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Barneys Loves Target: Retailing's Odd Couple Takes Marketing Leap

By Sharon Edelson

NEW YORK — Talk about strange bedfellows.

The teaming of Target Corp. and Barneys New York has to be one of the oddest pairings in recent fashion history. The mass market purveyor of everything from diapers and lightbulbs to blenders and dog food will introduce its eco-friendly Rogan for Target's Go International line at Barneys' Madison Avenue flagship on Friday until Sunday, and then at Barneys' Los Angeles store from May 16 to 18. Barneys will limit purchases to three pieces. The line will only be in stock for five days and, after that, shoppers will have to wait for the collection's debut at Target as part of its Go International line.

The arrangement is not without irony — and lots of questions. Barneys sells designer Rogan Gregory's primary line, which features trousers for \$230, dresses for \$320 and anoraks for \$450. Rogan for Target will be priced between \$15 and \$45. Barneys presents itself as an arbiter of style, selling collections by everyone from Balenciaga to Lanvin at prices that can run into the thousands of dollars for a single piece. Target prides itself on style on the cheap, with a hype machine that often promises more than the stores deliver. Just consider the odor of pizza or pretzels that greets customers as they walk through its doors.

So why is this odd couple getting together?

Target's aspirational low- and moderate-income customers, who are being squeezed by the economic downturn, may be forgoing new clothes in favor of necessities or turning to stores with sharper prices, including Wal-Mart. Target's same-store sales have come under pressure in recent months and it also has to rebuild its apparel business after losing its personification of fashion, Isaac Mizrahi, who's not renewing his contract at the end of the year.

Barneys, meanwhile, is said to be having some difficulty in markets such as Chicago and Houston. And in common with many luxury retailers, it is battling the turbulence created by the weak economy. The retailer also has a new owner — Dubai-based investment fund Istithmar — that is eager to roll out more full-line Barneys stores as well as Co-ops. Some observers have said the Co-ops outside of New York are struggling somewhat, while Barneys tried an aggressive expansion of flagships in the early Nineties, only to end up in Chapter 11 in 1996.

But will Target benefit from Barneys' cachet? And does Barneys really need Target? Many observers question the strategy.

"I think it's going to confuse and not satisfy the customers," Michael Lichtenstein, owner and founder of Group L Consulting, a licensing firm in New York, said about the Barneys-Target deal. "It's one thing to have Karl Lagerfeld do an H&M line. It's exciting, it's news and everyone understands what that means. Even if it's for a short period, it's going to be a hit. This doesn't tell anybody what's happening and why it's happening. It's merely doing something to be different than thinking about what the [Barneys] customer wants. I don't think a Barneys customer wants a Target product."

Erin Armendinger, managing director of the Jay Baker Retailing Initiative at the Wharton School of the University of Pennsylvania, said her reaction when she heard of the arrangement was "sort of perplexed. I think it's really odd. I'm not sure what everybody's getting from this. I don't know why Barneys needs Target. I'm not sure a Barneys customer is going to be a Target customer. It is Target, but at the end of the day, it still is Target. You have to be careful with these partnerships and whose casting what on whom."

Having the products of one designer selling for two different price points in the same store can confuse and alienate customers. "When they're in the same store it's pushing the limits," Armendinger said. "When you have \$29 jeans and \$250 jeans from the same designer, consumers will start to ask, 'Is that fabric really worth 10 times more than the other fabric?'"

While there seems to be no relief for the ailing economy in sight, Target is also facing the task of replacing a major revenue generator for its clothing business. The chain in January acknowledged that Mizrahi would be leaving to take up the design reins of the Liz Claiborne brand. Mizrahi's line did about \$300 million at Target and analysts estimate the retailer will have to replace \$400 million to \$500 million of lost revenue upon his departure, given that shoppers buying Mizrahi clothes also bought other products while in the store.

Target so far has said its focus going forward will be on the Go International line with young, up-and-coming designers — but that represents sales of only "north of \$100 million," said Robert Buchanan, a consultant for Goldman Sachs' Vantage Marketplace subsidiary.

"They've got a hole now in their assortment," said Armendinger, referring to Target. "They added handbags and accessories to the Go International program, but Go has gotten tiring. There's this constant change of [collections], it's like they're saying, 'This is cool. No, this is cool. No, this is cool.' H&M does a better job with really big designers sold for short periods of time and launches that are really spread out. Go is dizzying because at the end of the day you're wondering, 'Who is Target?'"

Bill Dreher, a retail analyst at Deutsche Bank, said Target introduces Go designers so frequently because "they want the rotation every six weeks so they get that customer into the store every six weeks. On average, the Target customer goes to the store once a month. By contrast, the Wal-Mart customer visits a Wal-Mart unit once a week. The difference is food" with Wal-Mart's grocery business far more developed than Target's.

Armendinger said that Mizrahi gave Target a consistent image, which built recognition year after year. The retailer is certainly working on a post-Isaac strategy, but hasn't released any details. "They have to be looking at it," she said. "This is a difficult environment for a good company. When a company is losing it a little bit, there's nowhere to hide in this economy."

According to Retail Metrix, analysts' consensus estimate for Target's comp-store sales is a 4.3 percent increase for April. The retailer will offer a reading of April results on Thursday.

