

# VISIBILITY

## Client Case – 2007

### Patricia Pao, Pao Principal

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BusinessWeek – October 4<sup>th</sup>  
“Undercover at Wal-Mart”

BusinessWeek – October 2<sup>nd</sup>  
“Wal-Mart, A Snap Inspection”

Forbes – November 11<sup>th</sup>  
“Where the Holiday Discounts Are”

Los Angeles Times – October 11<sup>th</sup>  
“Forecasters see weak retail sales gains in September”

ABC-TV News – August 17<sup>th</sup>  
“Luxury Retailers Wooing New Class of Preferred Customers”

Forbes – August 31<sup>st</sup>  
“Inside Hollywood’s Closets”

Reuters – September 8<sup>th</sup>  
“Celebrities grab fashion spotlight from new talent”

BusinessWeek – August 27<sup>th</sup>  
“MySpace’s New Chic Clique”

BusinessWeek – August 10<sup>th</sup>  
“How Fickle Teens Flummox Retailers”

AddictLab – July 11<sup>th</sup>  
“Watches are the new way to meet men?”

Brandweek – July 10<sup>th</sup>  
“Does anybody really know what time it is?”

Los Angeles Times – June 8<sup>th</sup>  
“Stores push aside designers”

USA Today – May 15<sup>th</sup>  
“Today’s Entrepreneur: Russell Simmons can’t slow down”

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**BusinessWeek**

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WAL-MART

## Undercover at Wal-Mart

Retail consultant Patricia Pao took a long look inside three stores. She found neat stores with faux wood floors, but unattractive layouts and unhelpful store staff

By Pallavi Gogoi

Wal-Mart Stores, the world's largest retailer, has struggled with slowing sales growth and a stagnating stock price in recent years. To understand what's behind the troubles, BusinessWeek decided to get an up-close look at what's happening inside the company's stores. We visited three outlets on Long Island, N.Y., and brought along retail consultant Patricia Pao, to add an expert's insights to our own observations. Wal-Mart is clearly doing many things well, from its aggressive

pricing in consumer electronics to the cleanliness of its stores. As Wal-Mart Chief Executive Officer Lee Scott has pointed out, the support of consumers is evident in the fact that the company had sales of \$345 billion last year.

But Wal-Mart is struggling in a number of areas. Scott has conceded that a push into high-end apparel and home furnishings has been difficult. Visits to the company's stores uncover other issues. The stores lack focus, and recent remodeling efforts haven't really helped in making stores more appealing. Service tends to be poor. It's tough, if not impossible, to try on clothes or fiddle with the latest electronic gadgets. "In successful retailing, it's usually 10% of a great idea and 90% execution, but at Wal-Mart 90% goes into strategic thinking and just 10% into execution at the store level," says Pao.

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BusinessWeek

TOP NEWS October 2, 2007, 12:01AM EST

## Wal-Mart: A Snap Inspection

The retailer's customer service scores low on our three-store visit. Says one worker: "If Wal-Mart doesn't care for me, why should I care?"

by [Pallavi Gogoi](#)

At the Wal-Mart store in Uniondale, on New York's Long Island, when a customer swipes a credit card two questions pop up in the card reader: "Did the cashier greet you?" and "Was the store clean?" It's all part of an effort by Wal-Mart Stores ([WMT](#)) and Chief Executive Officer [H. Lee Scott](#) to improve customer service at the retailer's 3,500 locations across the U.S.

Scott may need a new strategy. During a recent visit to the store, one cashier didn't greet two customers, and, when asked about the survey, she replied with outright scorn. "I don't care," she said. "If Wal-Mart doesn't care for me, why should I care?" She took up the issue of cleanliness unprompted. "There was this horrible smell in the store the last two days from some overnight spill," she said. "They did nothing about it. It got so bad that on the second day the fire department came by and we all had to wear masks."

### EMPLOYEE MORALE AT ROCK BOTTOM

It's clear that Wal-Mart is struggling these days. The once-vaunted retailer is facing [slowing sales and a stagnant stock price](#) (*BusinessWeek*, 4/30/07) at the same time its reputation has been battered for its workplace practices. But what exactly is going wrong at Wal-Mart? What has gummed up the gears at the previously unstoppable growth machine out of Bentonville, Ark.?

To get some answers, *BusinessWeek* decided to take a detailed look through several of its stores, to see from the inside how the retailer is handling everything from merchandising to morale. Retail consultant Patricia Pao joined us for three store visits to add an expert's insight to the experience. There were certainly many positive surprises, among them Wal-Mart's cleanliness, but there were also flaws in store layouts and product presentations.

The most significant finding is what appears to be an enormous problem with customer service. As the experience with the cashier in Uniondale illustrates, many of Wal-Mart's workers feel outright hostility toward the company, and, by extension, they often treat customers with indifference or worse. That puts Wal-Mart in a box. Without reasonable service, the company is forced to compete almost solely on price. That in turn squeezes margins and makes it difficult to pay employees the better wages and benefits that could boost morale. It's a vicious cycle that now appears to be working against Wal-Mart. "When you're trying to change your customer service, it's very difficult to do that unless you win the hearts and minds of your employees. After all, they are your ambassadors on the front line with customers," says Pao, founder of a consulting firm, the Pao Principle.

Wal-Mart declined to comment for this story. The company's top executives have said that bolstering customer service is an important priority. In May, during a conference call with analysts, CEO Scott noted that customer service is being targeted as a key element of Wal-Mart's three-year strategic plan to improve its business. "The core of that plan, improving our customer service and improving returns, is critical to continued success for our company," he said.

Wal-Mart's service has been sliding for many years, according to an annual survey conducted by the University of Michigan. The most recent information from Michigan's American Customer Satisfaction Index shows Wal-Mart dropped to a score of 72 last year, down from 81 in 1995. It's behind Kohl's ([KSS](#)), J.C. Penney ([JCP](#)), Target ([TGT](#)), Dillard's ([DDS](#)), and Sears ([SHLD](#)), although it does rank ahead of Macy's ([M](#)) and Kmart. The average score for the retail industry is 74. Wal-Mart's score puts it on par with the health insurance industry, which has an overall customer satisfaction score of 72, pulled down by the poor performance of UnitedHealthGroup ([UNH](#)) and Aetna ([AET](#)).

### **SPIFFIER LOOK, SLACK SERVICE**

The first store we visited was located in Valley Stream, N.Y., about 20 miles east of Manhattan on Long Island. The store is situated on the fringes of the Green Acres Mall, which also houses a Macy's and a J.C. Penney. The discount store [National Wholesale Liquidators](#) sits on one side of the Wal-Mart, and [Petland Discounts](#), a pet supply store, is on the other. A Best Buy ([BBY](#)) and a Circuit City ([CC](#)) are also in plain view.

The average household income in the three-mile radius of the mall is \$85,000, and the Wal-Mart store here reflects the retailer's effort to broaden its appeal to upscale customers. Last year, Wal-Mart started an 18-month remodeling program of 1,800 stores to improve the layout and appearance of the apparel departments, adding faux wood floors, widening the aisles, eliminating clutter, and upgrading the bathrooms. Pao was impressed with the cleanliness and neatness of the location, a recurring positive at the company's stores. The once-common complaint that customers would find clothes, toys, and other items strewn about was definitely not an issue. "Wal-Mart really put neatness as a No. 1 priority and we can see it," says Pao.

The Valley Stream store has clearly benefited from the various upgrades. The first thing that strikes Pao is how much the store reminds her of Target. Faux wooden floors in the men's and women's areas glow under muted lighting. Stylish signs featuring models guide customers to sales areas for undergarments, sportswear, or the more upscale George and Metro 7 apparel lines. The aisles are much wider than they are in Wal-Mart's older stores.

The positive aura faded, however, when Pao looked for help. We walked into the electronics area, where Compaq ([HPQ](#)) and [Acer](#) computers are displayed under glass cases. Pao wanted to see some of the computers from Dell ([DELL](#)), the PC maker that just reversed its longstanding strategy and [began selling its products through retail stores](#) (BusinessWeek, 5/24/07). No salesperson volunteered to help, so we approached one employee dressed in the company's uniform of polo shirt and khakis. When Pao asked about the Dells, he said, "We're sold out of them, and I have no idea when the next shipment is coming in." Then he turned and walked away, never volunteering to find a computer at another store or suggesting he could find out when the next shipment would arrive.

### **THE RISKS OF SELLING ON PRICE ALONE**

Pao wondered aloud what had happened to Wal-Mart's well-respected point-of-sale system, technology that is supposed to automatically order items when they're close to selling out. The issue may have something to do with working out the kinks in the new Dell relationship, although Wal-Mart declined to discuss the missing computers.

