

LOOK AHEAD

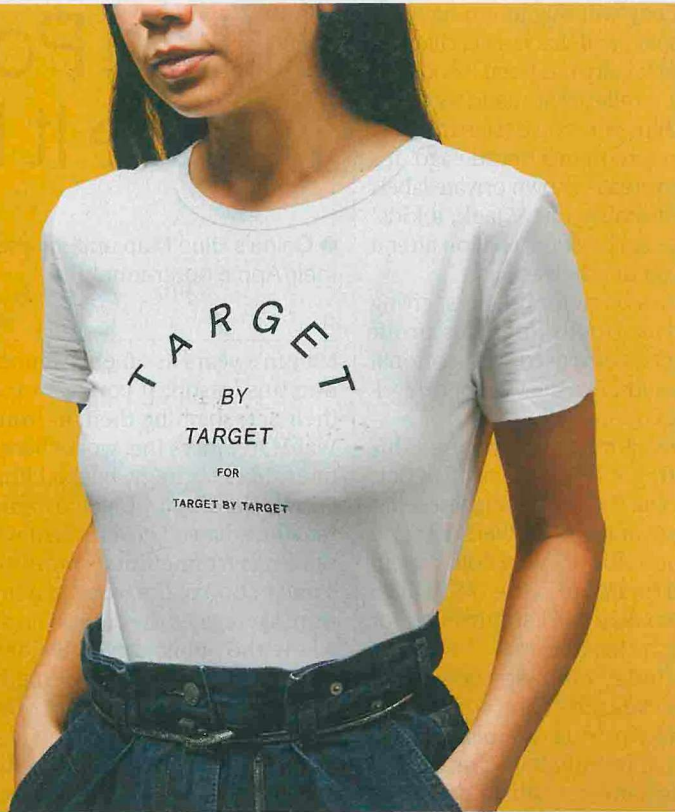
● Homebuilder Lennar will report fourth-quarter earnings, a window on U.S. housing strength

● FedEx releases its second-quarter earnings after the market close on Dec. 19

● AutoZone will hold its annual meeting on Dec. 20 in Memphis

How Private Labels Caught the Public Eye

● Once-dowdy store brands are besting many fashion nameplates



A few months ago, Amazon.com Inc. representatives met with fashion designer Jackie Wilson as part of the expansion of Amazon’s burgeoning apparel business. They wanted her to make a knit top for women that would be sold under an Amazon-owned private label. And they wanted the fabric to feel heavy and high-quality—attributes long associated in the shopping mind with name-brand attire.

“They are not concerned at all about how many units they sell, and they’re not focused on margins,” says Wilson, whose company in Syracuse, N.Y., makes clothing for Kohl’s, American Eagle Outfitters, and J.C. Penney. “They’re concerned about customer satisfaction. They want five-star reviews.”

Wilson’s knit top is in the vanguard of a private-label push that’s upended the \$275 billion U.S. apparel sector. Amazon, Wal-Mart Stores, Target, and other big retailers are beefing up in-house clothing lines to grab shoppers whose loyalty to established brands has waned. Even supermarket chain Kroger Co. is getting in on the act with its own apparel, attracted by profit margins that far exceed those of bananas and paper towels.

In some categories—such as the activewear Americans increasingly don all day, whether or not they hit the gym—private labels make up 20 percent of the market, according to researcher NPD Group Inc. That makes store brands in aggregate larger than any single brand, which should strike fear at Lululemon Athletica, Nike, and Under Armour. “Smart shoppers are turned on to the idea of looking great no

matter where you buy apparel,” says Target Corp. Chief Merchandising Officer Mark Tritton, who’s overseen the introduction of several private-label apparel lines this year, including Goodfellow & Co. menswear.

Store-brand apparel isn’t new. The Sears, Roebuck & Co. catalog first offered its own clothing in 1894, and Wal-Mart’s Faded Glory house brand began in 1972 as a department-store label. But for years, private-label apparel was dowdy, no match for branded threads. That began to change in 1990 when British supermarket chain Asda Stores Ltd. asked fashion designer George Davies to create an exclusive clothing line. The result, George, was a hit in the U.K. and caught the attention of Canadian retailer Loblaw’s Cos., which in 2004 hired Joe Mimran, co-founder of the Club Monaco chain, to do the same. His Joe Fresh expanded into standalone stores and a partnership with J.C. Penney Co. in the U.S. But the brand didn’t click with Penney’s shoppers, prompting Mimran’s departure in 2015 and an overhaul of the business.

Despite its recent struggles, Joe Fresh “was a nice surprise to other retailers who said, ‘Hey, if they can do this, we can, too,’” says Adheer Bahulkar, a partner at consultant A.T. Kearney Inc.

As retailers boosted investments, linked with Asian suppliers, and built in-house design teams, established brands suffered declining mall traffic and heaps of unsold inventory. Devotion to popular names such as Gap and Nike began to fade. “Every new generation is becoming less and less brand-loyal,” Bahulkar says. “Millennials don’t care as ▶

1 BUSINESS

December 18, 2017

Edited by James E. Ellis

Businessweek.com

much about logos. They will buy anything from anywhere at any price point, and that is a big change."

The erosion of brand loyalty has been a boon for Target, the cheap-chic retailer that made its name in apparel via partnerships with top designers Isaac Mizrahi and Jason Wu more than a decade ago. It's leveraged that success to create its own private labels in recent years, most notably Cat & Jack, a kids' apparel line whose sales surpassed \$2 billion after a little more than a year on the shelves.

House brands can be a boon for retailers, giving them more control over prices and thus profit margins on the products, compared with national brands, where retailers subsidize the vendor's development and marketing costs.

How Americans buy clothes is changing. This year, Amazon will leapfrog T.J. Maxx owner TJX Cos. and Macy's Inc. to become the second-biggest seller of apparel and footwear in the U.S., Wells Fargo & Co. estimates. And almost 40c of every dollar spent online on clothing and footwear in the U.S. will go to Amazon, according to data tracker Euromonitor International, up from 23\$ in 2014.

Apparel shopping today often starts with an online search, and research from consultant Bain & Co. finds that a surprising number of those queries don't mention a brand at all—consumers just enter "yoga pants" and see what comes up. More than one-quarter of first-page Amazon search results in categories such as men's button-down shirts were the e-tailer's own private labels, Bain says. Amazon has introduced in-house labels with names such as Peak Velocity and Rebel Canyon in categories such as shirts and sportswear, where fit and function—plus free shipping—are often more important than the latest styles. One example: plus sizes for women, where Amazon raised its market share about 50 percent over the past three years, Bain says. Plus size is "radically underserved," Bain partner Tamar Dor-Ner says. "The thing that made it even more attractive for Amazon is it's a shopper who traditionally doesn't want to go into the store."

Luckily for big brands, three-fourths of apparel shoppers still prefer to feel or try on the product before buying, A.T. Kearney says. And many house brands lack the cachet leading name brands spent decades developing. "I don't know anyone who is jumping up and down about buying clothes on Amazon," says Candace Corlett, president of WSL Strategic Retail. "They've put together a lot of mid-priced, uninteresting stuff."

Still, some analysts say private labels don't have to inspire. Like Wilson's knit top, they just have to satisfy a need. "We don't expect private labels to become fashion houses," says A.T. Kearney's Bahulkar, "but they can create enough newness that they can capture sales." — *Matthew Boyle*

THE BOTTOM LINE Name-brand apparel is losing some of its appeal with many shoppers. That's encouraged retailers to push their own private-label clothing, which has higher margins.