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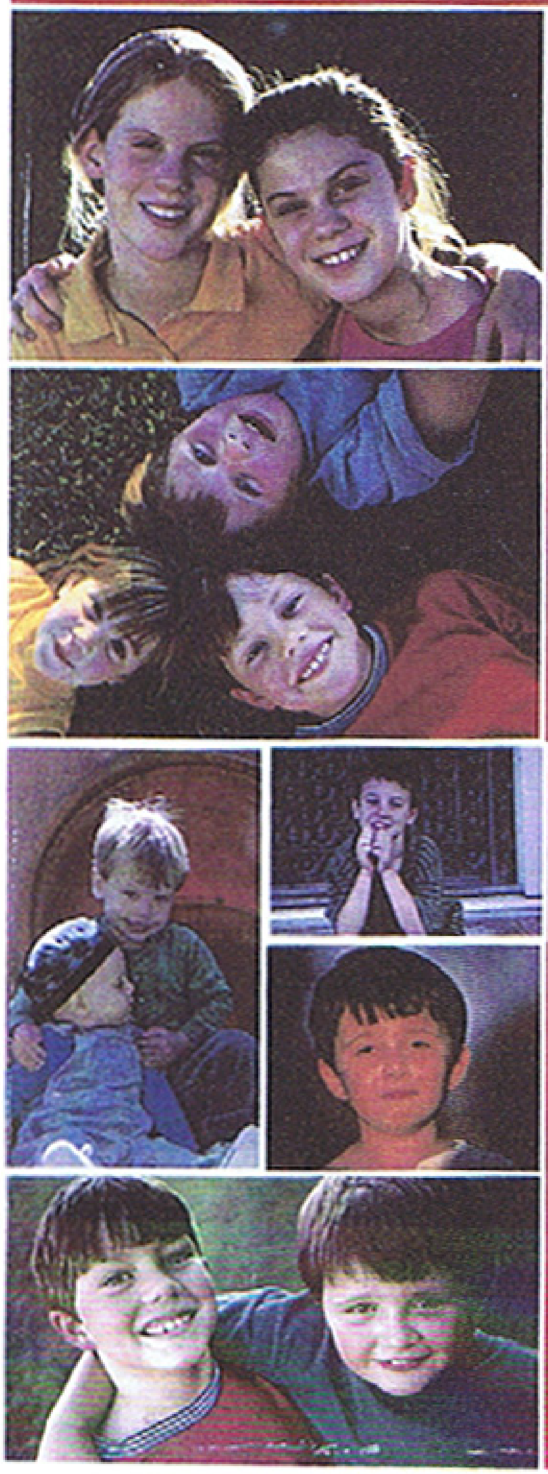

How To Stay Hip In The Kids' Retail Market

- Donahue Schriber's Bittersweet Year
- Turning Greyfields Into Profit

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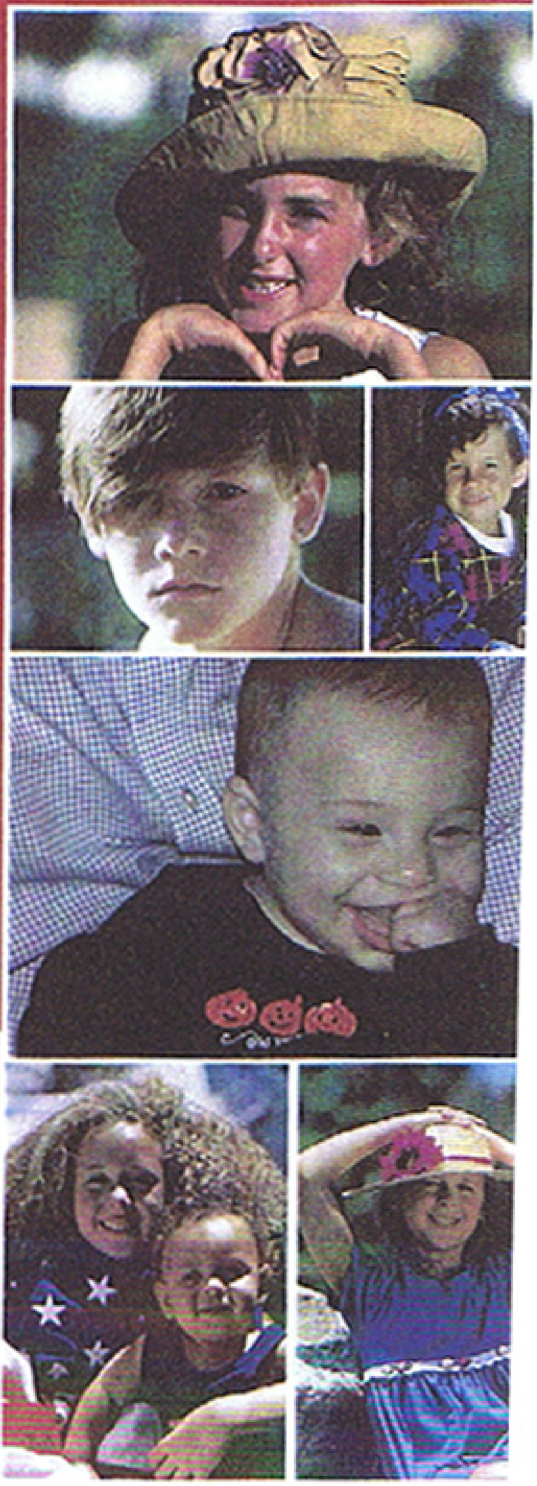
- Gulf States Activity Report



