

WWD

Fashion. Beauty. Business.



Benetton's Back

Luciano Benetton has returned to the retailer and talks the future of Fabrica.

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Party Pack

All the red-carpet action at and around Grammys' weekend.

Pages 16 to 18

Tinker, Tailor

Structure and flou: couture's two essential sides. When in tailoring mode, couturiers start with impeccable construction, and then they tinker. For her impressive debut collection for Givenchy, Clare Waight Keller added a glamorous spill of feathers to an otherwise clinical white coat. For more, see pages 10 to 12.

PHOTOGRAPH BY GIOVANNI GIANNONI



BUSINESS

How to Spend The Tax Windfall

- Retailers have a once-in-a-generation chance to invest a big windfall from tax reform and lots of places to spend.

BY EVAN CLARK

Don't blow it.

That's the message to retailers as they look out into 2018 and ponder how to spend their once-in-a-generation tax windfall. The controversial \$1.5 trillion tax overhaul, which was signed into law by President Trump just before Christmas,

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CEO TALKS

VALUE RETAIL'S SCOTT MALKIN ON THE JOY OF DISCOMFORT

QUOTING EMERSON, THE CEO BELIEVES THAT RETAIL IS MORE ABOUT THE JOURNEY THAN THE DESTINATION.

BY SAMANTHA CONTI

LONDON — With a trinity of degrees from Harvard and a philosophical approach to business, Scott Malkin is a rare bird in the retail property world. The founder and chairman of Value Retail, Malkin is a firm believer in brick-and-mortar stores, but recognizes that retail needs to evolve and become a spectacle again.

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“Ralph Waldo Emerson talked about how the journey was more important than the destination. That’s our world; we’re about delivering an ever-more-relevant journey,” said Malkin, a London-based Connecticut native who grew up in the property business – his father once owned the Empire State Building – and counts the late Marvin Traub, Burt Tansky and Sergio Loro Piana among his mentors. Malkin moved to London in 1992 and opened his first high-end outlet center – Bicester Village, near Oxford – in 1995. At first, it was somewhat of a struggle to convince European designer brands about the American concept of an outlet selling their out-of-season merchandise. But Malkin, despite his laid-back demeanor and still-strong New England drawl, is nothing if not determined, and pressed on. Today, Value Retail operates 11 outlet centers throughout Europe and China, and his investments go beyond property. He also co-owns the New York Islanders. During an interview at Bicester, Malkin talked about the future of luxury outlet shopping, what he’s learned from the hospitality business and why American retailers are flailing.

WWD: How has retail evolved – or not – since you’ve been in business?

Scott Malkin: It’s all about the consumer, serving the consumer. It’s about brand, it’s about value, and what people in this country define very successfully as “value for money.” In the U.S. people call it the “value equation.” Going back in history, the notion of great, personalized and, in some ways, customized experiences are always what made the spectacle of retail, the energy of the experience, relevant. Today, people talk enthusiastically about “experiential” retail.



“What we’ve had for a period of time in the U.S. is people promising one thing and delivering another. They have excuses generally – including online. We live in a transparent world now, that’s the point about tech. Authenticity is everything, which was always true, but it’s much more powerfully true today.”

– SCOTT MALKIN, VALUE RETAIL

In fact, if one is practical about this, the term isn’t really what’s at issue. The issue is, on a relative basis, delivering the same high quality of experience. And what was considered a high-quality experience 10 years ago by definition can’t be a high-quality experience today, yet principles are consistent. The notion that a curated and highly evolved experience are worth a premium in price and friction costs [the direct and indirect costs associated

with the execution of financial transactions] is unchanged.

WWD: What makes people buy today?

S.M.: To the extent that anything becomes commoditized – be it fashion or words – one has to go beyond. Experience should touch emotion. Emotional recognition is what leads to memories. The job of our teams is to deliver special, highly qualitative memories through experience. That’s what a great purchase

is, a gift. A gift is less about the item, more about the giver, the occasion. We all have too many things, but a special gift, when someone says, “Wow, the thought or effort that went into that!” The care, the attention – that’s what we’re looking at now. That’s what we were looking at 25 years ago; it’s the root of what we do. There’s nothing recognizable in that today in American department stores; they’ve been cheapened and commoditized. The pressure is on the brands, and the stores are often tempted to take shortcuts. I think that the U.S. distribution picture today, from department stores right the way through to outlet centers, reflects the industry. In the end the brands turned a blind eye to the diminishing of quality and brand equity. It went past the point of no return.

