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Teen Retailers Embrace Small Fries

American Eagle Outfitters to Open Children's Clothing Stores, Following Its—and Its Rivals'—Flops in Adult Apparel

By KAREN TALLEY

Teen retailer American Eagle Outfitters Inc. on Thursday will open a store in a Pittsburgh mall with clothes for children and babies in a move that will expand its "77kids" product line beyond its limited website, moving more fully into the growing business of selling togs for youngsters and toddlers.

Teen retailers, running out of fruitful locations to open their traditional stores, have been trying to increase sales by expanding their customer base. But reaching up into the adult market is challenging—as American Eagle learned with its Martin + Osa chain, which is being wound down—so the next option is reaching down into the kiddie pool.

Children's apparel tends to be more resilient in tough economic times. As they sprout up, kids need a steady supply of new clothing, so parents have little recourse but to keeping buying even if they don't buy new outfits for themselves.

American Eagle's move mirrors fellow teen retailer [Aeropostale Inc.](#), which found more success expanding last year to a younger demographic after failing with Jimmy'Z, its experiment in adult apparel. By contrast, Aeropostale said in late May that its kids' shops—called P.S. from Aeropostale—are doing well, having exceeded expectations for its fiscal first quarter, although it declined to provide figures. Gap Inc. is in the midst of expanding its kids' and baby lines.



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Pittsburgh Post-Gazette/Zuma Press

Last fall, American Eagle Outfitters used a pop-up temporary store, above, in Pittsburgh to test out its 77kids concept, which it's now expanding.

Fellow teen retailer [Abercrombie & Fitch Co.](#) in January closed up the last of its Ruehl stores, which had been aimed at men and women aged 22 to 35.

Kids and babies might be easier to connect with. "There are natural synergies," says Betsy Schumacher, chief merchandising officer for American Eagle's 77kids unit. "We like to be able to have a customer start with us at birth and stay right through college."

The baby-to-young-teen market is roughly \$34 billion, a decent-sized slice of the overall apparel market, which has \$190 billion in annual sales, according to NPD Group.

As the teen retailers said when they created their adult-concept stores, the move into kids is key to their further success. "Kids is an important part of our overall growth strategy," says Ms. Schumacher.

American Eagle can use a boost in business. Same-store sales have been struggling and the teen retailer indicated that pressures from markdowns will wear on its current quarter's results. American Eagle said earlier this month that second-quarter earnings per share would be on the low end of its projected range.

American Eagle's first-quarter performance was hurt by closing costs for its Martin + Osa chain.

77kids, which takes its name from the year American Eagle was founded, started out a year-and-a-half ago as an online offering, with American Eagle preferring to go slow with its new line as its four-year-old Martin + Osa stores were failing.

Hoping to nab important back-to-school dollars, 77kids this month will open five stores in malls, all where American Eagle Outfitters stores are already located. Another three will open by the end of this year.

Ms. Schumacher declined to disclose the online sales for 77kids but said the decision to proceed with new stores was based on the successful reception the line received over the Web. The website also served as a way to experiment so that the stores will have merchandise that customers want, Ms. Schumacher said.

"We got to see what styles were popular," she said.

The company also experimented with a pop-up store in Pittsburgh.

77kids will feature clothing for infants on up to preteens, designed along the lines of American Eagle's own mussed-up preppy look, featuring plenty of denim—including the torn variety—fleece and graphic T-shirts.

In contrast to what Aeropostale is doing—going after youngsters age 7 through 12 with its P.S. from Aeropostale stores—American Eagle is targeting all kids, including newborns, toddlers and preschoolers as well as elementary-school children.

American Eagle Outfitters' 77kids stores will be around 5,000 square feet, around 800 square feet smaller than an American Eagle Outfitters store, but they will include amusements for youngsters, including treat stations, mazes and areas where kids can be disc jockeys.

American Eagle's pricing typically falls between low-priced Aeropostale and upper-end Abercrombie & Fitch. And prices for 77kids appears to do the same. A toddler boys army-surplus style jacket is priced at \$44.50 while girls graphic T-shirts are \$14.50.

Dorothy Lakner, retail analyst at Caris & Co., gives a nod to the endeavor. "The stores are very funky and colorful, and we've just been through something of a baby boom. As the kids grow, you

have no choice but to buy clothes for them, even in a recession, even if parents don't buy clothing for themselves."

That's not to say there isn't tough competition. Gap stores are in the midst of receiving shipments for the retailer's kids' and babies' lines, including a fuller array of denims and even varsity jackets and lettermen sweaters. "Gap Kids and Baby Gap continue to be a priority and a business we want to grow," Gap spokeswoman Louise Callagy says.

Ms. Callagy says that while Gap doesn't break out sales for its different units, parents do feel an obligation to spend to keep their children well-dressed. Clothes are bought as kids grow out of old apparel, for different seasons and special occasions, she says, and parents also want their children to look good in their own eyes and those of people they meet.

"There is a real emotional component," she says.

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