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# FASHION RETAIL PERFORMANCE THROUGH UNITED STATES RECESSIONS

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# ABSTRACT

This thesis is an analysis of fashion retail performance in the United States over the past decade, particularly in light of the recent recession. It considers fifteen domestic, public companies that sell products in three different price environments: luxury, premium, and discounted. The study examines the collective performance within these three retail segments in terms of both their quarterly and annual revenues and their annual stock prices between 2000 and 2012. The findings of this paper suggest that while the luxury segment was quick to recover after the onset of the downturn, these companies are not as recession-proof as some recent headlines may claim. The results of the research also identify the premium companies, whose customer bases typically consist of middle- to upper-income consumers, as those that suffered the most during times of economic instability; whereas, it substantiates that the overall stability and performance of the discounted segment reigns supreme within the scope of the study.

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# Chapter 1

# Introduction

The detrimental effects of the 2007 stock market crash and the consequent recession were far-reaching and intruded on the welfare of households and businesses across the United States. The fashion retail industry was by no means immune to the downturn. Most of the recent headlines and attention has focused on the luxury goods market, yet opinions related to its historical performance are not definitive. As Mignon Reyneke (2011) writes in his doctoral thesis, “Luxury brands are generally studied in the context of healthier economies, creating a gap in the knowledge as to how these brands perform and what strategies luxury brand managers employ in times of economic downturn.” Furthermore, the growing demand for high-end goods in overseas markets, such as in China, has made it more difficult to assess the true stability of this retail segment within the US.

In the February 2013 article “What Recession? Americans Regain a Craving for Luxury,” Nadya Masidlover and Christina Passariello quote Antoine Belge, an HSBC analyst who stated, “Trends in luxury consumption in the U.S. have continued to outperform overall consumer trends.” The use of “regain” in the article title, however, suggests that this supposedly resilient demand was absent at a point in time, thus my study will assess the truth of this claim over the past decade. With an economic crisis comes a reduction in consumer confidence, higher unemployment, and less personal disposable income—all changes that have the power to affect consumption patterns within any retail market. My research will examine the recent performance of fashion retailers, exclusively within the United States, and will go beyond the scope of the luxury market to include companies operating at lower price-points in the premium and discounted segments.  The goal of my thesis is to draw and justify conclusions regarding variations in the success of the three retail sectors through recessions.

# Chapter 2

## Literature Review

Since the United States economy entered recovery mode, there has been speculation regarding the recession's effect on consumers and the retail industry. In one scholarly article, "Analyzing the Main Changes in Consumer Buying Behavior during Economic Crisis," Alina Filip and Lelia Voinea (2011) address the transformation in consumerism that occurred as a result of the downturn. The authors contend that the recession has created changes in buying behavior and a "new consumer" who is now noticeably "more economical, more responsible and more demanding." Filip and Voinea point to a 2009 study by Booz & Company which substantiated that a "new frugality" among US consumers, particularly apparent through the first two years of the downturn, is likely to have resulted in alterations to consumption patterns that will exist beyond economic recovery. The study describes this recent prudence as "a strong awareness of value that dictates compromises in terms of price, brand and comfort." The authors also claim that consumers are now more informed about particular products and brands than traditional consumers once were, so they attach greater significance to authenticity when considering purchases. Thus, while consumers will still buy items at a variety of price points, "they need more reasons to justify the purchase…[and will] refuse to buy at higher prices unless they clearly perceive quality advantage." The authors' depiction of the new consumer is relevant to my research in that the perceived changes in consumption patterns would directly impact the performance of retail companies.

Another article by Murali Ramesh (2012), "Luxury Retail's Evolving Landscape," claims that the luxury goods market is not as "recession-resistant" as it may seem, citing that luxury retailers who were growing at 9% annually prior to the recession experienced declines in sales of more than 13% from 2007 to 2009. Ramesh points to the fact that while many brands within the industry recently been regaining their footing and posting revenue gains, the recession has made a lasting impression on consumer behavior that will be felt by companies down the road. The article also describes the changes related to the luxury market's target consumers, as well as its products, noting that offerings in the segment now must "exhibit uniqueness coupled with product superiority and originality, providing value for money in today's frugality-minded reset economy." While the article generally has an international focus, it does indentify the United States as having one of the more quickly recovering luxury markets, particularly with regards to sales of shoes, apparel, and leather. The author also touches on the emergence and strength of the luxury goods market in Asia, and he ultimately argues that the future of luxury retail will be most influenced by factors such as brand heritage, exclusivity, customer relationship, diversifying business, and expanding into high-growth markets.

Some of the current literature related to luxury consumption is not entirely specific to fashion, yet still offers valuable insight. Mignon Reyneke, Alexandra Sorokacova, and Leyland Pitt (2011) focus on the connection between the economic cycle and luxury brand performance in their article, "Managing Brands in times of Economic Downturn: How do Luxury Brands Fare?" While the authors address that economic recessions are cause for reductions in sales of all non-essentials, they claim that luxury markets are not as susceptible to the effects of downturns as other industries and retail categories, even making the point that "sales of luxury goods are frequently seen as a bellwether of economic conditions."

The authors also touch on the definition of a "luxury product." They describe recent changes in the luxury environment given the recessionary environment, which include a shift towards more affordable luxury: " while consumers are 'trading up' to a higher level of quality, many luxury brands, on the other hand, are 'trading down' to accommodate new aspiring consumers…the ‘nearly rich’…[whose] demand today constitutes up to 60 percent of the total luxury market demand.” According to the article, the global population of individuals classified as “high- or ultra-high net worth” was down significantly at the end of 2008, but the authors note that the impact of this reduction on sales of luxury goods is unclear.

The methodology supporting the authors’ study involved interviews with “industry insiders” from a selection of sixteen different European luxury brands, ranging from fashion retailers to upholstery companies. The goal of the interviews was to learn more about the current state of the business’ operations and the consumer reactions that the companies had been noticing. In general, most respondents in the study assented that while the downturn substantially impacted their businesses, “the results had still been better than expected…[and] they had not experienced a significant reduction in the size of their customer base.” Furthermore, many participants revealed that the stability of their sales through the recession was due to success in “markets such as those in China, India, Brazil, Korea, Turkey, and the Middle East.”