Consumer electronics is [clearly a big focus](#) for Wal-Mart (BusinessWeek, 4/23/07). In each of the three stores, the electronics departments displayed several 32-inch, flat-panel TVs on the walls. Trying out the products, however, can be problematic. There was typically no way to experiment with a television and no salespeople around to help. It's a far cry

from the experience at Best Buy or Circuit City, where customers can plop down on comfortable sofas in a living room-style setup and play around with the features on huge plasma and LCD TVs. "You have to bet on a hope and a prayer that this is what you want, because there's not much you can demo here," says Pao.

In the second store we visit, in Westbury, N.Y., we see a row of fancy Apple ([AAPL](#)) iPod display cases. Pictures are shown for two versions of the music player, the shuffle and the nano. But the display cases are empty. No actual iPods are anywhere within view, and no employees are nearby to help. Pao says she worries that this lack of service means that Wal-Mart's strategy is to [sell at the lowest price](#) (BusinessWeek, 11/15/06), rather than compete for higher-end customers who may be willing to pay for a little expertise or hand-holding. "If they don't differentiate themselves [in electronics], the low margins will come back to bite Wal-Mart as they already have in the rest of the store," she says.

The Westbury store is located in an area with a median household income of \$82,000, but it wasn't as chic as the Wal-Mart in Valley Stream. Faux wooden floors are used sparingly, seen only in a few sections such as handbags and women's apparel, and the aisles are relatively narrow. Pao felt like it was a half-hearted attempt at looking nice, since the rest of the store still had the unsightly gray linoleum floors.

The store in Uniondale was the last we visited. The town is about 28 miles east of Manhattan with a median annual income of \$68,000. It was the most neglected of the three stores, with minimal upgrades. Rows and rows of clothing hung on T-bars with little attempt to make the products appealing. The displays here reminded Pao of Woolworth's, the five-and-dime store that went out of business in the 1990s. "Customers need visual cues to focus on—they need the little boutique-like effect that Target creates by focusing on different items in various parts of the store," says Pao. "The clothes on T-bars as far as the eye can see gives it the feeling of a big mess, even though it's neat enough."

## FASHION DISASTER

When it came to fashion, Pao found Wal-Mart lagging. It's a subject close to Pao, who in the past has consulted with retailers like Ann Taylor ([ANN](#)). Even at the store where the displays were nice, Pao felt that Wal-Mart's more upscale George and Metro 7 line lacked excitement. She says these so-called affordable trendy lines are mostly upscale basics, only modestly different from the vast swaths of jeans, T-shirts, tank tops, and other basic clothing lines displayed in the many aisles at Wal-Mart. "It's certainly not trendy, but a collection of upscale basics that their core customers could gravitate to," says Pao.

Yet another disappointment was in store for us. The fitting rooms were locked, and no one was around to open them, the third time in as many stores that we had encountered such a problem. Similar to the situation with electronics, customers looking for clothing largely find themselves on their own. They can furtively try on T-shirts or sweaters between racks of clothing, or they just have to hope that the clothes they're interested in will fit.

Pao tries several doors in the unmanned fitting room area. Finally, one opens. Still, she is unimpressed. "It was the size of a small closet and didn't have any mirrors, so you have to walk out to see how you look," she says. Pao says that nice fitting rooms are one of the basic tenets of good customer service. Requiring customers to track down a sales clerk or wait to try on outfits is off-putting to many shoppers.

Pao's distinct impression was that the floor salespeople did not want to help on any front. At all three stores, Pao asked for an organic beauty line called [Noah's Naturals](#), whose products she had heard were available at Wal-Mart. In the Uniondale store, not far from the cashier who would later say Wal-Mart didn't care about her, Pao approached one female employee who was stocking shelves to make her inquiry. Without pausing in her work, the worker said she had never heard of the line. She then turned back to the shelves to stock more beauty creams, without offering to locate the product at another store or find out if it would be coming in later.

Successful retailing is "10% a great idea and 90% execution," says Pao. However, in the case of Wal-Mart, especially when it comes to customer service, she says it looks like "90% was spent on strategy and thinking, and 10% on execution."

For more, visit BusinessWeek's [slide show](#).

[Join a debate](#) about Wal-Mart's treatment of employees.

[Gogoi](#) is a contributing writer for *BusinessWeek.com*.

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Retail

## Where The Holiday Discounts Are

Tom Van Riper, 11.29.07, 10:20 AM ET

For holiday shoppers, it's the mid-season dog days. The period after the sale-fueled Thanksgiving rush and before the big price cuts of mid-December.

But with inventories lean, prices already low and retail stores turning more toward daily promotions than big late-season price cuts to woo shoppers, consumers waiting for slashed sales could be disappointed this year.

"Retailers will be adopting a different strategy, as their inventories may not support markdowns," says New York-based industry consultant Patti Pao, who sees more stores turning to sale prices on full baskets of goods rather than on specific items, along with targeted free-shipping dates.

### In Pictures: Seven Best Bets For Holiday Price Cuts

Retailers like Ann Taylor and Abercrombie & Fitch learned from last year's overstocked shelves and are better managing inventories this season. Leaner stockrooms mean less incentive to slash prices to get goods out the door. Expect fewer late-season sales touting 50% or more off original purchase prices. Not that some big sales won't be found. With housing woes and \$3-per-gallon gas slowing the economy and consumer confidence sinking in November to its lowest level of the year, markdowns still figure to play a role. But across-the-board slashing will be rarer.

"Stores will still have to create incentives, because there are more negative factors this year," says Aynua Kidder, an economist at industry tracker Retail Forward. Items facing stagnant sales will get the markdowns. Her picks for the likeliest December candidates: consumer electronics, where relatively high margins leave room for price cutting, and apparel, where coats and sweaters didn't move during a warm autumn.

Figure savings on electronics products to be limited to slow-growth items like computer monitors, printers and digital cameras. Demand for hot products like GPS systems and digital picture frames will drive the electronics segment this year, according to the NPD Group, so don't expect Best Buy or Circuit City to slash prices for the holidays. Nor will stores cut prices much on things like flat-screen televisions, more often family purchases than Christmas gifts.

Of course, the less an item is predicted to grow sales, the more likely retailers will slash prices. Jewelry, which Retail Forward predicts will grow sales just 1% over 2006, qualifies this year. And furniture, expected to see a 1% drop in sales, could be a strong markdown despite not usually being associated with gift-giving.

Those items aside, shoppers are better off waiting for store promotions and specials than for huge price cuts on specific products. Retailers tightened their belts starting in June, so inventory levels won't support too many big late-season markdowns. "I think we will be seeing a lot of '20% off your total purchase for today only'," Pao says. Other gimmicks: limited-edition items available only to the first 100 buyers of the day, and "buy one, get one free" specials, she figures.

Your best bet: Keep an eye out. It's work, but it beats waiting for a half-off sale that never comes.

### In Pictures: Seven Best Bets For Holiday Price Cuts

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From the Los Angeles Times

## RETAIL

### Forecasters see weak retail sales gains for September

Warm weather and tighter budgets are to blame, they say. Odds grow that holiday discounting will be earlier and deeper.

By Leslie Earnest

Los Angeles Times Staff Writer

October 11, 2007

Worry and warm weather squelched spending last month, upping the odds that retailers will have to slash prices to attract shoppers this holiday season and adding to anxiety about the economy.

Thomson Financial estimated Wednesday that sales at stores open a year or more were up 2.1%, half the gain notched in September 2006. The International Council of Shopping Centers made a similar prediction, noting that it would be the weakest advance in five months.

#### FOR THE RECORD:

Retail sales: An article in Business on Thursday about September retail sales estimates said that more than \$47 trillion in variable-rate home loans would reset in the coming year. It should have said more than \$7 trillion. —

Thomson pointed to the distress in the credit and housing markets and crude oil prices that are above \$80 a barrel. "All these issues remain a worry for the overall economy," it said in its monthly retail report.

The week was loaded with negative industry news. Children's Place Retail Stores Inc., PetSmart Inc. and American Eagle Outfitters Inc. cut third-quarter profit projections. Robert W. Baird & Co. said September was the worst month this year for independent sellers of surf, skate and snow apparel, warning that holiday orders could be "scarce."

A Piper Jaffray report said that parents' spending on clothes for teenagers had fallen 33% since the spring and that adults were spending 23% less on themselves, suggesting that "the average consumer is tightening the reins."

The government predicted that Americans would pay 10% more to heat their homes this winter -- another jab at disposable income.

One culprit in September was warm weather, which didn't make fleece hoodies and other autumn merchandise very tempting. Nationwide, it was the eighth-warmest September in 113 years of record keeping, according to Weather Trend International in Bethlehem, Pa.

But there was more going on -- more of what has been worrying the retail industry for months. Americans are in a penny-pinching mood.

"We are definitely trying to spend less on the holidays," said Heidi Saldana, a 26-year-old student from Huntington Beach who is expecting her first child in May with husband Oscar, 25, a mechanic. "Our money is just too important to be blowing on useless gifts that people probably won't use. We're going to go down to pretty much buying cards and presents for a close few in the family."

