

Abercrombie & Fitch Bargains for a Rebound

The clothing retailer hung tough on prices, and teens took a hike. Now the paragon of preppy coolness is frantically trying to woo them back

By [Matthew Boyle](#)

Abercrombie & Fitch ([ANF](#)) CEO Michael S. Jeffries is doing something he has long vowed to avoid: He's putting his products on sale. While most of his retail peers slashed prices late last year, Jeffries held fast, citing the "dreadful long-term effects" of entering a discount war that would tarnish a brand he has spent 17 years building into a paragon of preppy coolness.

That strategy has contributed to crippling sales and earnings declines as price-conscious teens have sought bargains elsewhere. Same-store sales plunged 22% in the third quarter, the eighth consecutive period of decline for the New Albany (Ohio) company. Even with Abercrombie reporting a 39% drop in profits on Nov. 13, though, investors pushed the stock up 10%. Expecting worse, many analysts cheered Jeffries' new willingness to adapt to the brutal retail climate.

Abercrombie has built its reputation on provocatively marketed jeans and flannel shirts often two to three times more expensive than anything found on the racks at teen-focused rivals such as Aéropostale and American Eagle Outfitters ([ARO](#)). The company, which came in at No. 50 on *BusinessWeek's* list of the top performers this year, does \$3.5 billion in sales from more than 1,100 stores, mostly under the Abercrombie & Fitch, surfer-themed Hollister, and Abercrombie Kids banners. While high prices had given the company an aura of exclusivity, not to mention healthy margins, they're now driving many teens away.

But the problem goes beyond the sticker shock. Analysts like Lisa M. Walters, a principal at Retail Eye Partners, say Jeffries has also been a step behind fashion trends this year. "Fashion changed in the teen space," she says, shifting to more detailed, dressy items, "and they didn't change their fashions."

Jeffries, who declined to comment, is now taking action. Abercrombie has marked down items such as jeans and outerwear by 30% to 40%, trumpeting the discounts with e-mails to customers and clearance signs in store windows. "We are reacting to the current environment," he told investors in the Nov. 13 earnings call. Jeffries said he also plans to add lower-priced clothing, especially at Hollister, and has brought in trendier dresses and tops.

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Jeffries is also going on the offensive outside the U.S., where the Abercrombie brand has maintained its cachet. Lines snaked out the door in late October when Abercrombie opened its new flagship store in Milan. The company plans to open two more flagships in Japan and one in Copenhagen, while Hollister stores are also popping up across Europe. Edward Yruma, analyst at KeyBanc Capital Markets, believes that international sales could eventually contribute more than 30% of Abercrombie's total revenue, up from 11% today. "International is undoubtedly a home run," says Randal Konik, analyst at Jefferies & Co.

Abercrombie is also generating more online sales, which increased 11% in the most recent quarter, to \$64 million. New Chief Financial Officer Jonathan Ramsden, meanwhile, is keeping a tighter lid on expenses, which have declined over the past few quarters.

But Jeffries faces a tough fight at home. While analysts like Konik believe Abercrombie's fortunes will rise again as consumer confidence returns, others argue that persistently high price tags have taken a toll. As retail consultant Robin Lewis argues: "Once you lose your brand loyalists—and you have to do a lot to piss them off—you don't get them back."

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