's total bill to $160 million. In addition, the company said it incurred charges totaling $600,000 for restructuring and additional consolidation costs, while the third quarter of 2002 included charges of $4.2 million. At the same time, Revlon is burning cash even faster than anticipated and is expected to seek amendments or waivers from lenders to keep it from falling out of compliance with current credit agreements. It's already spent $248 million of a $250 million credit agreement; all of a $100 million term loan from its principal owner, Ronald Perelman's MacAndrews & Forbes Holdings Inc., and $20 million of another $65 million M&F line of credit. At the end of the quarter, long-term debt stood at $1.86 billion, up from $1.75 billion at the end of December 2002. Last week, M&F agreed to infuse another $125 million into the troubled firm with a $100 million term loan that can be drawn on in 2004 and $25 million to back that up. The approval of Revlon's board and its banks is required....**AVON PRODUCTS INC.** posted a 47 percent jump in third-quarter earnings, results that exceeded the high end of the company's earlier guidance. For the three months ended Sept. 30, income skyrocketed 47 percent to $133.1 million, or 56 cents a share, from $90.3 million, or 38 cents, in the year-ago quarter. The quarter's EPS included a 2 1/2 cent per share benefit from a tax audit settlement and receipt of an Internal Revenue Service refund, offset by 1 1/2 cents per share of expenses related to the redemption of a convertible bond issue in July. Total revenues rose 11.3 percent to $1.63 billion from $1.46 billion, which included sales of $1.61 billion versus $1.45 billion last year, driven by a 15 percent increase in beauty sales and a 10 percent gain in the number of active representatives. The U.S., Avon's largest market, tallied sales growth of 7 percent and a 9 percent advance in sales of beauty products on promising early results from two launches in the quarter, Anew Clinical and Mark. The European region posted sales growth of 23 percent, with Russia again delivering "standout performance" with sales up 60 percent. In Latin America, sales were up 14 percent, while in the Pacific region, sales rose 7 percent. China generated sales growth of 30 percent....With sales volumes up and restructuring costs no longer weighing on results, **THE PROCTER & GAMBLE CO.** reported double-digit earnings increases for the first quarter. For the three months ended Sept. 30, the Cincinnati-based consumer products giant said earnings expanded 20.3 percent to $1.76 billion, or $1.26 a diluted share, beating Wall Street's consensus estimate by 1 cent. Comparatively, the company reported earnings of $1.46 billion, or $1.04, last year. The company attributed the positive results to lower manufacturing costs, higher volumes and the absence of $113 million in restructuring charges that had adversely affected last year's results. Sales for the period increased 13 percent to $12.2 billion from $11 billion last year, largely driven by double-digit growth from the company's beauty and health-care divisions. Favorable foreign exchange rates were responsible for 3 percent of the quarterly sales gain. Sales in the beauty division grew 20 percent to $3.75 billion, getting a sizable boost from the recent acquisition of Wella. Excluding Wella, beauty care sales increased 8 percent on the strength of the company's Pantene, Head & Shoulders, Always/Whisper and Olay brands. Beauty's contribution to earnings was $616 million, a 12 percent increase from the year-ago quarter. The health care division led the sales growth charge, increasing 23 percent to $1.73 billion....Reduced restructuring costs helped **UNILEVER PLC** generate a 14.8 percent increase in net income in the third quarter. The foods-to-fragrances group said net profit in the third quarter rose to $1.1 billion from $959.4 million, chiefly due to lower restructuring costs and other aftertax exceptional items. Dollar figures have been converted from the euro at current exchange as Unilever reported profits of 941 million euros against 820 million euros one year ago. At $14.38 billion, or 12.29 billion euros, sales were flat against the corresponding quarter last year. The company said lack of growth was due to underperforming businesses and a difficult business environment....Higher costs associated with its Sally Hansen products put a wrinkle in **DEL LABORATORIES'** third-quarter financial results. For the three months ended Sept. 30, the Uniondale, N.Y.-based cosmetics maker said profits slid by 8.7 percent to $4.7 million, or 48 cents a diluted share, compared with $5.1 million, or 54 cents, in the same period last year. The company noted the quarterly results were adversely impacted by higher advertising and display costs in support of its new Sally Hansen Healing Beauty product line of skin care makeup and its core Sally Hansen franchise. Sales for the period rose 4.7 percent to $99.7 million from $95.2 million....Strong sales growth and successful restructuring actions helped vault **THE ALBERTO-CULVER CO.** to double-digit gains for the fourth quarter. For the three months ended Sept. 30, the Melrose Park, Ill.-based beauty care manufacturer saw earnings jump 16.3 percent to $45.7 million, or 76 cents a diluted share, trouncing Wall Street's consensus estimate of 67 cents. Comparatively, the company posted earnings of $39.3 million, or 66 cents, in the same period last year. Sales for the quarter rose 7.7 percent to $751.6 million against $697.9 million last year....**INTER PARFUMS INC.**'s third-quarter profits soared on robust sales growth and improved margins. For the three months ended Sept. 30, the New York-based perfume and cosmetics manufacturer said net income shot up 74 percent to $4.7 million, or 23 cents a diluted share. That compares with last year's earnings of $2.7 million, or 14 cents. Earnings eclipsed the Wall Street forecast by 8 cents. Net sales for the period swelled 53.6 percent to $57.4 million from $37.4 million a year ago. Excluding the effects of currency fluctuation, sales were up 44 percent. Operating margin rose 130 basis points to 14.7 percent of sales from 13.4 percent a year ago.... **NU SKIN ENTERPRISES** finished its third quarter behind last year's numbers but at the high end of guidance as profits for the three months ended Sept. 30 slipped 5.1 percent to $15.1 million, or 19 cents a diluted share. Despite help from currency fluctuation, sales backtracked 1.1 percent to $250.2 million from $252.9 million in the corresponding year-ago period.