In fact, she said, they might make the cards.

Sales at stores open at least a year, known as comparable- or same-store sales, have been wimpy since February. The average monthly increase in retail sales so far this year is 2.4%, down from 3.9% in the same stretch last year.

Foot traffic in stores and malls has been lower year-over-year in seven of the last eight months, according to ShopperTrak. People have been cautious as they've pondered declining housing prices and high energy prices and have watched the interest rates on their adjustable mortgages shoot skyward from as low as zero.

BIGresearch, which surveys 8,000 shoppers every month, said Wednesday that more than \$47 trillion in variable-rate home loans would reset in the coming year, affecting millions of households. People are cutting back on buying durable goods -- items such as cars, appliances and furniture -- as well as clothes and groceries and on eating out, the firm said.

"A lot of disposable income that would have been spent on Christmas is being allocated to the bare necessities, which is your home, your utilities and your gasoline," said Patricia Pao, owner of Pao Principle, a New York firm that helps businesses develop turnaround strategies.

As a result, markdowns are likely to be both lower and earlier this year.

Wal-Mart Stores Inc. fired the first shot last week by announcing price cuts on toys and saying more cuts would be offered each week. A day later, Kohl's Corp. said it too would be aggressive about its promotions because "that's the only way you're going to get this consumer motivated."

Some don't need prodding. Big spenders are expected to keep splurging for the holidays.

"The haves are going to have a very good year because people still have dough," Pao said. "Luxury-goods makers are literally having no trouble selling a \$52,000 handbag. Louis Vuitton made 24 of them and there's a waiting list."

Stay tuned. Chains release September sales numbers today.

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# Bourgeois Bling: New-Money Millionaires Flood Luxury Market

Luxury Retailers Wooing a New Class of Preferred Customers

By BLAIR SODEN

Aug. 17, 2007 —

The merchandise is eye-popping, the prices astronomical and the clientele, not exactly old money.

Not so long ago if you walked into a really exclusive luxury purveyor the only people who could conceivably afford the real bling were princes, sheiks or crooks. Now a growing number of self-made millionaires are changing the face of the luxury market, demanding the kind of lavish lifestyle that used to be reserved for royals.

Take for example, three of the world's great luxury brands Tiffany, Cartier and Bulgari. They inhabit a single intersection in Midtown Manhattan. Walking into one of their stores is still like walking into a museum. Jewels encased in glistening glass cases fill the room, and handbags hang like paintings on the walls. But unlike a museum these things aren't being saved for posterity.

On a recent visit, Bulgari CEO Francesco Trapani proudly showed off his jewels, rattling off the price tag attached to each in a calm, even tone. "This one is even more expensive," he said. "The ring is maybe \$1.6 million. We're talking about really beautiful material here."

Trapani isn't in denial. For an increasing number of people these items are affordable. And unlike the elegant clothing Trapani sports, some customers in Bulgari now arrive in khakis and T-shirts, but they walk out with some major bling.

## Bourgeois Bling

The luxury retail business is booming. Already a \$150 billion a year industry, that market will grow by at least 6 percent annually over the next five years, analysts estimate.

When second quarter results were released at the end of July 2007, Bulgari showed a 13 percent increase in revenue over 2006. Trapani attributes the spike in income to the monumental growth of wealth across the globe. In the United States alone, the average net worth of the American family increased 12 percent according to data from the Panel Study of Income Dynamics. Trapani says that surge has been good for the top end of the market.

"In the last five years the growth of wealth has been very aggressive and then you see more and more

people spending a lot of money for luxury goods," said Trapani. "Being jewelry, boats, airplanes or real estate, you see more and more people that are extremely rich that are looking for really extraordinary items."

The surge in wealth has prompted luxury retailers like Bulgari to reach for the stratosphere. Known for its already pricey jewelry, Bulgari is now designing even more expensive pieces, and people are buying.

"We have items for \$10, \$12, \$15 million," said Trapani. "We're focusing more and more attention on these items because a few years ago the market was basically nonexistent and now there are opportunities for selling these fantastic items."

Items such as an \$8 million diamond necklace are on display at Bulgari's flagship U.S. store on Fifth Avenue in New York City. Also on display is a pair of sapphire and diamond earrings carrying a price tag of \$2 million that's \$1 million for each ear.

### **Who's Buying?**

It's not only the richest of the rich who are indulging in luxury goods these days. More and more Americans of somewhat modest means are pinching pennies in order to get a taste of the finer things in life.

"Many of my clients want certain high-end designer items, regardless of cost, even if they have to skimp a bit on other things," said Claudia Kaye, a personal shopper and wardrobe stylist. "These items are now in demand by everyone, not just affluent people," she added.

The key, says Kaye, is knowing how to combine one or two luxury items with everyday attire.

"I think people are learning that if they mix luxury items with midprice ones they actually get more for their money in the long run," said Kaye.

Treating yourself to an \$800 handbag can go a long way. It's an investment of sorts if you think about it.

Buy an easily recognizable designer handbag, like Louis Vuitton's signature LV design or Fendi's FF pattern. A classic bag will last a long time and spread out over 20 years, that bag only costs \$40 a year, or \$3.33 a month. Pair it with an inexpensive dress from a bargain retailer like Forever 21 or H&M and you have instant style.

"It's not just for the billionaires and the extreme net worth," said fashion industry insider Patti Pao.

Pao closely examines luxury retail trends for her New York consulting firm, the Pao Principle, and has noticed a growing trend in the consumption of luxury goods fashion is becoming more accessible to the masses.

"Everyone from the teen in the mall to the newly minted hedge fund billionaires is buying," said Pao.

Kaye agrees and says that her newest clients' interest in luxury goods stems from a fascination with Hollywood.

"People see high-ticket clothes and accessories photographed on celebrities and suddenly they become 'must have' items," said Kaye. "Even teenagers feel the need for designer jeans and bags since many of the most

photographed celebrities are teens themselves."

As teens trade up and new classes of consumers emerge, luxury retailers are responding quickly adapting strategies to cater to their new clientele.

## **Emerging Markets**

Taking notice of the developing trend, high-end stores are appealing to a new consumer base by expanding stores to areas outside of the typical U.S. luxury markets in New York and Los Angeles. Bulgari's CEO Trapani says he knows where to access the newest market.

"We're investing our money in other cities like Phoenix or Atlanta," said Trapani. "Cities that up until two years ago weren't interesting to us."

The United States isn't the only country with a changing luxury customer base. Bulgari is now using the small market plan it developed in the United States as a model for business across the globe.

"This is a process that goes on not only in the U.S. but also in the rest of the world," said Trapani. "You can do a good luxury business in many different countries, many different cities."

Luxury retailers aren't the only ones becoming increasingly familiar with uber-expensive jewelry and other luxury goods. Stylists and personal shoppers like Kaye are the ones behind most of the multimillion-dollar deals because they're the people clients entrust to pick the right piece.

"I would say about half of my purchases are luxury goods," said Kaye. "I think luxury goods are becoming more popular with a greater number of income levels," said Kaye.

## **Luxe Life Longevity**

If increased spending in the luxury sector is a trend, will it eventually be subdued like most trends that level out over time? According to at least one industry analyst, this trend is here to stay.

"We're a nation of consumers," said Pao. "A true fashionista prides themselves on being this highly evolved brand of highly expensive, highly exclusive goods."

The demand for luxury goods remains steady while the availability increases.

"The market is very healthy because luxury goods don't cost a lot to make and they can demand a premium of 10 times what they cost to make," said Pao. "They never go on sale."

That's good news for retailers like Bulgari.

"The market is upgrading," said Trapani. "The trend is a more expensive, sophisticated product."

Major brands like Bulgari and small, more personalized business owners like Kaye are enjoying significant growth servicing that market. But Kaye offers one final piece of advice on purchasing luxury goods: check your local thrift store.

"After searching for a hard to find bag in stores everywhere, I found it in brand new condition in a thrift shop. It had just been donated by a woman who had never used it," said Kaye. "My client was thrilled by the bag, not to mention the price. Even the wealthiest of people love a bargain."

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Style Feature

## Inside Hollywood's Closets

Lauren Sherman, 08.31.07, 6:00 PM ET

We see [Lindsay Lohan](#) wearing Chanel on what sometimes seems like a daily basis. And Jessica Simpson shows up in duds from Los Angeles-boutique Madison every other week. But what of this red-carpet stuff--Balenciaga gowns and Christian Louboutin pumps--do stars themselves pay for?

Not much.

Celebrities more typically get pieces on loan from designers and jewelers, often wearing the only sample available, says Annabel Tollman, fashion director at *Interview* magazine. Tollman privately styles [Scarlett Johansson](#) as well as rapper Pharrell Williams.

### In Pictures: Inside Hollywood's Closets

If the star or starlet is on the A-plus list, a designer will give the sample as a gift, or sometimes will even specially design a dress, just as Stella McCartney did for Johansson at this year's MET Costume Institute Gala. The designer's camp says the custom-beaded dress was valued at approximately \$6,000.