While much of the current media attention and literature relates to the luxury segment and has an international focus, I will apply the information and findings to my study of three different classes of retail within the United States market.

# Chapter 3

# Data and Methodology

## I. Retail Segments and Company Profiles

The first step of my research was to determine which retail companies to include and how to classify them. I narrowed the scope of my retail landscape to three different segments—discounted, premium, and luxury—and decided to select five companies to fill each segment. Because the focus of my study is retail performance within the United States, I included only domestic companies in my samples. Following are descriptions of each retail segment, along with brief company profiles:

**Discounted:**

The discounted segment includes stores that sell apparel, oftentimes in addition to a broader assortment of merchandise, at some of the lowest price points throughout the industry. The interior and layout of these stores is minimalistic, and their offerings typically lack distinguished labels and reputable quality. Furthermore, discount retail establishments emphasize sales and convenience instead of floor-service as a means to create loyalty among customers (Carpenter, 2008). Consumers in this segment appreciate low prices more than prestige, and their purchases are often motivated by high degrees of value consciousness and price consciousness (Moore and Carpenter, 2008). Thus, it seems safe to assume that the customer base of such companies will only expand during economic downturns, when reduced disposable income and higher unemployment levels motivate people to save money wherever possible—especially when it comes to discretionary purchases. The sample of companies I have chosen to represent this segment include the following: Wal-Mart, Ascena Retail Group, TJX Companies, Kohl’s

Corporation, and Ross Stores, Inc.

*Walmart:* Sam Walton opened the first Walmart store in 1962, and he took the company public in 1970. Today, Walmart employs its everyday low price model as it "serves 200 million customers each week at more than 10,000 stores in 27 countries" (*Walmart*). The company manages over 4,000 stores in the US, with approximately 3,000 of these being Supercenters, which provide grocery and pharmacy offerings, in addition to the general merchandise (Biesada, 2013). Walmart also operates Sam's Club warehouse stores, Neighborhood Markets, and Express stores (*Walmart*). While total sales continue to climb with international expansion, net sales in the saturated US market have not grown much in recent years (Biesada, 2013).

*Ascena Retail Group, Inc.:* The Ascena Retail Group manages over 3,800 stores in the United States and Canada through its five brands: dressbarn, maurices, Justice, Lane Bryant and Catherines. The company's core mission for each of these brands is to "make people feel good about themselves," and it aims to do so by offering "casual and career apparel and accessories at great values to the fashion-conscious woman" at dressbarn, maurices, Lane Bryant and Catherines stores and "trend-right apparel and accessories at value prices for tween girls" at Justice stores (*Ascena*). Ascena's acquisitions and store openings have supported its growth, and in September 2012 the company was named to FORTUNE Magazine's list of '100 Fastest-Growing Companies' (Biesada, 2013; Business Wire). Biesada further details the company's expansion in her Hoover's report, noting "its sales have more than doubled over the past four years, while net income increased steeply and relatively steadily."

*TJX Companies, Inc.:* TJX Companies has over 2,900 stores in six different countries, and its US division operates primarily through T.J. Maxx, Marshalls, and HomeGoods (*TJX*). The company is "always about value" and its off-price retailing model aims to provide customers with an ever-changing variety of apparel, accessories, footwear, and home furnishings that cost 20%-60% less than similar products sold in department and specialty stores (*TJX*). TJX

Companies' target customers are "middle- to upper-income, fashion-conscious females…who tend to shop at high-end department and specialty stores, but have traded down as budgets tighten" (Biesada, 2013). This helps to explain the company's success through the economic downturn and its steadily growing sales figures, which have more than doubled in the last ten years (Biesada, 2013).

*Kohl's Corporation:* Since it's initial store opening in 1962, the mission of Kohl's has been "to be the leading family-focused, value-oriented, specialty department store offering quality exclusive and national brand merchandise to the customer in an environment that is convenient, friendly and exciting" (*KOHL'S*). In addition to apparel, shoes and accessories, Kohl's offers a selection of home goods and claims to sell the "best merchandise at the best prices" in approximately 1,067 US stores (*KOHL'S*). The company's total sales growth, however, has been insignificant in recent years, and its same-store sales have been relatively stagnant (Biesada, 2013).

*Ross Stores, Inc.:* Ross Stores, Inc. manages one of the largest off-price clothing, accessories and home fashion chains in the US (*Ross*). In over 1,000 locations, Ross Dress for Less customarily offers closeout merchandise at fractions of the costs found in specialty and department stores (Biesada, 2013). True to discount retailer form, the company curtails costs "by offering minimal service and few frills inside its stores" (Biesada, 2013). Ross Stores, Inc. also operates just over 100 dd's DISCOUNTS stores; "dd's" stands for the "deep discounts" on fashion and brand apparel that these smaller, "neighborhood destinations" provide for their price-conscious customers (*dd's Discounts*). Ross Stores' recession-appropriate business model has resulted in the positive sales and net income figures that are supporting the company's expansion, and "analysts believe that Ross Stores may earn a greater market share [in 2013] despite economic recovery" (Biesada, 2013; United Business Media).

**Premium:**

Sometimes considered to be "near-luxury," premium sector price points lie at the top of what is generally considered to be the "middle ground." Companies in this segment emphasize the high quality and of their products to a fashion-forward and image-conscious customer base. Their offerings are usually labeled with the stores' names, and their brands are widely recognizable, often on an international scale. These stores invest heavily in their concept, design, advertisements, and employees. While premium brands may promote the accessibility of their fashion-wear, their higher price points (typically ranging from around $50 to $250) create a degree of exclusivity and limit the attainability of their products to a relatively well-heeled pool of consumers. Because the products sell in this middle ground, they are more substitutable and run the risk of being replaced by similar, yet cheaper offerings when households are feeling the financial pressure of recessions. The sample of premium companies included in my research consists of American Eagle Outfitters, ANN Inc., Abercrombie and Fitch, GAP Inc., and Urban Outfitters Inc.

