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# Rethinking Apparel Again, Wal-Mart Shuts N.Y. Office

By DAVID MOIN



Walmart

*Photo By Courtesy Photo*

Three years ago, Wal-Mart Stores Inc. opened a New York apparel office and aggressively recruited talent in a bid to react to trends faster, raise the fashion quotient and reverse weak sales.

On Wednesday, that strategy went out the window when Wal-Mart disclosed the office will shut down by February, as reported first by WWD.com.

In its latest thinking aimed at turning around its long-struggling apparel business, Wal-Mart acknowledged that bolstering basics, where there's been some gains lately, is what matters most, and that could be accomplished just as readily via the Bentonville, Ark., headquarters, without the need for a New York office. So much for cultivating some cosmopolitan style sensibility and higher-margin fashion flair. Think packaged socks and underwear instead.

Wal-Mart said it hoped many of the 275 workers at the apparel office, at 1372 Broadway between 37th and 38th Streets, would relocate to its Bentonville headquarters and disclosed some key individuals making the move, such as Jeff Evans, who was promoted to senior vice president and general merchandise manager of men's/kid's/baby/shoes, from vice president and divisional merchandise manager for men's.

But WWD has learned that some high-ranking executives may not, including Lisa Rhodes, senior vice president,

Wal-Mart U.S. apparel, and the company's top apparel official in New York. She said she's currently thinking of staying until July, past the process of transitioning the apparel operation back to Bentonville, which is expected to be completed by February. Two other senior officials — Mary Fox, who oversees global apparel sourcing, and Lisa Surella, a general merchandise manager tapped from Lord & Taylor — are not seen heading to Bentonville, sources said.

The New York apparel team had plenty of talent — buyers, divisional merchandise managers, general merchandise managers, designers, product developers, planners, sourcing personnel and other positions — which Wal-Mart worked hard to attain, poaching from competitors such as Sears Holdings Corp., and paying them salaries that were sometimes 30 percent higher. “They overpaid to get people on board,” said a retail source.

“Most of the team will be looking for jobs here [New York] because the business model has changed,” observed Terre Simpson of Simpson Associates executive search, which specializes in fashion and retail. “The trend-driven capability of these senior executives is not as essential since the company is now going to a more structured and basic merchandising model. The company really wants to be commodity driven. It knows its customers really like Hanes and Fruit of the Loom, the basic national brands. The emphasis will now be on regenerating licensing arrangements with national brands. What they were trying to do in apparel at the New York office was something they couldn't do as well as Target.”

Wal-Mart's apparel revenues will account for between 6 and 7 percent of the chain's total volume in the second half of 2011, whereas 10 years ago apparel revenues accounted for a low-double-digit percentage, according to Craig Johnson, president, Customer Growth Partners. With the apparel office closing, “The worry is whether this portends that Wal-Mart is just going to be a very good grocery store with a TV, home and hardware caboose. Commodity apparel products like socks have lower margins. Groceries is also a lower-margin business. Better fashion can get you better margins. Target has shown, by bringing in some design flair, you can succeed in apparel. But you can't become a Target overnight. It has to be a step-by-step process to build things up.” He said Target Corp.'s apparel accounts for about 20 percent of the discounter's volume, which last year came to \$68.4 billion, while Wal-Mart reached \$431.9 billion.

“I felt they built a very strong apparel group in New York and that the strategy made sense,” said Kirk Palmer, of the search firm bearing his name. “They pulled talent from all over, from department stores, specialty chains, off-pricers and other apparel offices in New York, such as Kmart. It's sad to see this happen since some people will find themselves back in the job market. But I understand Wal-Mart's decision to close.”

Others suggested closing the apparel office underscores the challenges Wal-Mart has experienced in the apparel sector and in attempting a more fashionable approach. “The message they sent to the industry was confusing,” said one Seventh Avenue executive. “Either the strategy changed every 10 minutes or it was poorly conceived and executed. There were cultural differences between New York and Bentonville. It wasn't well coordinated and the turnover was horrendous.”

“They kept trying to reinvent, whether it was the Miley Cyrus deal, or with George — they were all over the board,” said the retail source. “I didn't think they understood how to build private label brands or creating a proper balance between the market and the role private label plays. The problem with buyers sometimes, and it's not just Wal-Mart, is that some just want fashion and newness and what's trendy, not necessarily what's really going to sell.”

Wal-Mart's Rhodes countered the criticism, stating, “The reality is, for the last 15 months, the entire fashion team has been concentrating on core basics, with some fashion basics. The strategy is working. The office has had a clear strategy for the last 15 to 18 months. The reason for the move [back to Bentonville] is the strategy, not the lack of strategy. It will be more efficient in Bentonville.”

She said the apparel trend is “moving in the right direction” and that the core strategy for basics, everyday low cost and everyday low price “is really what the foundation of our apparel business should be. We really don’t need to be on Broadway to execute that strategy. The most effective way is for the entire team to be together in Bentonville,” where there’s been staff for planning, replenishment and modular execution. “The buying line as well as support functions will all be together,” though Rhodes did express regrets about the closing. “No decision like this comes with ease,” she said.

In a memo obtained by WWD to Wal-Mart workers from Andy Barron, executive vice president over softlines for Wal-Mart U.S., Barron wrote, “Many of you will remember in early 2009 we announced that to make a play in fashion we moved our apparel office to New York City in order to be at the center of the fashion industry. What we’ve found since that time is our customers expect from us high-quality basics and fashion basics at great prices every day.”

And at Wal-Mart’s annual analysts’ meeting earlier this month, officials said the business overall was tracking positive comps for the past three months, though apparel was still negative. Still, some individual apparel categories were positive, giving executives confidence that targeting basics was the right approach. As Duncan MacNaughton, executive vice president and chief merchandising officer of Wal-Mart U.S., said, in September, underwear had a 6 percent comp gain; socks rose 8 percent; jeans were up 5 percent, and plus sizes rose 11 percent.

“We are very focused on winning and basics, on socks, underwear, jeans and basic tops. It’s who we are, that’s what we stand for. These categories are the foundation of the business,” MacNaughton said.

He went on to describe the apparel assortment as being simplified and made easier to shop, “so when the customer comes to the apparel pad, they see the colors. They see the season. And we’re flowing goods so we can make our presentation better.

“Apparel basics is showing positive results....As you know, we’ve struggled for years in apparel, but these assortment changes in these key category changes have been driving an upturn in our business. While we still have negative comps, we’re very encouraged by some of these key segments within the total business.”

“The New York office is not necessary for what Wal-Mart needs to do,” said Carol Spieckerman, president of Newmarketbuilders Inc., a retail strategy firm also based in Bentonville. “I would not call this a failure. Management can keep a closer eye on the apparel business if it’s at home.”

Spieckerman also suggested that while New York is where apparel talent is concentrated, “Bentonville is not the Bentonville of 10 years ago. Now Wal-Mart is able to pull in a higher caliber of talent because there are not as many options, with consolidations, the bad economy and companies paring down staffs. Bentonville and fashion are not mutually exclusive. I also don’t think closing the New York office is much of a shift in strategy. Wal-Mart significantly backed off fashion awhile back. But it does mean apparel has not been working and Wal-Mart has been open about that. It’s a high-margin category that keeps them awake at night on how much they could move the needle if they got a few shoppers to cross the aisle. But to pull apparel back in and retool it makes a lot of sense, as they’re taking on a more holistic, multichannel view, not simply how it looks in the stores. I wouldn’t be surprised to see some major brand announcements in apparel.”

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