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Challenges for Barneys: Tough CEO Search Ahead As Economy Hits Growth

By David Moin

Barneys New York has double trouble — losing its chief executive while struggling to get its expansion strategy on track in a tough U.S. economy.

The retailer's chief executive officer, Howard Socol, is expected to retire soon, about a year ahead of his original timetable. Finding a seasoned successor to guide the luxury retailer isn't expected to be easy, with no obvious inside candidate and a very shallow talent pool outside.

Sources said Monday Socol, 62, has been growing impatient with Istithmar, an investment arm of the Dubai government, because it has been encroaching on the managerial independence he's been used to at Barneys and other companies he's run. "He's kind of had it," said a retail source.

Istithmar bought Barneys for $942 million last year from Jones New York. The fund is widely considered to have paid a high price for a brand with limited portability due to its cutting-edge image. Jones bought the business for just under $400 million a few years earlier.

Istithmar bought Barneys at the peak of the market, beating out Link Theory Holdings of Tokyo in a bidding battle. Observers said the price represents Socol's success in building up the retailer's reputation.

At the time of the acquisition, Istithmar executives told WWD that overseas expansion, while possible, wasn't a priority because the fund saw plenty of potential to grow in the U.S. Since then, however, the American economy has gone into a tailspin, with weakness in major markets where Barneys has planted new stores, including Las Vegas and San Francisco.

Any new ceo will have to contend with the poor U.S. retail scene, as well as working with a team closely associated with Socol.

Barneys has been curiously quiet, with no official announcement having been made to confirm Socol's imminent departure, which was reported by The New York Times Saturday. Nonetheless, the report has sparked speculation as to who can fill Socol's shoes. No one inside the company has been groomed as a successor, a shortcoming on management's part. Barneys is strong on seasoned buyers, but not deep with manager types.

Outside Barneys, those likely to be checked out first are executives with luxury experience including Burberry's U.S. president Eugenia Ulasewicz; Ron Frasch, president and chief merchandising officer at Saks Fifth Avenue; Jim Gold, president of Bergdorf Goodman; Karen Katz, president of the Neiman Marcus Stores; Caryn Lerner, president of Holt Renfrew in Canada, or Jane Shepherdson, Topshop's former chief. Certain candidates could be restricted by non-compete clauses in their employment contracts.

Still, Barneys could tap someone from outside the luxury sector, as when it hired Socol seven-and-a-half years ago. He spent over 20 years at the Miami-based Burdines department store chain, which last year was merged into Macy's. After Burdines, Socol had a short stint as ceo of J. Crew, but resigned due to differences with then-owner Emily Cinader Woods.

At Barneys, issues between Socol and Istithmar regarding its expansion have flared up. Socol has been orchestrating the expansion, in the last two years opening units in Boston, Dallas, Las Vegas and San Francisco, as well as rolling out the Co-op contemporary chain. There are seven flagships, two smaller stores, 15 Co-ops and 13 outlets. Barneys has an estimated volume of $600 million to $700 million.

The expansions have put pressure on Barneys' relatively small organization.

Internationally, there are a handful of locations with the type of fashion customer Barneys would appeal to, such as Paris and London — although the market there is already saturated with designer retail. Istithmar has a Shanghai office and has been considering Macao for Barneys, while the Middle East also is viewed as potential expansion territory.

But international expansion there poses problems because several important luxury brands that Barneys sells in the States are already sold at Harvey Nichols, Saks Fifth Avenue, Villa Moda, Al-Thayer Group and other stores in the Middle East, precluding distribution to Barneys there.

"Howard welcomes the expansion but I'm not sure he wants to put the first overseas store in the Middle East," said one retail consultant with ties to the region. "Istithmar could put Barneys in Dubai, but it might not be the same as Barneys on Madison Avenue and that could cause differences between Howard and the [Istithmar] management."

"Expansion overseas is not easy. You can have the same box, but you can't have the same merchandise matrix," noted Enrico Morra, ceo of Piazza Sempione, the Milan-based collection that launched its wholesale business in the U.S. by selling first to Barneys.

In the Middle East, for example, Prada is linked to one retailer, and another has the master license to sell Gucci, Morra explained. "Overseas expansion is ambitious and not easy. But it doesn't mean you have to fail. It means you must find a matrix that is more elastic."