*American Eagle Outfitters:* American Eagle Outfitters is a mall-based chain that offers "high-quality and on-trend clothing, accessories, and personal care products" through over 1,000 stores across the U.S. and in Puerto Rico, Canada, and recently the Middle East (*American Eagle*; Biesada, 2013). The company targets young men and women ages 15-25 and sells its goods exclusively under its private-label brands: American Eagle Outfitters and aerie (Biesada, 2013). While American Eagle has recently seen improvements in sales, its net profit margin is still only about a third of what it was before the recession in fiscal 2008 (Biesada, 2013).

*ANN Inc.:* ANN Inc. has established itself as a "well-known resource for quality suits, separates, dresses, shoes and accessories" and designs its offerings to "meet the needs of modern women's busy lifestyles" (*ANN INC*). The company prides itself on achieving an "exceptional level of enduring client loyalty" among fashion-conscious career females (*ANN INC*). ANN Inc.

markets its products in close to 1,000 stores under the brands Ann Taylor, which "competes in the 'better' priced category, and caters to the successful, relatively affluent career woman," and LOFT, which sells in the "upper moderate" price category (*ANN INC*). The company felt the effects of the recession with falling revenues and a loss in 2009, but has since improved profit margins and total sales, particularly thanks to the LOFT brand (Lambert, 2013).

*Abercrombie and Fitch:* Labeling itself as the "essence of privilege and casual luxury," Abercrombie and Fitch markets upscale casual apparel and accessories to men, women, and kids through approximately 1,045 stores in North America, Europe, and Asia (*Abercrombie*; Biesada, 2013). The company manages four related brands: the "idolized and respected" Abercrombie & Fitch, the "All-American cool" abercrombie kids, the "carefree and undeniably pretty" Gilly Hicks, and the "timeless and effortlessly cool" Hollister (*Abercrombie*). Total sales have been growing, but the recession took a lasting toll on the company's performance within the U.S., resulting in aggressive store closings at home and an emphasis on expansion abroad (Biesada, 2013).

*GAP Inc.:* Gap Inc. is a clothing, accessories, and personal care products retailer that sells in over 3,000 stores across the globe (*Gap Inc.*). The company began its operations through its iconic and classic brand, Gap, but has since developed four other labels: Old Navy, Athleta, Banana Republic, and Piperlime (*Gap Inc.*). While Old Navy maintains a family-centric and value-conscious image, the other three brands sell at higher price points as they promote professional luxury and exclusive, unique fashion (*Gap Inc.*). Over the past five years, Gap Inc. has faced declining sales figures and has identified "continued high unemployment in North America…and the steep rise in the price of cotton" as some of the main external problems (Biesada, 2013).

*Urban Outfitters Inc.:* Urban Outfitters Inc. attributes its corporate success to its "established ability to understand our customers and connect with them on an emotional level"

(*URBN*). Each of its distinct brands (Urban Outfitters, Anthopologie, Leifsdottir, Free People, Terrain and BHLDN) markets "lifestyle merchandise to highly defined customer niches" by focusing on creativity and offering a "product assortment and an environment so compelling and distinctive that the customer feels an empathetic connection to the brand and is persuaded to buy" (*URBN*). Since going public in 1993, the company now operates over 400 retail stores—mainly in the US—under the Urban Outfitters, Anthropologie, and Free People brands, and its wholesale division produces, sells, and distributes Free People apparel to about 1,400 specialty and department stores (Biesada, 2013). Urban Outfitters has maintained a healthy performance through the recession, and as detailed by Alexandra Biesada in her Hoover's report, "Capitalizing on its rapid growth (sales have risen more than 60% over the past four years), the company plans to open as many as 60 new stores during fiscal 2012."

**Luxury:**

The luxury segment is the sample of stores that market some of the most expensive fashion retail available. In *Fashion Marketing: Contemporary Issues*, Tony Hines and Margaret Bruce (2007) cite a description of luxury fashion brands as being "characterized by exclusivity, premium prices, image and status, which combine to make them desirable for reasons other than function." Luxury offerings are associated with genuine quality, influential advertising, and international recognition, and the stores that sell such products aim to develop a "sensorial and experiential" relationship with their affluent clientele (Hines and Bruce, 2007). Because creating the ultimate customer experience is such an essential aspect of luxury retailing, these stores are typically immaculate, ornamental, and are operated by well-trained and personable employees. For my purposes, I selected Coach, Tiffany, and Ralph Lauren to illustrate the performance of individual brands, and I chose Saks Inc. and Nordstrom to represent luxury department stores.

*Coach:* Coach designs and sells high-end leather goods and accessories—including watches, eyewear, fragrances, scarves and footwear—via its wholesale division and direct-to-consumer through approximately 1,000 specialty and department stores in the US and over twenty countries abroad (Colbert, 2013). The company claims that the "Coach brand represents a unique synthesis of magic and logic that stands for quality, authenticity, value and a truly aspirational, distinctive American style" (*Coach*). Coach's innovative marketing and visual merchandising strategies have secured an affluent customer base and have contributed to consistent sales growth over the past five years (Colbert, 2013).

*Tiffany & Co.:* Tiffany & Company, the primary subsidiary of Tiffany & Co., is a specialty retailer that sells crystal, china, timepieces, sterling, silverware, fragrances, and stationary, in addition to an extensive variety of fine jewelry, in nearly 250 stores around the world (*Tiffany & Co.*). Jewelry accounts for over 90% of the company's sales, and "As was the case with other companies that cater to the affluent, Tiffany has continued to sell its statement, fine and solitaire jewelry even when times are tough" (Colbert, 2013). Tiffany has recently enjoyed stable increases in sales and earnings, but the company's strong post-recession performance is largely due to sales and expansion abroad (Colbert, 2013).

*Ralph Lauren:* Ralph Lauren is "one of the world's premier luxury lifestyle brands, universally recognized and associated with distinct design and quality" (*Ralph Lauren*). The corporation's apparel, accessories, home goods and fragrances are available at approximately 11,000 locations across the globe and are sold through fourteen different brand names, such as Polo by Ralph Lauren, Ralph Lauren Collection, and RLX (Colbert, 2013; *Ralph Lauren*). In addition to offering products in high-end and mid-tier department stores, the company manages 380 specialty stores worldwide (Colbert, 2013). Due in part to its expansion strategies and organic growth, "Between 2008 and 2012 sales have grown by more than 40%" (Colbert, 2013).

