

## THE DRAPERS INTERVIEW

THE VALUE RETAIL STABLE			
VILLAGE	LOCATION	OPENING DATE	SIZE (SQ.FT)
Bicester	Near Oxford	April 1995	181,585
La Roca	Outside Barcelona	July 1998	188,482
Las Rozas	Outside Madrid	June 2000	99,669
*Expansion: 72,920sq ft will be added in September 2005			
La Vallée	Disneyland Paris	June 2001	156,558
Maasmechelen	Between Dusseldorf and Brussels	October 2001	206,441
Fidenza	Near Parma	June 2003	104,920
*Expansion: construction to begin in April 2005 to add 114,109sq ft			
Wertheim	Frankfurt	September 2004	118,865
<b>OPENING SOON</b>			
IngoStadt	Munich	Summer 2005	110,021
Kildare	Outside Dublin	Summer 2006	125,181

Wright has a unique perspective on the business having, during various stages of his career, been a tenant via Moss's Savoy Tailors Guild and a rival when he was UK managing director of BAA McArthurGlen.

He says: "Scott concentrated on the upper market because he knew Bicester had limited expansion potential. To make it as profitable as possible he needed a different strategy and he didn't compromise. He is canny. The service charge covers all his central costs so what he and his investors get from sales is a clear return. My experience as a tenant is that unlike some other operators he really does listen to brands when they have concerns."

Malkin does indeed contradict himself over his one-scheme-per-territory strategy, letting slip that he looked at opening in Edinburgh. But he says the demographics for Dublin, which opens next summer, were more intriguing.

"We have been studying Dublin for seven years and focusing on it really seriously for the last three to four. In Ireland, the tourist draw aside, domestically it's a country that has been starved of brands. Having Harvey Nichols and Dundrum open up is going to be a fantastic catalyst for the development of retail," he says.

Unlike its multi-centre rivals McArthurGlen and Freeport, Value Retail has held off from selling its mature centres one by one to institutions and becoming a management company. Instead the business has followed a pattern with a group of investors, including European property giant Hammerson and US commercial property business Chelsea, of putting money into most schemes and then staying the distance.

Malkin says: "Our investors make money by holding on for the values to increase. No-one is going to sell in the next 18 months. These people have a medium-to-long-term term focus."

This situation can't last forever. Wright says: "At some stage, Scott and his investors will want an exit and the most likely strategy is for him to build up the European portfolio and then sell everything as a package to a large American commercial property business." Malkin's rivals believe the most obvious potential buyer is US

**"There is always going to be premium surplus product. It is how you handle it that is important to your brand"**

developer the Simon Property Group which already own Chelsea.

Malkin admits that how long his investors share his no-sale view will depend on how long he can preserve the value he has created. He is confident it will be a while yet.

At Bicester, it is clear investors' patience has paid off. Average sales per square foot have grown by 10% every year for the last 10 years. Malkin claims the centre has 2-2.5 times the sales densities of any other outlet in the UK, with average sales at £700 per sq ft and some brands reaching around the £850 to £900 mark. His aim is to get the Bicester average to £1,000 per square foot.

Wright explains: "In the outlet business you have three types of tenants: the puller, which are the big names that people will drive two hours for. They don't necessarily always take a lot of money but they provide that wow factor - a store like Dior, for example, will be a magnet for Japanese consumers."

"Then there are the producers. These are the brands that have great sales per square foot but no-one would drive a long way for them alone."

"Then you have the brands that do both, such as the likes of Timberland and Polo Ralph Lauren. Polo's store in Bicester takes more than Bond Street."

The make-up of Value Retail staff is 90% retail and 10% real estate. Malkin himself is from a family of New York property developers and, before founding Value Retail, developed a successful premium shopping centre on LA's Rodeo Drive. He explains: "Although some people feel our money is in the shopping centre business, we feel we are more akin to the department store business. Each one is funded

in a separate company, each one is local. The business is completely decentralised there is no head office. You will never see the name Value Retail up at any of our centres.

We want to create local brands which mean something to people in terms of quality of experience and those expectations are going to differ from country to country."

Malkin says from the start he was aware of potential cultural issues in Europe if a company identifies too closely with one market.

So Value Retail is stateless, he says. "For us to serve the sophisticated market that we do, we couldn't run each business without that local identity. If you take the analogy of luxury brands, Tom Ford perfected a Gucci store and replicate it all over the world whereas a brand like Tod's produces a bespoke experience for each market. We are more in the Tod's mode than the Gucci camp."

As a result at least a third of the brands at Value Retail's centres in Italy, Germany, France, Spain and Belgium vary from country to country. As at Bicester, which hosts brands such as Hobbs, Monsoon and Karen Millen, around 40% are home-grown names.

"Brand fragmentation on the continent is far higher than in the UK. A brand that is really hot in Barcelona may not mean very much to anyone in Madrid even and we have to be aware of that and work with it," Malkin says.

