



BROOKS BROTHERS: A CLASSICALLY MODERN STORY

Claudio Del Vecchio pushed himself away from his desk and strode down the long, narrow corridor towards the elevators. Stacked above the flagship retail store on Madison Avenue, the Brooks Brothers offices were appointed with cubicles and tan carpeting—a major contrast to the opulent sales floors below. Del Vecchio hadn't been able to concentrate for the last half hour, so he decided he needed to clear his mind. Riding down the elevator, however, his distracting thoughts followed him: As the new CEO, could he really turn the all-American retailing company around, and return it to its former glory? Would he be able to realize his dream for the hundreds of people who worked for him, and help make their futures grow along with the brand? The holiday season was upon them, the economy was gloomy, and competitors were promoting extensively. While inspired by the tremendous task ahead of him, Del Vecchio could not help thinking longingly about his childhood in Italy. Working in his father's factory as a teenager was tough, but the work was much simpler. Machines are easier to fix than corporate strategies, after all, and creating something new required nothing more than sweat and precision. Best of all, in the factory he worked side by side with other workers—friends, really—and laughter was as much a part of the day as slicing sheets of metal. So, he got off on the first floor, and did the only thing that seemed to clear his mind these days: he walked over to chat with his staff on the sales floor.

Industry Overview

The history of business dress in the United States has been marked by a strict adherence to tradition punctuated with immediate—and occasionally permanent—transformations. Most of the changes have moved towards casual dressing. In the early 1960's, President Kennedy shocked the nation with the notable absence of a hat in public. Soon after, Arthur Andersen Co. issued a notice to employees stating that while they are no longer required to wear hats, they still had to carry them.¹ More recently, the business suit has seemed to suffer the same fate. While employees of many firms were not required to wear business suits in the late 1990's, they were still required to keep them in their closets for the occasional meeting or social function. While hats seemed to be gone forever, the fate of the suit was far less certain. In the spring of 2002,

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¹ Raine, George, "Suiting the Public: Menswear Manufacturers, Retailers Hope Business Casual Has Had its Day," *San Francisco Chronicle*, July 21, 2001

many businesses reverted to a suits-required dress code, and the number of tailored pieces of department-store clothing sold rose 12 percent.² However, the shift to casual dressing that had been occurring since the 1960's continued to impact retailers, who stated that the suit didn't really return in full. Some said formal business dress has returned to urban centers such as New York City, but not to the country at large. Heading into the 2002 holiday season, the absence of suit demand left many men's clothing stores fighting for a shrinking pool of customers in a dismal economic climate.

Who were these retailers? Customers primarily bought suits at department stores and specialty stores. The specialty discount store Men's Wearhouse sold suits for an average of approximately \$300, while other specialty retailers such as Hickey Freeman, Jos. A. Banks, Ralph Lauren, and others sold at price points from \$600 and up. Many designers sold suits at their own retail locations as well as department stores, where customers could compare different brands. Brooks Brothers sold its clothing and accessories at its company-owned retail stores, a print catalog, as well as via the company's online website (**see Exhibits 1 and 2**).

Competitors³

Men's Wearhouse

Founded in 1973 in Houston, Texas by George Zimmer and two friends, the first merchandise stocked by the store consisted of brightly colored polyester sport coats. After growing into a national retail chain during the next twenty years, Men's Wearhouse went public in 1992. From 1994 to 1998, the Company expanded at an average rate of one new store opening per week. Men's Wearhouse sells suits, sport coats, furnishings, accessories and sportswear and also operates a manufacturing facility of men's suits and sports coats in Canada. The merchandise is priced to be extremely affordable, with many suits retailing at \$300. The company has 10,800 employees and reported \$1.3 billion in sales and \$43.3 million in net income for the year ended January 2002.

Hickey-Freeman and Hart Schaffner & Marx

Both Hickey-Freeman and Hart Schaffner & Marx are owned by Hartmarx Corporation, whose other brands include Sansabelt, Bobby Jones golf wear and Austin Reed women's wear. Hartmarx's product mix is 60% men's tailored suits and sport coats and 40% men's sportswear, women's wear and slacks. The men's division contributed \$547 million in sales of the total sales volume for the year ended November 2001.

Hickey Freeman was founded in 1899 in Rochester, New York by two young entrepreneurs who previously worked together at a men's clothing company. It has grown into a first-class destination for men's businesswear, formal wear, and sportswear. The company sells its menswear wholesale to a distribution network of boutique stores throughout the United States, high-end department stores as well as in its company-owned flagship store on Fifth Avenue in Manhattan. Hickey-Freeman suits and other apparel are specifically sold at all of the upper-tier

² Kaufman, Leslie, "Return of the Suit, Tentatively," *New York Times*, April 2, 2002

³ Company websites, SEC forms 10-K, and Hoover's Online

department stores including Saks Fifth Avenue, Bergdorf Goodman, Barney's, Dillard's, Bloomingdales, Neiman Marcus and Nordstrom. Product offerings include suits, tuxedos, dress shirts, neckwear, sweaters, blazers and outerwear. Its suit and tuxedo price points range from \$1,100 to \$3,000, depending on detailing, fabrication and color. For instance, a 100-percent, pure worsted-wool suit in navy stripe retails at \$1,295, while a hand-tailored, herringbone three-piece suit has a price point of \$2,895.

Hart Schaffner & Marx was launched in Chicago in 1872 as a men's apparel store that supplied much needed clothing to the city after the tragedy of the Great Chicago Fire. The company grew through early innovations such as standard pricing, selling from swatches instead of cumbersome trunks, the first national men's apparel magazine advertisement, and, in 1936, the first zippered pants. A Hart Schaffner & Marx 100% worsted wool, lightweight, year round suit available in dark navy or dark charcoal gray stripe cost approximately \$650. By the year 2002, Hart Schaffner & Marx menswear was sold at department stores such as Nordstrom, Dillard's, Foley's and Filene's as well as a several retail stores specializing in men's apparel.