[Angelina Jolie](#) seems to be the exception to the rule. Although her public wardrobe consists primarily of pieces from St. John, with whom she reportedly inked a three-year, \$12 million deal to star in the luxury knitwear label's print ads in 2005, Jolie also seems to do a little red-carpet shopping on her own.

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[Fashion's Angels](#)

When we spoke with a saleswoman at British retailer Joseph's outpost on Greene Street in New York City, she noted that Jolie had come in to purchase several pieces from the spring line, including the \$289 pencil skirt the actress wore to the Cannes photo call for her latest film, *A Mighty Heart*.

The paparazzi-pleaser also bought the 1950s vintage Pierre Balmain haute couture cocktail dress (which she donned for the film's Cannes premiere) at high-end vintage boutique Decades in Los Angeles. The cost? To maintain the loyalty of their high-profile clients, Decades chooses to keep the numbers of specific transactions under wraps. However, we found other 1950s vintage Balmain pieces online with price tags in the \$2,000s.

And of course, there's the now-infamous \$26 vintage dress from Wasteland, an L.A. shop that sells reasonably priced, second-hand pieces, which Jolie wore to the film's New York premiere.

But for every \$26 stunner, there are several \$6,600 sparkly gowns like the one created by Reem Acra, which Jolie wore to the premiere of the Robert De Niro-directed film *The Good Shepherd*, with Fred Leighton diamonds on loan--at a price that the jeweler refused to disclose--and \$750 Christian Louboutin pumps. However, Jolie didn't pay for the borrowed jewels and the dress was either given as a gift or borrowed.

Designers definitely get a boost when a celebrity is photographed in one of their pieces. Fledgling dressmaker Jason Chauchi, who started the Dallin Chase label two seasons ago, said pictures of [Reese Witherspoon](#) in one of his spring looks--a navy, black and white, block-colored frock--made a wave in his studio.

Days after Witherspoon was pictured in the dress, the designer received a call from his buyer at Neiman Marcus, who said women were coming in requesting the look, showing representatives pictures of the dress they had torn out from various magazines. The piece was reordered by many of Chauchi's stockists and is now completely sold out.

"It is amazing how a celebrity's choice of dress can affect a collection," says Chauchi.

Patti Pao, founder of Pao Principle, a retail consulting firm in New York City, believes dressing celebrities is an important marketing tool for designers. However, celebrities are also using the designers--not just for free clothes, but to maintain a glamorous image.

"Celebrity interest in fashion is due to the increasing scrutiny by the media, which is, in turn, fueled by the world's fascination with celebrities. As a result, most celebs are afraid to go out in public not 'dressed,'" says Pao.

Some stars are so famous, however, who they wear is of no consequence. Although George Clooney is known for wearing head-to-toe Armani at nearly all red-carpet occasions, his publicist, Stan Rosenfeld, refuses to confirm that the star was, indeed, wearing the brand in the images we provided.

"George never identifies his clothing designers," says Rosenfeld.

But there's little argument that, whomever Clooney is wearing, he wears it well. And that might be the secret for the both celebrities and designers. Find what--or who--works for you, and run with it. With any luck, the giveaways will result in bigger bottom lines for the designers, and bigger headlines for the stars.

### **[In Pictures: Inside Hollywood's Closets](#)**

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## Celebrities grab fashion spotlight from new talent

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Sat Sep 8, 2007 6:50PM IST

By Michelle Nichols

NEW YORK (Reuters) - Celebrities no longer grace just the front rows at fashion shows but are moving backstage as designers, making it difficult for new talent to get noticed, experts say.

Singers Gwen Stefani and Jennifer Lopez, hotel heiress Nicky Hilton and self-proclaimed "first lady of hip hop" Kimora Lee Simmons are showing collections in New York this week, getting attention more for their celebrity status than their clothing lines.

"The more established designers and even up-and-coming designers take it all with a grain of salt and say, 'Well, this creates a little bit of buzz around the business,'" said Wendy Liebmann, president of WSL Strategic Retail consultants.

"The only challenge is for the younger designers, the-up-and-coming. ... It makes it very cluttered for them to get coverage," she said. "The celebs get in the way a bit of that."

Aside from the celebrities showing spring and summer 2008 collections at New York's semi-annual Fashion Week, many more have capitalized on their fame to make a splash in the fashion and beauty industries.

Singers Justin Timberlake, Jessica Simpson, Beyonce Knowles and Victoria Beckham have launched clothing lines, along with hip-hop moguls Jay-Z and Sean Combs, or P. Diddy, and actors Sarah Jessica Parker and Sienna Miller -- to name a few.

Patricia Pao, chief executive of the Pao Principle retail consulting firm, agreed the growth of celebrity fashion designers made it hard for new, young designers to get noticed by the general public but not by fashion insiders.

"Those are the people that are looking to find the next Proenza Schouler to take under their wing and promote," said Pao, referring to a popular U.S. label created by two design school graduates.

### 'INSTANT FASHION'

Liebmann added that while the fashion industry had grown cluttered with celebrity designers, the life span of a celebrity brand was likely to be much shorter than that of a more traditional designer.

Top U.S. designer Ralph Lauren, for example, marks his 40th anniversary at this season's Fashion Week.

"In a world of instant branding ... celebrity creates that sort of instant fashion," she said. "The fashion industry has come to recognize that it's part of a way of keeping it alive and fresh but with a very short timeline."

Fashion journalist Dana Thomas explains in her new book, "Deluxe: How Luxury Lost Its Luster," how dressing celebrities for the red carpet became the "best, and cheapest, advertising a luxury business could do."

"When Madonna wore a sapphire satin shirt and black velvet hipsters from Gucci to the MTV awards in 1995, sales exploded: within days there were waiting lists for the pants in Gucci stores worldwide," she wrote.

Pao said celebrities were at an advantage over new talent because they had fans wanting to wear their clothing, unlike new designers who have to earn respect and credibility.

But she said she believed only Timberlake's "William Rast" and Stefani's "L.A.M.B." were brands that "actually have legs," saying other celebrity labels lacked substance and style.

"There's lots of room in the fashion industry for talented fashion designers," she said. "If you're good, you're good."

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**TOP NEWS** August 10, 2007, 12:01AM EST

## How Fickle Teens Flummox Retailers

Apparel retailers catering to the 8- to 18-year-old crowd, such as Abercrombie and Aéropostale, are being squeezed from two directions

by [Pallavi Gogoi](#)

Retailers Abercrombie & Fitch ([ANF](#)), American Eagle Outfitters ([AEO](#)), and Aéropostale ([ARO](#)) are hot teenage shopping destinations. But the latest sales numbers from these retailers, reported Aug. 9, might indicate cooler days ahead, as department stores lure back the fickle 8- to 18-year-old shoppers with trendy offerings and niche specialty stores filled with denim and skateboarding gear increase their take of teens' disposable income.

Many of the well-known teen retailers posted poor July sales compared to a year ago. Abercrombie's sales at stores open for a year or more fell 4%, worse than the 0.7% analysts expected; American Eagle same-store sales fell 6%, compared with a 2.9% estimate; Wet Seal ([WTSLA](#)) suffered a 7.2% decline, when analysts expected a 5% fall; and Pacific Sunwear ([PSUN](#)) had a 4.6% slide, when analysts anticipated a 3.2% gain. Aéropostale's same-store sales decreased 11.9%, while analysts had expected a 1% increase.

Many of these retailers blamed the tax holiday shifts in Texas and Florida as a major factor. "We were adversely affected by a shift in tax-free holiday into fiscal August from July," says [Mike Kramer](#), chief financial officer at Abercrombie. However, Deborah Weinswig, a retail analyst at Citigroup ([C](#)), says that among the 17 states that have back-to-school tax holidays, most of them have already had theirs.

### BACK TO COOL

Department stores, on the other hand, are doing better. J.C. Penney ([JCP](#)) posted a 10.8% increase in July for comparable-store sales, and Nordstrom ([JWN](#)), a 9.4% gain. "Department stores have gotten their act together and are offering specialized products at competitive prices," says Patricia Pao, founder of retail consultant the Pao Principle. "Kids are rediscovering one-stop shopping, especially if there's variety, sales, and service."

Indeed, J.C. Penney has heavily targeted this segment this year with heavy back-to-school offerings. "We are pleased with the early results with back-to-school...in juniors, we saw strong demand for five-pocket denim and babydoll blouses and shorts," says [Ed Merritt](#), manager of investor relations at J.C. Penney.

Retailers know teens are the hardest consumers to please because they are so fickle. And yet, in the last few years, teens and tweens (children between the ages of 8 and 12) have been one of the fastest-growing segments of shoppers, whether in toys, jewelry, or fashion. New store concepts including Justice, owned by Tween Brands ([TWB](#)), and Abercrombie's Hollister, which targets 14- to 18-year-olds, were launched within this last decade.