How To Stay With It In The Kids' Retail Market

With a boom in births over the last 10 years, the children's retail market has gotten a lot tougher.

Jill Bensley

What happens when you have an explosion in births in the United States? Sales for baby, infant and children's apparel increase, and all retailers do better, right? And this is the field to be in, right? Wrong! In the past 10 years the United States has seen a historic boom in births, unparalleled since the 1940s. Yet household expenditure on kids' apparel and accessories has actually decreased, while the gross leaseable area devoted to this category of goods has increased in malls. In this article we will look at the reasons behind these forces and suggest ways for kids' retailers and shopping centers to boost market share.

U.S. Birth Rates — The Boomers Boom

As proof of the largest population explosion since the Baby Boomers, Figure 1 provides a look at the births by year of Boomers compared to Gen Y, or Echo Boomers (which span the years 1977 through 1994). This new generation, now aged 9 to 26 years, numbers approximately 70 million. The trend lines of the two generations are remarkably similar over the 18-year periods, with peaks and valleys, ups and downs in the same spots, save for 1 year. Was it something in the water? While the Boomers averaged 3.99 million births per annum in the period, the Echo Boomers averaged a somewhat lower, but still impressive 3.58 million births per annum.

In the 1990 through 2000 decade, births fluctuated between 3.9 million to 4.2 million per year. They are expected to decline slightly through 2005, and then reach an annual rate of 4.2 million annual births by 2012.

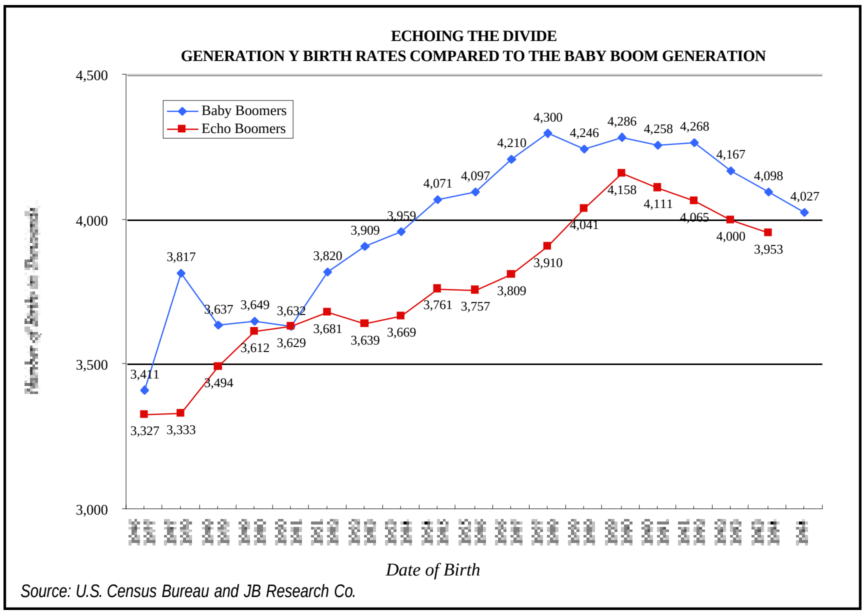


Figure 1. Generation Y birth rates compared to the baby boom generation.