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WWD: So what's the solution for the U.S. retailers?

S.M.: I think that the U.S. will have to be reinvented, and the U.S. department store model, to the extent that it survives, will have to return to its roots in offering real value in experience, selection and service. These are not new concepts. Delivery of those concepts and qualities is much more difficult than simply declaring them. What we've had for a period of time in the U.S. is people promising one thing and delivering another. They have

excuses generally – including online. We live in a transparent world now, that's the point about tech. Authenticity is everything, which was always true, but it's much more powerfully true today. You see that in the commercial and political environments, in cultural issues. Things aren't really happening in a surprising way. They're incredibly predictable, but easier to understand if one is looking forward, rather than backward.

WWD: You've often described Value Retail as being in the business of hospitality, as well as retail. Where and how do the two intersect?

S.M.: The hospitality industry has always been the only industry that first and foremost focused on guest. They think

about the guest every day. Retail was dominated first by manufacturers, then designers, and more recently – and to the detriment of the American department store and American fashion companies – the financier. My colleagues tend to think with enormous energy and passion about the brand. Through the brand, they reach out to the guest. From the moment when that woman thinks about us in Singapore or New York, to when she walks through the entrance of a boutique, here in Bicester Village or any one of our villages around the world, she's ours. She goes into a boutique and she belongs, for that period of time, to that boutique. We can work, and we do work extensively with the brands to try to assist them in delivering the highest-

quality experiences within those boutiques. It's increasingly clear that if you're a great brand, the standard of execution matters regardless of the setting. If you are ever presented in a less than superb way, not only have you lost an opportunity, you've damaged your relationship, your identity.

Isadore Sharp [founder and chairman of Four Seasons Hotels and Resorts] famously said that every action polishes or tarnishes the brand – every small detail. So really, the idea that drives anything we're doing is that our values should be perfect. The reason that people come halfway around the world to go to Bicester is because it's a spectacular experience.

WWD: You treat your villages as tourist hubs, and Bicester has become the second most-visited location, after Buckingham Palace, by Chinese visitors to the U.K. Why this laser focus on tourism?

S.M.: I think our focus has been consistent, and it is rooted in the idea that the great principles of merchandising and department stores are linked to a touristic appeal. In the past, one went to stores to see how things were presented, to be introduced to new products and ideas, to be embraced. You couldn't go around the corner and discover the showmanship, the passion, the range. That's why the "grands magasins" are the standard bearers of the great department store tradition in London and Paris and Milan. The notion of "great experience" is the puzzle. In a world that will be highly automated with autonomous vehicles and artificial intelligence, the human piece is the piece that cannot be delivered consistently without enormous effort, care, attention and passion.

WWD: On that note, will online sales ever become a part of your playbook at Value Retail?

S.M.: I think the nature of online is that it's defined by, and only remotely profitable, when achieving scale. The margins that one can achieve given the costs and the returns online don't really make any

Here and below: Value Retail's Bicester Village.



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sense if something is online exclusively, unless it's an agency model where someone's taking a commission. The future of brands is clearly built on identity and value created through physical stores. Where we are headed is not only that surplus stock cannot, should not, will not be sold online, but that brands are also moving away from sales "periods" in their full-price locations. Gucci has done it and Givenchy, too. It's the opposite of what's happening in America, where everything is on sale always.

Brands [such as Gucci] are saying, "Here's what we are and who we are, here's our brand value equation. Why would we possibly cheapen our brand positioning by celebrating our unsold merchandise, putting it on sale in the wrong location – our full-price stores – and twice a year disrupting our equilibrium, which should be built around making our full price customers joyous?" Millennials talk about authenticity. Another word for that would be integrity, brand integrity. The reality is that definitions of integrity are changing in real time and the nature of great retailers is to adapt and embrace the change, whatever it happens to be.

WWD: Generally speaking, how, and where, does online fit into the future retail model?

