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Targeting Younger Buyers, Liz Claiborne Hits Snag

By RACHEL DODES

This month, J.C. Penney Co. is launching a new Liz Claiborne clothing, home and accessories line in all 1,100 of its stores, its biggest brand launch ever.



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The Associated Press

Isaac Mizrahi raises the gavel with William McComb, right, during closing bell ceremonies at the New York Stock Exchange April 28, 2009.

But while the exclusive collection is considered a coup for Penney, it could mark the final chapter in the story of the 34-year-old Liz Claiborne brand.

Liz Claiborne, once the No. 1 vendor at American department stores, has effectively ceded control of its iconic brand to Penney as part of the deal. The agreement—which calls for Claiborne to give up production and marketing and convert the label into a mass market line in exchange for royalties—was struck only after Macy's Inc. slashed its Claiborne orders last year. The deal gives Penney the option to buy U.S. rights to Liz Claiborne's name in five years.

"For Penney, this is wonderful," says Candace Corlett, president of New York retail consultancy WSL Strategic Retail. "It's Liz I

wonder about."

The company that pioneered career apparel for a generation of working women, [Liz Claiborne Inc.](#) has seen its fortunes decline precipitously in the past few years. Since Chief Executive William L. McComb took over in 2006, the company has posted 11 consecutive quarters of red ink. Liz has seen its credit ratings fall from investment grade to junk and the S&P 500 removed the stock from its index. Its stock closed at \$4.82 on Friday, compared with \$43 when Mr. McComb joined the company.

The Rise and Fall of Liz Claiborne Inc.



Here's a look back at the storied brand.

The recession took a toll on all clothing makers, and even before Mr. McComb took over Liz Claiborne the company faced an aging consumer base and a flagship brand in decline for years. Profits and revenue were slowing, and Mr. McComb inherited a bruised relationship with an important client, Macy's department store.

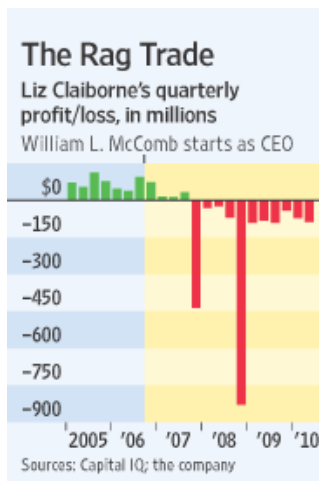
Mr. McComb's strategy, to move the company away from its core baby-boomer roots, hasn't solved those problems so far, and it has stirred up a few new ones. The company's woes show how tough it can be to rejuvenate an iconic brand.

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Founded in 1976, Liz Claiborne grew explosively by providing stylish career apparel to the droves of women who entered the workforce in the 1980s. Many of those women, born between 1946 and 1964, now are starting to retire and not spending as much money on clothes as younger women do.

In an effort to attract a younger audience, Mr. McComb decided to focus on the company's contemporary brands with the most potential, including Juicy Couture, Kate Spade, Lucky Brand Jeans and Mexx. But he made a series of strategic blunders including hiring a star designer, Isaac Mizrahi, at a hefty salary and veering away from the Liz Claiborne brand's trademark career apparel. He sold, discontinued or licensed several boomer brands—including Ellen Tracy, Dana Buchman and Sigrid Olsen—that weren't performing well but represented major sales volume.

The decision to realign the company's portfolio "was a disaster waiting to happen," says Bruce Greenwald, a finance professor at Columbia Business School.



Mr. McComb assumed he could replace the lost sales volume "in a market that's an extremely competitive, fast growing, young person's market," Mr. Greenwald said.

Mr. McComb concedes that he has made some mistakes. At Mexx, for example, he recently replaced the management team after an earlier overhaul failed to captivate consumers.

But he remains confident of his overall strategy. "If we had not had that incredible realignment in the summer of 2007, there's no way we would have made it through the storm, from a working capital perspective," he says. "I am so bullish about where we are going to be."

The new business model with Penney enables the company to turn a money-losing business into one that generates profits, he says. A lower-priced Liz & Co. line that Penney launched in 2007 has been very successful, both companies say.

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Although the baby boomer fashion market is notoriously difficult, several of Claiborne's competitors have been able to retain the older consumer while attracting younger women. Retailers say Calvin Klein and Ralph Lauren, for example, have succeeded by being consistent in style and offering quality clothes that fit well and are a good value for the money.

