Going Private (Label)

Store Brands Go Way Upscale
As Designer Items Lose Cachet;
$675 for Macy’s Own Sheet

By Shelly Branch

rowsing a new linen boutique at
Macy’s flagship Manhattan store,
Odile Laugier, a part-time decorator,
mulls a $375 silk quilted coverlet for
her bed. The store’s other offerings
include Italian-made $1,350 davets and $275 pil-
lowcases, advertised in design magazines such
as Elle Decor. But such luxurious bedding isn’t
by a big-name designer: It’s sold under one of
Macy’s own private brands, “Hotel Collection
by Charter Club.”

Until recently, such haute price tags on
department-store house brands would have
been unimaginable. Traditionally, depart-
ment stores’ private-label goods are the least
expensive in a category, and often of a quality
to match. But with battered store chains feeling
pressure to deliver more unique merchandise,
such rivals as Saks Inc., Federated Dep-
artment Stores Inc., and even J.C. Penney
Co. are boosting their private-label wares in
prominence, quality and price.

Now retailers are touting their spiffed-up private-
label products to consumers and investors alike. At a recent J.C. Penney analysts’ meet-
ing, executives gloved over a $275 velvet and
jacquard comforter set in its Home collection.
“I challenge everyone to find an item like this in
a department store, especially for under $400,”
said Senior Vice President Peter McGrath. At
its annual meeting last month, May Depart-
ment Stores Co. Chief Executive Gene Kahn
bragged that the chain’s newly restyled private-
label apparel brands “have a unique look that
are not found at any other retailer.”

Some private labels are even developing their own mystique: A few women pawing
through the sale racks recently at Saks’ Man-
hattan store whispered that they had heard
the store’s Platinum line was made in the
same Italian factory as clothing by Armani.
Late last year, Federated draped ABC’s star of
“The Bachelor” in head-to-toe Alfani, its popu-
lar private-label line. By 2005, May hopes to
score points with design aficionados by team-
ing up with Hearst Corp.’s House Beautiful
magazine to market its new proprietary line of
home-decor items.

Emphasizing their own brands helps the
chains stand out—not only from rival depart-
ment stores, but even such downscale coun-
terparts as Target Corp.’s stores and warehouses
such as Costco Wholesale Corp. Discount retail-
ers increasingly are carrying nationally known
brands, such as clothing from Isaac Mizrahi
and Calphalon cookware, or Ralph Lauren ap-
parel and Waterford crystal. Consumers are de-
manding the best possible value and aren’t so
dazzled by traditional name brands anymore,

Moving to the High End

Some leading department-store chains are giving their private brands more prominence. A sampling:

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<td>Recently revamped women’s apparel line</td>
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Source: The companies

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which robs upscale department stores of their cachet. In a recent poll by Brand Keys, a market-research firm, nearly 61% of consumers said high-end apparel logos and labels are less important to them now than a few years ago.

Federated, owner of Bloomingdale's and Macy's, has vowed to increase the percentage of private-label merchandise it sells to 20% or more from about 16% currently. So long as an item’s quality is high, "we can sell the highest-end, highest-quality and most-expensive product carried in the store under a private label," says Terry Lundgren, Federated's chief executive.

A lot of consumers seem to buy the notion: Jenny Hans, an investment banker, is a fan of Saks Fifth Avenue's own Platinum-label clothing line, and isn't fazed by the store brand's $1,000 jackets and $500 cotton dress shirts. "They have good styling and fabrics," Ms. Hans says. She adds that she is less likely to run into a fashion double in her Platinum duds than in a designer outfit.

With in-house brands, stores typically have no middleman vendor to pay, and they have more control over prices. But perhaps most importantly, private labels sell. According to NPD Group, sales of private-label apparel in all retail channels was $58 billion, or 36% of the $163 billion total U.S. apparel market in 2002. While the figure was relatively flat from the previous year, those numbers are good when compared against the rest of the apparel sector, whose sales slid by 2%. During the past five years, private-label apparel sales have grown by about 5%.

Those numbers help explain why private-label goods are getting more play, and better placement, on the store floor. At some of Federated's new and revamped Macy's stores, private labels such as INC International Concepts are featured as prominently as designer stalwarts Liz Claiborne and Tommy Hilfiger. Ditto for the chain's sleek new line of Hotel table-top items, which include a mouthblown wine decanter for $75.

But selling store brands is risky. When goods don't move and their prices have to be cut, retailers traditionally get discounts from manufacturers so less of their profit margin is eroded. When a store's own label has to go on the clearance rack, the retailer usually must absorb the pain alone.

There's no vendor to help defray marketing costs, either. Yet store brands—especially higher-priced goods—still require time and money for advertising, store displays and sales support on the floor.

That investment can make all the difference. Ms. Laugier, the part-time decorator shopping recently at the Manhattan Macy's, said she was turned off by the unattended linen boutique's mussed displays, so she decided against the silk coverlet. "The competition is steep," she said. "If this is their introduction to high-end linens, the presentation should be perfect."