

## Designers Heed the Siren Call of Discounters

Luxury dressing got a little less luxurious this week.

First came Jimmy Choo, the maker of \$795 python stilettos. On Saturday, the company debuted a line of clothing, shoes and accessories at 10 H&M stores in the U.S. Next up: Badgley Mischka, a design label favored by Hollywood starlets headed for the red carpet. On Tuesday, the firm premiered its American Glamour line – a more affordable collection of its apparel and accessories – exclusive to HSN at 9:00 p.m. Eastern on the channel and on [hsn.com](#). (The extended line will be available in March 2010.)

What is going on here? With the sales of luxury goods on the skids, high end designers are on the lookout for ways to make up their margins--and are following the money. These days, that means moving to the value sector – or discount stores – where sales are on the rise. The TJX Companies ([TJX](#): 37.59, +0.07, +0.18%), which includes TJ Maxx, Marshalls and HomeGoods, posted a 10% increase in same-store sales for the third quarter of 2009 compared to a year ago. Ross Stores ([ROST](#): 46.43, +0.23, +0.49%) reported a 9% increase during the same period. By contrast, Saks (SKS) posted just a 0.7% sales increase and Neiman Marcus saw a 6% drop.

“High-end luxury is going to be in a tailspin for many years because the way people spend will be impacted for a long time even after a recovery,” says Jeff Green, the president of Mill Valley, Calif.-based Jeff Green Partners, a retail consulting firm. Exclusive designers have “started to align with off-price and mass merchants to sell a more affordable, yet stylish product in an attempt to address consumers’ shift toward value,” he adds.

The trend of course isn’t new. Back in the early part of the decade, designers like Isaac Mizrahi and Karl Lagerfeld helped pave the way for such partnerships by teaming up with Target and H&M, respectively. The trend though has accelerated in the last two years, with a handful of big names announcing deals. Most recently, that includes

Dana Buchman and famed wedding designer Vera Wang who both have lower priced lines at Kohls.

What does high-end clothing at discounted prices mean for retailers—and consumers?

### **How do high-end designers lower their prices with these collaborations?**

Jimmy Choo items at H&M are priced from \$25 for a bracelet to \$300 for over-the-knee leather boots, says Jennifer Uglialoro, a spokeswoman for H&M. Clothing ranges between \$69.95 and \$249. That’s a huge price difference from Jimmy Choo women’s shoes that sell for \$350 to \$1,295.

One of the reasons for the big price difference is that H&M buys its own fabrics for the merchandise, and it buys the fabrics in bulk, says Uglialoro. That helps bring down the price points, as does the fact that H&M uses its own production offices for these collections. The designers provide the sketches and the designs. (A Jimmy Choo spokesperson wasn’t available for comment.)

Each agreement between a designer and retailer will vary. Bill Brand, a vice president at HSN, says that materials in Badgley Mischka’s American Glamour collection come from the designers – not HSN. Meanwhile, the price points in the American Glamour collection will be lower than the regular Badgley Mischka apparel, wrote Rod Caldwell, a spokesman for Badgley Mischka, in an email. “A couture handbag of ours could be a couple of thousand dollars and the fantastic bags we are doing for HSN, the customer can get for a few hundred.”

### **What should consumers know?**

Consumers will have more access to high-end clothing brands since they’re in more stores and they’ll be able to afford designer clothing that used to be out of their budget.

But the more affordable designer versions may have some differences, like the types of fabrics that are used.

“Sometimes it will be a lower-grade fabric – not that rare fabric in the designer’s store – that can be pumped out in a factory,” says Claudia Sagan, a San Francisco-based retail consultant who works with retailers, including Williams-Sonoma and Ann Taylor, and shopping center developers.

### **What are the perks and risks for retailers?**

Typically, the retailer assumes most of the risk regarding the costs of production, but in the best of cases, such collaborations help to boost the retailer’s store sales and brings in new customers who might not otherwise shop at the store.

That’s especially the case when the retailer rolls out a limited collection that doesn’t get replenished--H&M’s tactic with the Jimmy Choo line. “Once it’s sold out, it’s gone forever,” says Ugliarolo. In the past, with designers like Stella McCartney, Viktor & Rolf and Roberto Cavalli, some lines sold out within the day while others took a couple of days. Limited supply creates demand that will likely spur sales beyond normal sales projection for that time period, says Sagan.

Meanwhile, as the economy continues to falter, HSN has seen an increase in its relationships with high-end designers. (Another reason is that during the past two to three years, HSN has rebranded its fashion business to focus more on designers and lifestyle brands, says HSN’s Brand.)

“Designers look at HSN as a very powerful platform through to either relaunch or showcase brands or maybe meet a lower price-point consumer without diluting what they might have at Saks [Fifth Avenue],” says Nancy Hull, a senior vice president of equity research who tracks HSN at Ladenburg Thalmann & Co., an investment services firm.

HSN’s TV platform and web site sales dropped by less than 1% in the third quarter to \$467 million from the third quarter of 2008. This relatively small decline resulted from layoffs, improved customer service and inventory that HSN decreased by 15% compared to third quarter 2008, says Hull.

### **What are perks for designers?**

In this economy, such collaborations help high-end designers, especially because they can avoid the financial headache that they risk incurring when they sell at department stores, says Howard Davidowitz, founder of a

Manhattan-based retail consultant and investment banking firm. At a department store, it will take a longer time for a designer’s items to sell, particularly now when most of those stores’ sales are down. And should the apparel not sell, designers might have to pay the department stores for markdowns.

“There is no question it is a different world today, and women are shopping differently than they used to,” says Badgley Mischka’s Caldwell. With American Glamour on HSN, the designers are diversifying their product offerings and the people they’re reaching, he says.

In fact, designers often see an increase in sales and consumer interest that coincides with their debut on HSN, says Hull.

### **What are their risks?**

High-end designers could face a brand risk by commoditizing their brands and making them accessible to more consumers, says Sagan.

“Much of marketing is designed around brand elevation, but this is almost the opposite,” she says. In the short term, their collaborations with discount retailers will result in greater brand awareness and it’ll help increase their sales. “But is the long-term ramification that it erodes your brand and what it stands for? It might.”