*Saks Inc.:* Saks Inc. is currently focusing its strategy on its luxury department store subsidiary, Saks Fifth Avenue (Biesada, 2013). Since its foundation, the goal of Saks Fifth Avenue has been "to be the first and only choice for the most discerning customers, the ones with the highest expectations" (*Saks*). Accordingly, the apparel, accessories, and cosmetics that the company sells in its 43 US stores are all produced by the top designers and "supported by highly personalized customer relationships" (*Saks*). Saks Fifth Avenue OFF $5^{TH}$ is the sister chain to Saks Fifth Avenue that stabilized the corporation through the economic downturn; with 65 locations in the US, "OFF $5^{TH}$ is the savvy shopper's premier source for value-priced designer clothing and accessories" (Biesada, 2013; *Saks*). Saks Fifth Avenue experienced unprofitable years in 2009 and 2010, but the luxury chain has recently been posting healthy increases in sales and income beyond those of OFF $5^{TH}$ and is developing its strategy for future international expansion (Biesada, 2013).

*Nordstrom:* Among the "nation's largest upscale apparel and shoe retailers," Nordstrom sells apparel, footwear, accessories and cosmetics and is dedicated to offering "customers with the best possible service—and to improving it every day" (Biesada, 2013; *Nordstrom*). In addition to its 117 full-line locations and 119 off-price Nordstrom Rack stores, the company also manages a clearance store, two Jeffrey luxury boutiques and a private online site that provides access to sales on top fashion brands (*Nordstrom*). Nordstrom has recorded improving sales and income figures through the recession, and in 2012, " In what is perhaps another indicator of better economic times, full-line Nordstrom stores outperformed their off-price sister chain, Nordstrom Rack, for the second year in a row" (Biesada, 2013).

## II. Economic Landscape

My research considers the performance of the retail companies within a twelve-year period, from 2000 to 2012. This timeframe spans two relatively recent US recessions, which the National Bureau of Economic Research has defined as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." The 2001 recession is largely viewed as the result of the burst of the "dotcom" asset-bubble and the economic disruption stemming from the events of September 11, and it is considered to be a relatively mild downturn, a time during which the "growth of real disposable income was stronger than normal, which helped to keep consumer spending growth at elevated rates" (Kliesen, 2003). This detail, however, speaks mainly to expenditures on durable goods, and thus leaves room for reflection on sales in non-durable markets such as fashion retail. Much more pertinent to my research is the examination of companies' performances through the downturn that originated in 2007, which is widely accepted to be the worst in US history since the Great Depression. While the recession was officially declared over in June of 2009, tracking retail performance through 2012 is a relevant continuation since the economy is still recovering. In her 2012 Mintel report, Fiona O'Donnell highlights that although "the economy has begun its slow recovery from the recession years, unemployment and underemployment remain above levels indicative of a healthy economy…[and] labor force participation is at the lowest level in 30 years." Thus, with a timeframe that includes such economic instability, my study is apt to reveal current trends in the performance of fashion retailers.

## III. Process and Hypothesis

In terms of numerical data, the companies' historical revenues and closing prices will act as the main drivers of my evaluation. Through Wharton Research Data Services, I attained the quarterly and annual figures for each company by utilizing Compustat North America, which is an online "database of U.S. and Canadian fundamental and market information on active and inactive publicly held companies" (Standard & Poor's Compustat, 2012). After compiling the information, I segregated the figures into their appropriate retail categories and calculated the total revenue averages—on both a quarterly and annual basis—for each segment.

Given the Compustat results and the basic nature of the companies' operations, it seemed fitting to further break down the luxury sector when assessing the quarterly and annual revenues; thus, I decided to find the average results for two new subdivisions: single brand luxury (Coach, Ralph Lauren, and Tiffany & Co.) and luxury department stores (Saks Inc. and Nordstrom). Also upon initial review of the numbers, I observed that both Walmart and Gap, Inc. were outliers in their respective categories due to the maturity and scale of their operations within the US. Thus, I removed these companies' inputs and re-calculated the averages for the discounted and premium sectors in order to generate values that were more reflective of the total revenue within those markets.

As another means to address variations within the retail environment, I solved for the percent-change in quarterly and annual revenue for each corporation and then found the averages for each of the three segments. By pitting all of the average results against 1 (100%), I was able to eliminate any variability stemming from differing company sizes; therefore, I could reincorporate the data for Walmart and Gap, Inc. and consider the luxury segment as one unit.

In addition to utilizing revenue-related data, I also collected the companies' annual closing prices through the Compustat North America and took the average of these results for the various sectors. I used the "Index Prices" function within the same database to find the historical closing prices for the Dow Jones Industrial Average, which I chose to represent the overall condition of the stock market throughout the twelve-year period. The program only generates monthly prices, so I isolated the January 31 values from each year to allow for a more clear analysis.

The final step of my process was to compile the results and graph them before drawing conclusions. My initial hypothesis was that total sales of luxury goods would remain relatively unaffected by the recessionary conditions; whereas, retailers operating in the premium market would suffer the most, having lost sales to the lower-end companies. I also anticipated that the discounted segment would be the strongest performer and that any lost sales would be slight, since possible reductions in its pre-recession consumer base would likely have been replaced during the downturn. All of the companies' sales figures, however, should grow through the years to reflect the expansion of their US operations.