S.M.: Great retailers are embracing and adapting to digital. Equally, you can't be a great retailer by living online only. The challenge is that the online guys will stumble through how to be physical, and the physical guys don't really have a clue how to be online. Neither of them is going to generate very good margins as a result of competition, transparency and

inefficiencies until brand equity can be defined, protected and preserved. That's where the profit margin comes from, value for money: Something's worth the price because it is special, because the memory is magical. The Internet, in the end, is only about commoditization, not memories. That doesn't mean that a lot of very fine pieces of merchandise won't be transmitted over the Internet, but the brand values will not be delivered – and cannot be delivered – by the Internet. Although we're not going to sell online, online is a way we can talk to guests, brands, a way we can communicate a value proposition. We are not an online culture, and a hybrid culture struggles. We're a physical experience culture and we will push to be the best in the world at that, that is our goal, to get as close as we can do a moment of outstanding performance – and then we start again the next day.

WWD: So what's next for Value Retail?

S.M.: Firstly, our desire to build more villages is very contained. I do acknowledge the tautology of the idea that one cannot be a luxury brand and a global brand, but it's a very intriguing statement. Interestingly, we've now started to be approached by brands about whether we would build projects, full-price or outlet, in North America. The brands are sufficiently disaffected with the model that's there today. They look at Two Rodeo Drive [Malkin's Beverly Hills retail concept which he sold to Sogo in 1991] which remains a viable expression of experience and quality, and they look at our villages abroad. I think, like the brands, we need to adapt and keep learning. Really, everything that Value Retail does is rooted in Two Rodeo Drive, which is full-price experience, fashion, and tourism. I think we'll try to understand what the brands might want. We exist to make the brands happy, the villages exist to make the women happy. We're more likely to do

something else in China or the U.S., a major market, than we would be to build more villages in Europe.

WWD: Will your approach always remain the same?

S.M.: The bar must continue to rise steadily, convincingly and authentically. The way to achieve that is by having a willingness to invest by attracting and retaining a fantastic team, by recognizing and embracing youth, which translates into change. Evolution, change, whatever you want to call it, but it's all driven by what's coming next. Then, a purity of commitment to what defines great memories that links back to the five senses and how, when one is touched through those senses, the journey leads to that positive emotional response. That means adapting to technology, awareness, expectations and having the willingness to constantly reinvent.

WWD: How would you describe your management style?

S.M.: I think that there are left-brain and right-brain components to leading successfully in this environment. It's very much like a brand: If you have a great collection but you can't deliver it on time, well manufactured, and at a price that works, you don't have a brand. If you have a fantastic logistical infrastructure, but your product doesn't strike an emotional chord or deliver any of that magic, then you don't have a brand. The magic, those special qualities, the value, comes from not only having talented team members, but finding a way to inspire them to go beyond their own presumed boundaries and to work together in ways that are uncomfortable. So we're introducing hoteliers into our staffing, and I know that's a success because all the retailers tell me how wonderful it is, and could the hoteliers please work somewhere else in the business. Don't put them in my spot, right? I know we're growing and changing if people have a degree of discomfort.

I know that the balance between

purpose and passion is a delicate one that has to constantly be re-weighted and addressed. We've made a transition away from outlet shopping, and replaced it with the Bicester Village Shopping Collection, because no one else can say Bicester Village. We had lots of people tell us that other companies have offered to build them a "Bicester Village," but the notion that we've entered a new stage in our evolution, where we're going to be held to a higher standard both by the guest and the brand, is exhilarating because it allows us to think about ourselves differently and reinvent ourselves with energy.

WWD: You run Value Retail in an unconventional way, with a flat management structure and no head office. Why?

S.M.: We have no physical head office, we have a virtual one because our executives should either be with the brands or at the villages, seeing how the brands are interacting with the guests. The beauty of not having a head office is that it's impossible to locate the hierarchy. Either we have a culture of people who step up and work together to deliver inspired solutions, or we have people who aren't doing anything. Those people who don't really engage with our culture tend not to join in the first place. People are passionate about what they do, and it's not comfortable to have no conventional hierarchy and no head office, but it allows for responsiveness and agility, which I think Marvin [Traub] would recognize.

WWD: What keeps you moving forward at Value Retail?

S.M.: I like the idea that there is sufficient pressure to embrace change and think hard about how to reinvent ourselves. We can't pretend that's not the priority. It's not about magic tricks and trying to change the narrative overnight. It's about that steady evolution.

VALUE RETAIL

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