

News

Value Retail Says Luxury Brands Need to Upgrade Stores

Luxury-goods companies are wrong to treat discount outlets as “dumping grounds” for surplus stock and risk alienating shoppers by doing so, according to Value Retail Plc, which operates designer malls across western Europe.

Makers of high-end apparel and accessories should provide a shopping experience in such outlets that is comparable with their full-price stores, Value Retail Chairman Scott Malkin said in an interview last week in Paris.

“The notion of what’s acceptable as an experience is shifting” as consumers travel more and the Internet makes it easier to compare prices and services, Malkin said. “We’ve reached a tipping point.”

The shift comes as luxury brands such as Kering SA-owned Gucci prioritize refurbishing their full-price stores amid slowing sales. Revenue from discounted personal luxury goods, also known as off-price sales, surged 26 percent to 16 billion euros (\$22 billion) last year on a constant currency basis, consultant Bain & Co. estimates.

Some companies don’t see why they should pay as much as 18 percent of sales to use Value Retail’s shopping centers in Europe, Malkin said. Growth in Europe will come from improving the shopping experience, not opening more outlets, he said.

“The brands don’t treat the outlet stores with respect,” said Malkin. “Many of them say,

‘just sell it and charge us as little as possible and send us the money.’”

While people visit luxury discount outlets because of low prices, they expect the experience to be “high touch” because they also shop at full-price stores and online, Malkin said. That means luxury-goods makers need to invest in their outlet shops and staff, according to the chairman. Without consistency, a brand’s equity is at risk, he said.

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“The customer we are attracting is price-insensitive,” said Malkin, citing the expensive cars with chauffeurs that shoppers hire on day trips to Value Retail’s Bicester Village outlet, near Oxford, England. “You want the right relationship with those people.”

Value Retail gross sales rose 13 percent this year to May, matching 2013’s pace, according to the company. Growth was driven by tourist shoppers, particularly from China, said the mall operator, which had more than 31 million visits last year.

Value Retail should be able to keep growing “in a meaningful way” in Europe where it operates nine outlets, or villages, said Malkin without providing a precise forecast. About 70 percent of visitors to Bicester Village will



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come from outside Europe this year, while 75 percent of shoppers at La Roca Village, near Barcelona, will be non-Spanish, he said.

Malkin is also betting on China. Value Retail in May opened its first Chinese outlet in Suzhou, and a second is planned near Shanghai next year. Malkin said he’s aiming for five outlets in the country.

“The definition of aspirational shopper is a woman in China,” Malkin said.

By Andrew Roberts