Polo Ralph Lauren

Ralph Lauren launched his company in 1967 with a highly successful necktie line under the Polo brand name. Since its founding, Polo Ralph Lauren has grown into a household name as the provider of high-quality and traditional apparel, home furnishings, gifts, and fragrances. The company sells items for men, women, and children; and categorizes items by price point, style, and quality under various brand names such as "Ralph Lauren," "Lauren," "Chaps," and others. For men, the company primarily manufactures dress shirts, casual shirts, sweaters, ties, slacks, chinos and outerwear. A "Ralph Lauren" herringbone sport coat and a navy, double-breasted blazer are each priced at \$850. For the year ended March 2002, the company had 10,100 employees and sales of \$2.4 billion and net income of \$173 million.

Jos. A Bank Clothiers

A 97-year-old manufacturer of classic men's clothing, Jos. A. Bank sells its merchandise through the company's chain of 150 U.S. retail stores and a seasonal, quarterly catalog. Jos. A. Bank merchandise offerings include tailored and casual clothing, footwear, and accessories. The majority of items are offered at lower price points than Brooks Brothers. Jos. A. Bank has a similar business rationale to Brooks Brothers, however, and claimed that they could charge 20 to 30 percent less than competitors through proprietary agreements with production facilities. Suit prices typically range from \$300 to \$700. For example, their two-button, 100-percent wool suit retails at \$695, but was on sale for \$449 in December of 2002. The company had 1,222 employees and reported \$211 million in sales and \$6.5 million in net income for the year ended January, 2002.

Other Men's Stores and Boutiques

Other men's stores include companies such as Armani, Ermenegildo Zegna, Brioni, Oxxford and Paul Stuart, among others. Paul Stuart, founded as a men's haberdashery in 1938 and named after the owner's son, Paul Stuart only has two stores in the U.S. (Manhattan and Chicago), and

one in Tokyo, but its main store was just up the street from Brooks Brothers' flagship Madison Avenue location. This store carries the finest-quality suits, sport coats, dress shirts, ties, shoes, and sportswear under its own private label brand. Paul Stewart also has a custom suit department where the average price point ranges from \$1,500 to \$2,000. The Paul Stuart customer is known to be both very traditional and loyal to the store. The company's clothing can be purchased in its retail locations or via an international toll-free number.

Department Stores

As mentioned above, men's suits are sold at all department stores. They vary in selection and quality based on the store's target customer. For example, Nordstrom carries such brands as Hickey-Freeman and Hart Schaffner & Marx, and has a very traditional customer. The Hart Schaffner & Marx line compares to Brooks Brothers' suit assortments in terms of quality and styling.

Brooks Brothers Company History

When Henry Sands Brooks opened H. & D.H. Brooks & Co. in New York City in 1818, he had a clear mission in mind: "To make and deal only in merchandise of the finest quality, to sell it at a fair profit and to deal with people who seek and appreciate such merchandise."⁴ Mr. Brooks' vision was followed—and, at times, utterly ignored—for more than 185 years and through five changes of ownership. Mr. Brooks himself was obsessed with quality and service, and reportedly had a habit of offering his young professional customers a glass of sherry as they donned his latest creations.⁵ His suits were made with imported English wool, and carefully crafted with an eye to detail. The company stayed in the family, who upheld Mr. Brooks' standards, for three generations. The store was officially named "Brooks Brothers" when the founder's four surviving sons inherited the company in 1850.

Brooks Brothers, perhaps surprisingly, was responsible for a number of clothing innovations. In 1830 Brooks created the preppy seersucker suit, and 56 years later, the button-down collar (to relieve polo players of flapping collar distractions). 1904 marked the dawn of colorful Shetland wool sweaters for sale, and the polo coat followed in 1910. In 1920 the company introduced the American consumer to the bright world of madras plaid, and in 1930, the three-button suit.

Quality and style lured more than just bankers and lawyers to Brooks Brothers. President Lincoln wore a specially made Brooks Brothers coat (and sadly, was wearing it when he was assassinated), and Ulysses S. Grant ordered Brooks Brothers' uniforms for the Union officers. People as diverse as J.P. Morgan, the Duke of Windsor, and Clark Gable wore Brooks Brothers attire. Fred Astaire looped Brooks Brothers ties through his pant loops as belts, and Katherine Hepburn visited Brooks Brothers for her tailoring.

Beloved as the brand was, it could not stay in the founder's family forever. By 1946, the company owned and operated four stores: the flagship store on Madison Avenue, a second New York City store on the corner of Broadway and Wall Street, a store in San Francisco, and one in

⁴ www.brooksbrothers.com

⁵ Connors, Anthony, "Then & Now: The Brooks Look," *Daily News*, July 5, 1998

Los Angeles. Garfinkel-Rhoads, Inc., a specialty store chain based in Washington, D.C. acquired the company, and continued to expand it to more than 10 stores during their 34-year tenure. New locations opened in Chicago, Boston, Pittsburgh, Atlanta, Washington D.C., and in 1979, Japan. Innovations and new generations of customers grew along with the chain: In 1949, iconic argyle socks were launched, along with a trendy, pink shirt for women featured in *Vogue*. Jack Kerouac donned Brooks Brothers button-downs, and President John F. Kennedy wore a two-button suit from Brooks Brothers at his inauguration.

In 1980, the chain changed hands again, this time to Allied Stores, who managed the chain for eight years. Their strategy focused on expansion—in 1982, they resolved to open four new stores each year—which did not lead to any new clothing or style innovations.

