

December 6, 2009

Making book on Barneys

[Adrienne Pasquarelli](#)

Trendy upscale department store Barneys New York is planning to open its first-ever location in Brooklyn, according to sources close to the situation. The retailer is canvassing the market in the hope of opening a Barneys Co-Op in Cobble Hill, despite the still treacherous retail climate and the precarious condition of its Dubai-based owner, Istithmar World.

“We're cautiously optimistic compared with last year,” says Michael Celestino, executive vice president of store operations at Barneys.

In addition to trying to break into the Brooklyn market, the 86-year-old retailer is expanding its digital offerings. At the same time, it is trimming its famously distinctive inventory by 20% to lessen the pressure for deep discounts if sales run short.

So far, these moves are paying off. The 42-store chain, which ended 2008 with single-digit sales declines, has done better this year. In October, for example, it reported a 7% uptick in same-store sales from a year earlier. That contrasts sharply with the dismal 14.5% decline at Neiman Marcus and the 0.7% increase at Saks Fifth Avenue for the same month. Though same-store sales fell in November by an undisclosed amount, executives say the drop is not nearly as bad as that logged by rivals such as Saks, whose same-store sales slid 26.1%.

Barneys' recent performance contrasts sharply with the situation in February, when several factoring firms—companies that give suppliers cash for their expected payments from stores—stopped doing business with Barneys because of its uncertain financial condition. The weeklong suspension resulted in a freeze in merchandise shipments, forcing Istithmar to quickly step in.

Istithmar, which had purchased the store from Jones Apparel Group three years earlier for \$942 million, pumped \$25 million into it in a successful move to ease the financial pressure. Barneys also hired Perella Weinberg Partners to explore a restructuring of its \$500 million of debt. With Istithmar awash in debt, and many of its properties—including the W New York-Union Square Hotel—in deep trouble, future infusions will be far more difficult to manage.

Brooklyn a logical move

At Barneys itself, though, things are looking up.

“Barneys is paying us beautifully,” says Gary Wassner, president of factoring firm Hilldun Corp., noting that the store's improved merchandise and inventory cuts have also helped the situation by lessening its need for capital. He also says he's “watching closely.”

Last month, billionaire investor Ron Burkle purchased a block of Barneys' debt. Although he reportedly paid only 60 cents on the dollar, the move was seen as a vote of long-term confidence in the store.

Barneys' plan to open its first store in the city in five years is another sign that it's on more solid footing. The chain, which has three Co-Op stores in Manhattan, along with its Madison Avenue flagship, typically needs between 5,000 and 10,000 square feet for a Co-Op. The company would not provide details, but real estate insiders speculate that Barneys will take space on Atlantic Avenue, the thoroughfare that is already home to upscale clothier Steven Alan and home decorator Jonathan Adler.

“Brooklyn is a logical move for them,” says Laura Pomerantz, a principal at PBS Realty.

One-of-a-kind offerings

So too were its Scottsdale, Ariz., and Chicago stores, which opened earlier this year. But with Istithmar's finances shaky and the retail climate unstable, Barneys is hardly in the clear. In November, luxury spending, excluding jewelry, declined 7.3% over last year, the sector's first drop since August, according to MasterCard Advisors' SpendingPulse. Retail experts also point out that 18 months after the retirement of Chief Executive Howard Socol, Barneys has yet to find a successor.

“They have to be careful,” says Michael Appel, president of retail consulting firm Quest Turnaround Advisors. “I don't know if there are enough of those high-end luxury-forward customers out there.”

To attract such shoppers, Barneys is banking on its one-of-a-kind offerings. Two-thirds of the items in the chain's holiday catalog are exclusive or limited editions.

“Barneys carries unusual product. You're not going to find a basic turtleneck or a men's cardigan,” says Jack Hendler, president of Net Worth Solutions, an advisory firm specializing in retail.

Another key focus is the chain's three-year-old e-commerce site. It currently brings in almost 5% of total sales, and executives expect it to grow rapidly from here. To help quicken the pace, Barneys launched its own smart-phone application last month, and last week posted its holiday blog, along with “Cranky Elf” videos featuring creative director Simon Doonan.

“We try to be witty and irreverent and have fun,” says Karl Hermann, executive vice president of marketing and e-commerce.