EUROPEAN LUXURY REVIEW AND OUTLOOK

GUCCI GROUP didn't hold onto the services of chief executive Domenico De Sole and creative director Tom Ford, but the luxury house, majority-owned by Pinault-Printemps-Redoute, painted a bright picture of second-half prospects just before the upcoming departures of the duo became official. Gucci's net profit for the second quarter ended July 31 plunged 47 percent to $26.6 million from $50.2 million in the year-ago period, as both costs and markdown expenses increased. Sales, in line with analyst expectations, were relatively stable, rising 1.1 percent to $684.5 million from $676.8 million. Sales for the quarter were up 2.2 percent on a constant currency basis, De Sole said, noting that retail sales for the group have "surged" since Aug. 1. "There was an improvement in the month of July as the collection hit the store," De Sole said, noting strong demand for fall merchandise. "The problems that were here have disappeared, meaning the war and SARS."... Sales at **LVMH MOËT HENNESSY LOUIS VUITTON** fell 3.3 percent in the third quarter ended Sept. 30 to $3.43 billion, versus $3.55 billion a year ago, but the French luxury goods giant said it maintains a bullish outlook for the balance of the year. The quarterly figures compare favorably to those for the nine months, when group sales fell 8 percent to $9.56 billion. Stripping out the impact of currency fluctuation, organic growth was 3 percent in the nine months. "Tourism levels have continued to improve in October and there appear to be signs of a sustained economic recovery in the U.S. and Japan," LVMH said in a statement. "The group expects this momentum to continue in the fourth quarter."... Profits at **COMPAGNIE FINANCIERE RICHEMONT SA** dropped by nearly half in the first six months of the fiscal year, declining 49.2 percent to $78.4 million from $154.4 million as revenues fell faster than costs. Sales dipped 14.5 percent to $1.79 billion from $2.1 billion in the period, which executive chairman Johann Rupert attributed to the strengthening of the euro against the dollar and the yen, and the impact on consumer confidence of the SARS crisis and the Iraqi war. At constant exchange rates, sales would have dropped 6 percent during the six-month period. "All other things being equal, it appears that the worst problems that the luxury goods world has faced in recent months and years may be behind us," Rupert said. Separately, the company named Richard Lepeu, currently chief operating officer of Richemont, and formerly chief executive of Cartier, to the post of chief financial officer. He succeeds Jan du Plessis, who as reported, has been named non-executive chairman of British American Tobacco.... **BURBERRY GROUP PLC**'s revenues rose 17 percent to $531.6 million during the first half ended Sept. 30. The company's revenue growth was powered by a 25 percent rise in retail sales to $177.6 million and a 14 percent climb in wholesale sales to $304.4 million. Wholesale results benefited from a pickup in sales in Spain, where a repositioning of the brand began to pay dividends. Licensing revenue grew 15 percent to $51.9 million. Burberry's retail sales accounted for approximately 33 percent of total revenue in the first half, and were driven mostly by new store openings, with "a marginal contribution" from existing stores.... **HERMES INTERNATIONAL**'s sales inched up in the third