British retailing company Marks & Spencer bought the company for \$750 million in 1988, and invested \$7 million into restoring the Madison Avenue flagship store the first year. Three years later, Marks & Spencer opened the first Brooks Brothers factory outlet store in Maine. However, Brooks Brothers' sales were unimpressive and Marks & Spencer CEO Sir Richard Greenbury claimed they had overpaid for the chain.⁶ Quality and service seemed to decline beyond Henry Sands Brooks' worst nightmare, and in 1995, Brooks Brothers reported a loss of \$4 million on a 7.3 percent increase in sales to \$198 million in the first half ended Sept. 30.⁷ Desperately seeking growth, Marks & Spencer hired Joseph Gromek as the new CEO in 1996, who was responsible for “updating the company’s merchandising, presentation, and marketing.”⁸

Following a few promising quarters of increased operating profit, Gromek embarked on an aggressive expansion strategy, both in terms of line extensions and new store locations.⁹ A men’s “Grooming and Fragrance Collection” was launched, along with a Golf apparel line, an expanded jeans line, and can’t-live-without “Brooks Jazz and CD Collection.” In 1998, the men’s apparel trade daily *DNR* reported Brooks Brothers was “in the midst of a full-fledged brand repositioning.”¹⁰ Stores opened at breakneck speed: In Southeast Asia, Europe, airports, and online at www.brooksbrothers.com. May 1999 marked the debut of the “new flagship” store on Fifth Avenue. Gone was the country-club feel exemplified by the Madison Avenue store and other flagship locations (**see Exhibit 3**); the new glass-façade and open plan resembled a J. Crew or Banana Republic (**see Exhibits 4 and 5**). Curiously, the assortments did too: designs were updated, and more casual wear was added, including high-tech fabrics and new colors for shirts and ties.¹¹ By this time there were 81 full-price stores and 59 factory outlet stores (**see Exhibit 6**), yet Gromek planned on opening 100 more stores in the U.S. alone over the next five years.

Financial results, however, got in the way of aggressive expansion (**see Exhibit 7**). Less than a year after the opening of the new Fifth Avenue store, there was a 38.3 percent drop in operating profit to \$12.7 million for the 53 weeks ended March 31, 2000.¹² Guy McCracken, the executive

⁶ Fallon, James, and Palmieri, Jean, “Marks & Spencer Affirms It Will Keep Brooks, Sell Kings,” *DNR*, September 15, 1999

⁷ “Marks & Spencer To Sell Chain In Canada,” *DNR*, March 7, 1996

⁸ Palmieri, Jean, “Brooks Brothers Takes to Fifth Ave. With Open, Airy Style,” *DNR*, May 3, 1999

⁹ Fallon, James, “Brooks Brothers Back on Track: Operating Net Jumps 84% in Year,” *DNR*, May 22, 1996

¹⁰ Mui, Nelson, “Pursuing the Young and the Suitless,” *DNR*, November 11, 1998

¹¹ Bumback, Nancy, “Brooks Bros. Makes Headway in Changing Its Image,” *DNR*, February 21, 2000

¹² “Brooks Brothers Rolling Back Its Expansion Plans,” *DNR*, May 24, 2000

director for international retail, business systems, and information technology explained: “There was a lot of new footage and that brought increased costs and inevitably a lot of focus on the new developments.” He also blamed the decline on the casual dressing trend in men’s wear.

Despite Gromek and McCracken’s belief in better times ahead, Marks & Spencer announced plans to sell the chain in the Spring of 2001. Claiming Brooks Brothers was “not in line with [their] strategy,” Marks & Spencer worked with investment bank Morgan Stanley to find potential buyers.¹³ Rumors swirled about interest by several strategic players and financial sponsors. Even Gromek did not deny talk of a management buyout. However, the dim economy going into autumn scared most buyers off, leaving Del Vecchio and his company, Retail Brand Alliance (RBA), in line. They were set to make their offer on September 12th, but the terrorist attacks of September 11th delayed the transaction’s close. The economy plunged even further in the aftermath, and on Thanksgiving Day, Del Vecchio’s company - RBA - bought the chain for \$225 million in cash.¹⁴

Del Vecchio Background

Claudio Del Vecchio’s father, Leonardo, was born in Milan in 1935. At a young age he trained in the craft of traditional metal working, and ultimately became a master metalist (an engraver and striker of metals). However, working as a metalist stifled Leonardo’s entrepreneurial spirit, and in the late 1950’s he left his craft to enter the small eyewear medal parts business in Belluno, Italy, which he named Luxottica s.a.s.¹⁵ Luxottica had ten employees and focused on contract manufacturing of eyewear components. By 1967 Luxottica, under Leonardo’s leadership, moved into full-scale production of eyeglass frames sold under the Luxottica brand. Heading into 2003, Luxottica was the world’s foremost manufacturer of eyeglasses. Listed on the NYSE since 1990 and the MTA (Milan Stock Exchange) since 2000, Luxottica had total sales and net income in 2001 of 3 billion Euros and 316 million Euros, respectively. The Del Vecchio family controlled almost 75 percent of the company’s shares.

It was into this entrepreneurial manufacturing environment that Claudio was born in 1957. Constantly surrounded by the presence of Luxottica, he could not wait each day for school to end so that he could assist the workers in his father’s factory. At the age of 14, he began spending his summers working in the factory where his father initially taught him to shape a piece of metal so that he could acquire the basic skills needed to make eyeglass frames. He fondly recalls the smell of oil in the factory and the sense of pride he took in his work, “I loved it – I loved to be able to say, ‘I created something.’”¹⁶ Gradually, he learned the business completely, and gained a deep knowledge of manufacturing and logistics. He came to embrace his father’s passion and vision for Luxottica, which Leonardo described as follows:

“There is a basic idea that has been inside of me for all these years...it is very simple, and it may seem trivial, but until now it has proven effective. If you manufacture the best, with the means and resources you have available, then it is

¹³ “Brooks Bros. Officially On Sales Block,” *DNR*, March 30, 2001

¹⁴ “Del Vecchio’s Vision,” *DNR*, December 3, 2001

¹⁵ www.luxottica.com

¹⁶ Browning, Lynnley, “Crown Jewel For a Fashion Heir?,” *New York Times*, December 23, 2001

virtually impossible that the customers don't see this and prefer you to the competitors. I am convinced of this, I have been repeating it for a long time, and the results, until now, have shown that I am right.”¹⁷

In 1982, Claudio Del Vecchio came to America to spearhead Luxottica's international growth. At that time, Luxottica did not have an office in the United States, and sold only through both domestic and foreign distributors.

By 1995, Del Vecchio had helped to build a strong presence for Luxottica in the United States through developing manufacturing and distribution capabilities as well as licensing relationships with key retailers and designers. In 1995, Luxottica was presented with an opportunity to acquire LensCrafters, the ubiquitous U.S. eyeglass retailer. LensCrafters had long been on Del Vecchio's wish list. The potential synergies from combining Luxottica's design and manufacturing capabilities with LensCrafters distribution represented a tremendous growth opportunity. Unfortunately, there was a major problem standing in the way of an acquisition: LensCrafters was owned by U.S. Shoe Corporation, which also owned the women's retail apparel company, Casual Corner. To acquire LensCrafters, Luxottica would have to buy the entire U.S. Shoe Corporation, including Casual Corner, as well.