The complexion of the new births is also noteworthy for anyone trying to sell to these new consumers and their parents. In 2000, the number of live births totaled approximately 4.1 million (projected to increase to 4.3 million in 2010). Of this total, the racial split was as follows:

	2000	2010
White, non-Hispanic	58%	57%
Black	15%	15%
Native American/Eskimo	1%	1%
Asian/Pacific Islander	5%	5%
Hispanic	20%	23%
TOTAL	**99%**	**101%**

While whites are still the majority of live births in the U.S., the Hispanic market comprises most of the increment, now accounting for 20 percent of live births, but only 12 percent of the overall population. By 2010, Hispanics births are projected to account for almost one quarter of domestic births. The increment is all in favor of Hispanic births, with 2007 population projected as follows for kids 0 to 4 years of age:

Anglo		Black		Hispanic	
1990	13 million	**1994**	2.7 million	**1994**	2.7 million
2007	11.3 million	**2007**	2.7 million	**2007**	4.2 million

As the gross number of births increases, the buying population is decreasing in the short-term. In 1995, there were approximately 83 million women between the age of 25 and 44.

By 2007, this population is expected to decline 5 percent to 79 million.

Consumer Expenditure and Retail Sales By Distribution Channel

Let's give a quick look at what happened to consumer expenditures and actual retail sales in places where you buy kids' clothes in the past 9 years. Figure 2 provides a look at consumer expenditures on children's apparel and services in current and constant 2001 dollars. Current dollars include inflation, while constant dollars adjust for inflation so that comparisons are more accurate. While incomes have increased 18.7 percent in real dollars from 1984 through 2001 (1.1% CAGR), expenditure on apparel and services has decreased dramatically, by 21 percent. Macro trends show continued deflationary pressure, indicating less and less money available for kids' apparel. Decreases in boys 2 to 15 was 26 percent in the 17-year period and girls in this same category decreased by 12 percent. Expenditure for infant and toddler apparel declined only slightly by 1.2 percent. On the other hand, expenditure for pets, toys and playground equipment increased almost 6 percent.

Consumer expenditure surveys collect information from the nation's households on their buying habits. Actual retail sales by distribution channel are another matter. Figure 3 provides background on retail sales by kinds of businesses in the past 9 years. As shown, current dollar sales of retail expenditure in the United States was $1.8 trillion in 1992 and increased to $3.2 trillion. But the percent of retail expenditure spent in family clothes stores has remained the same, while department stores had their share of the retail dollar decrease by 2.3 percent of total retail sales. Warehouse clubs and superstores have increased their percentage share of household retail sales expenditure in the United States by 3 percent in the 1992 to 2001 period.

Total retail sales grew by 36 percent in the 9-year period in inflation adjusted constant dollars. But clothing and accessories grew by only 11 percent and family clothing grew 36 percent. Department store sales grew only 2.5 percent, while warehouse clubs and superstores grew 225 percent! So while the boom was going on, consumers were expressing their preferences for channels of distribution for kids' stuff, with conventional channels like specialty and department stores losing out to warehouses and superstores.

A better picture of consumer expenditure preferences is provided in Figure 4. Over the past 5 years, off-price and mass merchant clothing retailer growth has increased. National chains, specialty stores, department stores and factory outlets have actually decreased annual growth by as much as 5 percent per year in the period.

Now let's take a look at what was happening in the malls.

Allocation of Mall Non-Anchor Tenant Space

A 6-year history of distribution of mall tenant space is shown in Figure 5.

CONSUMER EXPENDITURE SURVEY CHILDREN'S APPAREL AND SERVICES

	In Current Dollars			In 2001 Constant Dollars		
Item	1984	1990	2001	1984	1990	2001
Number of Consumer Units (000)	81,178	83,424	88,735	81,178	83,424	88,735
Income Before Taxes *	$23,464	$31,889	$47,507	$39,995	$43,210	$47,507
Income After Taxes *	$21,237	$28,937	$44,587	$36,199	$39,210	$44,587
Apparel and Services	$1,376	$1,664	$1,846	$2,345	$2,255	$1,846
Men and Boys	362	401	458	617	543	458
Men, 16 and over	291	333	368	496	451	368
Boys, 2 to 15	72	68	91	123	92	91
Women and girls	550	691	718	937	936	718
Women, 16 and over	467	604	594	796	818	594
Girls, 2 to 15	83	87	124	141	118	124
Children under 2	53	71	89	90	96	89
Footwear	196	238	321	334	322	321
Other Apparel Products and Services	215	263	260	366	356	260
Pets, Toys, and Playground Equipment	$201	$279	$362	$343	$378	$362

Notes:
* Components of income and taxes are derived from "complete income reporters"only.