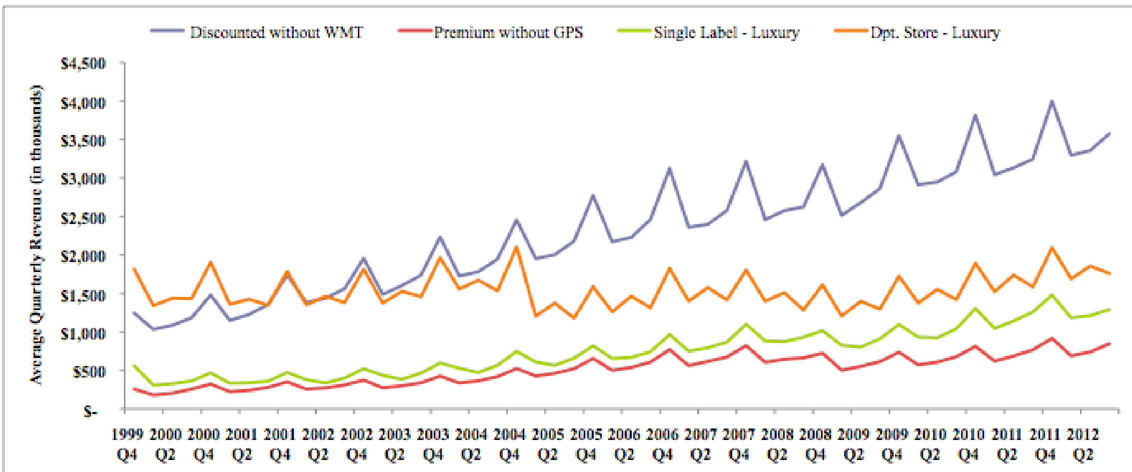
In terms of stock value, I expected that the average price of the discounted companies would generally reflect the health of the market. I foresaw the price of luxury making the most extreme swings, particularly when the market was up. When the market was down, on the other hand, I also expected the value of luxury companies to deteriorate. Wealthy consumers often have considerable investments in financial assets, so they would likely limit their spending in response to reductions in the value of their holdings. Finally, I anticipated that the premium segment companies would tend to have the lowest stock prices out of the three, regardless of the strength of the market, primarily due to the substitutable nature of their offerings.

# Chapter 4

# Results and Observations

## I. Average Total Revenue Analysis

Figure 4-1. Average Quarterly Revenue




At first glance, the graph of the average quarterly revenue results shows volatility within each segment through the year but, in general, an upward trend through the twelve-year interval in all categories except for luxury department stores. This internal volatility is due to the cyclical nature of the fashion retail industry; by and large, the two primary buying seasons are Q2, which spans the transition into the summer season, and Q4, the high time for holiday sales.

Figure 4-2. Quarterly Revenue Moving Average

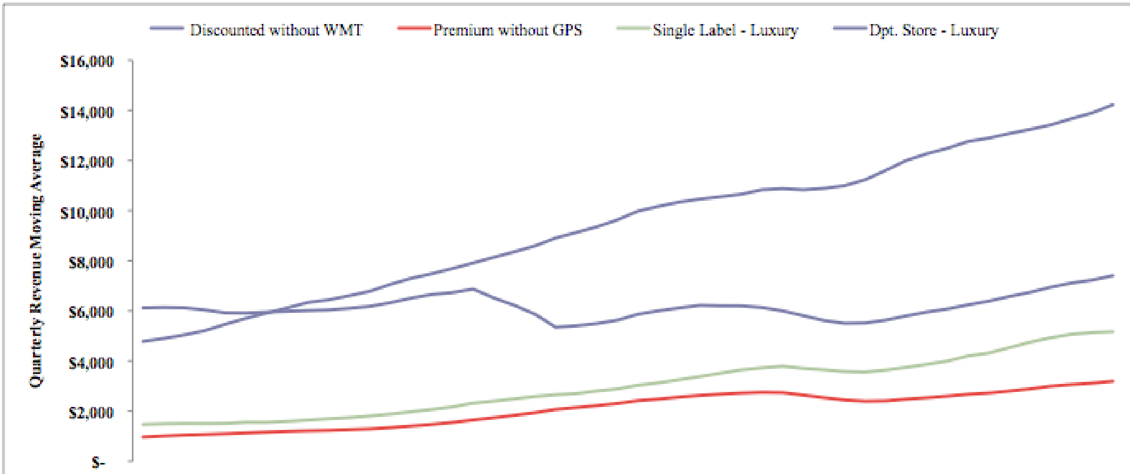
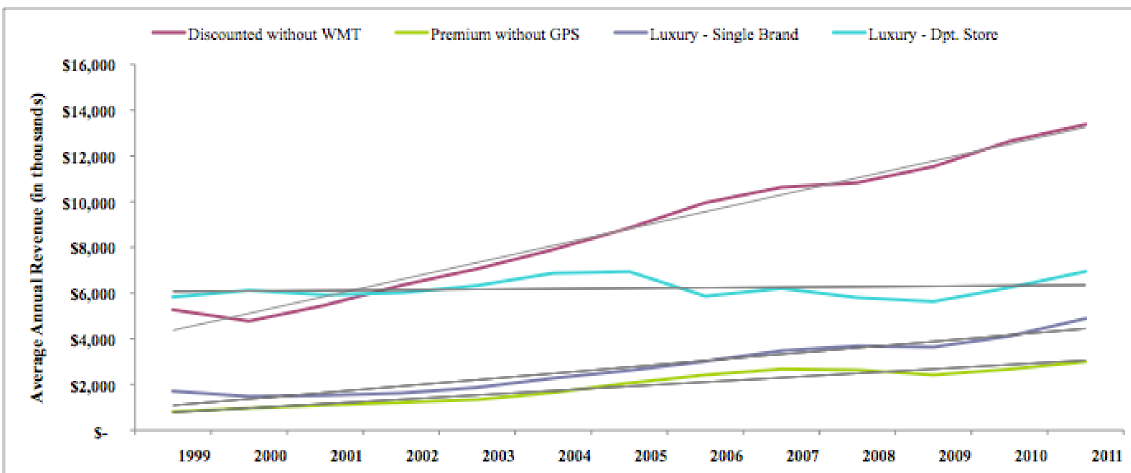