quarter ended Sept. 30 to $347.8 million, a 0.5 percent increase that translated to 9 percent in organic terms. Analysts described it as a "strong" performance, but cautioned that Hermès had an easy basis for comparison last year, when third-quarter sales were down 2.6 percent, as reported. Leather goods provided the greatest amount of horsepower, with third-quarter sales of bags and travel items jumping 19.3 percent at constant exchange. Sales of perfumes advanced 6.4 percent, ready-to-wear 5.4 percent and silks 2.3 percent. Watches remained a tough category, with sales dropping 12.7 percent at constant exchange.... **BULGARI**'s sales grew a scant 0.9 percent, to $211.7 million, in the third quarter ended Sept. 30, but ongoing cost-cutting helped boost its profits 35.7 percent to $22.1 million. At constant exchange, sales would have risen 8 percent, the company said. Bulgari chief executive Francesco Trapani commented, "For 2004, we think it's realistic to expect that we'll be operating in a better environment than that of 2003 which was characterized by events such as the war and SARS." However, he cautioned that the fourth quarter will present tough comparisons against a strong prior-year period.... At **TOD'S**, net income for the nine months ended Sept. 30 dropped 23.9 percent to $22.7 million as costs, investments and currency fluctuation pressured the bottom line. Sales for the period were practically flat, rising 0.4 percent to $333.4 million, or 286.4 million euro, from $332.1 million, or 285.3 million euros. Tod's said that sales would have grown by 4.4 percent at constant currency rates... **IT HOLDING** said that strong advertising investments caused its nine-month earnings before interest, taxes and goodwill and trademark amortization to fall 2.3 percent to $49.8 million. Sales for the period rose 2.8 percent to $610.1 million. Gianfranco Ferré revenues grew 7.7 percent to $104.2 million... **PRADA** has renegotiated its bank financing, and its chief executive, Patrizio Bertelli, expects a 45 percent increase in net income to about $57.2 million as sales come in at roughly last year's level of $1.79 billion.

GUEST SPOT

FORECAST: IFFY

BY MICHAEL BAKER

EVEN THE BEST OF CONSUMER INTENTION SURVEYS CAN'T FORETELL THE FUTURE.

It's the holiday season again and time to brace yourself for all the predictions about whether or not sales this year will exceed last year's and by how much.

These forecasts always start up around September or October when no one — particularly the consumer being analyzed — really has the slightest clue what will happen in December. Ask yourself if you knew back in September how much you would spend in December. Chances are you didn't, you still don't and you won't be able to tally it all up even after you've gone and spent it.

That won't stop research organizations and pollsters from taking your top-of-mind responses during a telephone survey (possibly administered during your dinner or as your four-year-old strangles the baby) and using them as a key input — perhaps the only input — into their holiday sales forecasts.

"Prediction is very difficult, especially if it's about the future" quipped Nobel Prize-winning physicist Nils Bohr. Forecasts by economists have always been easy to make fun of because they are frequently well argued, empirically based, stated with a high degree of precision and assurance, and yet still wrong.