## FOLLOWING TRENDS

Still, teens are starting to snub the well-known specialty retailers for even more unique stores such as Buckle ([BKE](#)), which is known for its denim, and Zumiez ([ZUMZ](#)), which has built a name for itself with apparel and accessories related to skateboarding and snowboarding. "The major players have been very good at defining their unique look and portraying a certain lifestyle," says Mary Brett Whitfield, senior vice-president and apparel analyst at [TNS Retail Forward](#), a retail research firm. "But trends change and teens look more narrowly for stores that resonate with them."

Interestingly enough, even Hollister, which is a popular retail brand among teenagers, performed poorly. Launched as a separate store chain by Abercrombie, Hollister refers to its male shoppers as "Dudes" and its female shoppers as "Bettys," and has been a popular concept. However, in July, Hollister's sales dipped 7%.

The challenge then for retailers lies in striking the right balance in luring teenagers with cool and unique offerings but avoiding the slip toward ubiquitousness. "One of the interesting paradoxes of being a teenager is trying to be unique but not wanting to be singled out in a peer group," says Whitfield.

Indeed, stores that manage to cut into that sweet spot are performing quite well. Everett (Wash.)-based Zumiez (pronounced "zoomies") said Aug. 9 that its comparable-store sales increased 9.7% for the four-week period ended Aug. 4, vs. a comparable-store sales increase of 8.4% in the same period a year ago. A retail concept that's becoming very popular among teenagers in the heartland is Kearney (Neb.)-based Buckle, a mecca for denim that offers a high level of customer service at its stores. In July, Buckle recorded a 7.6% growth in same-store sales.

## FAMILY MATTERS

A factor that is playing out in weak sales at teen retailers is the slump in the housing market and higher interest rates on adjustable rate mortgages. TNS Retail Forward's Whitfield points out that parents control spending and, more than likely, back-to-school shopping budgets are getting tighter this year.

The Zandl Group, which tracks teenage culture trends, notes that today's teens are very cognizant of how broader economic trends are affecting their parents. "If parents are stressed, it affects the whole family dynamic, and the housing market slump and high interest rates [are] washing over teens as well," says company Principal Irma Zandl.

Of course, these economic factors, coupled with high gas prices, have been affecting overall retail sales for a while now. But until recently it seemed that teens had a bottomless appetite for shopping. Now, it seems, that appetite has diminished.

[Gogoi](#) is a contributing writer for *BusinessWeek.com*.

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**MARKETING** August 27, 2007, 11:45AM EST

## MySpace's New Chic Clique

The social-networking site's new fashion community might benefit big, established brands and fledgling designers alike

by [Reena Jana](#)

Since its launch in 2003, social-networking site MySpace ([NWS](#)) has been associated with music fans, as well as teens and twentysomethings seeking to meet or contact friends online, but now the site hopes to court another trendy group: fashionistas. On Aug. 28, MySpace launches a [fashion community](#) just in time for the spring 2008 runway shows that will take place during New York's Fashion Week, Sept. 5-12.

The move reflects MySpace's strategy of identifying the communities of interest that have grown organically and the building official member communities around them, turning once-grassroots groups into content platforms for old-media companies and consumer brands. But will the top-down approach work? And if so, who will be the big winners—the established corporations or the unknown designers trying to make their names among peer-driven social networks?

### PAIRING PARTNER AND USER CONTENT

These are the questions that surround MySpace's fashion community, whose no-frills beta-version launch last September was timed to coincide with the 2006 New York Fashion Week shows. The new, redesigned landing page is appropriately stylish. It features a highly textured set of images, including a price-tag graphic featuring a daily fashion trend and tactile images of fabric swatches. In addition, a series of video screens of varying shapes shows interviews with bands and stars—including actress/musician Hilary Duff—who talk about their own dressing habits. Slick content from big-media partners such as *InStyle* magazine, including behind-the-scenes footage of photo shoots and how-to guides for applying makeup, is positioned near user-generated videos submitted by aspiring designers.

But the site didn't always look so, well, fashionable. And earlier this summer, some MySpace members seemed perplexed as to the purpose of the newly formed online community. Back in June, 14-year-old Brittany wrote, "hey this myspace fashion is totally cool but whats [sic] the whole point for it?"

According to Todd Dufour, director of MySpace's marketing department, the point is that users were already forming groups devoted to clothing brands—now MySpace is just making the process easier. Just as they helped nurture the music and comedy sites, MySpace spent a year developing the fashion site's home page.

"There are 165,000 members of the Abercrombie & Fitch ([ANF](#)) group," Dufour says, referring to the casual clothing chain, counting numbers that appeared before the launch of the MySpace fashion community. "And there are 74,000

fashion-related groups already."

## WHERE'S THE PAYOFF?

So what's in it for MySpace? Presumably, the relationships the company's developing with established media properties, such as Time's ([TWX](#)) *InStyle* magazine, which partnered with the social-networking site during the beta period and has since expanded its video offerings.

"*InStyle* approached us, as did Condé Nast [Publications]," says Dufour, of the two partners. He won't discuss the financial details of either deal, which establish MySpace as a nonexclusive platform for the magazines' content.

"Publishers are trying to figure out how to bring their brands online, how to appeal to our demographics," he explains. With nearly 70 million unique visitors per month, MySpace offers these magazines an additional way to market to online audiences beyond their own branded Web sites. How effective partnering with MySpace will be, in terms of direct revenue from subscription or single-copy sales, has yet to be seen.

## MARKETING DESIGNERS, OLD AND NEW

Fashion magazines aren't the only businesses that stand to benefit from MySpace's new community. Some of the fashion world's most respected names have already been tapping into MySpace to find new modeling talent, to crowd-source for ideas, and to raise brand awareness.

Ultrachic British fashion designer Alexander McQueen, whose label is owned by [Gucci Group](#), last year used MySpace to cast models and photographers for a catwalk show and for ads for his lower-priced line, McQ. Also in 2006, New York-based [Donna Karan](#)'s moderately priced DKNY Jeans line sponsored a T-shirt design contest on MySpace. The winning T-shirt design was featured in a music video for the popular band The White Stripes this year.

Designers such as Isaac Mizrahi, who designs a luxe line sold in upscale boutiques such as [Bergdorf Goodman](#) in addition to a budget line for Target ([TGT](#)), regularly update their personal MySpace pages with details about their own creative processes and tastes. Mizrahi includes unknown MySpace designers alongside his celebrity "friends" to nurture a creative community around his brand.

"When a designer offers access and intimacy, he allows a sense of belonging with his audience," says [Shawn Gold](#), MySpace's senior vice-president of marketing. "They can create a network of mutual appreciation."

## NURTURING NEW TALENT

But some observers see the unknown designers as the biggest potential beneficiaries of the new MySpace fashion community.

"If I were a young and up-and-coming designer, I would totally do MySpace. It's a cost-effective way to gain brand awareness and build an audience," says Patricia Pao of the Pao Principle, a branding and marketing consultancy that advises fashion brands. In other words, MySpace has the potential to possibly do for fledgling, self-promoting clothing designers what it does for ambitious, unsigned musicians—offer them a no-cost Web site with social-networking and video-sharing capabilities. Fashion is, after all, a visual and social business in which peer recommendations of products are greatly valued, especially among teens and young adults. MySpace could prove to be a fun and effective stage for rising-star designers just as it has been for bands.

There's been skepticism about the upside for established brands, however. A piece published in *Advertising Age* in July suggested that MySpace's fashion community might be a mismatch for high-end brands such as [Chanel](#), which provided runway video for the beta version of the site. Chanel is upscale, while MySpace is known for twentysomethings posting party photos and searching for dates.

## THERE'S MONEY IN THOSE DEMOGRAPHICS

But the most recent comScore data available (from July, 2007) on MySpace's demographics suggest it does have a mature, upscale clientele. The majority of MySpace members are 35 years old and older (32,192,000 total unique visitors in this age bracket per month), followed by 25-34 (12,147,000), and 18-24 (11,871,000). While most MySpace members have household incomes of \$40,000 to \$59,999, the number of those with household incomes of \$100,000 or more number 15,641,000, according to the comScore data.

This data shows that MySpace members are older and more sophisticated than most marketers might think. And those marketers also might find a sophisticated new use for the site: trolling through this focused area of MySpace for a quick and direct way to see what style-conscious consumers of all ages are wearing, buying, listening to, and discussing. Inviting them to be "friends," rather than simply marketing (via, say, promotional pages or ads) to these MySpace members could prove valuable for established designers and marketing executives.

MySpace could conceivably compete with pricey, online fashion-research services such as the [Worth Global Style Network](#) and Stylesight. These sites, which charge fees from around \$2,000 to \$20,000—and sometimes more—to fashion-forward companies such as Target, provide digital photographs of runway shows around the globe, snapshots of street fashion and store windows in stylish cities such as Tokyo and New York, and analytical reports of trends.

