

Battling for Brands

Discounters Pick Up Famous Designer Names...

BY AMY MERRICK
Staff Reporter of The Wall Street Journal

In the mid-1990s, OshKosh B'Gosh stopped selling its clothing to Kohl's in favor of department stores such as Marshall Field's and Macy's. The maker of children's apparel said it didn't want its brand associated with a discounter.

But this year, OshKosh reintroduced its apparel at Kohl's, having decided that sales growth mattered more than a tony image. While department stores are losing market share, Kohl's, based in Menomonee Falls, Wis., is the nation's fastest-growing big retailer, adding 70 stores this year to a base of 382. That growth was enough to bring OshKosh back into the fold.

It's also attracting attention from other high-profile designers, some of whom are courting Kohl's more aggressively, even though they earned their cachet by being in the top department stores.

Some high-end brands like Ralph Lauren and Tommy Hilfiger still can't be found at Kohl's, but Jones Apparel, owner of the upscale Nine West brand, has created a new line called Nine & Co. to offer to Kohl's and Mervyn's, a slower-growing discount chain owned by Target Corp. A Jones executive says the Nine & Co. line is exceeding expectations so far. Similarly, Liz Claiborne is creating a new line to offer at Kohl's and Mervyn's.

Designer names notwithstanding, no one can confuse a Kohl's with a Saks Fifth Avenue. The typical Kohl's is a box-like structure featuring one floor of merchandise on spartan racks and shelves under inexpensive lighting. Its stand-alone locations, shopping carts and central checkout make it a more convenient alternative to traditional department stores, and its low cost of operating allows it to price apparel, housewares and other products roughly 5% to 10% lower than department stores, according to one

pricing study.

Among its name brands, Kohl's sells Columbia sportswear, Haggar menswear, Nike, Reebok and Adidas athletic apparel and Levi's jeans.

While Kohl's is a long way from winning an Armani line at its stores, its push for higher-end brands is relentless. In that regard, it is borrowing some of the strategy that Wal-Mart Stores used to polish its image. Once known as the poor man's Kmart, Wal-Mart spiffed up its properties, adding fancier fixtures and offering name brands such as Lee jeans.

A visit to the Kohl's in its headquarters town of Menomonee Falls suggests that its executives are contemplating a more luxu-

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rious shopping space, where high-end brands wouldn't seem out of place. The store features a larger and better-appointed display of jewelry near the entrance, beside a richer array of bath and body products.

But for the time being, Kohl's expansion alone is the lure for makers of prestigious brands. It has become a retail powerhouse, and it hasn't even entered 14 of the nation's 25 largest retail markets, such as Los Angeles and Phoenix. At its current rate of growth, it could become the nation's largest department-store chain in terms of market share by 2006, according to a Prudential Securities report.

One retail consultant says such growth gives the company "much more leverage in convincing brands that Kohl's is a nice place for them to live."

...While Department Stores Stress In-House Labels

BY ERIN WHITE
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As discount stores like Kohl's woo their designers and steal their customers, what are department stores doing to fight back? One tactic is to sell the public on their private labels—the equivalent of store brands.

Federated Department Stores, which operates Macy's and Bloomingdale's, recently took out a six-page ad spread in Vogue to boast that Heather Mills, the model and social activist, is now the fashion face for I.N.C., one of the retailer's in-house fashion brands.

Macy's I.N.C. boutique is the first thing customers see as they get off the escalator on the second floor of Macy's flagship in Manhattan. The 2,000-square-foot selling space boasts enormous posters of Ms. Mills in her I.N.C. wardrobe. A thin, black, ruffled V-neck shirt dotted with white flowers is \$45; a pair of black stretch pants is \$59.

Other retailers, such as Neiman

Marcus Group and Nordstrom, sell private-label fashions as well. But none has been more aggressive than Federated in pushing the fashion aspect of the private brands. These in-house lines generate 16% of Federated's department-store revenue, increasing as a portion of sales every year over the past decade. The retailer would like to see that rise as high as 20%.

By cutting out the name-brand designers and creating fashions on its own, Federated can offer lower prices and still make juicy profit margins. I.N.C. is Federated's fastest-growing apparel line, with estimated annual sales of \$550 million to \$600 million, says retail analyst Christine Kilton-Augustine. Begun as a men's label at Macy's in 1985, it was extended to women's wear in 1993 and traveled to Bloomingdale's in 1999. Today, I.N.C. is a mid-priced collection of trendy-enough tops and bottoms aimed at women in their 20s and 30s.

Some shoppers say they find I.N.C.

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often has an original twist on look-alike mall style. "It's not like you just walked out of the Gap or Banana Republic and everyone else has the same," says Erika von Hacht, 24, of Dallas.

But leaning heavily on a home-grown line brings risks as well. Bud Konheim, chief executive of fashion house Nicole Miller, says private labels can sell well when given prominent display, but can hurt the image of upscale stores. "Better customers know a knock-off," says Mr. Konheim. "You get a customer who's

only interested in price, and you dig deeper into the hole."

A deep push into private labels also brings financial uncertainties. Big department store companies often demand "markdown money" from designers: If the clothes don't sell well at full price, the designer will shoulder some of the costs of discounting it. But when I.N.C. stumbles, Federated alone must take the financial hit.

Still, at a time when department stores need as many customers as they can get, I.N.C. offers a welcome, inex-

pensive alternative to designer apparel. Lisa King, a 28-year-old who works in financial services in New York, buys I.N.C. clothes about twice a month at Bloomingdale's. She prefers more stylish brands, such as BCBG and Laundry, but those prices are sometimes too high.

Ms. King says she didn't know I.N.C. was one of Federated's own brands, and she doesn't care. "That's fine if I'm getting the no-frills version," she says. "I'm not a brand shopper."