Economists, however, are not fools. Like weather forecasters, they know that the closer you are to an event, the better chance you have of getting the prediction right. So they try to get around the uncertainty of their science by revising their forecasts as frequently as possible, and doing so as closely as possible to the actual event being forecasted. This has served to increase the accuracy of the forecasts while simultaneously reducing their usefulness.

Even so, "predictions" about growth and recession frequently produce howlers even when they are made during the event itself, such as the failure to predict the 2001 recession on the very eve of its start, long before Sept. 11.

We see predictions about consumer spending generally, and about sales growth specifically, before every major seasonal "event" including Easter, Mother's Day and Father's Day, back-to-school and Halloween. Long before we even begin the critical fourth fiscal quarter and holiday season we start getting a wave of forecasts about the growth rate of holiday sales. Are any of these forecasts worth anything?

One of the most commonly used research methods is having a telephone polling organization find out what consumers themselves plan to spend, what they plan to spend it on and where they plan to spend it. These surveys are ubiquitous. You'll read something like, "The average household plans to spend $350 on back-to-school items this year, up from $330 last year." Or "The favorite destination for shoppers this holiday season will be discount stores, with 75 percent of households planning to do most of their gift-buying there."

These surveys are easy to devise, cheap to execute, have a quick turnaround time and are invariably wrong. However, both the methodology and results can be easily understood by the news media and the public. And better yet for the survey sponsor, no one can be bothered trying to figure out if the forecast was accurate after the event, since either the media are no longer interested (such as after a minor retailing occasion like Mother's Day) or there is good data available from official sources, as is the case beginning on Dec. 26.

At first blush, going straight to consumers doesn't seem to be a bad idea, and studies about the value of this consumer input indicate that there are very specific conditions under which consumer purchase intentions are useful for forecasting sales. First, the purchase event being predicted needs to be imminent at the time of the survey and of short duration. Secondly, the purchase itself should be for an expensive item that requires relatively more planning and consideration.

So purchase intention surveys may be useful for forecasting near-term sales of products like cars or houses but of questionable usefulness in predicting consumer spending over the course of an event or season. In the cases of back-to-school and end-of-year holidays, the seasons are protracted. Consumers being interviewed even immediately prior to these seasons can't be expected to know what purchases they will have made by the season's end. Even if a consumer consciously starts out with an overall dollar budget for these events, the sheer duration of the events and the impact of impulse buying are likely to have a seriously adverse effect on his or her initial prediction. Things change.

But are consumer surveys entirely worthless? That depends on what you are trying to measure. If you want to know how the entire holiday season is going to measure up, forget it. We have no business asking people how much they are going to spend on gifts over the course of a two-month period and expecting reliable answers.

If you have a new product to put on the market and want to forecast demand, that's a different matter, particularly if the survey is designed well. However, when it comes to predicting the outcome of retail seasons, sometimes rules of thumb do as good a job as anything. One such rule is that wherever the back-to-school season goes, the holiday season follows. As it turns out, a careful examination of the data reveals that for some retail categories, it's a pretty good rule indeed.

If you take some broad retail aggregates such as the Bank of Tokyo-Mitsubishi's chain-store sales index, or the U.S. Census Bureau's GAFO (general merchandise, apparel, furniture and other store sales) category, the relationship between third-quarter year-over-year sales growth and holiday season year-over-year sales growth is usually quite close. Third-quarter results aren't all in yet for 2003, but if you take an arithmetic average of same-store sales growth for July, August and September, you get an increase of about 5 percent. That is by no means an implausible forecast for the holiday season.

But beware — if you take a highly discretionary category like home electronics or jewelry, the usefulness of back-to-school sales growth as a predictor of holiday sales is quite poor. That makes sense, because willingness to commit to highly discretionary purchases is very sensitive to small and rapid changes in psychology, as may occur copiously during the intervening months between back-to-school and Christmas.

And apparel? In the last six years, holiday sales growth has differed from back-to-school sales growth by an average of only 80 basis points, making it quite a useful guidepost. Six years isn't much to hang your hat on, but it beats calling 1,000 consumers at dinner time. ■

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