Source: U.S. Census Bureau and JBResearch Company

Figure 2. Consumer expenditure survey, children's apparel and services.

NAICS Code	Kind of Business	In Current Dollars 1992	1996	2001
	Retail Sales, Total	1,851,213	2,402,277	3,167,842
448	***Clothing and Clothing Accessories Stores***	***6.5%***	***5.7%***	***5.3%***
4481	Clothing Stores	4.6%	3.9%	3.8%
44811	Men's Clothing Stores	0.6%	0.4%	0.3%
44812	Women's Clothing Stores	1.7%	1.2%	1.0%
44814	Family Clothing Stores	1.8%	1.8%	1.8%
452	***General Merchandise Stores***	***13.4%***	***13.1%***	***13.6%***
4521	Department Stores (excluding L.D.)	9.6%	8.8%	7.3%
4521102	Discount Department Stores	5.0%	5.0%	4.3%
4521101, 4521103	Conventional and National Chain Department Stores	4.6%	3.8%	2.9%
4521	Department Stores (including L.D.)	9.8%	9.0%	7.4%
4521102	Discount Department Stores	5.1%	5.1%	4.4%
4521101, 4521103	Conventional and National Chain Department Stores	4.7%	4.0%	3.0%
4529	Other General Merchandise Stores	3.8%	4.3%	6.3%
45291	Warehouse Clubs and Superstores	2.2%	3.0%	5.2%
45299	All Other General Merchandise Stores	1.7%	1.3%	1.0%
453	***Miscellaneous Store Retailers***	***3.0%***	***3.5%***	***3.5%***

Source: U.S. Census Bureau and JB Research Co.

Figure 3. Estimated annual retail sales by kinds of business, 1992, 1996 and 2001 (percent of total retail sales)

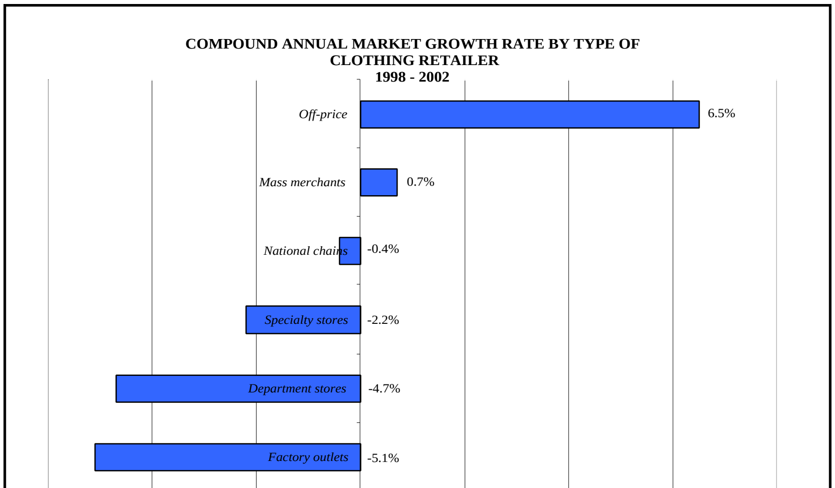
Total space devoted to GAFO (general merchandise, apparel and accessories, furniture, fixtures and other miscellaneous retail) made up 75 percent of all space in malls, and increased to 78 percent in 2001. But the space devoted to children's and family apparel increased by 19 and 10 percent respectively. Specialty retailers were trying to capitalize on the growing Gen Y market, while consumers were telling them they want to shop warehouses and superstores for their kids' things. This is a superb example of the "Wal-Mart effect" in the United States. American consumers want their goods cheap, no matter what the cost to wages and industry competition.

At the same time the average square footage of space devoted to children's apparel in the average shopping center went from 2,400 to 6,700, and family apparel square footage went from 21,000 in the average mall to 37,000 square feet in the average shopping center.

