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Playing Exclusives Game: Results Can Be Win-Win But Brands Face Pitfalls

By Whitney Beckett

Putting all your eggs in one basket — or, in apparel, your entire collection in one retailer — is a high-stakes game that is being played more and more.

As stores rush to differentiate themselves, particularly in this difficult economy, they're increasingly looking for product no one else has. But as often as both parties describe exclusives as a win-win, it just as often results in one side losing.

Vendors must take heed of the dangers to committing exclusively to a single store — take the fate of O Oscar, which lasted only three seasons at Macy's before being closed, or Liz Claiborne, which saw its space at Macy's shrink after it created Liz & Co. for J.C. Penney.

But the rewards can be great. Macy's Inc. chairman, chief executive officer and president Terry Lundgren pointed to Tommy Hilfiger, which will become exclusive to the retailer come August, as "a home run idea" and "the best example now" of the growing exclusive business at the largest department store in the U.S. This is a far cry from the role Hilfiger had played at Macy's in the last few years, when the line's space had been consistently shrinking.

"When the product is exclusive to us — which makes it one of the most important products we carry in the store because it's only in our stores — we want to make sure we can do everything we can do to find success," Lundgren said. "If we are the only customer, we have a responsibility to make sure this brand is highly successful, so we will want to give it primary space and location, and make sure the advertising is prominent."

More than 35 percent of the \$26.3 billion in sales Macy's did last year is in brands that are exclusive to Macy's or in limited distribution, including its private label INC line, Martha Stewart Collection, Donald Trump's line and diffusion lines such as T Tahari.

Macy's is not alone. Half of J.C. Penney Co. Inc.'s sales come from its private label offerings, including the new American Living launch by Polo Ralph Lauren Corp.'s Global Brand Concepts, plus exclusive diffusion lines such as Nicole by Nicole Miller, Liz & Co. and the upcoming Fabulosity by Kimora Lee Simmons. Its competitor, Kohl's Corp., has been bulking up its exclusive offerings as well with Simply Vera Vera Wang, Dana Buchman, Abbey Dawn (a new collaboration with Avril Lavigne) and Fila Sport, in addition to its Ralph Lauren diffusion line, Chaps.

And it's not only department stores that are chasing exclusive brands these days. Wal-Mart Stores Inc. has signed a deal with Ocean Pacific to sell the sportswear line

exclusively, and also has an exclusive on L.E.I.

The sheer size of these retailers gives them the clout to negotiate with almost any vendor, as well as a strong case that their chain alone can provide enough business to make a brand viable — plus the additional security of not having to pay markdown money. With nearly 1,000 doors, Kohl's does \$16.5 billion in volume, and with just more than 1,000 stores, J.C. Penney does nearly \$20 billion. With more than 800 stores, Macy's does the biggest volume of all department stores with \$26.3 billion. Then, of course, there's Wal-Mart, with sales last year of \$345 billion.

For high-end designers who are accustomed to dealing with Saks Fifth Avenue's approximately 50 stores, or Neiman Marcus' approximately 40 stores, the lure of creating a high-volume diffusion line for other department stores is great.

Doing the Nicole by Nicole Miller diffusion line with 600 Penney's stores gives Miller the financial support to do what it does best on the high-end in 300 major stores such as Neiman Marcus, Saks Fifth Avenue and Nordstrom, and 1,200 specialty stores. Bud Konheim, president and ceo of Nicole Miller, listed keys to his success as keeping distribution "squeaky clean" and offering separate prices, fits, fabrics and styling for each line. The biggest challenge, according to Konheim, is thus design, in creating "two separate and wildly different lines."

"Selling at Penney's allows a broader slice of the customer public to get the benefit of Nicole's designs," Konheim said. "It allows us to be really exclusive and tight on the top end by creating a broad base in the business that supports our killer design overhead."

The size of Macy's, Kohl's and Penney's makes doing the line exclusively feasible. "I have always been reluctant with exclusives," Oscar de la Renta said when he unveiled the relaunch of O Oscar as an exclusive better line with Macy's. "But with the amount of stores [Macy's] has, it makes total sense."

Even preferential space and promotions (including in-store runway shows with the designer himself) weren't enough to save O Oscar, however. "It always comes back to the product," Lundgren said. But retailer support at least gives the product a stage on which to perform.

"It's no secret that I was talking to lots of people deciding what I wanted to do, but ultimately part of the decision was because of who Kohl's is as a company: They threw their full support behind the line, backed it up with advertising and allowed me to evolve the brand with them," Vera Wang said of the fall 2007 launch of Simply Vera Vera Wang. "Being an exclusive offered certain advantages that I wouldn't have had if I was just another vendor."

According to a spokeswoman for Kohl's, Simply Vera Vera Wang and other new exclusive introductions "continue to outperform both their plan and the overall store performance, and are being widely embraced by consumers."