"You can see what's trendy in Seattle, vs. Chicago—what regional style is, on MySpace," says Dufour. "It can definitely tie into broad fashion research."

But unlike the high-end trend-tracking sites, MySpace's fashion community is for the large part unedited, beyond the paid content from designers and magazines. An open-ended, free-for-all forum on style, this section of MySpace promises to be as unpredictable as fashion itself.

[Jana](#) is the Innovation Dept. editor for *BusinessWeek*.

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## trend2

### Watches Are The New Way to Meet Men?

Patricia Pao

Forget parfums, sexy jeans, high-heels and cute little dresses. It appears that wearing gent's watches is the new way to attract a guy's attention.

Ah, but not all watches, it seems, are created equal. Just as olfactory experts identified that men are most responsive to grapefruit based scents, my informal study indicates that when it comes to watches, men are equally as discriminating.

This "aha" moment came about in the genre of all great ideas, by accident. As a lifelong fan and collector of men's watches and the originator of the concept, "Watches as the New Handbag," I decided to practice what I preached and started alternating watches from my collection. I chose my best and hottest top three men's watches: the Breguet Classique, the Cartier Pasha and the Tag Heuer Monaco.

Interestingly, while the Breguet and the Cartier garnered passing interest, it was the Tag that really seemed to stick in men's imaginations. Every time I wore the Tag, it consistently generated widespread interest from dad's at my goddaughter's little league game in Los Angeles, to male airplane and train seatmates, even in my doctor's waiting room.

In addition to meeting lots of men, as an added bonus I learned more about the history and workings of my Tag Heuer watch than I otherwise would have. After all, who knew that the Monaco was worn by Steve McQueen in the film Le Mans?

And now, happily, I finally understand the purpose of and how to work the stopwatch function....

Patricia Pao  
 CEO  
 Pao Principle  
 New York City

*Patti is a retail specialty turnaround expert, a graduate of the Harvard Business School, with 20 years of experience in the luxury goods, beauty, and retail industries. She specializes in helping companies solve "burning platform" issues to put the business back on track for the next level of growth.*

*Patti's expertise spans consumer packaged goods (Clorox), luxury goods (Natori), beauty (Guerlain, Elizabeth Arden, Peter Thomas Roth Labs LLC, Garden Botanica, Purlisse), and retail (Ann Taylor, David's Bridal, After Hours, Priscilla of Boston, Waterworks).*

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In The News

**Hang It Up: Sprint Boots Whiny Customers**

Wireless provider Sprint Nextel has dumped more than 1,000 customers it said complained too much. [MORE »](#)

**Travel Site SideStep Expands Brand by Getting Personal**

Online travel site SideStep.com has begun spending some of the \$15 million in private funding it raised last year to delve deeper into the social networking world with the acquisition of TripUp.com. [MORE »](#)

**In Whose Interest? Proposed Sirius-XM Deal Generates Heat**

Opponents and supporters of the proposed Sirius-XM deal that would shrink the satellite radio universe to one provider laid their pros and cons before the FCC on Monday. [MORE »](#)

**Study: Newspapers Lose Most Ad Dollars to the Web**

Newspapers are losing the most ad dollars to the Internet compared to other media, according to a new report from Wachovia Equity Research. [MORE »](#)

**Adidas Takes a Spin on Nascar Track**

INSERT FIRST PARAGRAPH COPY HERE INSERT FIRST PARAGRAPH COPY HERE INSERT FIRST PARAGRAPH COPY HERE. Adidas is revving up with Nascar. The Herzogenaurach, Germany-based athletic company announced that it has inked a multiyear partnership with Nascar giant Dale Earnhardt Jr., son of the late Nascar legend. [MORE »](#)

Short Takes

DOES ANYBODY REALLY KNOW WHAT TIME IT IS? There's an opportunity in here somewhere for a savvy marketer. Patricia Pao, CEO of the Pao Principal, a retail specialty turnaround consultancy, has long been a fan of collecting and wearing men's watches. But the originator of the concept "Watches as the New Handbag" recently completed some personal research and found that women looking to attract a guy might want to rethink the sexy clothes and high-end perfumes. Seems one thing that catches all guy's eyes are a man's watch on a woman's wrist. And which one did the job best? Pao says it's the Tag Heuer Monaco, which "consistently generated widespread interest from dads at my god-daughter's Little League game in Los Angeles, to male airplane and train seatmates, even in my doctor's waiting room." Yeah. 'Coz we all know how interested men are in watches. Sheesh. Further details can be gleaned from her PR flack Len Stein at lens@visibilitypr.com.

HELP REALLY WANTED: There's a great job opening—and an excellent marketing promotion—under way from condom maker Durex, but you have to be willing to travel. In an effort to boost brand awareness and sell more product, the company is looking for "condom testers." In what it's advertising as a "sexecutive position," Durex asks in a teaser ad, "Got what it takes to be an official condom tester?" Unfortunately, testers must live down under (No pun intended), as the idea is coming from Durex Australia. Still, we'd be interested to know how many applicants they get. Who knows, maybe

FROM THIS WEEK'S ISSUE

[Beauty Companies Sniff Out Men's Grooming Sales](#)

Although the men's grooming and fragrance category tops \$1 billion in sales, per NPD Group, Port Washington, N.Y., companies are still unsure how to effectively reach males with their marketing messages. That's why Aveda and Nivea are trying with two new programs targeting men in the barber chair and online, respectively. [MORE »](#)

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FEATURES AND OPINION

[False Consciousness: How I Long For A Squishee](#)

For the first time since Social D announced their tour plans, I find myself irked that I do not live in a "major market," and, worse, for a rare yen to participate in a crass mass consumerism—sort of. I want to go to the Kwik-E-Mart, damn it. [MORE »](#)

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From the Los Angeles Times

## RETAIL

### Stores push aside designers

Retailers are giving more display space to more-profitable private labels. Shoppers may benefit too.

By Leslie Earnest  
Times Staff Writer

June 8, 2007

And now, retail Darwinism.

Macy's and other stores increasingly are focusing on their own fashions, putting them in intense competition with the very apparel manufacturers that helped build the stores' business in the first place. And that has created what one industry observer called a "survival-of-the-fittest" battle for display space that has turned the traditional department store floor plan on its head.

Many big-name brands still get decent play, but private and exclusive labels, cost-effective for national chains, are often assigned choice locations near the entrance or sprawls of square footage.

The trend is evident at the JCPenney at Westfield MainPlace in Santa Ana. Enter from the parking lot and you'll pass a brightly colored assortment of Penney's Flirtitude underwear before reaching pricier offerings from Jockey or Maidenform. Walk in the opposite direction and you'll find the Levis, but not before passing racks and stacks of the Original Arizona Jean Co., which Penney's produces itself.

A demoted national name can find redemption, though only if it comes up with clothing a retailer decides is hot — or hotter than its own lines at least.

"If you're a brand, you're either right or your gone," said Britt Beemer, chairman of America's Research Group, which specializes in shopping trends. "It's that simple."

This is theoretically rewarding for consumers because designers are forced to produce fresher fashions faster. But women shopping at a Kohl's in Westminster this week weren't losing sleep over which brand was where. They care about price, durability and fit.

"I look for quality and value," said Cindy Langford, 50, a sales executive from San Luis Obispo who checks to see there are buttons, not plastic snaps, at a waistband along with double pockets and sturdy stitching before dipping into her wallet.

Neither were they worried that brands might disappear from the stores that they frequent. In fact, a thinning might be welcome.

"There's just so many brands anymore; it's hard to keep track of them," said Deanne West, 66, a receptionist from Fountain Valley who favors Liz Claiborne and Croft & Barrow, a Kohl's label.

Private-label brands have been multiplying for years and not only on clothing racks. A recent Nielsen report on consumer packaged goods said a typical kitchen cupboard had more than 20 private-label products.

Historically, shoppers bought store brands — often plainly packaged basics such as canned vegetables and paper products — to save money. Private labels often are less expensive than big brands. But the quality and presentation have improved so much that it's easy to be confused about what's a national brand and what's not.

There's no indication, for example, that the INC women's apparel line — which takes up a huge section of the first floor at Macy's South Coast Plaza store in Costa Mesa — is a Macy's-only brand. Not that Macy's is hiding the fact. The department store goliath just wants to keep customers coming back, and private labels are one lure.

Another is striking deals with celebrities and well-known designers for exclusive collections, such as Kohl's Daisy Fuentes line, Macy's O Oscar from Oscar de la Renta and Penney's Nicole by Nicole Miller.

The strategy seems to be working. Macy's exclusive and private-label brands, which include Charter Club and Style & Co., account for about 35% of sales and represent the fastest-growing segment of its business for the last five years.

Pacific Sunwear of California Inc. in Anaheim, seller of hot local surf and skate brands such as Roxy, Volcom and O'Neill, reaps nearly 30% of its sales from store labels like Bullhead, Kirra, Lilu and Nollie.

