

# BoF

---

## CEO Talk | Scott Malkin, Chairman, Value Retail

BY IMRAN AMED, 5 JUNE, 2013

*In his latest CEO Talk, BoF's Imran Amed sits down with Scott Malkin, chairman of Value Retail, parent company of nine discount outlets dotted around Europe, including Bicester Village, by far the most productive shopping centre in the world.*

### **BICESTER, United Kingdom –**

The ultimate metric for retail performance is sales density, typically measured in sales per square foot. Indeed, for a chief executive managing a retail business, regular growth in sales density is the holy grail.

Apple stores, widely considered to have the highest sales density in the world, clock in at about \$6,000 per square foot. In the luxury sector, where rents are high and store fit-outs are extremely expensive, a store with a sales density of over \$2,000 per square foot is considered to be very high performing.

No wonder, then, that Scott Malkin, chairman of Value Retail, parent company of nine discount shopping centres dotted around Europe, is ebullient. On the day I meet him, about one hour outside London, in Bicester Village – a luxury shopper's paradise with past-season merchandise from some of the most prestigious fashion brands in the world (including Prada, Céline, Dior, Burberry, Ralph Lauren and Alexander McQueen) at heavily discounted prices – the outdoor mall is teeming with shoppers and the parking area is jampacked. According to



statistics supplied by Value Retail and the International Council of Shopping Centres (ICSC), Bicester Village, with an average sales density of \$3,309 per square foot, was by far the most productive shopping centre in the world in 2012, outstripping

Bal Harbor Shops in Miami (at \$2,555 by per square foot) by about 30 percent.

Indeed, although they might prefer for it to remain a secret, Bicester Village is very often the number one sales outlet in the world for many of Malkin's brand partners. In 2012, this earned Value Retail more than 1.7 billion euros in revenue, which has tripled over the past 5 years.

So, what's the secret to Value Retail's success?

It all comes down to incentives. Rather than taking a monthly rent from his

tenants, Malkin earns a royalty on sales, perfectly aligning the goals of tenant and landlord to constantly improve sales density and other key performance metrics. As such, Value Retail is actively involved in promoting, managing and optimising the retail experience for the millions of global shoppers that descend on Europe each year.

BoF took a tour of Bicester Village and then sat down with Scott Malkin to learn more about his operating strategy and the business of building Value Retail.

*“Bicester Village was by far the most productive shopping centre in the world in 2012”*

**BoF: The first thing that I want to discuss is how the business works. It's not a pure real estate business, per se. Can you talk about how Value Retail makes money?**

SM: It's a hybrid of real estate and retail. We don't 'build and fill and sell,' [which is more like] a manufacturing real estate business. Really, there is no real estate income. [There's] a marketing fee, some service charges, [and] maintenance charges. Essentially, the structure is: we have licensing arrangements with brands who take the space and pay a royalty.

**BoF: Like a shop-in-shop type business?**

SM: Yes. Structurally, we are more akin to a Harrods or a Selfridges than US department stores [which] buy the stock. We also work with brands in terms of visual merchandising and direction on staff training. The brands are thinking about the next challenge, the next issue, the next new store opening –

and all the way at the back is surplus stock and the mechanisms for dealing with it.

And yet, what one finds in these Villages is that fashion editors are here all the time shopping for husbands and children. These are not unsophisticated buyers. So how do you create a place that is an alternative to full price in its pure form, but supportable for full price by identifying and serving aspirational customers?

**BoF: So, if I understand correctly, in exchange for this royalty, your brand partners are not just getting space, they are getting a service. What service does Value Retail as a company provide to a brand opening a store here?**

SM: What we're doing is saying in every step of the process: 'Here's what we understand to be best practice for our Village in this market.' But the relationship is delicate because highly creative and intense organisations, which is what a good brand is, don't necessarily want unfamiliar inputs

or interference. It's good if the feedback comes from people who are retailers, who speak that language, know a product, who can't be shunted aside. But on the other hand brands will say, and have said, you guys are incredibly demanding and it helps us a lot, but it's frustrating.

**BoF: So could you bring that to life a little?**

SM: Hiring, training, it's always that tug of war. We can make certain arguments that they'll listen to. But as examples, most of the brands who came here from Italy are in their third shop fit. They would argue for concrete floors and we would say 'no, sorry' we won't approve those. They would stick up orange signs. The whole idea mentally was: 'This is a dumping ground.'

Discount in the way Europeans think about it – it's dumping. [They see discount as] just another way of jobbing stock, which says we don't really have regard for the customer. The shopper can tell the difference.

