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WWD CEO Summit: Scott Malkin

By Jean E. Palmieri

SCOTT MALKIN is not a real estate developer. He's also not a retailer or a manufacturer. Instead, the chairman of Value Retail PLC considers himself to be in the tourism business.

"Value Retail is in the experience business," he said during his presentation Monday afternoon.

Malkin said the company, which operates luxury outlet "villages" in nine Western European cities, is "in the long-haul tourism business. The standards are changing; they're moving quickly. What was good enough last year is not good enough this year and certainly won't be good enough next year."

To make sure his company endures, Malkin said he considers Value Retail's properties as similar to a "five-star destination hotel. You journey to get there, and you have an expectation of what you'll get when you get there." He said that, on the surface, most luxury resorts are the same, but some manage to create "energy and pizzazz" that is "not the standardized experience." That is what Value Retail strives to do for customers as well as the brands that call its centers home, brands that range from Alexander McQueen and DKNY to Tory Burch and Paul Smith.

"The difference in a great experience is in the execution and the inspiration you provide the user," he said. "If retail is detail, experiential retail is 10 times that. And with the Internet eating into store-based and physical experiences, we're all moving toward focused, clustered, targeted and intensely delivered 'experiences.'"

Malkin cited the late Marvin Traub as one of his mentors and the

king of delivering memorable experiences. Calling Traub the "Wayne Gretzky of the retailing industry," he noted Gretzky, the former NHL player nicknamed "The Great One," said he was "good at ice hockey because he went where the puck was going, not where it had been." Traub applied the same skills to retail.

As a department store retailer, "that meant he had to orchestrate something special, create that magic without absolute control. He had the ability to identify brands, to select product, to develop an environment and create an experience. And our business model is fundamentally built on that," Malkin said.

Traub said that retailing and shopping centers were becoming boring, an issue that has been exacerbated by the Internet. "The world has already polarized between efficiency, which is defined by the Internet, and the experience," Malkin said.

He pointed to 2 Rodeo Drive, the luxury retail complex in Beverly Hills that was his final project before forming Value Retail. He said 2 Rodeo Drive provides a "flat" experience despite its stellar brand lineup.

To keep that from happening, Value Retail's villages seek to offer the "marriage of a high-quality experience with the energy of a special moment — a resort destination combined with elements of Studio 54. Where can you find that today? A department store, a great flagship on Fifth Avenue and in villages that we create and operate."

Malkin said the company measures the success of its philosophy by identifying the "world-class consumers" that flock to its centers and their opinion of the brands offered there.

Although prices are significantly below traditional retail, Value Retail



Scott Malkin

Photo By John Calabrese

ensures that it "conserves and respects the full-price positioning" of the brands within its center by retaining "the quality and core of the brand."

"A woman who spends \$5,000 on an item that might have been \$10,000 is not a normal consumer," he added. The centers attract "fantastic, high-maintenance shoppers" and "terrific high-maintenance brands," requiring Value Retail in turn to "provide high-maintenance service."

The result is that Value Retail's four most established locations rank in the top 15 shopping centers in the world in terms of sales productivity. "17 years of double-digit growth, 13 percent like-for-like growth in 2012," he said, "but we're not a shopping center company. We are not in the business of collecting rents, we're in the business of driv-

ing experiences through distinctive environments.”

Bicester Village outside London produced sales per square foot of over \$3,000 last year, he said, and two out of three visitors from China to the U.K. last year traveled to the center. 80 percent of visitors overall were tourists, he added, and 40 percent were from outside the European Union. From 2008 to 2012, non-EU attendance at its centers rose from 8 percent to 26 percent, he said.

To further grow, Value Retail is now preparing to enter the Chinese market and has formed a company called Value Retail China. Its first center is currently under construction in Suzhou outside Shanghai

and is scheduled to open next year with additional centers to be built in Beijing, Hong Kong and other cities after that.

“Why are we in China,” he asked. “Marvin would say China is the future and you can’t be part of the future without participating. It’s, after the Internet, the second big change we are living through now: the shift of power and focus and energy to the East. And the brands pushed us to go. Because there’s a tipping point that is arriving right now where you can’t dump out the back door in China anymore.” Additionally, “the Chinese consumer is well-informed, sophisticated and ever more demanding, and the Chinese market

is fundamentally about authenticity. The only people buying counterfeits in Hong Kong and Shanghai are Westerners.”

He said, “The moment is now in terms of market demand and the brand requirements, the behavior of the consumer and the expectation of the Chinese consumer for a technology transfer of this innovative, sophisticated retail platform.” But, he cautioned that there is a “simple guideline for China: there are no shortcuts and to succeed you will need to exceed what you do in the West.”

— JEAN E. PALMIERI

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