Figure 4-3. Average Annual Revenue



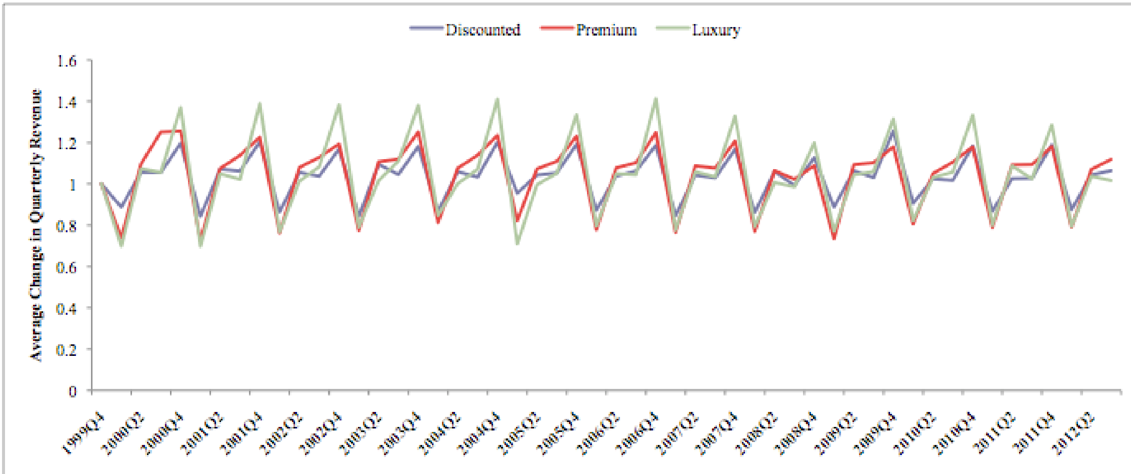

To account for this cyclicality and create a more clear depiction of the consumption, I generated a moving average graph that depicts the annual sales figures for each quarter. I also graphed the average annual revenues against each other. As was apparent before in my initial quarterly results, the discounted segment—even without Walmart—had the strongest total revenue and growth, with a slope of $741.31 (in thousands) per year. This makes sense considering that three out of the four companies in this discounted sample generate sales through multiple brands. Furthermore, the weakening economy most likely created more expansion opportunities within this segment through the years, thus augmenting any normal sales increases.

The single-brand luxury category displayed the next most significant growth through all periods. This illustrates that while total revenue accrual was less than that of discounted and department stores, the companies' sales have steadily improved through the recessionary conditions. On the other hand, the performance of the luxury department stores is notable. This segment displayed minimal sales growth over the twelve-year period, and even saw total revenue drop during the downturn. Given the magnitude of the sites and the high capital expenditures associated with start-up, it is likely that luxury department store companies do not have the same rapid expansion prospects as the single-brand retailers or those that operate at lower price points. This helps to justify the somewhat constant level of overall revenue generation, but the particular period of declining sales from 2007-2009 indicates that discretionary spending by the wealthy may not be as stable during recessions as I had predicted.

### II. Average Change in Revenue Analysis

Even more telling than the average total revenue graphs are those that display the change in revenue over each period. Companies' sales vary with their respective sizes and organic growth, but I removed the impact of these inconsistencies by finding the average percent changes in revenue for the three segments and likening them to a common base of 1, or 100%.

Figure 4-4. Average Change in Quarterly Revenue




The graph of the quarterly results again reflected the typical consumption pattern of fashion retail. It is worthwhile to note that in the most critical buying season, Q4, the luxury segment always showed the most improved sales, even when its upward momentum weakened during the recent recession. With regards to the Q1 off-season, the premium sector tended to experience the most significant setbacks, particularly from 2006-2009. Regardless of the season, the discounted sector deviated the least from the common base; this may be due to the fact that the companies' inexpensive prices reduce consumers' motivation to "hold off" on purchases at any given time of the year, making their operations and sales less cyclical than those of the other two segments.

Figure 4-5. Change in Quarterly Revenue Moving Average

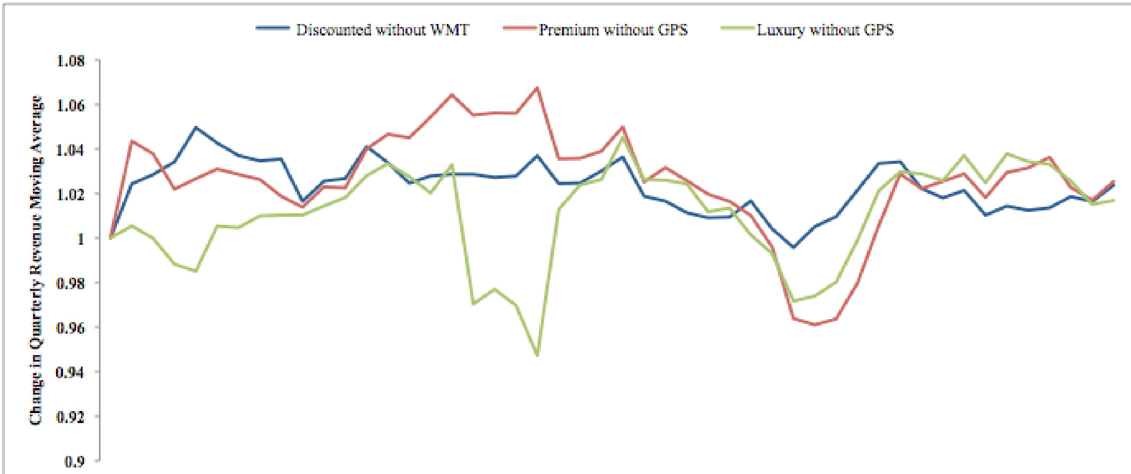
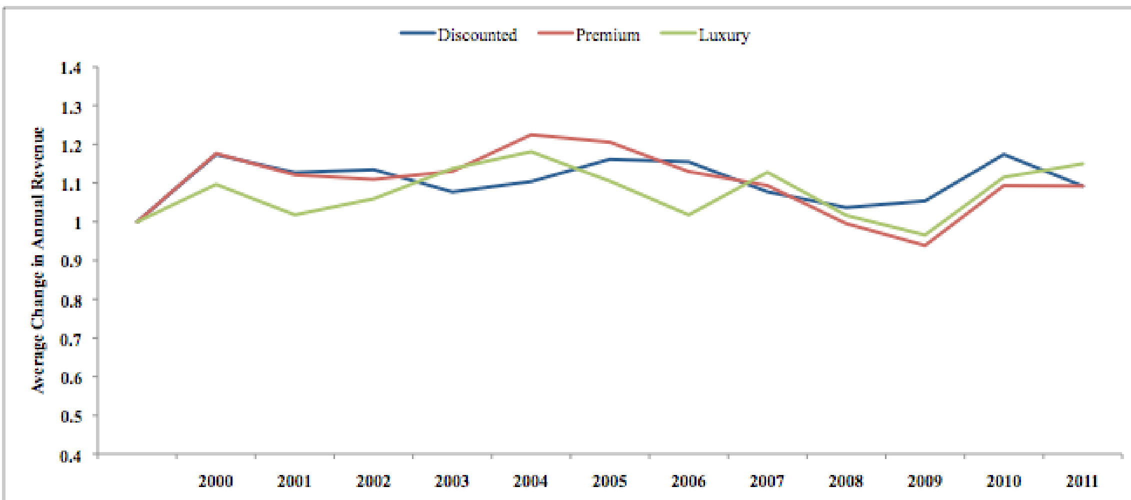