So the woman who will spend £5,000 for a piece of fur that used to be £10,000 – and it happens multiple times each week – and the one who will pay £200 for a pair of shoes that used to be £400 – that's a rare creature. The average price for a pair of shoes in the UK is something like £14.

If she's gone halfway across the world to do it. And by the way, if she has a driver in the car, waiting for the day for her, anything she is saving in price is going towards petrol, the chauffeur, the car from the hotel, her act of coming here is not about discount in anyway. Nobody spends £200 for anything thinking 'discount.'

**BoF: Bicester Village did more than \$3,000 a square foot in sales**

**last year. How do you explain this really high sales density?**

We rate each brand's [performance] and give them feedback on identity, merchandise mix and sales densities, which is another measurement of brand relevance to the customer and brand contribution in terms of royalty income.

When a brand opens we present them with a series of touchpoints, which hopefully will add value quickly. It's a partnership, it truly is. We are legitimately able to talk to the brand for three reasons: one, we are retailers; two, we are sharing their success and their risk; and three, we are investing hugely in global and tourism marketing. We've been doing that for ten years, and are starting to see the benefits of it today. Three or four years ago, eight percent of our visitation for our Villages across Europe was from non-EU shoppers. Last year was 25 percent non-EU shoppers.

**BoF: But you are not planning to build more Villages to capture more of this tourist shopper opportunity.**

We don't need to build more Villages [in Europe], we need to drive the performance of the Villages we have. Should Bicester Village outside of London and La Vallée Village outside of Paris have different sales density per square foot, given the size of the catchment, the volume of inbound tourism, the quality of brands at full price that therefore have surplus stock? No, they should be the same. But Bicester Village [has been] growing double digits for 17 years. Year-to-date we are up 16 percent, like-for-like, and Paris can't keep up. It should do and will do at some point. It just creates an upside in the operating business, since we're on a royalty, that's how I can create new Villages, by improving the operating performance. Improving the value

I deliver to our customers, the brands, and improving the experience for the shopper.

It's [about the] magnetic appeal of the hospitality experience. If you think about long-distance resort hotel experiences, there's a lot of that. The greeting, the room, the linen, the bedding, it's broadly consistent, yet some places absolute sparkle – and that's the artistry [of retail] and that's what we're very much focused on. If we don't constantly reinvent ourselves, we're not keeping up with our brands.

**BoF: As we were walking through Bicester Village just now, the presence of the Chinese shopper was clear. Can you give me a profile of the typical Value Retail Chinese consumer?**

The Chinese consumer is moving faster than anything I've ever seen. The rate of maturing, the rate of growing sophistication is incredibly impressive and they're in that moment of epiphany [when they] determine that a heavily logo-ed bag is a secretary's bag. I'm not even sure Japan is there yet, but they've been inching towards that. Russia's not there yet, Brazil's not there yet. China got there seemingly overnight, very, very quickly.

The Chinese consumer, today, is noticeably different even from last year. Now, they are coming with a driver and car, not on a coach tour, maybe with a child who's been educated in Canada or the US or Britain, speaking English. That consumer is fundamentally aspirational, has spending power up to a point, and has an absolute

fixation on authenticity. These people say 'we bought them here because we want the real thing, we believe these are authentic and if we buy them in China we'll never know if they are counterfeit.'

*“If we don't constantly reinvent ourselves, we're not keeping up with our brands”*

**BoF: And, how does that link to your strategy for opening in China early next year in Suzhou for Spring 2014?**

We'll be spending \$100 million in seven years. Our next project is Shanghai Disney®. If all goes well, a woman will show up, she'll walk around for half an hour, and she'll then say 'I've been to Europe, this is the real thing, this is great.'

Even if my people are working on China, they are reminded everyday that the shopper we receive is global. We, as a business, are global and they need to think about participating in the global economy.

These are talented, capable people who have choices and elect to work with us because there is an environment, a mission, a product they are satisfied with, that they believe in, not because they need a job, which is why it's so much fun for me, and for them, to work at Value Retail.

*This interview has been edited and condensed.*

Subscribe to the BoF daily newsletter: <http://bit.ly/13LpuS7>

---

## About The Business of Fashion

*The Business of Fashion is a next generation fashion media company conceived for today's global, digital and connected world. Founded in 2007 by Imran Amed, BoF is known for its authoritative, agenda-setting point of view on the global fashion industry and is an indispensable resource for fashion executives, creatives, students and entrepreneurs in over 200 countries. It has been described as "The Economist of Fashion," "A Daily Destination for Fashion's Power Players" and "The Industry Bible." [www.businessoffashion.com](http://www.businessoffashion.com).*