Target's financial performance picture hasn't been rosy. Same-store sales fell 4.4 percent in March, while comps in February inched up 0.5 percent. Same-store sales declined 1.1 percent in January. In February, Target's stock fell in the wake of a Citigroup downgrade that was critical of its women's apparel offerings. Deborah Weinswig, an equity analyst at Citigroup Global Markets, said there was a lack of focus in Target's women's fashions, risk in its credit card portfolio and the perception that Wal-Mart is the discount price leader. "On the apparel side, they've kind of lost their way a little bit," Weinswig said. "It's kind of a sea of sameness now. It used to be a very interesting place to shop." Weinswig also said there's been too much focus on Go International "because that's the sexy part" of the business, but not the bread and butter.

Target's slick advertising and designer cachet helped bolster its cheap-chic image, but now the retailer must continue to stay fresh to draw shoppers at a time when driving traffic through stores has been difficult. "The newness factor has probably worn off a little bit, so they just have to continue reinventing themselves," said Tiffany Co, debt analyst at Fitch Ratings.

In its single-minded quest to bring upscale brands to its stores, Target has sometimes lost sight of the bigger picture. An effort to upgrade its skin care offerings led Target to sell brands such as Origins, Bumble and bumble, StriVectin and Clarins by sourcing them from the gray market and without those companies' approval.

Target on Monday said it had agreed to sell an interest in its credit card receivables to J.P. Morgan Chase & Co. for about \$3.6 billion. Charge-offs for accounts that are 180 days delinquent are rising and Wall Street continues to be

cautious about investing in lending operations. The interest represents approximately 47 percent of the principal amount of Target's outstanding receivables.

According to Buchanan, Target's credit card business this year will account for more than 20 percent of operating profits or \$1.15 billion in operating profits before interest expense. The company's total operating profit this year is around \$5.4 billion, he said. "Target wants to continue to control the credit card and drive the marketing, but at the same time gain access to somebody else's capital," he said.

"The Target juggernaut is slowing," said Suzanne Hader, principal at 400twin Luxury Brand Consulting. "If they want to continue on this tack, they should look into spinning off a new retail concept where they can distill some excitement around these lines into a smaller format that's more easily adaptable to Manhattan. Barneys is looking for a way to differentiate themselves from Saks Fifth Avenue and Neiman Marcus, so this will help them seem hipper and less stuffy. If that's their aim, there are more effective ways of accomplishing that."

The names of Go guest designers are likely obscure to typical Target shoppers — Luella Bartley, Tara Jarmon, Erin Fetherston, Paul & Joe — but the company recently introduced a Go International private label line, New Next Now, sans the name of a designer, leading some experts to wonder whether the company will add a generic Go label to its permanent roster. New Next Now is less edgy than previous collections, with simple tank tunic dresses, one-shoulder jersey dresses in solid colors and high-collar, ruffle-front shirts.

Those who know Gregory and his partner, Scott Hahn, said they were eager to sell to Target once they were assured the mass retailer was committed to producing an organic collection. Julie Gilhart, Barneys' senior vice president and fashion director, has a passion for the environment and was instrumental in enlisting top designers to create eco-friendly products for the store. She is said to have been keen on launching Rogan for Go International to show support for the mass merchant's nascent green efforts.

"Barneys and Target was kind of serendipitous," said Gregory. "We know it will be a benefit [to our business]. The Target thing came about this time last year. It's nice to be able to offer this true expression of my vision. Target is doing hundreds of thousands of garments. They gave me everything I asked for. I feel privileged to speak to both the high and the low end."

Asked whether Rogan customers will view the Target line as a conflict, Gregory said, "We don't do safari here. It's so much a different product, aesthetically. Every piece in here we make 10 of, whereas Target's minimum is 10,000."

Yet even here the supposedly cutting-edge mass retailer is behind the curve. Wal-Mart has been much more outspoken and proactive about the environment in recent years, selling 100 million energy-efficient compact fluorescent lightbulbs within a year, reducing packaging and using organic cotton in some of its apparel. Again, Target's tie-ups with Rogan and Barneys may be as much about hype and hopping onto the bandwagon of an issue that is now in the spotlight as it is about any revenues.

"Clearly what Target is doing with Barneys is all about marketing and branding," said Wendy Liebman, founder and president of WSL Strategic Retail. "To have that opportunity to present the line there for a few minutes....In terms of the New York market, there's the prestige and it's a good marketing tool. For Barneys, this is a way to surprise people. There's all this fast fashion going on; Barneys is saying, 'We can take a little poke at [ourselves] and have fun with it. We can give our Barneys shoppers a chance to get a good value for a few days.' It will create a little bit of anarchy and a little bit of buzz."

Designers who have done a stint with Target were generally positive about the experience, but said it didn't boost sales of their core collections. "It helped my brand to gain exposure in a new market with a new audience," said Behnaz Sarafpour. "It has not had an effect on the selling of my designer collection."

"Since it was only a three-month capsule collection, it did not affect sales from our main collection in any way," said Holly Dunlap, who recently designed a Hollywood shoe and handbag line for Target. "People loved to be able to buy Hollywood products at such a low price, and we were able to reach a wider audience than we can at our usual price point. The products I did for Target were not too similar to our main collection, so there was never any confusion and

the difference was kept very clear."

One Go participant said Target pays \$100,000 for a designer's efforts — no matter how much revenue the line generates for the retailer. Another designer said, "They pay a designer fee and it's substantial. For the amount of exposure and credibility Target gives you, it's a pretty fair compensation. It's not something you can retire on, but it's a quick-turn project."

— **With contributions from Whitney Beckett, Evan Clark, Julee Greenberg and Rosemary Feitelberg**