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— Enrico Morra, Piazza Sempione

"I was surprised when I heard about Howard. I hope it's not true," said Allen Questrom, who tapped Socol to succeed him at Barneys. "It's hard to imagine Istithmar paying that kind of money for Barneys and having a fissure with Howard so early in the process."

"Howard Socol is very much his own man," added Elaine Hughes, principal at Grayson/Hughes executive search.

"There is a level of frustration that comes when you change management and have a new set of parents. Howard has been here for seven-and-a-half years, and the past [owners] kept to the background," said a retail source close to the company.

Aside from the expansion, Socol is credited with instituting disciplines to a chain that for many years was more into image than driving sales. His favorite expression at the store has been: "Commerce versus cool — there has to be a balance of both."

In the wake of rebuilding a business that went bankrupt while still owned and operated by the founding Pressman family, "Howard Socol stepped back, retrenched, and stuck to vanguard positioning and exclusivity as the hallmarks of the Barneys' experience," said Suzanne Hader, principal at 400twin Luxury Brand Consulting. "It seems to have paid off well for them to date, but my understanding is that the new owners are looking to expand too rapidly, too far afield without the right people in place to ensure the quality will be consistent. When creating a top-of-market luxury experience, you can't cut corners without it having an immediate adverse impact on the brand. The Barneys customer — very sophisticated and in the know — won't take well to being disappointed."

Like other retailers, Barneys is struggling with the weak economy. Its business is driven by the Madison Avenue flagship and generally works best in big cities. Fashion executives said currently, Barneys is doing well in New York, Chicago, Boston and Seattle, but not in Chestnut Hill, Mass.; NorthPark Center in Dallas; Los Angeles, and Las Vegas.

The unit at NorthPark Center has struggled with sluggish traffic since it opened in September 2006.

"Some stores start slower than others," Socol acknowledged in January when queried about Barneys' 88,000-square-foot store in Dallas. "We are doing some new things there," including possibly adding a Fred's restaurant, like the one in the Madison Avenue flagship.

"We always knew this is clearly Neiman Marcus' hometown, and there was going to be a period of time during which [Barneys'] sales would grow," said David Haemisegger, president of NorthPark Management Co. "Their growth rate is on track."

However, Barneys has been working hard to get its expansion on track and new branch stores up to speed. Success hinges on building customer relationships, which takes a long time, and wooing shoppers long loyal to Neiman Marcus, Saks Fifth Avenue and Bloomingdale's.

Some of the stores are in a better position than last year, having recently recruited stronger store managers and personal shoppers. This spring, Barneys got a lift from all the colors and prints in the market, which tend to go over well with Dallas women. Overall, the merchandise mix hasn't been changed much there, according to the retail source close to the company, with the branch still carrying brands Barneys is best known for, such as Lanvin, Balenciaga, Marni, Prada and Givenchy.

The Vegas store has been a disappointment, in part because the entire city has been suffering from decreased tourism and the housing crisis, and because Barneys opened ahead of a lot of other retailers in The Shoppes at The Palazzo, which is on the Strip, and didn't anticipate how low the level of traffic would be.

In Chicago, Barneys is planning a new store to open in spring 2009, replacing the existing 60,000-square-foot unit with a bigger box. A Scottsdale, Ariz., store is also planned.

"My business is good with them and I love Howard," said Diane von Furstenberg. "I'm terribly sad to see him go. He's a wonderful guy, a great retailer, he has a lot of experience and he knows how to work with creative people. It's going to be hard to replace him."

"How is Barneys' new store in Las Vegas? The mall is still new," von Furstenberg said, referring to the retailer's unit at The Shoppes at The Palazzo, which opened in January. "We're doing fine."

Gianni Castiglioni, ceo of Marni, said, "For the past 10 years, we've had and still have a great business relationship with Barneys."

Diane Levbarg, executive vice president of Missoni USA, said she's currently shipping Missoni fall ready-to-wear to Barneys' Las Vegas store. "I wasn't in Las Vegas with rtw for the opening, just the bathing suits," she said. The bright bikinis were prominently displayed near Pucci cover-ups. "They didn't buy enough and sold out." Still, she said her Missoni business isn't so significant in Las Vegas "but I know my New York and Beverly Hills businesses are fabulous."

— With contributions from Whitney Beckett and Sharon Edelson, New York, and Holly Haber, Dallas