And about half of Penney's revenue comes from its own labels, including Worthington and a.n.a., which generated sales of \$300 million the year it debuted. "Every couple months it seems we announce a new private or exclusive brand," spokeswoman Kate Parkhouse said.

The effects of the private-label trend intensified as the Macy's juggernaut rolled across the nation over the last two years, with Federated Department Stores Inc., as it was then called, lassoing stores from coast to coast.

Before, "when you walked in the door, our brand might have been front and center, said Lonnie Kane, president of Karen Kane Inc., a women's contemporary clothing maker in Los Angeles. "Once Macy's took over, they put their private brands front and center. We got moved farther back on the floor."

He called it a "power struggle" between retailers and wholesalers and said that "to a certain degree, the retailers won."

Why wouldn't retailers stock stores with their own products? Profit margins generally are fatter when the middleman is eliminated and retailers gain control over all phases of the business.

On the other hand, if their fashions flop, they take the hit alone. The vendor won't be standing by with "markdown dollars" to help fill the gap between the anticipated selling price and what shoppers are willing to pay.

Still, if you create your own merchandise, you can fill gaps in the marketplace. That's what Macy's did when it couldn't find the tween brand it wanted, spokesman Jim Sluzewski said. The result was another private label: Epic Threads.

"There are brands that come and go," Sluzewski said. "It's a natural part of the business. It all goes back to what's selling."

Liz Claiborne Inc. got the message recently — the hard way. Its shares plunged 17% in one day last month after it reported a steep drop in first-quarter earnings because of slumping department-store sales of some of its brands, including Ellen Tracy, Sigrid Olsen, Liz Claiborne and Dana Buchman.

The "wholesale industry is at a critical turning point," Liz Claiborne President Trudy Sullivan said in a conference call with analysts at the time. Chief Executive William McComb said it was causing "a sea change in how we manage our business."

Industry experts said shoppers should rejoice.

"It's a great thing that's going on," said Patricia Pao, founder of consulting firm Pao Principle, which helps develop turnaround strategies. "It's forcing everyone to be sharper and quicker."

That's fine with Diane Johnson, a 66-year-old retiree from Placentia who was working her way through a shopping rack at Penney, so long as designers — of a national brand or a house brand — remember what's important.

"Give me what fits and has a good price on it," she said, "and I'm a happy camper."

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(INFOBOX BELOW)

#### Improved sales

*Major retailers logged a 2.5% sales gain last month in stores open at least a year. Luxury chains generated strong gains, but some of the largest companies continued to disappoint.*

#### Year-over-year percentage change in May sales at stores open at least a year

Company	% change
Saks	+37.5%
Neiman Marcus	+6.6
Pacific Sunwear	+6.4
Nordstrom	+6.3
Target	+5.8
Limited Brands	+2.0
Wet Seal	+1.9
Ross	+1.0
Wal-Mart	+1.0
J.C. Penney	-2.0
Bebe	-3.0
Gap	-3.0
Macy's	-3.3
Hot Topic	-6.1
Sharper Image	-8.0

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# Today's Entrepreneur: Russell Simmons can't slow down

By Mindy Fetterman, USA TODAY

NEW YORK — His white baseball cap pressed down on his head and tilted to the side, Russell Simmons sits behind his big mahogany desk. The rooftops of New York show in the window behind him.

His feet are propped up, his BlackBerry in hand, his land line within reach.

**PHOTOS:** [Russell Simmons' busy day](#)

**CORPORATE NEWS, VIEWS:** [Executive Suite index](#)

Rapid fire, he ticks off names of people he wants to talk to: Donald Trump; Diane Sawyer; Paula Zahn; Regis and Kelly. "Get a list of rappers in town," he tells an assistant. "Call Puffy."

From the leather couch comes a deep laugh.

"Watch the mogul mogul," says his brother, Joseph, known as Reverend Run, star of a reality TV show on MTV (*Run's House*) and part of the first big-selling hip-hop group, Run-DMC. Simmons produced both.

"I'm moguling now!" Simmons laughs back.

Twenty-five years after he helped found the hip-hop movement and turn it into a huge money-making machine — and an "aspirational lifestyle" for a generation of young people worldwide — his Rush Communications includes clothing lines, jewelry, fragrances, TV and movie production, even a Broadway show.

Simmons, at 49, isn't slowing down. He probably couldn't if he tried. His nickname is "Rush."

"He gives new meaning to the word ADD," says his friend and former business partner Donny Deutsch, an ad agency owner who hosts the talk show *The Big Idea* on CNBC. "He's got A-D-D-D-D."

Simmons' world is one where the vibe of the streets can be cleaned up — a bit — and sold to the masses. (Read: suburban kids.)

He co-founded, then sold one of the first successful rap record labels, Def Jam Records (Beastie Boys, LL Cool J). And he founded the first successful "urban clothing" company, Phat Farm, and its spinoff for women, Baby Phat, which is run by his wife, former model Kimora Lee Simmons. (They're separated.)

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He's since sold the lines, although he remains CEO.



He produced *The Nutty Professor* starring Eddie Murphy, the *Def Comedy Jam* series on HBO and other ventures. *Black Enterprise* magazine estimates that his company, privately owned Rush Communications, collected revenue of about \$360 million in 2005, making it the 11th-largest black-owned firm in the country. Simmons' net worth has been variously estimated at somewhere between \$325 million and \$500 million.

"He's the Martha Stewart of the urban esthetic," says Wendy Liebman, president of WSL Strategic Retail, a consulting firm. "He brought a level of authenticity and sophistication to the marketing of rap."

Simmons' influence helped the fledgling trend of "urban" clothing explode from under \$1 billion in U.S. sales five years ago to more than \$3 billion today, says retail analyst Marshal Cohen of NPD Group. It's a crowded field now, as rappers such as Sean "Diddy" Combs, 50 Cent, Jay-Z, Nelly, Young Jeezy and others have launched their own lines.

"Every time I do something, a bunch of rappers do it, too," Simmons says.

Simmons' world isn't without controversy.

According to Jeffrey Kinwah Chang, author of *Can't Stop Won't Stop: A History of the Hip-Hop Generation*, Simmons has been criticized for a lot of his actions lately. Chang says Simmons has taken heat for seeming to support the De Beers diamond conglomerate, which supplies his jewelry line, and for emphasizing the good that diamond sales do for African economies, rather than exploitation of workers.

After the flap about Don Imus' crack about "nappy-headed hos" last month, Simmons was faulted, Chang says, for calling on record executives to bleep racist words from rap songs when they're played on the radio — rather than calling for no expletives at all.

And he's been faulted by some music fans for cleaning up rap and hip-hop too much to make it palatable for the masses. "He's taken hip-hop to the global economy," and that's meant "making compromises with the powers outside of hip-hop," says Chang, a former employee who remains a Simmons supporter.

"Longtime fans and lovers of the culture wish it hadn't happened," Chang says. "But you can't put the genie back in the bottle."

### Further into the mainstream

Simmons is now pushing hip-hop further into the mainstream with a line of chunky aluminum "urban" jewelry called the Core Collection. It's just hitting some traditional jewelry stores in malls across the country, including Kay Jewelers and Zales. He's got new clothing lines aimed at the bigger wallets of hip-hop kids who've grown up, and another for Wall Street guys who want to appear hip.

And he has plans to open retail outlets across the USA and the world. Simmons has so many ideas, in fact, that it's hard for the rest of the world to keep track of them all. "Business doesn't know it's ready (for all of these ideas)," he says. "But / know it's ready."

Then, he shakes his head impatiently. "The industry is slow — so slow!"

"What else? What else?" Simmons asks whenever conversation lags. What else have you got? Any ideas? Any questions? Anything?

He wants to keep the talk and ideas flowing. He has a million ideas and uses a million words. Ideas spout while he's talking fast. See these new clothing lines? Waddaya think? See this cashmere? Waddaya think?

"I have a young man's brain," he says.

Focus can be an issue for him, says his former partner, Deutsch. "Sometimes I just had to say, 'Shut the (expletive) up, Russell!'"

The two created an advertising company that targeted the youth culture. It failed, Deutsch says, because corporate ad budgets are separated by race. Companies tried to pigeon-hole the team's work into smaller minority ad budgets.

"We kept saying, 'No!'" Deutsch says. "There's no such thing as a minority. Youth is colorblind."

Simmons' world isn't perfect right now. Sales of urban clothing are slowing, says analyst Cohen, and new competitors are crowding him.

"He's going to be in trouble, because people are running after him," says Patricia Pao, a retail specialist. "There's nowhere to go when you're No. 1 other than down. His challenge is to keep the machine going."

Sales of hip-hop music are slowing, too. According to Nielsen SoundScan, which tracks the music industry, sales of hip-hop and rap albums are down 44% from 2000 to 59.5 million in 2006.

