

CRAIN'S

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Syms Corp. lands in the basement

Discount retailer, weighed down by Filene's acquisition and slow to change, loses market share to hipper rivals.

by Adrienne Pasquarelli

When Syms Corp. signed on last year to create a lavish store at 530 Fifth Ave., the location appeared to be a perfect fit for the 52-year-old discount chain. The company needed a midtown presence, and Fifth Avenue in the 40s, a once-grubby strip now home to a host of hip retailers, seemed ideal for its new hybrid brand with Filene's Basement.

Yet rumors that the \$445 million chain has pulled the plug on plans to open the 34,000-square-foot, three-story Syms/Filene's paint a darker picture. A sign at 530 Fifth still touts a 2011 opening, but real estate brokers confirm that the retailer is abandoning the space, which reportedly had a ground-floor asking rent of \$400 a square foot.

"The location of Fifth Avenue is incredible," said Howard Davidowitz, chairman of retail consulting and investment banking firm Davidowitz & Associates Inc. "But you're taking on a big exposure there. ... What if you can't do enough business?"

Not bringing in enough business is in fact one of the Secaucus, N.J.-based company's chief difficulties. The retailer, which bought Filene's Basement for \$62 million in a bankruptcy auction two years ago, is struggling to attract consumers. For the six months ended Aug. 27, the company reported a net loss of \$10.1 million and net sales of \$191.7 million, a 14% drop from the year-earlier period.

The declines come at a time when discounted apparel is reigning as one of the hottest retail categories. For the 12 months ended in August 2011, sales in that sector topped \$16.3 billion, a 4% rise over the year-earlier period, according to consumer tracking service NPD Group Inc.

Instead of thriving, Syms is losing market share to rivals such as TJX Cos. and online flash-sale site Rue La La.

"An 'educated consumer' would go nowhere near Filene's Basement or Syms," said Mike Tesler, founding partner of consultancy Retail Concepts, playing off of Syms' well-known marketing slogan.

Syms executives declined to comment.

When Sy Syms founded his namesake store in 1959, it was one of the first off-price players in the retail world, so he was able to wow consumers with bargain prices for brand-name menswear. The chain expanded feverishly through the 1980s, holding an initial public offering in 1983. Mr. Syms' daughter Marcy Syms took the helm in 1998. She orchestrated the purchase of Filene's in order to bring in more female consumers.

“When Syms bought Filene's, it seemed like a smart consolidation: They were primed to jump into the new century of discount fashion,” said Candace Corlett, president of WSL Strategic Retail, which analyzes shopper behavior. “But they didn't do anything. They didn't change the way they go to market, and the world of discount fashion has changed dramatically.”

Shoppers complain

Some shoppers complain that Syms' duds are just dull. A recent Yelp reviewer likened his experience at the store to going back to 1991, while another complained that much of the clothing is low-quality. Analysts said that Syms needs to update the way it procures its products. TJX famously works directly with designers and brands to obtain special collections of existing labels.

“Syms gets the leftovers,” said Jack Hendler, president of Net Worth Solutions Inc., an investment advisory firm.

He noted that to keep up with the business, Ms. Syms needs to upgrade the way she buys merchandise.

The company brought on a financial adviser over the summer to look into strategic alternatives, including a possible sale. It currently operates 47 stores, down from 55 after the merger; just three are in Manhattan. Earlier this month, Syms, which has \$20 million in long-term debt, announced that it plans to close four Filene's in Massachusetts—15% of its total—by 2012.

Shareholders are suffering even more than shoppers. The share price has dropped 22% in the past four months; the stock currently trades at around \$8.40.

In fact, hedge fund Esopus Creek Advisors, an investor, is currently suing Syms. The complaints reportedly include mismanagement and failure to keep shareholders informed. Some maintain that Syms' real estate properties—it owns its Trinity Place store, for example—are worth more than its retail operations. Esopus executives declined to comment.

Competitors shine

By comparison, business is booming for competitors, including TJX, owner of TJ Maxx, Home Goods and Marshalls. The \$21.9 billion company recently opened additional outposts of all three divisions in the Big Apple, and it raked in nearly \$350 million in profits for the quarter ended July 30.

New York City stalwarts Daffy's and Century 21 are in expansion mode, and flash-sale sites like Gilt Groupe and Rue La La are increasing in popularity. Even luxury department stores, from Saks Fifth Avenue to Nordstrom, are opening additional outlet stores to muscle in on the off-price action.

“If you're in a business where all these people are winning, and you're losing, the merchandise has not excited the footsteps,” said retail consultant Mr. Davidowitz.