Formation of Retail Brand Alliance

Luxottica decided to proceed with an acquisition of U.S. Shoe Corporation, paying \$1.6 billion for the company.¹⁸ Although Luxottica did not want to be in the women's clothing business, the LensCrafters opportunity was too important to let go, and Del Vecchio reasoned that Casual Corner could be divested in the future.

Casual Corner was founded in 1950 when its first store opened in West Hartford, CT. Low prices, convenient locations, and simple styles caused it to grow into one of the more successful women's stores in the country; and in 1969 it was purchased by U.S. Shoe Corporation.¹⁹ By 1995, when it was acquired as part of the Luxottica deal, Casual Corner had over 1,200 stores.

It was soon painfully apparent that the Casual Corner franchise had suffered from overexpansion and mismanagement under U.S. Shoe, particularly in the areas of supply chain management, logistics, and cost containment. As Claudio Del Vecchio looked at the Casual Corner business, he recognized that not only did it have a solid, respected brand name, but also that he personally possessed the expertise that could help to turn around the business. So in 1997, Del Vecchio purchased Casual Corner from Luxottica and assembled a management team—headed up by himself—to turn the company around.

Casual Corner represented Del Vecchio's first foray into traditional retailing, and as he put it, “I learned the business by questioning everything, and my questions led to the business changing.”²⁰ Given his deep expertise in supply chain management and logistics, he often could

¹⁷ www.luxottica.com

¹⁸ Curan, Catherine, “Suiting Up on Sept. 12,” *Crain's New York Business*, September 2, 2002

¹⁹ Casual Corner press release announcing Brooks Brothers acquisition by RBA, November 23, 2001

²⁰ All Claudio Del Vecchio quotes from an interview conducted by the authors on November 21, 2002

not understand why certain operational processes were performed in a particular manner. He grew increasingly frustrated with hearing “We have always done it this way.” Eventually Del Vecchio and his management team decided to rebuild the foundation of the business from scratch with an emphasis on cost-saving logistics and simplified processes. By closing nearly 400 underperforming stores, coordinating teams of buyers across assortment categories, improving MIS infrastructure, and eliminating redundant and costly management layers, the new management team reduced Casual Corner’s break-even sales per square foot to \$250 within two years. This put Casual Corner at a significant advantage over competitors such as Ann Taylor, who had break-even points from \$400 to \$500.²¹

By 2000, Casual Corner was well on the road to renewed growth and profitability, and Del Vecchio and his management team were eager to apply their skills to another challenge. In 2001, they formed Retail Brand Alliance, whose mission was to become a “premier retailing group with a portfolio of highly specialized fashion companies.”²² Del Vecchio viewed Casual Corner as a reliable, fashionable brand that was not trendy. Therefore, it could act as an anchor to which they could attach complementary businesses. In February 2001, RBA purchased designer Adrienne Vittadini, a label known for elegance and sophisticated women’s knit wear. Vittadini’s performance had been hurt through its department store distribution, which did not target the right customer, and RBA saw an opportunity to build a specialty store concept around the label. In July 2001, RBA purchased Carolee Designs, a renowned and respected leader in the fashion jewelry and accessories industry. Del Vecchio believed that the combination of jewelry and accessories was a strong complement to the products offered by Casual Corner and Vittadini.

Brooks Brothers Acquisition

By early 2001 it was no secret in retailing circles that Brooks Brothers was an ailing franchise. Brooks Brothers, under Marks & Spencer’s ownership, had struggled to cope with the move towards casual dress in professional America. Marks & Spencer tried unsuccessfully to move Brooks Brothers into the casual markets by offering assortments very similar to those of J. Crew, Banana Republic and Gap. As Del Vecchio put it, “Nobody is better at being J. Crew than J. Crew. The only thing Brooks accomplished was alienating its customer base.”

Del Vecchio and RBA approached Marks & Spencer in the winter of 2001 to form a partnership in which RBA could bring some of its turnaround experience to Brooks Brothers. However, the British company rebuffed them only to put Brooks Brothers on the auction block the following March with an initial asking price of \$400 million. RBA formally entered into the bidding process.

Over the course of the summer, Del Vecchio and his team examined Brooks Brothers more closely and developed what they believed was a viable investment thesis to justify moving forward with a purchase. The basis of their thesis was the following:

²¹ Del Vecchio interview, November 21, 2002

²² Retail Brand Alliance marketing materials

- The Brooks Brothers' brand and customer following was still strong, and in many respects represented Brooks Brothers' most valuable asset. If the right product and service could be restored, these loyal customers would return.
- The foray into casual clothing had led Brook Brothers away from its traditional customer base and merchandise offerings. Brooks Brothers needed to be repositioned in its historical niche as a provider of classic clothing, particularly suits. Any strategy that attempted to cater to prevailing fashion sentiments would fail.
- Brooks Brothers, unlike its primary competitors, had a significant scale and distribution advantage that would allow it to rationalize its cost structure and impact the design and production methods utilized by its suppliers. Sourcing raw materials and finished goods for 150 stores afforded Brooks Brothers significant purchasing scale efficiencies. These efficiencies, combined with Brooks Brothers vast knowledge of production methods and costs, allowed the company to exert significant influence on its supply chain.
- Successfully turning Brooks Brothers around would necessitate a strategic reorientation around merchandising and production logistics rather than clothing design, which had proven unsuccessful under Marks & Spencer and the Brooks Brother's former management. RBA's production experience could be used to regulate and reduce marginal costs while ensuring much higher quality standards.

As Del Vecchio summarized the situation at Brooks Brothers, “[They] forgot about the suit guy – the one they dress five days a week.”²³ He believed the key to resuscitating the brand lay in immediately improving the quality of products and offering great value at the lowest possible price. Similarly, he recognized the quality of service had deteriorated drastically over the years, therefore making it critical they “recreate a confident experience for the customer. Brooks must welcome the customer and make them feel a part of the family again.”

