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American Apparel Goes G-Rated

By David Haldane

American Apparel Inc., a company that has long been known for its sexually charged ads and image, is testing a store with a fashion line that seems out of character for it: children's clothing.

The L.A. apparel maker and retailer has opened its first shop devoted exclusively to children's clothes. It's located in Berlin as the company tests the concept overseas before its possible introduction to the United States.

The motivation is fairly simple.

The chain is 13 years old and many of the hip young customers who have grown up with it are starting to have children.

"We see it as a broadening of our scope as our customers shop for the new kids in their lives," said Marsha Brady, the company's creative director. She noted that American Apparel has long carried a limited line of kid and baby staples such as rib briefs, karate pants and infant one-pieces. That line was expanded concurrent with the opening of the Berlin store late last year.

The new store, called American Apparel Kids, features about 30 styles for newborns and children up to age 12. Among the offerings are striped knit crew neck sweaters, suspenders, button downs, dresses and tube socks.

Also worth noting: The 276-store chain, like other retailers, has suffered during the recession, with comparable sales for stores open at least 12 months dropping 16 percent in the third quarter – though the company has remained profitable by cutting costs.

The new stores, if they take off, would expand the customer base for the chain, which resides in a highly competitive market segment that includes Abercrombie & Finch, Aeropostale and J. Crew – all of which have started their own children's stores.

Mimi Bartow, an analyst for Telsey Advisory Group in New York, said the kids' stores are generally doing well as adults cut back on their own discretionary clothing purchases but continue to buy for their children.

"All apparel companies are suffering from negative same-store sales, but generally the kids' stores hold up better than the adults'," she said. "There's definitely a niche. I think a lot of companies see it as a lucrative way to leverage their brands and infrastructure; they make similar styles, but make them smaller."

One exception is Gap, which started a chain of separate kids' stores next to its adult stores but later moved the lines back inside the main stores.

Artistic parents

The 829-square-foot Berlin store on Alte Schonhauser Strasse was chosen because of its close proximity to another American Apparel adult-oriented store that has done well.

“The Berlin customer really gets our brand and this is an area filled with artistic young parents,” Brady said. “It was the perfect place to try it out and develop the concept.”

One issue that has been largely worked out is pricing. The expanded children’s line that is sold online in the U.S. is currently priced above retail chains such as Target but below designer wear. For example, a small boy’s simple ribbed cotton tank top sells for \$12 and fleece pants for girls goes for \$18.

The idea for the store, according to Brady, was inspired by suggestions from multiple employees, including Sue Tsai, a freelance designer who has worked for American Apparel for several years.

“I wanted my toddler to look cool,” said Tsai, a 33-year-old West Hollywood mother of a 3½-year-old boy. “As a mom I just felt that a lot of clothes out there are geared for little kids, and they look like little kids’ clothes. There are so many young moms now, and the options are slim.”

Tsai said she repeatedly urged American Apparel’s founder and chief executive, Dov Charney, to expand the children’s line, and in April he finally agreed to do so.

“I just felt that my son needed more clothes and that’s how it began,” she said.

Charney was not made available for comment.

Edward Yruma, an analyst for Keybank Capital Markets in New York who follows the company, said he has no problem with American Apparel dipping its toe into children’s fashions; he just doesn’t think it will do much to drive sales.

“We think it’s a logical extension of what they’ve been doing,” said Yruma. “But ultimately we still think the business will be driven by the adult-oriented clothes. While kids can be an interesting growth vehicle, it’s a number of years away before they become meaningful contributors to the bottom line.”

Little Britney Spears?

Ilsa Metchik, director of the California Fashion Association, an apparel industry trade group based in Los Angeles, said American Apparel is smart to seize on a distinct trend.

“I think it’s a good idea, because what kids want is what their big brothers have,” she said. “I see a lot of little Britney Spears running around. Children are selecting their own wardrobes at a younger and younger age. This move makes sense.”

While other retailers may move easily into children’s clothing, however, the move could be a little trickier for American Apparel. Over the years, certain aspects of Charney’s lifestyle – such as appearing before employees in his underwear – have resulted in lawsuits alleging sexual harassment. The company has also often been criticized for ads and billboards featuring seminude women modeling its sometimes racy clothes.

But Tsai said the new children’s styles aren’t “provocative” and so far she hasn’t received any negative comments from parents. Moreover, Brady said the company – which opened 80 stores last year – plans to roll out any children’s stores very slowly and at an “organic pace” as it tests out the concept.

“We wanted to watch the consumer response rather than lead with an aggressive, fully articulated concept,” she said. “What we’re doing in Berlin is watching the store for the reaction of the customer and using that to get feedback. It’s a fluid extension for American Apparel.”