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Misses' Chains Under Siege

By EVAN CLARK

The battle for the misses' customer — once a raging front in the retail war — has become more of a sideline skirmish, leaving specialty stores that relied too much on the once-lucrative consumer segment to face dramatic change.

The Talbots Inc., which has closed stores and suffered declining revenues, on Tuesday batted away what it considered to be a low-ball offer to acquire its operations. Instead, the company said it would explore "strategic alternatives" with financial adviser Perella Weinberg Partners — Wall Street speak for hanging out the For Sale sign.

Earlier this month, Charming Shoppes Inc. did much the same when it revealed plans to divest the Fashion Bug chain and hired Barclays Capital to, again, pursue "strategic alternatives."

Talbots is said to have drawn the interest of both financial and strategic players. One possibility, the acquisition-minded Ascena Retail Group Inc., which operates the Dress Barn chain, and is also considered a possible buyer of Charming Shoppes.

But, in general, the category is simply not getting lots of love. Call it the misses' crunch. And companies across the segment are feeling it. Coldwater Creek Inc. and Christopher & Banks Corp., as well as Talbots, are cutting their store base by 12 to 15 percent each.

"It's a zero-sum game and any market share somebody is gaining is at the expense of somebody else," said Arnold Aronson, managing director of retail strategies at Kurt Salmon. "Some of the attractiveness of the department stores, in terms of their multiple brand options, is creating pressure on the monobrands. It's competition for a consumer segment that is not growing, but at best is treading water."

Aronson said Kohl's, J.C. Penney, Macy's and Belk have all effectively courted the misses' customer.

The combination of an aging consumer who is economically challenged and less focused on fashion as they retire has made for a hyper-charged competitive environment. Talbots, for one, has felt the brunt of it. When the company did try to update its fashions to court a young customer, it ended up alienating its established base — a retail Catch-22.

The offer to buy Talbots came from private equity firm Sycamore Partners, which already owns 9.9 percent of the chain and said it would buy the rest of the outstanding shares for $3 each — valuing retailer at $211.5 million. Talbots said the "proposal was inadequate and substantially undervalues the company."

Investors weren't so sure. The stock gained just 1.9 percent to $2.69 in light trading Tuesday.

As it tests the waters, Talbots said it would continue with its long-range plans and carry on in its search for a successor for outgoing president and chief executive officer Trudy Sullivan.

Paul Lejuez, an analyst at Nomura Securities, said the retailer should have taken the money from Sycamore and run.

"[Talbots has] a lot of debt, the brand is damaged," Lejuez said. "It's hard to for us to see why anyone would pay much more. If they can get a new ceo in there who can shake things up a bit, that to me is the best they can hope for, but I don’t think it’s going to be easy to fill that role.”

Given the pressures of operating as a public company in a difficult customer segment, Talbots and Charming Shoppes might not have lots of options.

“It may be these companies recognizing they’ve done what they can do and they’re ready to monetize in whatever way they can,” Lejuez said.

Leon Nicholas, director of retail insights at Kantar Retail, said the outlook for the two companies might be different if Generation X was bigger or if Gen-Y wasn’t coming of age with e-commerce.

“[Talbots and Charming Shoppes] didn’t accomplish what I would call intergenerational transfer,” Nicholas said. “They just didn’t recognize that this next generation, Generation Y, was going to buy differently. They didn’t look and see that demographics is destiny and see that their core shopper in time would be older.”

In essence, he said, the misses’ market has become a niche market.