Final bids for Brooks Brothers were due on September 12, 2001. In addition to RBA, the other credible candidates remaining were May Department Stores, Men's Wearhouse, private equity firm Texas Pacific Group, Polo Ralph Lauren, Tommy Hilfiger and Dickson Concepts International, which operated Brooks Brothers franchises in Southeast Asia. RBA bid \$225 million for Brooks Brothers, which represented less than one-third of the \$750 million Marks & Spencer paid in 1988.²⁴ Going into the final round, Del Vecchio was dubious about RBA's chances—that their offer simply was too low, particularly given the tough competition. Notwithstanding, he believed it represented fair value for the company given its recent financial underperformance and the risks involved in turning it around.

But the drama of the bidding was forgotten when terrorist attacks occurred the day before final bids were due, on September 11. The auction was delayed, and in the ensuing weeks bidders dropped out one by one until RBA was left standing alone. Del Vecchio was certain Marks & Spencer would take Brooks Brothers off the market rather than accepting RBA's low bid.

²³ Edmondson, Gail, “Spiffing Up Brooks Brothers” *BusinessWeek* Online, December 17, 2001

²⁴ “Owner of Casual Corner Chain in Deal for Brooks Brothers”, *New York Times*, November 23, 2001

However, he was wrong, and RBA snagged the American clothier for exactly what they wanted to pay.

Having emerged as the unlikely victor in the auction for Brooks Brother's, Del Vecchio and RBA had found what appeared to be the perfect complement to their retail portfolio strategy as well as a significant challenge for their collective management skills. It was now time to focus on resuscitating Brook Brothers.

The Turnaround

Beginning the day the purchase was final, Del Vecchio began his turnaround effort. He focused on three main competitive advantages Brooks Brothers already possessed: a strong brand, unique customer focus, and prime retail locations. Two other elements he also believed were critical to success: a favorable cost structure and improved quality.

The Brooks Brothers name was known throughout the world and recognized as a leading retail authority, particularly in traditional menswear. The presence of the Brooks Brothers label on the garments of U.S. Presidents and other notable figures was a testament to the strength and value of the brand.

Brooks Brothers held a unique position as a U.S. retail chain that concentrated heavily in men's professional clothing and traditional looks. Although competitors such as Men's Wearhouse focused on the same customer, they either sold other designer brands or did not match Brook Brothers' price points, quality, and style.

Prime retail locations also gave Brooks Brothers an edge. The company's New York City locations at Madison Avenue, Fifth Avenue, and Liberty Plaza were situated in highly concentrated areas of "everyday" business men and women. The heavy visibility and foot traffic of these stores would be near impossible to duplicate at any other location. Madison Avenue served as the company's flagship store with over 40,000 square feet, and a significant percentage of the company's total business came from this store. Stores outside New York City occupied premium space in major shopping malls and retail centers.

The company's cost structure was a major driver behind Brooks Brothers' goal of providing superior value, and something dear to Del Vecchio's heart. "He is intimately involved in sourcing," said Mark Shulman, chief operating officer of Retail Brand Alliance, "Very few CEOs of specialty retailers work as closely with suppliers."²⁵ Because the company supplied products for more than 150 stores, it had substantial leverage regarding pricing. Brooks Brothers used this influence to achieve substantial volume discounts, which allowed it to offer customers competitive merchandise at lower prices. Del Vecchio also implemented an unparalleled manufacturing and distribution expertise to further lower costs yet retain quality. For example, Del Vecchio cited Brooks Brothers' ability to price a classic, knit polo for \$49 versus \$70 for a comparable shirt from a competitor.

²⁵ Palmieri, Jean, "Del Vecchio's Plan For Brooks Brothers: 'Dramatically' Upscale," *DNR*, March 25, 2002.

Abandoning its previous owner's efforts to bring down retail prices in hopes to expand its customer base and fuel growth, Brooks Brothers has already begun to move merchandise back to higher quality levels. In some cases, prices had to be raised. In those situations, Del Vecchio and his team have committed to sourcing higher quality fabrics and materials. For example, "using 18.5-micron yarns rather than 17.5-micron yarns will result in fabrics that feel softer and hold dye better. Another change that consumers may appreciate without even noticing is the replacement of a wool canvas liner with one made of camel hair so that jackets retain their shape."²⁶ In addition, the company has begun to set very high standards for its supplier base and would include only those manufacturers that could produce under strict quality-control requirements. Del Vecchio realized there was a risk in driving away customers that had been coming to the stores in the last few years expecting lower prices, but he felt strongly that this had to be done.

Challenges Ahead

Concurrent with maximizing Brooks Brothers advantages, Del Vecchio had to face significant obstacles. The most obvious issue was regaining the brand equity. Over the past several years, Brooks Brothers' reputation had been tarnished through a gradual-yet-significant decline in customer service, quality, and assortments. The timeless Brooks Brothers' styles and selections, along with its tradition of innovation, had all but disappeared.

Another challenge was the decline of the men's suits and sport coats business. Sales of men's tailored clothing over the past decade had fallen 13 percent, according to NPD Fashionworld, a leading apparel research company. In 2001, unit sales grew 12 percent but dollar sales declined, indicating men were buying more but spending less per purchase. Although there has been a recent move to formal dress codes in the corporate world, a Mervyn's customer survey revealed 90 percent didn't know the difference between business attire and business casual, and that customers were confused about what to wear in a business casual environment.²⁷

Brooks Brothers' womenswear and casual lines were other areas of concern. Both divisions had historically been overshadowed by the company's famous men's suit and businesswear lines. In the past, Brooks Brothers had difficulty establishing a strong brand with women customers. Worse, recent collections missed market tastes and preferences.

Finally, the casual line faced similar problems with styles, colors, and patterns that didn't satisfy the customer. Additionally, this business faced heavy competition from Lands End, Gap, J. Crew, and Banana Republic.

