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Mickey Drexler Blasts Malls

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NEW YORK — Whether it's the kiosks cluttering the common space or the smell of popcorn, there's a lot about malls that J. Crew Group chairman and chief executive Mickey Drexler apparently doesn't like.

So where better to vent than the Financo Forum, which on Monday proved to be true to the spirit of past Financo Forums, generating spirited banter between industry leaders. This time, it was marked by candid commentary from the always outspoken Drexler, sparking sharp responses from some miffed developers put on the defensive. But it began with Drexler criticizing malls. "We pay a lot of rent," he asserted from his seat in the audience. "I don't see any excitement or improvement in 98 percent," of the nation's malls. "Right now, there is a diminishing return. I just wonder where it all takes us. There are too many units in apparel."

Drexler continued to voice concerns, stating that the industry is being overrun by "more cheap players entering the marketplace than ever before." He also said last Christmas was one of the most discounted ever, next to possibly 2008 after Lehman Bros. crashed, and that last season was marked by "enormous apparel deflation" and poor performances across the sector. "Everyone was disappointing," he contended.

Drexler and the packed-in crowd of 300 retailers, suppliers and consultants at the Harmonie Club had just sat through a rather tame Financo-organized panel that gave no hint of the travails retailers endured last Christmas when they promoted doubly hard to lure procrastinating consumers, or of the ongoing issues between developer/landlords and their retail tenants.

"I don't know what the optimism is about," said Drexler, who sees a retail landscape marked by discounting gone out of control squeezing everyone's margins, developers rolling out too many kiosks selling inferior products and not doing enough innovating, and maybe worst of all, losing traffic.

Drexler even complained about one mall selling popcorn in a spot just below a J. Crew store. Apparently, the pungent odor wafting through his store was too much for him to take. Drexler, who avidly visits stores and malls, couldn't recall whether the popcorn problem was at a Taubman Centers property, or in a mall operated by the Simon Property Group.

But Robert Taubman, chairman of Taubman Centers, who was also in the audience, came right back at Drexler, stating: "Mickey, God bless you. It's not like you haven't made a living off shopping malls, maybe two livings compared to a lot of us."

Taubman said his centers are up 13 percent year-to-date, mostly due to increased traffic, and not so much because of inflation. "Our merchandise mix is better. We are driving more traffic in our centers. We are taking

market share from other venues. Our value proposition is better. That's why you [Drexler] should be paying more rent."

Drexler's popcorn and mall concerns triggered a reaction from David Simon, chairman and ceo of Simon Property Group. "I'll take all your space back right now," Simon said, presumably sarcastically. Drexler's earlier jab at Simon — "David, you look thinner. Are you working out?" — may have contributed to Simon's curtness.

Bill Taubman, chief operating officer of Taubman Centers took a middle ground, agreeing with Drexler that malls are losing traffic but not all malls, he emphasized. The spread between high-performance malls and low-performing malls is widening, Bill Taubman said.

Michael Gould, Bloomingdale's chairman and ceo, also took a middle ground, noting that Taubman and Simon are "great partners. We can't do business without them." However, he added, "We are in the business of theater," and questioned whether the theatrical environment of the Apple store is reflected in the rest of the mall.

Then it was back to Drexler, who did hedge his comments, noting that in criticizing malls, "I didn't say 'all' malls." Still, Drexler was clearly concerned about how the economics play out across channels of distribution. "There's something not right when we put a buck into the Internet and make twice as much money as opening a store," said Drexler, who, as in past Financo forums, managed to upstage everybody, including the impressive panel of industry players that included Chris Burch, founder and ceo of C. Wonder; Susan Lyne, chairman of Gilt Groupe; Kevin Plank, founder and ceo of Under Armour, and Walter Robb, co-ceo of Whole Foods Market. Margaret Brennan, anchor at Bloomberg TV, was the moderator, along with Financo chairman Gil Harrison and Financo president Colin Welch.

Burch spoke of his brand targeting 39-year-old women and in the early stages of building a consumer base. "We do anything possible to please our customer," he said. When the first store opened in SoHo last year, the retailer gave a free pair of earrings with returns and had associates telling customers, "We're sorry." He also spoke of risk-taking, using gut instincts to invest, and decisiveness as critical for success. "We'll open nine brands. There'll be a lot of deaths along the way. A fast bad decision is 10 times better than one slow good decision...If you don't take risks at every level, you can't win."

Plank spoke of his firm as an "achievable premium brand to consumers," those seeking affordable luxury in the performance/athletic sphere. The firm's primary selling focus is the U.S., and it'll probably grow first via expansion of its women's business and then footwear.

He also noted how competitors that play in the same space he does are all fighting for the same kids, who are comfortable in the mobile world, do research online or on smart phones before entering stores, and once inside, scan QR codes for more information, he explained.

Plank also boasted of how his firm, which does annual volume of \$1 billion, should hit \$2 billion by 2013. Lyne said Gilt appeals to two types of young, educated customers: aspirational consumers seeking access to

luxury brands, and successful men and women who have more money than time. Gilt's multiple assortments make it easier for them to shop.

She did express concerns over the news that 24 million customers' accounts were breached at Zappos.com, but said her firm is laser-focused on protecting its customer accounts. "I'm not saying we're not immune to hackers; there are feelers everyday," Lyne said. She emphasized that the key for ecommerce players to be successful is in "making people comfortable with shopping online."

She also spoke of how the firm micro-targets its emailing through algorithms that update a user's browsing and buying behavior. Since one has to sign in, it's easy to target events to meet a user's interests. In the nine months or so that the algorithms have been used, "We've seen an incremental conversion rate of 10 percent," Lyne said.

Whole Foods' Robb spoke of his firm's roots during its "hippie days" when fresh healthy foods appealed to the Baby Boomer generation, the same foods that now appeal to their kids due to selection and value that the firm represents. "The capital markets may be screwed up, but our business on the ground is good," he said.

Robb also spoke of the importance of a corporate culture, and cited some mistakes along the way, such as a store in the U.K. that was way too big. The company also has a presence in Canada, although Western Europe right now isn't a high priority for expansion.

Nathan Yao, general manager of 360Buy.com, a billion-dollar China-based general merchandiser online that's become like the Amazon of Asia, was expected for the panel but didn't show. "He was detained in China — for business reasons," Harrison said.

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