Figure 4-6. Average Change in Annual Revenue




The graphs displaying the percent change in the quarterly moving average results and the average change in annual revenue lend themselves to similar observations. While the discounted segment encountered fluctuations in sales, it again showed the most stable performance and was relatively unaffected by the recessions. The results for the premium group display the greatest variability and, most importantly, the most drastic deterioration of sales growth lasting from 2004-2009. Luxury's performance appears to have been slightly more consistent when compared with the premium segment, but the high-end companies were not as immune to the downturn as I had anticipated. Sales within the sector began to taper off at the onset of the recession in 2007 and continued to do so until 2009, when most of the luxury companies experienced negative growth. Even so, the results show that the high-end segment fared better than the premium group both during and after the slump, indicating less-severe changes in consumption among affluent consumers than among their middle-income counterparts.

Also noteworthy in the annual results is that the discounted segment experienced growth during 2008, while companies in the other groups were largely suffering from losses in revenue. This suggests that consumers who would have typically purchased premium or luxury goods might have been changing their habits in order to save money, thereby increasing the customer base, expansion opportunities and sales throughout the discounted sector. In 2009 when the NBER officially declared the end of the recession, all three retail groups regained momentum. Luxury is still showing signs of stable growth; whereas, the performance of the premium segment has since stagnated. The discounted companies actually experienced diminished revenue after 2010, which points to the improving financial capacity of American consumers and may indicate that these companies have fully saturated the market.

### III. Stock Price Analysis

Figure 4-7. Average Annual Closing Prices

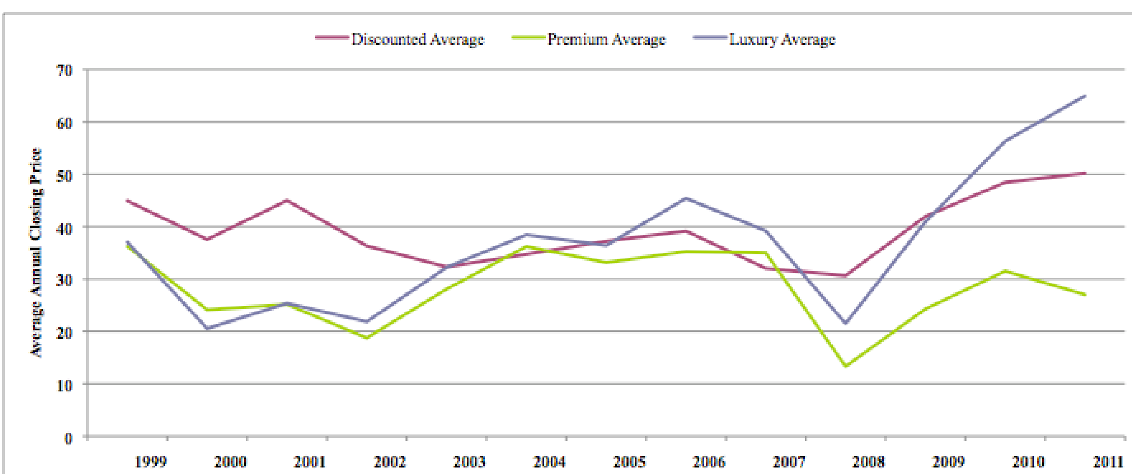
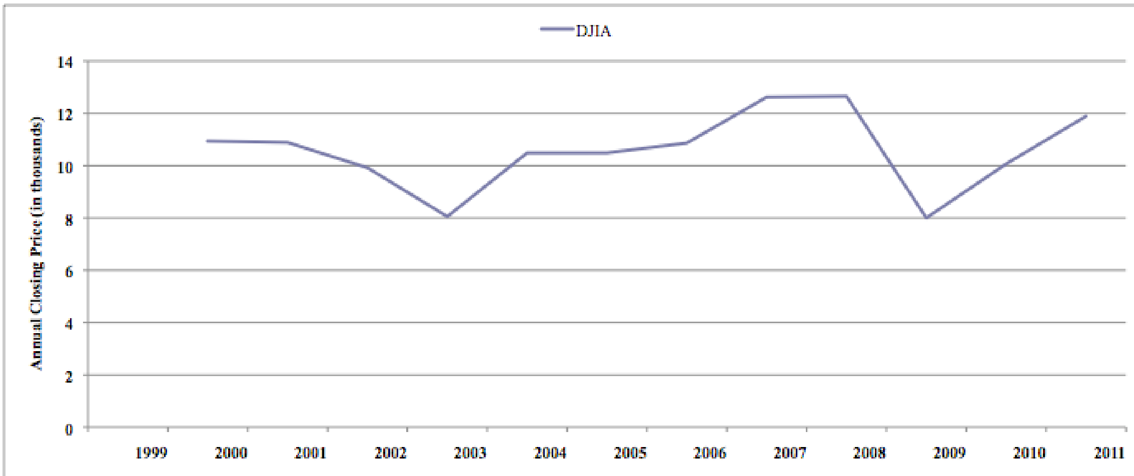


Figure 4-8. Dow Jones Industrial Average Annual Closing Prices




The final assessment that I conducted was an analysis of the segments' average annual closing prices and their relation to the Dow Jones Industrial Average. The annual graph that I created for the DJIA may present an oversimplified depiction of the market's activity, but it allows for general observations related to my study. At first glance, it is apparent that all three retail sectors generally mirrored the movements of the DJIA. The discounted segment again proved to be the most stable, showing only mild variations in its stock price through the years. Its value also deteriorated the least at the start of the recession and remained above that of the other two segments for most of the downturn. The price of luxury fell with the onset the recession, but as I had anticipated, the more extreme swings related to its value were positive. Particularly noteworthy is the impressive escalation—an increase of more than $40—of this segment's stock price that began in the midst of the slump in 2008 and continued through 2011. The market was on the upswing during luxury's rapid recovery; this might suggest that wealthy consumers felt secure and confident in their financial assets and, thus, were stimulating the companies' value with increased discretionary spending.