ICSC tracks store sales according to a merchandise index. As mall space devoted to kids' retailing was increasing at a rate proportionately greater than the growth of sales, indexed sales per square foot began to decrease. In the past 8 years, sales in children's apparel decreased from $348 to $328, or 6 percent. But most of the decline came in the 2000 to 2002 period, when sales declined 15 percent from $384 per square foot to $328 per square foot.

Who Are These Buyers and What Do They Want?

A snapshot of the children's market



Source:Los Angeles Times and JB Research Company.

Figure 4. Compound annual market growth rate by type of clothing retailer, 1998-2002.

Figure 5. Allocation of mall non-anchor tenant space, 1995 vs. 2001*

	Percent of Space		*Average Square Feet/Center*		*Percent Change*
	1995	2001	1995	2001	1995-2001
Women's Ready to Wear	20.7	15.9	46,573	39,954	-2.5
Women's Accessories & Specialties	2.9	2.9	6,636	7,278	1.6
Men's Apparel	4.0	2.4	8,935	5,956	-6.5
Children's Apparel	1.1	2.7	2,414	6,726	18.6
Family Apparel	9.4	14.7	21,259	36,864	9.6
Women's Shoe Stores	1.6	0.8	3,631	2,115	-8.6
Men's Shoe Stores	0.5	0.3	1,055	792	-4.7
Family Shoe Stores	5.9	3.3	13,199	8,353	-7.3
Athletic Shoe Stores	n/a	4.0	n/a	10,137	n/a
Children's Shoe Stores	n/a	0.3	n/a	777	n/a
Shoes - Miscellaneous	0.9	n/a	2,073	n/a	n/a
Apparel & Accessories - Miscellaneous	0.1	0.2	167	499	20.0
Apparel & Accessories - Subtotal	**47.0**	**47.7**	**105,942**	**119,451**	**2.1**
Home Furniture & Furnishings	2.7	4.1	5,984	10,172	9.2
Home Entertainment & Electronics	5.5	5.2	12,429	13,081	0.9
Home Furnishings - Miscellaneous	0.7	n/a	1,602	n/a	n/a
Furnishings - Subtotal	**8.9**	**9.3**	**20,015**	**23,253**	**2.6**
Stationary/Cards/Gifts/Novelty	4.4	5.4	9,992	13,610	5.3
Books	2.4	2.4	5,385	5,896	1.5
Sporting Goods/Bicycles	2.8	2.6	6,404	6,544	0.4
Toys/Educational/Hobby	n/a	2.5	n/a	6,157	n/a
Personal Care	n/a	1.4	n/a	3,586	n/a
Jewelry	3.4	3.6	7,638	8,971	2.7
Other GAFO - Miscellaneous**	5.8	3.2	13,014	8,007	-7.8
Other GAFO - Subtotal	**18.8**	**21.1**	**42,433**	**52,771**	**3.7**
TOTAL GAFO	74.8	78.0	168,390	195,475	2.6
Fast Food	3.8	1.8	8,460	4,492	-10.0
Food Court	n/a	1.4	n/a	3,424	n/a
Restaurants	4.8	4.6	10,892	11,454	0.9
Food Service - Miscellaneous	0.0	n/a	81	n/a	n/a
Food Service - Subtotal	**8.6**	**7.7**	**19,433**	**19,370**	**-0.1**
Specialty Food Stores	1.6	1.6	3,494	3,994	2.3
Supermarkets	0.5	0.2	1,146	548	-11.6
Drug/HBA	1.9	0.8	4,265	2,082	-11.3
Personal Services	4.4	4.4	10,016	11,076	1.7
Automotive	0.1	0.1	161	341	13.3
Home Improvement	0.1	0.2	119	376	21.5
Theaters	n/a	5.1	n/a	12,703	n/a
Mall Entertainment	5.6	1.4	12,721	3,385	-19.8
Other Non-GAFO - Miscellaneous	0.8	0.3	1,798	664	-15.3
Non-GAFO Categories - Subtotal	15.0	14.0	33,720	35,169	0.7
TOTAL NON-GAFO	**23.6**	**21.8**	**53,153**	**54,539**	**0.4**
TOTAL OTHER CATEGORIES - MISC.	**1.6**	**0.2**	**3,630**	**493**	**-28.5**
GRAND TOTAL	100.0	100.0	225,173	250,507	1.8

Notes:
* Allocation as of June in each year.
** GAFO = Gerneral merchandize, Apparel, Furniture/home furnishings and Other types similar merchandise.

