

Get the latest updates on products and performance.
Follow us on twitter/[putnamtoday](#).



Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](#)

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.

[WSJ.com](#)

THEORY & PRACTICE | MARCH 29, 2010

U.S. Apparel Retailers Map an Expansion to the North

Canada's Proximity, Familiarity Lead Companies to Scout Locations There When Growth Farther Afield Seems Too Risky

By ELIZABETH HOLMES

Risk-shy from the recession but anxious for growth, U.S. retailers are expanding internationally at a creep—into Canada.

J. Crew Group Inc. is scouting its first non-U.S. locations. **Limited Brands Inc.** is bringing Victoria's Secret north, and plans to double its Bath & Body Works stores there by year end. **Gap Inc.** is opening more outlet stores.

The border crossings underline a wider dilemma facing CEOs in many industries. Many feel the economy is still too fragile to take big ambitious risks, but they still need to restart growth. Canada offers a baby step: a way to expand internationally, but in a market that's closer and more familiar than Europe or Asia.

Apparel CEOs have so saturated the U.S. in the last decade that even as consumers reopen their wallets, many retailers must look outside the country for substantial growth longer term. In a tacit nod to domestic limits, apparel retailers including Gap, **AnnTaylor Stores Corp.** and **Talbots Inc.** are closing locations and shrinking stores.

Crossing into Europe and Asia is tricky. Retailers must learn different labor laws, shopping habits, body sizes and tastes. In the past, most U.S. clothing retailers have just stayed home. One exception, Gap Inc. expanded into Europe and Asia in the 1990s but slowed to focus on domestic sales.

Canadians, by contrast, know American brands and share similar taste and body types. Canadian sales have held steadier through the global downturn than those in the U.S., and the market is less built up. Canada has about 14 square feet of shopping center space per capita, whereas the U.S. has roughly 23, according to the International Council of Shopping Centers, a trade group.

Still, it's not foolproof. Canadians tend to be slower, steadier shoppers than Americans, with a preference for higher-quality goods and more interest in outdoor looks, says Sam Winberg, a principal at brokerage Northwest Atlantic Canada Inc. Kmart stumbled there, and ended up selling the majority stake in its Canadian operations in 1997 after business failed to keep up with its domestic turnaround efforts.

Millard "Mickey" Drexler, J. Crew's CEO, is heading north cautiously, having learned the risks of aggressive international expansion at the helm of Gap in the 1990s. As Gap expanded abroad—an initiative pushed by its late co-founder Donald Fisher—revenue grew but profit lagged.

"I don't know what the rush to be big is for, to be outside the United States," Mr. Drexler said during a panel discussion in January. He cited "minimal" returns on foreign businesses at Gap as reason for skepticism and pointed out what he saw as significant hurdles, including European labor laws and Asian language barriers. He said international growth can be a "distraction" from domestic operations.

But in March, the company said it was scouting real estate in Canada, and Mr. Drexler said he sees potential for 10 to 15 stores. (The company declined to provide a timeframe.) "Canada we're going to—slowly," he said.

Limited executives also are focusing international efforts in Canada, drawn by its proximity and familiarity. "Canada is a market with over 90% awareness of our brands — and it's a market that we can actually drive to from Columbus, Ohio," where the company is based, said Martin Waters, executive vice president of international at Limited, at the company's most recent investor meeting.

The company has been slowly laying groundwork in recent years to expand in Canada. In 2007, it acquired Canadian lingerie brand La Senza. It opened a handful of Bath & Body Works to test the market in 2008. They're generating 2.5 times the sales per square foot as the average U.S. store, says Mr. Waters.

"Now we have our feet on the ground we're going to start plowing forward," said Limited's Chief Executive Leslie Wexner.

Mr. Wexner plans to double Bath & Body Works to at least 60 stores in Canada by year end, and will introduce Victoria's Secret this year there with four 10,000-square foot megastores. He's also expanding its Pink young-adult lingerie chain there to nine stores from four.

Gap is further along in Canada, with 200 Gap, Banana Republic and Old Navy stores. CEO [Glenn Murphy](#)— a Canadian himself—says he's learning from earlier mistakes Gap made there as he looks to restart measured international growth elsewhere.

Gap was slow to open outlet stores in Canada, for instance, so is adding 10 this year. It won't offer online sales until this fall, more than a decade after launching e-commerce in the U.S.

"Talk about being late to the party," Mr. Murphy says. When Gap expands in Italy and China later this year, it will launch online and outlet sales either immediately or shortly thereafter.

Write to Elizabeth Holmes at elizabeth.holmes@wsj.com

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com