Simmons isn't worried. He's confident that the youth culture is "the most brand-building culture in the world. If they say Versace is cool, Versace is cool. And it's not a black/white thing. Eighty percent are not people of color. People just have race on the brain. It's an obstacle.

"Hip-hop," Simmons says, "is not fully exploited."

He has three Phat Farm clothing stores in Dubai, one in Abu Dhabi, one in Madrid, one in Montreal, one in Shanghai and one in Taipei. By the end of 2008, he'll have 20 stores worldwide. He has a flagship store in the SoHo neighborhood of New York and has signed licensing deals to open 29 more U.S. stores.

Meantime, he's extending his brands and cross-marketing them on all his TV shows and websites. When Simmons shows up on *Run's House*, he talks about and wears Phat Farm clothes.

When he launches a new website this summer, called Global Grind, he'll cross-promote his jewelry, fragrance and clothes. When Kimora launched a fragrance, she named it *Fabulosity*, the same as her book published last year.

She talks about her fragrance, clothes and book on a new reality show she's pitching to MTV.

Reverend Run had an idea for a line of brown diamond jewelry called "Brown Sugar." He talks about it on his show. He mentions it when he's with Simmons. "We'll get to it! We'll get to it!" Simmons says.

Simmons is continuing to build the Phat Farm line, extending it into three new lines: XV, a casual line aimed at the hip older guy; Atma, an expensive line with such items as cashmere hoodies embroidered with Yoga images in silk; and Russell Simmons, a line of pinstripe suits with style.

He walks into Kimora's office; she rises to her height of more than 6 feet.

"Don't hate me because I'm beautiful," she laughs.

The two live apart. But, "We still work together 14 hours a day," he says.

They're trying to extend her Baby Phat line into more upscale clothing with a women's line called TLS. Retail analyst Pao says Kimora's "biggest struggle is going upscale into that range like Juicy Couture," which was started by rock 'n' roll wives including Gela Nash Taylor, whose husband, John Taylor, is in the band Duran Duran.

Kimora doesn't seem worried. "Hey! I should start a camp called Kamp Kimora, where I mentor girls!" she spouts. Simmons seems to like the idea.

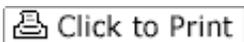
"We are all Russell's protégés," his partner says.

He kisses her cheek and rushes out of the room.

*Contributing: Thomas Ankner*

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[http://www.usatoday.com/money/companies/management/2007-05-13-exec-simmons-usat\\_N.htm](http://www.usatoday.com/money/companies/management/2007-05-13-exec-simmons-usat_N.htm)



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# WWD THURSDAY

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## FASHION

**7** Robert Verdi entertained the 1,600-plus audience as emcee at the annual Gen Art Styles 2007 design competition on Tuesday.

## GENERAL

- 1** The ink on Permira's agreement to buy Valentino Fashion Group isn't dry, but there are already signs that Valentino Garavani could stay.
- 8** BEAT: Redcats USA has turned to recent winners of "America's Next Top Model" to spotlight its Metrostyle label as it prowls for trendy shoppers.
- 9** Target Corp. reported net income jumped 17.5 percent to \$651 million in the first quarter, as revenues gained 9.2 percent to \$14 billion.
- 10** Two days of economic talks between the U.S. and China failed to produce a breakthrough on the thorny issue of China's currency policy.
- 10** Solstice is spinning off a new retail concept dedicated to selling slightly lower-priced brand name eyewear called Sunlights by Solstice.
- 12** Coty Inc. will turn up the heat on Davidoff Cool Water this summer, when an ad campaign featuring Josh Holloway hits screens and magazines.
- 15** Christian Lacroix unveiled his new range of clothes and home furnishings Wednesday for French catalogue giant La Redoute.

## EYE

**16** Eden Roc was the site of back-to-back parties: a dinner hosted by French Elle on the lower balcony and a bash thrown by Fawaz Grosi.

Denim In Depth is included in this issue as a Section II.

Classified Advertisements.....14-15

To e-mail reporters and editors at WWD, the address is firstname.lastname@fairchildpub.com, using the individual's name.

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# L I F E S T Y L E monitor

A weekly update on consumer attitudes and behavior based on ongoing research from Cotton Incorporated

## I THEE WEB

Apparel and the Internet Form an Ideal Marriage of Convenience

**Popular non-fiction tells us that Men Are From Mars, Women Are From Venus.** Recent data from Cotton Incorporated *Lifestyle Monitor™* bears out this philosophical truism. According to the *Monitor*, 50 percent of women claim they would prefer to spend their shopping dollars on apparel; the same number of men cite electronics as their top choice. Interestingly, more and more women are using electronics to shop online. For them, apparel shopping and the Internet are forging an ideal marriage of convenience.

The proliferation of personal digital assistants, public wi-fi connections and the maturity of the Internet as a viable shopping channel have resulted in a significant increase in the number of women who now purchase apparel online. In the first quarter of 2007, 57 percent of female respondents said they browsed the Internet for clothing, up significantly from 38 percent making the same claim a year ago.

Women on the web are doing more than just browsing. According to the *Monitor*, for the first quarter of 2007, 15 percent of women now say that they shop for apparel on-line; a significant increase from nine percent one year earlier. This figure is validated by retail sales data from NPD *AccuPanel* that indicates 10 percent of women's apparel purchases were made online in the first quarter of 2007; up from six percent in 2002.

"It only makes sense that women would embrace the Internet as a means of shopping for their apparel and that they would become increasingly comfortable with this channel over time," concedes Patricia Pao, founder of The Pao Principle, a retail consultancy based in New York. "Shopping on the web is convenient, fast, easy, safe, satisfying, and as personal or as impersonal as you want the experience to be."

Women's increasing comfort level on the web is also due to the technical and experiential refinements of Internet shopping in general. "Women are definitely trusting and utilizing the online store as much as they are a true brick-and-mortar store," says Gili Rashal, founder of The Tip Jar, a web-based fashion resource. "Online boutiques are looking better and improving immensely as time goes on." Improvements to most retail sites in recent years include easier navigation, enhanced imagery, swifter page-to-page transitioning and an efficient check-out process and package tracking.

Having refined their formulas for physical stores and catalogs, forward-thinking retailers are going for the multi-channel hat-trick with their online shops; making the experience easy and familiar. Successful examples mimic the look and services of the real-world shopping experience. "When the customer logs on to talbots.com, she is greeted by our trademark red doors and a Talbot's shopping

bag," says Betsy Thompson, director of public relations for the multi-channel retailer. "These may seem like small details but they're the kind of touches that don't go unnoticed. We also offer online services that mirror the personalized offered in our stores, like e-chat, a store locator and Style Search, a unique search and reserve feature."



"Women are definitely trusting and utilizing the online store as much as they are a true brick and mortar store."

— Gili Rashal, The Tip Jar

Another brick-and-mortar service making their cyber counterparts more appealing is an easy return policy. "If a woman is unsure about a size or color, she will order multiples of a particular garment, trusting that she can either return them via the mail with pre-prepared labels, or take it directly to a brick-and-mortar store and receive a quick and easy refund with no difficulties," Pao, the retail consultant, states. This is a key selling point since three out of four female respondents told the *Monitor* that they had purchased a garment and returned it a short time later.

Free or low-cost shipping also goes a long way to encourage consumers to shop online, especially considering today's soaring gas prices. "Shopping online is much less of a hassle and even more economical than driving to the mall or getting stuck in traffic," Rashal observes. "Browsing the web is like shopping all over town without expending the time, energy or fuel it would take to drive from one place to another."

Free-standing fashion web sites have emerged to capitalize on women's increased spending online and serve to attract more women to the web. Shopbop.com, a pioneer in this area, has become a trusted fashion destination for women, corralling the latest must-haves into a cyber hybrid of a glossy fashion magazine and online shopping venue.

Shopbop.com head buyer Evan Crandall explains the surge in women buying online: "It's a huge convenience. When you shop online, you have the time to look at an item over and over. You can easily build your entire wardrobe in one sitting, or slowly build on it every week or even every day, and then, you can take advantage of our free ground shipping."

Thompson of Talbots agrees, adding, "The web is a giant store that's always open. It's fast, accessible and logic-based. Point and click; it's a cinch." While the virtues of shopping for apparel online are plentiful, Crandall points out one distinct advantage for women: "You don't have to look at yourself under fluorescent lights." That alone is reason enough to for most women to say "I do!" to online shopping for apparel.

This story is one in a series of articles based on findings from Cotton Incorporated's Lifestyle Monitor™ tracking research. Appearing Thursdays in these pages, each story will focus on a specific topic as it relates to the American consumer and her attitudes and behavior regarding clothing, appearance, fashion, fiber selection and many other timely, relevant subjects.



### Women Browsing for Apparel Online

	06Q1	07Q1	+/-
Yes	38%	57%	+19%

### Women Purchasing Apparel Online

	06Q1	07Q1	+/-
	9%	15%	+6%