Source:ICSCand JB Research Company

consumer reveals that about 56 percent are married couples with children, 16 percent are single parents and 28 percent are friends and relatives. Many of the mothers are not college educated. In fact, women with children under 9 years of age generally do not have a college degree, as follows:

White with college degree	26%
Black with college degree	14%
Hispanic with college degree	7%

This mom is likely to be employed. In 2000, more than 64 percent of women with children under 6 were employed in the United States.

Who wins in this type of market with an increasingly single, ethnic and non-college educated mom? NPDFashionworld did a study on Brands and Licenses in 2002. A major conclusion was that nine out of 10 mothers said that they always try to buy their children's clothing on sale, and eight out of 10 select clothing based on sales or discounts. Most mothers considered Old Navy to be a "hot" brand. Old Navy was also the most often mentioned favorite brand. Gap ranked second on both the brand momentum and favorite brand or license measures. Ninety percent of moms surveyed said they shopped at discount stores and this number increased over 2000. Private label programs such as Basic Editions and Honors have a strong following among mothers. The driving force behind the discount store increases is mothers aged 18 to 34. Wal-Mart's share of stores shopped increased recently. Kohl's gained share points over the 2000 study.

Store display is the most influential factor in children's wear purchasing, with 84 percent of mothers reporting that seeing the item in a store display and liking it was important in their purchase decision. Among mothers with kids aged 6 to 10, 83 percent said that the child asking for the item was extremely important.

Compared to 2 years ago, more mothers reported that when it comes to shopping for children's clothing, "lower priced brands are just as good" — suggesting that the children's apparel category has become more commoditized. Discount stores accounted for over half of the children's apparel unit share in 2001, according to the NPDFashionworld study, as follows:

Wal-Mart	32.6%
Target	11.0%
Kmart	8.1%
JC Penney	4.3%
Gap Kids/Baby Gap	3.1%
Kohl's	3.0%
Kids 'R' Us/Babies 'R' Us	2.3%
Old Navy	2.1%
Sears	2.0%
Disney Store	1.4%
The Children's Place	1.4%
T.J. Maxx	1.2%
Mervyn's	1.1%
Value	1.0%
Marshalls	1.0%

The top three discounters sold more than 51 percent of units. Younger moms (aged 18 to 24) are significantly more likely than older moms to report shopping at discount stores for their children's clothing in the past 6 months.

Suggestions For Survival — Kids' Retailers

We have seen explosive growth in the kids' market, a change in preference for places to shop, and an overexpansion of small retailers catering to this market. We are indeed in a classic oversupplied market.

In a market like this, consumers are the short-term winners, with more choice of places to shop and lower prices. But this cannot continue because oversupply will eventually be sucked up by market forces. Consolidation will occur; non-capitalized retailers will go out of business or be eaten by larger retailers. This is a bad situation for both mall operators and individual specialty retailers.

What will happen? Supply will shrink to match demand. For smaller retailers who want to stay in business, survival will depend on stealing market share and differentiating their brands from others. If they cannot be the cheapest (and no retailer can be cheaper than Wal-Mart), they must be the best at something else.

In our opinion, no retailer of kids' apparel and accessories is doing a good job of catering to today's mom. She is working, stressed, overwhelmed with responsibility, and sometimes completely clueless about how to be a good mom. A smart retailer, one that will win in this difficult market, must recognize the needs of his customer and try to satisfy some of them.

Faith Popcorn provided some compelling marketing strategies for branding and catering to women in her book *Eveolution*. She outlined eight principles that can be directly applied to retailers catering to women and mothers:

• *Connecting your female customers to each other connects them to your brand.*

Set up a Web site for your store or a chat room with articles relevant to your market. Create a kiosk in the store for important information/brochures for moms.

• *If you only market to one of a woman's lives, you are missing out on the others.*

Your store can act as a resource for your customers about where to go for child-friendly locales. Create a database of kids' attractions in each store's region. Create a database of resources for each of her lives: home, work and family.

• *If she has to ask, it's too late.*

Anticipate her needs and wants; do focus groups to keep current on what she needs as an ongoing vital part of your marketing plan.