Wang denied the rumor that Macy's dropped her lingerie line after her deal with Kohl's was revealed. "We had developed a lingerie line that we thought might be great for them, but they never took it," Wang said. "What we have done with Macy's is fragrance and a wedding registry business that we continue to do."

Nevertheless, the speculation reveals one of the major downsides of doing an exclusive collection for one store: Another retailer can get upset and drop your other lines.

The Liz Claiborne line lost doors and real estate at Macy's when Liz Claiborne Inc. gave its Liz & Co. and Concepts by Claiborne lines exclusively to Penney's. According to sources, Macy's is also unhappy with the similarities between the American Living line at Penney's and Lauren by Ralph Lauren, which Macy's carries.

"If a brand name that we carry suddenly has 1,000 more points of distribution, then that brand will be diluted," Lundgren said. "There's no question there will be more supply than demand, the business will be transferred out of the existing companies, and our business will be hurt. We take action because we've seen this movie too many times before. We're not trying to flex our muscles — we are just trying to get ahead of what history tells us."

Lundgren said that almost all of the lines that have recently signed as exclusives with retailers approached Macy's first about doing an exclusive line, but the company rejects most of those offers. "There's a great understanding in the vendor community that if they are exclusive to us, then we have to step things up and do things differently," Lundgren said. "We didn't have to do much solicitation. Almost everyone came to us first, and we've only accepted about 10 percent of what's been presented, because we want to make absolutely sure there's a void in the market, it's a sustainable business opportunity and there's a talented team behind the product. But in the future, there probably will be a situation where we will evaluate a need and say, who would be best to fill the void?"

Lundgren said he does not have a specific target goal for the percentage of business that exclusive brands will ultimately make up. "I've never tried to have a goal to target or hit an exclusive number," he said. "I don't know where we will ultimately end up, but I know it will be determined by the customer instead of an arbitrary number we come up with."

But he added, "I can't imagine having 100 percent of our brands that are exclusive to us. We are the largest seller of Ralph Lauren, and brands like that — Estée Lauder, Clinique and Coach — are so powerful and so important to us."

Indeed, if there are dangers for vendors in going the exclusive route, there also can be pitfalls for retailers. For one, the brands clamoring to do exclusives typically aren't coming from a position of power, if they are voluntarily limiting their business. "You've got to go with your options," said Allan Ellinger, senior managing partner at Marketing Management Group. "Why would a healthy brand restrict its distribution? What if it doesn't work? Then what?"

Dana Buchman had been long suffering in the bridge market before Liz Claiborne Inc. decided to license it exclusively as a moderate brand to Kohl's. And Fred Gehring, ceo of Tommy Hilfiger Group, admitted that Hilfiger had suffered "a market push back in the last few years," before it decided to partner exclusively with Macy's.

"I don't know if [partnering exclusively with Macy's] would be the right thing for us to do today if Tommy was still the type of brand it was in the Nineties," Gehring said, "but it's not."

Given sales for the brand today, and Macy's long-term role as the company's biggest retail account, according to Gehring, there were many advantages for Hilfiger in becoming exclusive to Macy's come this fall: planning longer term rather than season by season, cooperative advertising, the ability to focus on a narrower range of consumers and bigger and more prominent real estate in updated shop-in-shops, which likely means higher volume at Macy's alone than the line was doing at multiple doors before.

"It was a very attractive opportunity to become very important in one account as opposed to being of little importance to many accounts," said Gehring.

Hilfiger has played the exclusive game with Macy's before, though, with its H Hilfiger line, which was dropped in 2005 after just a year.

"H Hilfiger was a diffusion activity, like O Oscar, so the risk wasn't so much in the exclusive alignment as in the diffusion activity," Gehring said. "All diffusion lines were risky because they need to prove themselves. Here, we are not talking about a subbrand — we are talking about Tommy Hilfiger."

Gehring said Hilfiger's success going forward will be based on product, and that the only risk is on the design side — "but I don't think there's a risk at all," he said. "We will be given a stage on which to perform, and longer-term growth will only come if we perform."

Overall, though, executives said the pluses on these new exclusive agreements tend to outweigh the negatives. There are certainly advantages to the agreements, and not just to the retailer, according to John Henderson, a director at Net Worth Solutions Inc., who for years worked at Kellwood Co.

"When you are a vendor, you only sell a third of what you create, which is quite expensive, whereas when you are working exclusively with one retailer, everyone is thinking from the same handbook and you don't have to create 100 samples to sell 33," said Henderson. "On top of those cost savings, you can share in marketing and advertising expenses, plus the better floor space you will get is advertising in itself."

But Henderson questions whether companies can really make exclusive diffusion lines good. "The question is, do you have enough creative force to create [multiple]

lines and not affect your branded line?" he said. "If everyone only has enough design talent to create only one line that sells, who gets the good line?"

Konheim agrees that designing multiple, completely separate lines that both warrant a customer is the real challenge, but he believes the task is doable.

"The question is like, 'doesn't GM have a problem selling both Cadillac and Chevys?' Konheim said. "Of course not."