At its height in the early 1990s, Liz Claiborne generated \$2 billion in annual sales. After founder Ms. Claiborne and her husband Art Ortenberg retired in 1989, sales began a slow decline. Specialty retailers such as Ann Taylor and Banana Republic picked off consumers who preferred mixing and matching to a whole Liz Claiborne "look." Department stores

slashed inventory levels, demanded exclusive merchandise and pushed their own higher margin, private-label brands.

To fuel growth in the late 1990s and early 2000s, then-CEO Paul R. Charron went on an acquisition spree, collecting a portfolio of 46 brands. The expanded group masked the reality that the core Liz Claiborne label was losing momentum.

A charismatic industry outsider, Mr. McComb was hired in 2006 from [Johnson & Johnson](#), where he ran its orthopedics and neurologics division. Known for his flamboyant management style, he quickly differentiated himself from his predecessor.

On an early trip to see the company's Juicy Couture brand in Los Angeles, Mr. McComb wore a blue velvet Juicy blazer with a jacquard novelty shirt. Mr. McComb once got down on the floor, in front of gawking employees, and kissed the feet of Liz Claiborne's general counsel, Nicholas Rubino.

At a meeting with his management team, bankers and consultants in early 2007, Mr. McComb belted out "Climb Every Mountain" from "The Sound of Music."

"He is an optimist with boundless energy. He takes bad news in stride," says Arthur C. Martinez, a board member and former chief executive of Sears Roebuck & Co. "He is an incredible motivator."

Soon after being hired as CEO, Mr. McComb said that the company's portfolio was overweighted in what he called the "missy boomer quadrant" and vowed to bring the average age of the Liz Claiborne customer down by broadening the brand's appeal. Female consumers between the ages of 25 and 34 shop more often and spend more money on apparel than any other demographic group, making them an attractive target for any fashion company.

In 2007, a month after Ms. Claiborne died, Mr. McComb eliminated, sold or licensed out 16 brands accounting for \$800 million in annual revenue. Many of those brands appealed to boomer consumers at department stores. Mr. McComb's goal, he said, was to focus the company's cash and attention on its more promising contemporary brands, which operate their own retail stores and are less tied to department stores.

But most of the contemporary brands haven't taken off as expected. Although Kate Spade posted a sales increase of 25% to \$42 million for the quarter ended July 3, overall the "U.S.-based direct brands" business segment—which includes Kate Spade, Lucky Brand and Juicy Couture—posted an operating loss of \$13 million in the period. Mexx, a European brand, lost \$26 million on top of a \$33 million loss for the same quarter in 2009.

One of Mr. McComb's top priorities was relaunching the Liz Claiborne brand and in 2008, he lured celebrity designer Isaac Mizrahi away from Target Corp. to be creative director. Mr. Mizrahi signed a five-year contract worth about \$6 million a year, according to people familiar with the contract, significantly more than he was earning at Target. Liz Claiborne officials declined to comment on the dollar value of the contract, saying "it had fixed and variable components."

As part of the deal, Liz Claiborne hired Mr. Mizrahi's entire design staff of about 25. Claiborne also agreed to fund elaborate fashion shows for Mr. Mizrahi's personal Isaac Mizrahi high-end brand, for approximately \$1 million each season, according to a person familiar with the matter.

While considered a steep price of entry, the Mizrahi deal granted Mr. McComb access to the rarefied world of high fashion.

Indeed, Mr. McComb was dazzled by the more glamorous aspects of the fashion industry, according to some people who worked with him. His first acquisition was a \$12 million investment in the high-fashion label Narciso Rodriguez. When, a month after the acquisition, Mr. Rodriguez declined to accompany the CEO to the black-tie gala for the Council of Fashion Designers of America, Mr. McComb emailed Mr. Rodriguez to say he was "sad, disappointed and deeply disturbed." Claiborne and the designer severed their relationship 18 months later. Mr. Rodriguez had no comment.

For his first Liz Claiborne collection, Mr. Mizrahi said he wanted to inject a shot of youthfulness into a line he considered "a little granny." He designed a colorful collection featuring dirndl skirts with tulle crinoline, bright floral cardigans and nipped-waist shirtdresses. Prices, lower than in the past, ranged from \$30 for shirts to \$250 for coats.

Unlike at Target, where Mr. Mizrahi collaborated with a team of merchants, Claiborne gave the designer lots of leeway in determining the direction of the line, according to people familiar with the matter. Mr. McComb publicly called Mr. Mizrahi "a master" and hung a painting of the designer in his office.