The historical market values of the premium segment were also consistent with my predictions. At almost every point along the graph, the average price of the premium companies was the lowest.  As was previously observed, this group experienced the most significant reductions in revenue throughout the recession; therefore, it is not surprising that the average value of the premium corporations deteriorated the most during this time, too.  This observation likely points to higher levels of saving among these companies' target upper-middle-class consumers, as well as less discretionary spending on "near luxury" goods in favor of lower-priced substitute products made available by discounted stores.

# Chapter 5

# Conclusion

Through research and analysis of fashion retail performance in three different pricing environments, I was able to draw conclusions regarding the effects of recessionary conditions on this industry within the United States.

The collective sample of discounted companies was resilient over the twelve-year span. This segment was consistently the strongest in terms of revenue accrual, and the financial stress that the weak economy imposed on households during the second half of the decade likely facilitated heightened organic growth within this market. Their higher sales levels might also be attributed to the fact that the companies in my sample either sell through multiple brands or offer a wider variety of merchandise, including home goods and essentials such as groceries. The latter situation—as is particularly the case with Walmart—does present a limitation to my study in that the revenue figures do not directly reflect the discretionary spending by their consumers. Regardless, the nature of the discount store offerings and the expansion of their price-conscious customer base were likely the main drivers of this segment's success through the recession.

The performance of the premium segment was the least noteworthy in most regards. In considering the average results, the companies in this sample generated the least total revenue every period when compared with the other segments and—with the exception of the luxury department stores—their sales grew at the slowest rate. It is significant, however, that the premium group displayed the most volatility; analysis of its average annual changes in revenue pointed to lost sales and a general inability to avoid the effects of the downturn. Its market value also deteriorated significantly at the onset of the recession and hasn't been particularly improved since. These factors suggest that the premium fashion retail segment suffers the most at the hands of a downturn, probably due to reductions in its customer base. It is logical that those in lower income brackets will continue to make purchases at the discounted stores even during recessionary times, but my study indicates that middle-income consumers are the most likely to alter their spending habits in favor of less expensive products as their financial security is threatened during downturns. This observation is supported by Fiona O'Donnell in her 2012 Mintel report, "The Budget Shopper," as she highlights evidence that the "share of American 'middle-class' households has been in decline over the past few decides as…factors combine to push many into the poor or 'working poor' categories, and drive budget shopping." Furthermore, her report points to the fact that median household income has been declining, even since the beginning of the economic recovery in 2009, which also helps to explain the premium segment's recent shortcomings (O'Donnell, 2012).

Whereas my research aimed to add to the relative void in speculation regarding the performance of the discounted and premium fashion retailer, its purpose was to provide further clarity in relation to the luxury companies. Ultimately, my study did not fully substantiate my prediction that luxury would be unaffected through the recession, but it did evidence the strong ability of this segment to quickly bounce back from difficult times. While this group did see its performance suffer as same-store sales fell through much of the downturn, its average total quarterly and annual revenue results showed positive trends in all periods. Furthermore, the luxury companies consistently outdid the others during the primary buying season every year. This segment's market value and annual growth have also improved most rapidly with economic recovery, indicating that the recession had only a fleeting effect on consumption within this market. A quote from the recent article in *The Wall Street Journal* written by Masidlover and Passariello (2013) further supports this notion: "The U.S. has been showing signs of strength…As a result, wealthy Americans are spending freely on expensive clothing, accessories, jewelry and beauty products."

As the American economy continues to recover, it will be interesting to follow the activity within the fashion retail industry. Will the discounted sales taper off and the performance of the premium companies improve as greater levels of financial security renew consumer confidence? In terms of luxury, Masidlover and Passariello (2013) note in their article that foreign consumers—particularly visitors from China—will add to the historically local demand within this market in the US in the coming years. Will this heightened demand allow for even faster growth within this segment or possibly more rapid development of luxury department stores? Going forward, it will be important for both investors and managers to make these considerations and to have a thorough understanding of the domestic fashion retail market.

# Appendix A

Discounted Companies:

| Ticker Symbol | Company Name | Headquarters Location |
|---|---|---|
| WMT | Wal-Mart Stores, Inc. | Bentonville, AR |
| ASNA | Ascena Retail Group, Inc. | Suffern, NY |
| TJX | The TJX Companies, Inc. | Framingham, MA |
| KSS | Kohl's Corporation | Menomonee, WI |
| ROST | Ross Stores, Inc. | Pleasanton, CA |

Premium Companies:

| Ticker Symbol | Company Name | Headquarters Location |
|---|---|---|
| AEO | American Eagle Outfitters, Inc. | Pittsburgh, PA |
| ANN | ANN INC. | New York, NY |
| ANF | Abercrombie & Fitch Co. | New Albany, OH |
| GPS | The Gap, Inc. | San Francisco, CA |
| URBN | Urban Outfitters, Inc. | Philadelphia, PA |

Luxury Companies:

| Ticker Symbol | Company Name | Headquarters Location |
|---|---|---|
| COH | Coach, Inc. | New York, NY |
| TIF | Tiffany & Co. | New York, NY |
| RL | Ralph Lauren Corporation | New York, NY |
| SKS | Saks Incorporated | New York, NY |
| JWN | Nordstrom, Inc. | Seattle, WA |

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- Evan Pugh Scholar Junior Award: Pennsylvania State University, 2012
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- Beta Gamma Sigma Honors Society
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- Urban Outfitters, Inc.: Buying Intern, Women's Accessories Department