• *Market to a woman's peripheral vision and she will see you in a whole new light.*

God is in the details. Pay attention to things on the horizon. Access the latest and greatest Web sites and toys and pass this information on to your customer.

• *Walk, run, go to her and secure her loyalty forever.*

Creating loyalty is embedding the memory of a pleasurable experience forever. Women don't forget a good or bad experience. Keep reminding her (in non-intrusive ways) of reasons she should return to your store.

• *This generation of women customers will lead to the next.*

Moms have a tremendous influence over how their kids turn out. Even though their offspring may be very difficult to keep as customers as they grow up, you can at least indoctrinate their moms.

• *Co-parenting is the best way to raise a brand.*

Connect and co-promote the brand to others that are complimentary. Promotions, coupons and prizes to a local zoo or kids' restaurant are examples.

• *Everything matters – you cannot hide behind your logo.*

Women are sensitive to political and environment issues. Be a green store, contribute to children's charities, create literacy programs for your customers, "do" for her. **SCB**

Jill Bensley is president of Ojai, California-based JB Research Co.

BUILDING ON THE FUTURE

Arizona developer Michael A. Pollack demonstrates the benefits of infill projects.

The search for successful retail real estate ventures doesn't necessarily have to take a redeveloper into uncharted territory. While some developers want to stake their claims along the outskirts of a city's limits, others realize that there is still a wealth of opportunities in the heart of the city. Michael A. Pollack, president and founder of Mesa, Arizona-based Pollack Real Estate Investments, knows firsthand how infill projects can benefit both a redeveloper and a community.

Pollack has a knack for spotting winners when looking at shopping centers. He sees beyond battered rows of vacant stores and envisions polished shopping pavilions. Pollack thrives on collecting neglected eyesores and transforming them into attractive, healthy centers.

A strong advocate of infill development and redevelopment, Pollack owns more than 3 million square feet of commercial real estate space in the Phoenix marketplace, with more than 4 million total square feet of projects in Arizona, California and Nevada. His redevelopment philosophy is simple: Why build along the fringes of a city when you can strengthen its existing foundations instead?

"We're fulfilling a need," says Pollack. "The majority of what we do is infill, whether it be the development of infill locations or the redevelopment of infill locations."

The company's infill projects not only provide needed makeovers for many foundering community strip malls, they also attract consumers, which in turn boosts the area's economy. The City of Mesa recently named him Redeveloper of the Year for 2003.

"Michael Pollack has done some amazing things for this city," says Mesa Mayor Keno Hawker. "He sees opportunities in areas where others see problems, and his properties here are shining examples of what redevelopment can do to benefit a community."

Pollack attributes his success with infill in part to his attitude: unlike most real estate investors, he doesn't buy property with the intention of selling it.

"We're not a merchant buyer," he says. "When we build, we build for our own account. Our satisfaction comes from revitalizing communities. When we purchase properties, we never intend to sell them."

On the contrary, he buys a property to improve it, strengthen it, then watch it produce results. Pollack has taken many centers from near total vacancy to complete occupancy in what often appears to be in record time. One purchase in 2003, the $2.4 million, 74,422-square-foot Pollack Main Street Plaza in Mesa, became a typical Pollack success story: the center went from 80 percent vacant to 99 percent occupied in a matter of months.

But vacancy isn't always a defining factor in a purchase, as evidenced by the company's recent purchase of North Park Plaza in Chandler, Arizona, one of the city's oldest shopping centers.

"Michael Pollack is doing major renovation that will dramatically change the look on that corner," says Harry Paxton, economic redevelopment specialist, retail, for the City of Chandler. "That center was almost completely leased when Pollack bought it, and he's still investing in it. It shows he has a lot of interest in the community and makes investments where they count."

Last year, Pollack purchased shopping centers in several Phoenix area cities, adding another 500,000 square feet of property to his portfolio, including the 66,000-square-foot Marcos de Niza in Tempe. Redevelopment on that center is slated to start early this year and will include a complete makeover.

Pollack offers some advice to other redevelopers of infill properties: plan carefully, have patience and don't pay too much for the project. Remember, shopping centers aren't cheap to renovate, he adds.

"An ill-conceived or rushed plan can backfire on you," Pollack says, adding that poor planning and hasty decisions were the catalysts for the initial downfall of many of the centers he salvages.

– Randall Shearin