Growth will come in three ways, he believes. First, by increasing sales at established centres. Growth at Bicester is being mirrored at other centres, Malkin maintains, although Middleton - who, at Timberland, had stores in several Value Retail European centres - recalls that some locations were not as consistent.

The second growth area will be in developing new locations - Moscow is a contender but Malkin is concerned it is not a mature retail market and would need some more sustainable indicators to justify the investment and risk.

The third way would be to revisit the full-price market. Malkin says: "Lately I have felt that we could offer something a bit different for the full-price market. To do something really powerful with some of our customers is intriguing. I'd want to create something that had the power to transform the market. It's difficult to give you a contemporary example but something that would have the same impact today as the great arcades of the 19<sup>th</sup> century like London's Burlington Arcade."

And that is where Malkin believes there is an opportunity for his business. He says: "We are never going to be operating large urban shopping centres as Hammerson does. They are good at that, we are not. So we are going to have to think about the smaller and more bespoke projects something that is 100,000sq ft rather than a million. It's not that we need to do it but the company is full of very capable people who relish a challenge." ■

# Drapers

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# Out to launch

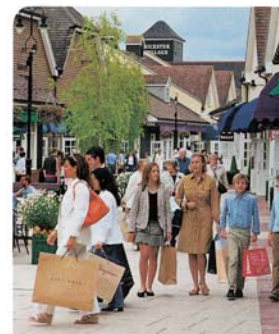
BONO'S EDUN LABEL JOINS A RAFT OF NEW PREMIUM BRANDS



# Premium VALUES

When the high street is on constant Sale, what do outlet centres offer the consumer. LORNA HALL quizzes Value Retail chief executive Scott Malkin

Scott Malkin is at the forefront of the UK's outlet centre revolution, as the force behind the hugely popular Bicester Village (right)



Somebody said, this is the generation of differentiate or die at retail. That certainly rings true to me," declares Scott Malkin, chief executive of outlet centre company Value Retail.

When the US retail phenomenon of outlet centre shopping hit these shores 15 years ago, differentiation was what it had in spades. It was a whole new way to shop. Out-of-town malls, selling branded goods at less than a third of retail prices, grew slowly but were soon drawing in destination shoppers by the coachload.

But 15 years is a long time in retail and today's cycle of constant high street discounting and the growth of the mighty TK Maxx, with its brands-for-less strategy, is narrowing the differential gap.

The 44-year-old New Yorker Malkin, who built and operates the UK's most successful designer outlet, Bicester Village near Oxford, remains very clear about his place in the market. He manages a portfolio of seven European centres with gross sales of €750 million (£516.2m), with two more, in Dublin and Munich, in the pipeline. Bicester, where the 100-store tenant list features Burberry, Polo Ralph Lauren, Aquascutum, Zegna, Hugo Boss, Nicole Farhi, Ferragamo and Dior (opening this month), operates in the Champions League of outlet schemes. "Outlet shopping is a niche and what Value Retail does is a niche within a niche," Malkin says.

He is happy to admit that there is now an emerging AB customer who wears a Rolex and buys premium vodka but shops for his jeans at Asda. But he says his customers do not relate to the TK Maxx experience: "On the one hand, TK Maxx has everything to do with Value Retail's business but on the other hand it has nothing to do with us." Even the most brand-oriented customer loves a bargain, but not necessarily an environment where they have to suffer to get it, he explains.

While at a TK Maxx you dig and delve for

branded treasures in jumble-sale surroundings, at Bicester you saunter along immaculately manicured walkways browsing the dedicated designer and niche chain stores before stopping off at Carluccio's for a bite to eat.

This, says Malkin, is the model luxury brands should all look to in their bid to control the sale of their surplus. "Our role is to support the brand's full-price position. There is always going to be premium surplus product. It is how you handle it that is important to your brand."

Alison Middleton, formerly European retail director at Timberland and now UK retail and marketing director at Gant, says, apart from having the best UK site for a premium outlet, the Value Retail team think about their outlets as a brand. "They are totally tuned into the concept of brand integrity," she says. "They are not easy to negotiate with but unlike a lot of other centres you know that with the exception of the odd tenant like Polo Ralph Lauren everyone gets the same treatment. They are meticulous about your stock package, which can be a pain, but is also reassuring because you know those standards are applied across the board."

The Clarks Village at Street in Somerset was the first outlet centre to open in the UK, in 1993, followed swiftly by BAA McArthurGlen's Cheshire Oaks and then Bicester. The rest followed thick and fast at every level of the market with the likes of McArthurGlen and Freepoint building across the UK.

At Value Retail, however, Malkin maintains he wanted only one outlet in the UK: "I knew exactly what sort of product I wanted and if we had had more centres it would have been a different sort of product. We cater for premium collections for fashion-led women and the brands that serve those women. We always wanted to be in the luxury business."

This is disputed by Malkin's rivals. "I know of at least two other sites that he was looking at post-Bicester," one says.

Former Moss Bros chief executive Adrian