

## Mervyns rebounds, but will it last?

By Blanca Torres  
STAFF WRITER  
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Jacqueline Montofa may seem to be an ideal Mervyns shopper - she's a young Hispanic mom who shops in the retailer's Livermore store once a week.

On the other hand, Montofa may not seem so ideal. She also likes Wal-Mart, Target and JCPenney with no loyalties to any particular retailer.

"I like them all about the same," she said. "I look for low prices."

Fighting for shoppers like Montofa is one of the major changes facing Hayward-based Mervyns as the retailer plows through the third year of a turnaround process that involves reinventing its image and catering to Latino consumers.

"In the last three years, we've been in the midst of an in-depth analysis of every aspect of our business," said Rick Leto, the company's chief executive. "We've made tremendous changes."

The chain, which sells apparel and housewares, falls into the middle tier of the retail spectrum, a segment that has made a comeback in the last few years.

While Mervyns has taken part in that resurgence, experts wonder if the company can keep up with ever-increasing competition and re-establish its brand identity.

"I'm a great believer of building on your past and tradition," said Eugene Muscat, a professor with the University of San Francisco School of Business. "Mervyns is unfortunately strapped with a name that makes it difficult to reinvent themselves."

Mervyns, founded with a single store in San Lorenzo in 1949, suffered neglect during the 26 years it spent as a subsidiary of Target Corp., while its namesake stores boomed in scope and sales.

Target sold Mervyns to a group of investors including Cerberus Capital Management in 2004 for \$1.65 billion.

In the three years since the sale, Mervyns closed more than 80 stores, exited three states and vowed to transform itself into a store shoppers could get excited about.

"Mervyns wasn't doing well under Target," said Stevan Buxbaum, executive vice president of Buxbaum Group, retail consultants based in Southern California. "It's definitely in a turnaround. Ultimately whether or not it will be successful is another question."

The company's turnaround strategy has overhauled the company's internal systems, spruced up stores with well-stocked inventories, remodeled some sites and continued to improve the company's private and exclusive labels.

Leto said he expects the chain to open between six and 10 stores a year for the "forseeable future."

Another major focus has been on catering to Hispanic consumers.

The company's signage is in English and Spanish, it runs advertisements in Spanish and carries an exclusive line of women's apparel by Constance Marie, a Latina actress.

"Mervyns has taken a very pointed Hispanic strategy and that is serving them well," Buxbaum said. "I don't think anybody else was doing that and doing that as well as they are."

The retailer's core shopper has a household income ranging between \$30,000 and \$75,000 per year, Leto said. The retailer's strongest segments are children's clothing, shoes and women's clothing.

"People give us tremendous amount of credit for our children's business," Leto said. "Mexican moms will buy and buy and buy for her kids many times before she'll buy for herself, so we do more children's business than any retailer in the state of California, and I think that's a reflection of our clientele and also understanding our children's business."

That clientele would include moms like Montofa and others like Lisa Carmen of Tracy, who has two children.

"They have the best prices for kids clothes and a big selection," Carmen said. "You don't want to spend too much because they grow so fast."

About five years ago, middle-tier retailers were on the decline as many shoppers gravitated either up to the Macy's and Nordstroms of the world or down to discounters like Target and Wal-Mart.

In the past few years, middle-tier retailers like JCPenney, Kohl's and Mervyns have found favor among consumers who want more quality and brand names than what discounters offer, but still care about price.

"The problem is that the brand doesn't speak well yet," said Jeff Green is president of Jeff Green Partners, a retail real estate consulting firm based in Mill Valley. "Does Mervyns have enough identity to compete with JCPenney and Kohl's? Consumers seem to have a hard time identifying what Mervyns stands for. Is it just low-prices? They do have a strong brand in the West. People who know them will shop them, the question is are they the retailer of choice in that category."

Leto likes to emphasize Mervyns' "California" heritage and focus, which he thinks will help the competition in the chain's core market.

"Our advantage is that we are a California-based company," Leto said. "Everybody who works for me lives here and truly understands the ethnicity of the great state of California that we deal with, they understand the lifestyle of California."

Experts agreed that Mervyns attachment to its home state helps it stand out as a retailer, but that has strongly translated in to the company's brand image.

"If that's going to be their differentiation, then they need to market themselves that way," Green said. "They need to explain what that is and market to it."

Another way for Mervyns to distinguish itself in the market is with private and exclusive labels, which have become an important strategy for numerous retailers including Target and Kohl's that have partnered with haute couture designers like Isaac Mizrahi and Vera Wang.

"Those stores are all very similar, except that they all carry different brands," Buxbaum said. "Before, everybody had the same brand. Now, it's a trend to have your own names. Everybody's trying to put a lot private label merchandise on their own floors."

**In decades past, shoppers turned to department stores for brand name goods, said Michael Stone, chief executive of the Beanstalk Group, a consulting firm that specializes in merchandise licensing.**

**Kohl's has maneuvered deals with haute couture. Mervyn's has merchandise deals with celebrities like Marie, rapper Eminem and home decorator Susie Coehlo.**

**"The consumers that have historically shopped at the mid-tier are hungry for brands for in large part they're shopping there because they can't afford department stores," Stone said. "The mid-tier is also drawing customers from the upper tier. There's a blending now of product offerings and customer is willing to cross channels and shop where they think they'll find good quality products at a good price."**

**Mervyn's: at a glance**

Mervin G. Morris founded the company in 1949 in San Lorenzo.

Mervyns was one of the first retail companies to offer revolving lines of credit, advertise sales in newspapers and focus on young families as its core customer base.

In 1978, Mervyns merged with Minnesota-based Dayton Hudson Corp., the company that later became Target Corp. and operates the nationwide discount department store of the same name.

In September 2004, Cerberus Capital Management L.P., a private equity firm, bought Mervyns, which had 257 stores.

Since the sale, the chain closed more than 80 stores and exited Oklahoma, Oregon and Washington states.

Today, Mervyns has 177 stores in California, Arizona, Idaho, Utah, Nevada, Colorado, New Mexico and Texas.

Headquarters: Hayward

Chief Executive: Rick Leto

Number of Employees: 20,000

Annual Sales: Approximately \$3 billion in annual sales volume