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## **TAKING A HARD LOOK AT LIZ: MCCOMB EVALUATES BRANDS FOCUSING ON 'REAL GROWTH'**

By Whitney Beckett

William L. McComb, the new chief executive officer of Liz Claiborne Inc., wants brands with the right stuff.

"It would be a mistake to think we are hunting for divestitures," McComb said in an interview. "It's not like we have a project called 'divestiture.' It's more like, what do we want to put our money in? We want to feed the real growth opportunities well."

Within 10 days last month, McComb, on the job since November, set about making his mark on the \$4.99 billion vendor. He shook up the responsibilities of group presidents, announced the closing of Mexx in the U.S. and the retail side of Laundry by Shelli Segal, and disclosed on his first earnings call that he was open to divesting some of Claiborne's 40-plus brands.

Although McComb will not unveil his full plan until July, he has said he will focus on Claiborne's five "power brands": Juicy Couture, Lucky Brand, Kate Spade, Mexx and Liz Claiborne. Those are the only units in the Liz Claiborne portfolio that appear to be untouchable.

Lucky Brand sales climbed 37 percent last year, and Juicy Couture sales increased 30 percent year-to-year. McComb has said he thinks Kate Spade, which the company acquired for \$125 million in November, has the potential to generate \$500 million in revenue.

"The power brands will get a disproportionate share of resources and time," McComb said. "Differentiated investment levels is the point. It's a question of where to focus the growth."

The group presidents were realigned to give each complete control over a key brand. Mark Walsh oversees Juicy Couture; Jill Granoff, Lucky Brand; Susan Davidson, Kate Spade, and Pamela Thomas-Graham, Liz Claiborne. Jeff Fardell - not a group president but rather president of Mexx Europe Holding - controls Mexx.

In closing Mexx in the U.S. and the three Laundry by Shelli Segal stores, Claiborne will focus its retail energy on Kate Spade, Juicy Couture, Lucky Brand and Sigrid Olsen stores.

"We've said we will close stores that aren't going to scale to 100," McComb said. "There's no question that Mexx has saliency here, but to get it there would have taken north of \$50 million, and that didn't make the cut. If I gave Jeff [Fardell] \$50 million to spend on Mexx marketing, he would not want to put it here."

McComb said acquisitions will continue to play an important role for the firm that designed the multibrand portfolio strategy in the last decade.

"I am open to acquisitions that will not only bring us great brands, but also to power up the rest of our brands, in terms of IT, real estate and field talent," McComb said. "I've said it before: We do not intend to shrink our way to greatness."

Which brands might be on the block as McComb ponders streamlining the company and playing to its strengths?

Size will not be the only factor the ceo and his team consider as they draft the McComb manifesto outlining the company's growth strategy. Other elements, such as how a brand helps economy of scale or strengthens a relationship with a retail partner, also can secure a place for a brand.

"The ones they are focused on are the ones that would have interest to a buyer," said Margaret Mager, retail analyst and managing director for Goldman Sachs & Co., adding that the Liz Claiborne brand faces challenges.

Brad Stephens, an analyst for Morgan Keegan & Co. Inc., agreed that the company's flagship label may not have the growth potential of the other power brands.

"Earnings growth has been nil for the last few years, and I just don't know how McComb goes about turning that around," Stephens said. "The Liz brand makes up about 22 percent, and that 22 percent is not growing, which puts an awful lot of stress on the other 78 percent if growth is really the target."

That said, because of the firm's interest in women's apparel, Stephens thinks that, in addition to Liz Claiborne, both Dana Buchman and Ellen Tracy, bridge brands that have stumbled in the last year or so, should be safe.

"I struggle with finding divestitures, which doesn't mean they won't close brands down," Stephens said. "What's at risk? Anything they haven't mentioned on a conference call in a while."