Opportunities

Going forward, there were several opportunities to be considered. One option was to expand the Brooks Brother's women's line and increase its marketing efforts in this area. Women's apparel currently accounted for 20 percent of Brook Brothers' business. To gain credibility with its women customers, the current product assortments were not meeting their needs. In addition, the

²⁶ "Suiting Up on September 12," *Crain's New York Business*, September 2, 2002

²⁷ Dolbow, Sandra, "Dressing Up," *Brandweek*, September 16, 2002

company needed to consider investing heavily in marketing to raise more awareness among women and attract them into stores. In addition, it had to extensively change the assortments to make them more appealing to their target customer. However, giving more space in the stores and increasing inventory dollars to women's apparel could reduce the impact of the menswear presentation and giving it more marketing dollars might come at the expense of reducing the men's exposure. One possible alternative was expanding the limited number of women's-only stores. Opening more stores under this format could help advance its growth in women's sales, although the capital expenditures required for this purpose could drain resources that could be used for other opportunities.

An obvious source for growth was to open new stores. The expansion strategy had virtually been ignored while Del Vecchio and his team focused on turnaround efforts. Now that Brooks Brothers was a subsidiary of a private company, pressure from shareholders to continually demonstrate new growth has subsided considerably. As a result, Del Vecchio had yet to indicate any future plans for new store openings although the company was "always looking with an opportunistic view." There was an opportunity to expand the company's retail presence by opening new outlet stores, women's-only and specialty boutiques, such as more airport shops and boy's stores. Was expansion something that should be currently considered, or put on the back burner for the time being?

Given the sales slump in traditional menswear, "the only way to grow is to take Brooks Brothers international," says Retail Forward's (a global management consultant and market research firm) Huff.²⁸ Brooks Brothers name was strong overseas, especially in the Asia Pacific Market. The company had been successful in the past utilizing licensing agreements to form partnerships in Japan. In December of 2002 the company operated more than 50 stores in Japan, 4 stores in Hong Kong, and 3 stores each in China and Taiwan. Brooks Brothers had considered establishing a European presence in the past, and Latin America was always a possibility for entry as the company pondered extending its international reach. Italian shoemaker Diego Della Valle planned to open a Brooks Brothers store in Milan in July 2003 under a preexisting agreement. "There's a huge passion for the Brooks Brothers brand in Italy," says Della Valle.²⁹ But should the company consider overseas expansion now with so many other priorities on its plate?

Brooks Brothers was also contemplating other initiatives that could revitalize the company. It had recently increased its efforts with its catalog and online business. The new team recognized that those sales channels were an effective way to reach customers who do not have direct access to a Brooks Brothers store. Examples of recent activity also included making the merchandise offering in the catalogs and online consistent with the products found in stores, and increasing the frequency and reach of the mailing base.

Finally, another opportunity the company could pursue was the expansion of its custom-made suit business, something it only offered at its Madison Avenue store and other key markets. Not only did custom suits command premium prices, the customer experience and potential satisfaction level was enhanced significantly. Furthermore, recent trends had proven favorable in

²⁸ "Spiffing Up Brooks Brothers" *BusinessWeek* Online, December 17, 2001

²⁹ "Spiffing Up Brooks Brothers" *BusinessWeek* Online, December 17, 2001

this category. Hickey Freeman reported that custom suit sales had grown to 25 percent of its total business (up from 20 percent, historically). Going after this business, however, entailed creating space in the stores and training and/or hiring very qualified people. These people needed to appreciate and understand quality fabrics and tailoring and how to handle very discerning customers. In addition, could reliable contractors be found to handle this business on a company-wide basis? Another factor to be considered was that developing this category could require a large time investment on the part of the Brooks management team.

Del Vecchio spent twenty minutes catching up with various men and women on the sales staff. Despite the overwhelming issues he and the company faced, he was foremost concerned with the people he worked with. He learned early on that co-workers were interchangeable with friends, and factory workers were people just like him—with families, futures, and dreams. As he headed back to his office, he was newly invigorated and ready to face the challenges that awaited him, and determined to make Brooks Brothers—along with every person in the company—flourish.