Claiborne's largest client, Macy's, however, was worried about the aesthetic of the line, which was considered fashionable but not geared toward working women, the brand's core constituency.

Mr. McComb had inherited a rocky relationship with Macy's, after his predecessor announced the low-priced Liz & Co. line for Penney, Macy's archrival, in 2006.

At a March 2008 lunch at the Museum of Modern Art's restaurant, Macy's CEO Terry Lundgren and the company's then-head merchant, Janet Grove, told Mr. Mizrahi that the new line needed to make a big splash to reverse its plummeting sales—which had fallen to a total of about \$200 million by the end of 2007 from more than a \$1 billion a decade earlier.

"It better be different" from the Liz & Co. line at Penney, Mr. Lundgren warned Mr. Mizrahi, or Macy's might drop it, according to a person who was at the meeting. Mr. Mizrahi assured Macy's that he was determined to make a break with the past.

Mr. Mizrahi's designs hit stores in January 2009, generating media buzz and positive reviews from fashion critics. Michelle Obama was photographed in one of his outfits and Vogue ran a profile of Mr. Mizrahi.

But the collection launched in the midst of the recession. Claiborne's core baby boomer consumers rejected it, forcing aggressive markdowns. In the first quarter of 2009, Claiborne's "partnered brands" division, the largest component of which is the flagship line, posted an operating loss of \$40 million.

Mr. Mizrahi's looks, such as a gingham dress with a big crinoline slip attached, confused Carol Orsborn, a 62-year-old author and marketing consultant who used to wear Liz Claiborne. "I wasn't sure where or when the traditional Liz Claiborne woman would wear that," she said.

Stephen Reily, CEO of a Boomer networking site called VibrantNation.com, called the Mizrahi look for Liz Claiborne "a kind of madcap Auntie Mame style when applied to women 50-plus."

Mr. Mizrahi declined to comment.

During the first season, as sales fell short of expectations, Liz Claiborne discussed an exclusive deal with Macy's, in an effort to get better exposure and terms in the future. The company simultaneously began pursuing deals with other retailers, including Kohl's Corp. and Penney.

In September, Macy's told Liz Claiborne that it was cutting distribution to 28 stores from 300, effectively dropping the brand after 30 years. People familiar with Macy's thinking say that the collection was too fashion forward to appeal to Claiborne's consumer base.

"We could not justify expanding it," Macy's spokesman Jim Sluzewski said.

Liz Claiborne's executives were shocked by the magnitude of the reduction, according to people familiar with the matter.

In October, Mr. McComb called a meeting of a team of 100 designers and merchants at Mr. Mizrahi's studio for what he called "bittersweet, but great news," according to people who were there.

His announcement: Under a new licensing agreement, the brand will only be sold at J.C. Penney and will be manufactured and marketed by the retailer. Several designers who had worked at the company dating back to Ms. Claiborne wept. Mr. McComb told them that in 60 days they would no longer have jobs, according to people who were at the meeting.

Penney CEO Myron E. Ullman III said the Liz Claiborne brand was a way to steal market share from mainstream department stores, particularly Macy's, its biggest competitor. The company did research and found that half the women who buy Liz Claiborne at other department stores would follow the brand to Penney.

Citigroup analyst Deborah Weinswig thinks it could bring in \$300 million to \$400 million in sales in its first year—and Claiborne would get an undisclosed percentage of sales and profits with a guaranteed minimum annual royalty. Penney wouldn't comment on specific figures, but said it expects sales to double in five years, at which point it has the option to buy U.S. rights to the brand.

The deal was contingent on Claiborne's willingness to sell the brand name, Mr. Ullman said. "I think if they had their choice, they would probably not have agreed to sell it," he said.

Mr. McComb continues to have the support of his board, which last summer renewed his contract for three more years. "The strategy is exactly right and the board is fully in support of it," says Mr. Martinez.

If the company continues to show losses a year from now, "absent some cataclysmic economic event...we would be obliged to question the leadership and the path that we are on," Mr. Martinez says. For now, though, he says "there is an overwhelming vote of confidence" in the strategy set forth by Mr. McComb, who once described board members as having "brass balls and brass bras" for sticking with him.

Mr. McComb says he's now considering changing the company's name. Liz Claiborne is "a misnomer strategically," he said.

—Joann S. Lublin contributed to this article.

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