Consultant Emanuel Weintraub embraced McComb's strategy to pump up marketing on the brands with the highest growth potential. He draws a parallel to VF Corp.'s decision to sell its intimate apparel business - including U.S. brands Vanity Fair, Lily of France, Vassarette, Bestform and Curvation, plus Lou, Gemma and Belcor in Europe - to Fruit of the Loom for \$350 million this year.

"VF decided it didn't want to be in a buy-one-get-one-free bra business, that it would rather sell a North Face jacket for \$160," Weintraub said. "Likewise, I would be shocked if Liz Claiborne ended up with the same numbers of brands when this is said and done."

"The issue is driven by the fact that retailer brands - like INC and Arizona Jeans - have important recognition by consumers, who don't have a clue this is anything other than a normal brand," Weintraub said. "As these brands gain in recognition and the traditional retailer is promoting the brand with its advertising budget, the national brands need to spend more money promoting themselves to stay competitive. If you are a traditional manufacturer with dozens of brands, where do you get enough money to promote all of those brands adequately?"

The brands that aren't desirable for Claiborne might not be desirable to others at a price that makes selling them attractive. That's a lesson that another diversified giant, Jones Apparel Group, which includes Nine West, Jones New York and Barneys New York, learned last year when it could not find a buyer to pay the \$4.74 billion firm's asking price of \$36 a share. Jones took itself off the auction block in August.

Outside the power brand circle, industry experts speculated there are a few Claiborne brands that could garner market interest: Sigrid Olsen, Laundry by Shelli Segal, Enyce and the jewelry brands Monet, Trifari and Marvella.

**John Henderson, a director who works on mergers and acquisitions at Net Worth Solutions Inc. (and a former president of Kellwood's Sag Harbor division), suggested selling the Monet, Trifari and Marvella jewelry brands. These don't have the retail potential to add to Claiborne's competitive advantage and focus in apparel, said Henderson.**

**"These are iconic names that have been in the marketplace forever, and they could have homes," Henderson said.**

Weintraub said better brand Sigrid Olsen, a retail focus for Claiborne, was a possible mover. The company said Sigrid Olsen has had lackluster sales since fall 2005, although Claiborne does not report specific brand sales.

"Is Sigrid Olsen safe?" Weintraub asked. "It's a desirable brand with a person behind it, but how big is the market? A small brand takes as much effort to control as a big brand. A brand should have the potential size to be big enough to support its own advertising budget, so it should be \$400 million or \$500 million. You can't support a brand without giant growth prospects if it's only going to be an \$80 million or \$90 million brand. There should be marketing insight that the brand can grow significantly in 18 to 24 months."

Catherine Sadler, president of New York marketing firm Catherine Sadler Group, championed McComb's decision to focus marketing on the key businesses, noting that "handling multiple brands simultaneously is a challenge, and the more one can focus, the better the prospects for one's brands." She also identified Sigrid Olsen as a possible target for divestment.

"Sigrid doesn't have the brand awareness that the other brands do, and its product offerings' appeal isn't as broad to its target consumer," Sadler said. "The position has been more niche and not as broadly accessible."

Stephens offered similar observations about urban brand Enyce. "Is it ever going to be huge?" Stephens asked. "If it's not going to be huge, even though it's doing pretty well right now by comparison with other urban brands, maybe it's time to clean up the portfolio by selling it. If a brand is not going to be a big part of your portfolio, is it more of a distraction than it is potential for the company?"

**Although not a traditional divestiture, shedding the DKNY Jeans license may be a good move, analysts said. Henderson speculated that JH Collectibles isn't easily salable, but may be better off dead than alive, given its maturity and limited growth potential.**

**"There's two questions: What can they sell, and what will they have to dissolve?" Henderson said.**

In addition, as Liz Claiborne did last year with City Unltd., the company may simply discontinue lines but keep the trademarks to possibly reincarnate them in the future. Kellwood Co. has put this strategy to work lately, reviving labels like Democracy and David Dart in new forms.