Exhibit 1
Online Advertisements

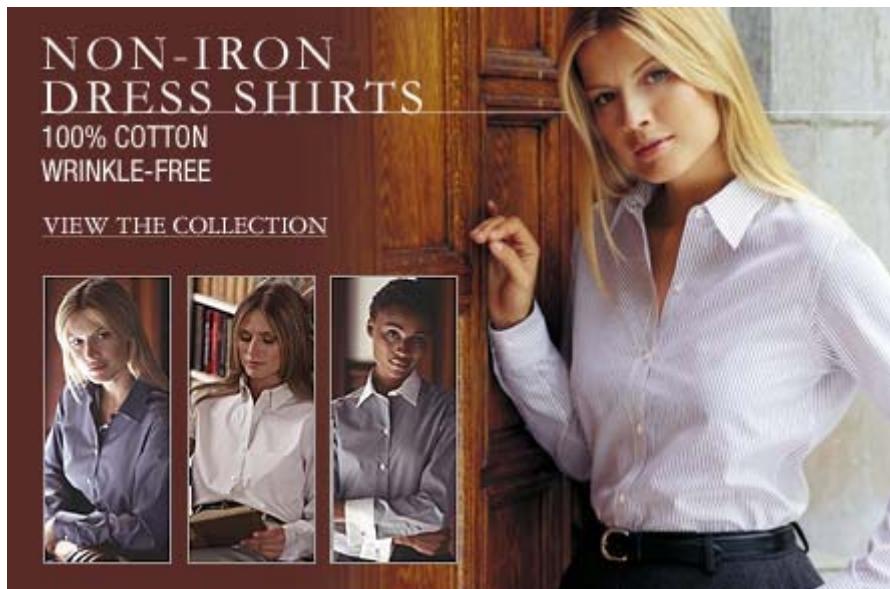
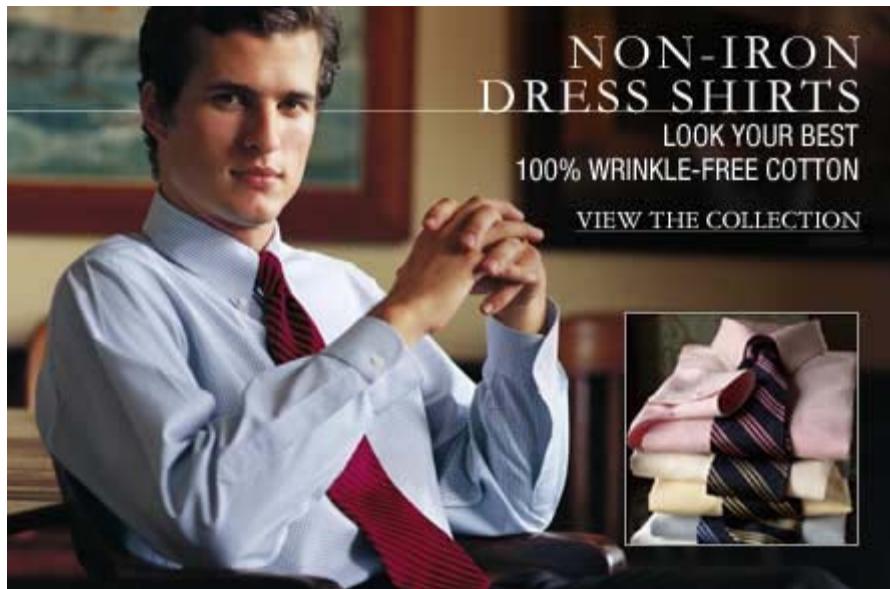
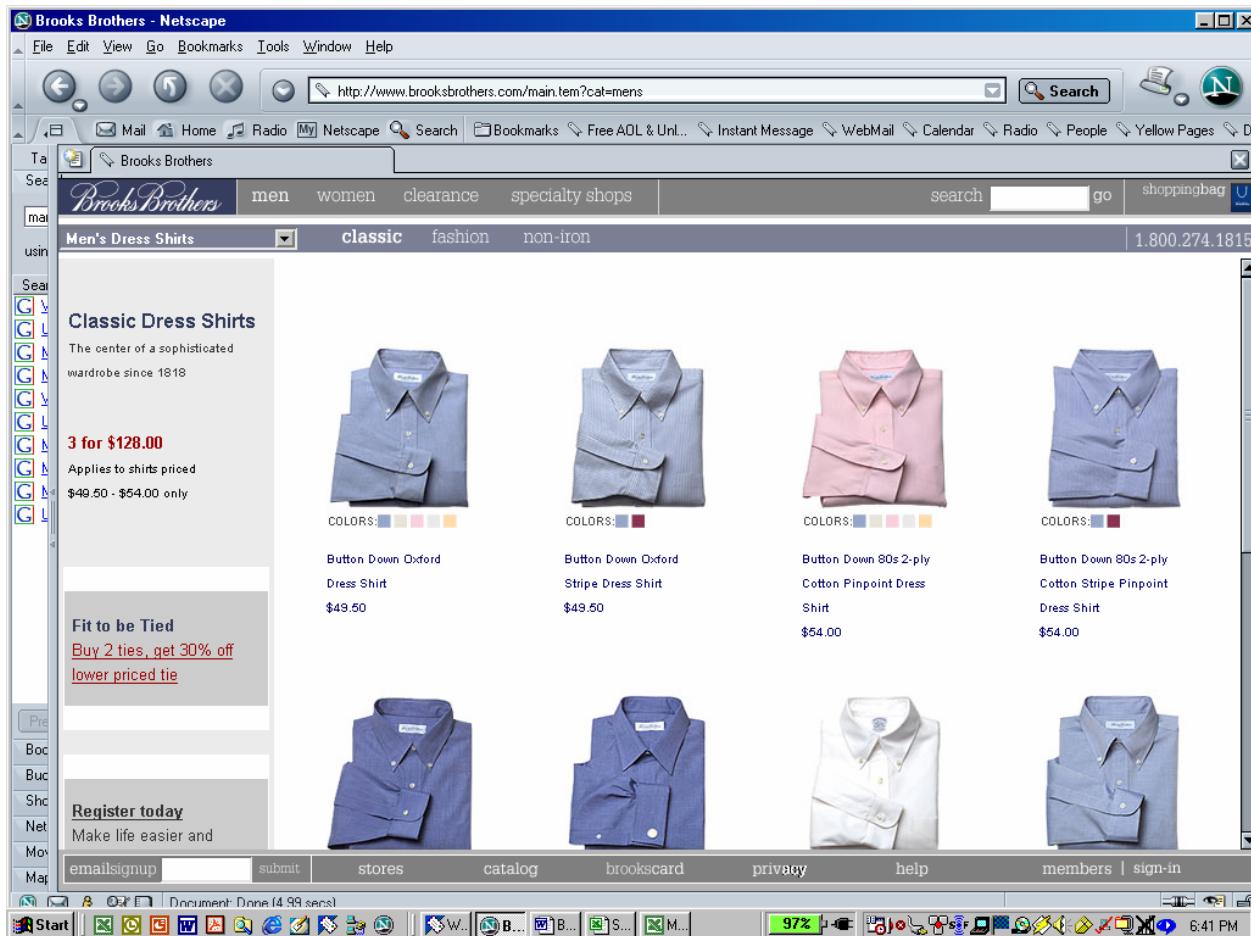


Exhibit 2

Online Offerings



The screenshot shows a Netscape browser window displaying the Brooks Brothers website. The URL in the address bar is <http://www.brooksbrothers.com/main.tem?cat=mens>. The page is titled "Men's Dress Shirts". The left sidebar features a "Classic Dress Shirts" section with a promotional offer: "3 for \$128.00" (Applies to shirts priced \$49.50 - \$54.00 only). It also includes a "Fit to be Tied" section with a "Buy 2 ties, get 30% off lower priced tie" offer. The main content area displays eight men's dress shirts arranged in two rows of four. Each shirt is shown with its name, color options, and price. The shirts are: 1. Button Down Oxford Dress Shirt (\$49.50), 2. Button Down Oxford Stripe Dress Shirt (\$49.50), 3. Button Down 80s 2-ply Cotton Pinpoint Dress Shirt (\$54.00), 4. Button Down 80s 2-ply Cotton Stripe Pinpoint Dress Shirt (\$54.00); 5. (Top row, 2nd from left) (Top row, 3rd from left) (Top row, 4th from left) (Bottom row, 1st from left) (Bottom row, 2nd from left) (Bottom row, 3rd from left) (Bottom row, 4th from left). The bottom of the page includes a "Register today" button, a "make life easier" link, and standard website navigation links like "emailsignup", "submit", "stores", "catalog", "brookscard", "privacy", "help", "members", and "sign-in". The browser interface shows various toolbars and status bars typical of a late 1990s web browser.

