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'Dowdy' Talbots Hopes Makeover Can Revive Sales

By AMY MERRICK April 2, 2008; Page B1

Trudy Sullivan confronted a major problem when she became the new chief executive of Talbots Inc. last summer. A survey found that all the chain's customers -- even those older than 65 -- thought its styles were meant for someone older than them.

The results were a wake-up call that Talbots's fashions had become, in Ms. Sullivan's words, "too traditional" and "dowdy." On Tuesday morning, the CEO showed investors a sweeping three-year plan to overhaul the retailer, one that aims to make its fashions more colorful and playful, its marketing more consistent and its stores more profitable.



Talbots

The Talbots June catalog shows updated styles the company is counting on to lure back shoppers.

The proposals come at a time when retailers of women's clothing, from Talbots to AnnTaylor Stores Corp. to Chico's FAS Inc., are struggling with a weak economy, poor fashion choices and aggressive discounting throughout the industry. They are closing stores, delaying expansion plans and paring costs in every possible area. Executives are getting shuffled -- sometimes moving from one troubled chain to another within the sector -- and customers are staying away, leaving merchandise to languish on clearance racks.

In her presentation, Ms. Sullivan, a former Liz Claiborne Inc. executive, tried to address longstanding dilemmas for women's stores: how to make classic designs look new, and how to show customers age-appropriate styles without making them feel old. "Our new mandate is to evolve our merchandise to be a more modern, timeless interpretation of 'classic,'" she said.

To refashion the clothing, Talbots executives tried some familiar retail tactics, including mining the brand's fashion archives like diligent graduate students. They compiled photos of "real people," from stylish uptown grandmothers in voluminous coats to casually dressed suburban women playing with their children, to inspire their design staff.

For fall, designers will fill the stores with traditional menswear patterns such as houndstooth, tweed and herringbone. They also plan to play up the color red, which features prominently in Talbots's logo and the front doors of its locations. They are sticking to items Talbots is known for, such as suits, tailored pants and cardigans, but the styles are less boxy and matronly than in the past.

The chain's customers "don't want to dress like ex-rockers, but they don't want to be in rockers, either," said Basha Cohen, head of merchandising for Talbots. The company will spend more on direct marketing this year to let current shoppers know about its updated look and to win back lapsed customers. It's cutting expenses in other areas, such as television advertising.

Investors reacted positively to the plans. Shares of Talbots, based in Hingham, Mass., jumped \$1.23, or more than 11%, to \$12.01 in trading on the New York Stock Exchange.

Lazard Capital Markets retail analyst Todd Slater says the merchandise changes, along with previously announced cost-cutting plans, could give Talbots a "dramatic profitability boost." But in a research note to investors, he cautioned that the ambitious efforts also could take longer than expected to gain traction.



Ms. Sullivan's turnaround attempt will be challenged by the most difficult outlook for Talbots and its competitors in years. Most retailers have suffered from the downturn in the economy, but specialty stores selling women's clothing have been among the hardest hit, reporting slowing sales and sharp drops in earnings.

Many specialty retailers say that in addition to being hurt by economic problems, they have hurt themselves by failing to keep pace with women's changing tastes. Chico's executives, for example, have talked about keeping strong sellers on stores' racks for too long.

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Dana Telsey, founder of retail-analysis firm Telsey Advisory Group in New York, also points to the recent boom in sales of expensive handbags and shoes. "There are more places to spend your dollar besides apparel," compared with a few years ago, she says.

Talbots had already announced it will close about 100 of its more than 1,100 stores this year, including shuttering its kids' and men's businesses. The chain was so strapped for cash recently that in January, it had to ask suppliers to delay sending bills, in order to avoid violating its bank covenants.

The retailer also has projects under way to revamp its J. Jill brand, which is more casual than Talbots and targets a younger customer. The chain of 273 stores hasn't performed as well as Talbots had hoped when it bought J. Jill in 2006, and the company recently had to write down the value of the division by \$144 million.

"The consumer sentiment out there isn't favorable to anybody," Ms. Sullivan said in an interview. "It's a challenging time. It's a time to run the business very conservatively."

At Talbots, Ms. Sullivan brought in a new executive team and attacked some long-standing habits, such as waiting until the end of the season to mark down old styles. Now, slow-selling items have their prices reduced monthly.

Under her direction, marketing for the chain's stores, catalog and Web site has become more consistent. Executives now speak of "brand moments," or times when new styles appear in both stores and catalogs, to have a better chance of catching customers' attention.

Ms. Sullivan sees growth opportunities in areas such as accessories, larger sizes and Talbots Collection, a higher-priced line stocked in some stores. The brand also is changing its strategy for outlet malls, opening some pilot stores this year in "premium" outlets that house more-upscale brands. Instead of simply liquidating clearance goods, Talbots plans to design merchandise especially for the stores -- a strategy that has been successful for rival AnnTaylor.

During Tuesday's presentation, Talbots flashed images of the store windows of Coach Inc., J.Crew Group Inc. and Burberry Group PLC. Like Talbots, which was founded in 1947, these brands had a long history and sometimes stodgy reputations. They successfully, and dramatically, changed their merchandise and image to draw new customers and sales.

Such moves are a tricky balancing act for retailers, which always risk turning off loyalists by going after different shoppers, especially younger ones.

"I think we love those brands because they didn't alienate their core consumer," Ms. Sullivan said. "They just totally reinvigorated themselves."

It also can be difficult for chains with ambitious makeover plans to maintain their momentum. Burberry's signature plaid became so widely copied that its image suffered, prompting further design changes last year.

A few years ago, Gap Inc. boosted sales at its Gap brand by introducing colorful new versions of old best-sellers. One particular pink trenchcoat that flew off store racks became the emblem of Gap's comeback. But after a few strong seasons, the improvements fizzled.

Ms. Sullivan said she is aiming for consistent progress. "We're not changing this brand," she said. "We're just trying to keep it on track for the next 60 years."

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