Exhibit 3

Exterior of Michigan Avenue Store, Chicago (Older Store Format)

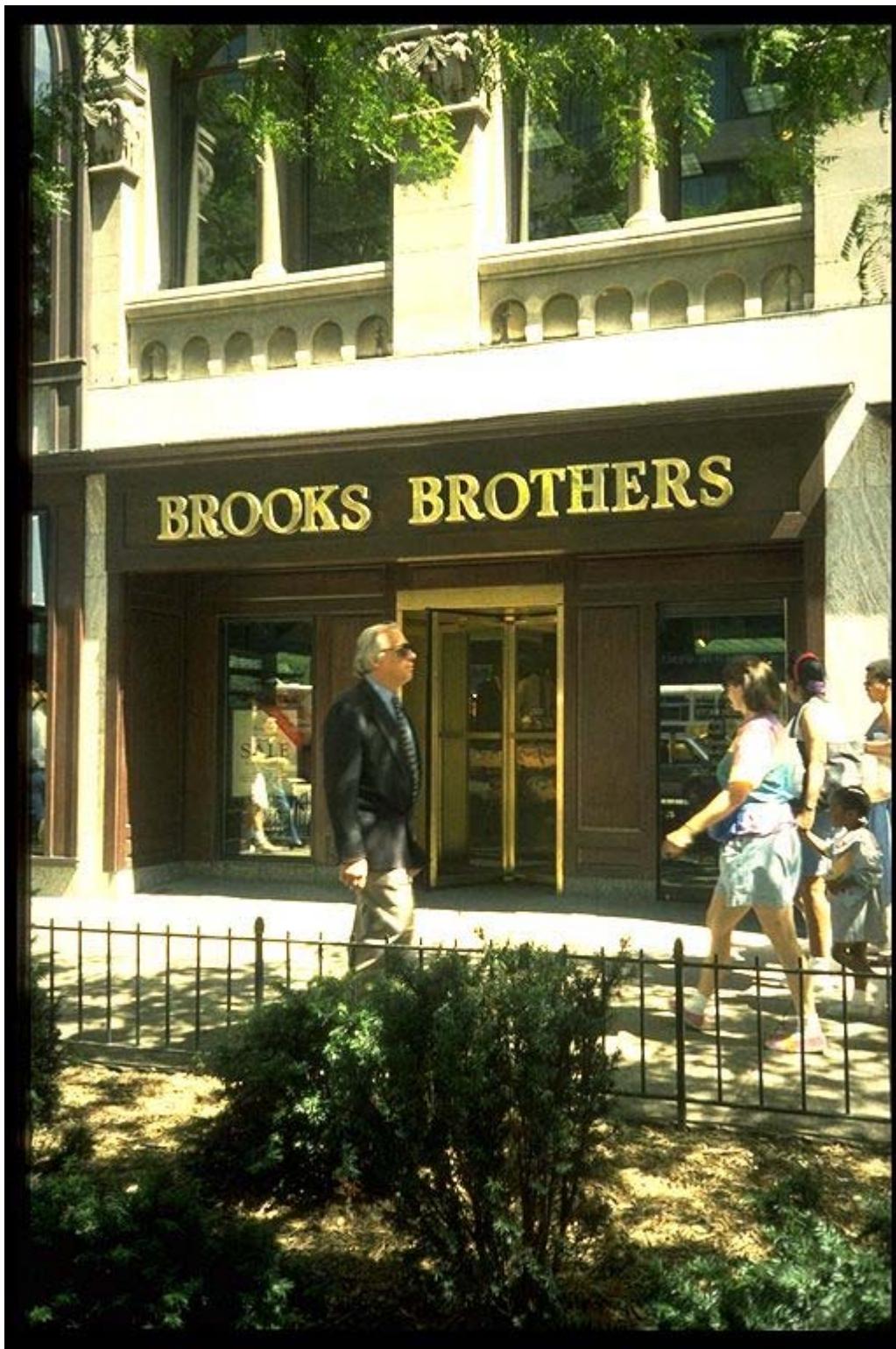


Exhibit 4
Window Display (New Store Format)



Exhibit 5

Exterior of Post Street Store, San Francisco (New Store Format)



Exhibit 6

Factory Store Exterior, Franklin Mills, Philadelphia



Exhibit 7
Marks & Spencer Segment Information³⁰

Turnover and operating profit for North America and Europe comprise:

	Turnover		Operating profit	
	2002 £m	2001 £m	2002 £m	2001 £m
North America				
Brooks Brothers (including Japan)	345.8	448.1	14.9	20.2
Corporate expenses	—	—	(0.2)	(0.1)
	345.8	448.1	14.7	20.1
Continental Europe				
	170.2	285.0	—	(34.0)
Total discontinued operations	516.0	733.1	14.7	(13.9)

Turnover and operating profit for North America and Europe comprise:

	Turnover		Operating profit	
	2001 £m	2000 £m	2001 £m	2000 £m
North America				
Brooks Brothers (including Japan)	448.1	395.5	20.2	7.9
Kings Super Markets	313.1	273.7	11.9	11.1
Corporate expenses	—	—	(0.1)	(2.6)
	761.2	669.2	32.0	16.4
M&S Canada	—	22.2	—	—
	761.2	691.4	32.0	16.4
Europe				
Continental Europe	285.0	294.3	(34.0)	(33.5)
Other European operations	263.3	261.3	22.6	18.7
	548.3	555.6	(11.4)	(14.8)

³⁰ Source: Marks & Spencer 2001 and 2002 annual reports. 2002 figures are considered discontinued operations and include revenue and operating profit through December 31, 2001 only, as Brooks Brothers was sold to Del Vecchio at that date. Brooks Brothers fiscal year ends on March 31st.