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NEW YORK BUSINESS

November 28, 2010

TOP STORIES

Daffy's: It's time to get serious

Family behind off-price retailer seeks outside CEO for growth push

BY AMY FELDMAN

All retail is a balancing act, but off-price retail is especially tricky. Once your buyers have done the deal, the deal is done: There's no shipping unsold merchandise back to vendors. And your buyers must continuously find merchandise at a fraction of wholesale, while your stores must turn it over quickly, ideally within weeks of its arrival.

The field is littered with players that stumbled, typically after taking on too much debt to fund expansions. Filene's Basement, the well-known Boston-based chain, has filed for bankruptcy twice. So has Loehmann's, the storied New York discounter with its couture-filled Back Room, whose latest owner, an arm of Dubai World, returned it to Chapter 11 just this month.



Syms Corp., which has been losing money on its operations, bought Filene's out of bankruptcy in 2009 and hopes for a turnaround by opening locations with both store names under one roof. And Bluefly, one of the earliest online-only off-price retailers, has lost money every year since its launch in 1998, despite attracting more than 1.5 million customers.

Then there's Daffy's, a New York and North Jersey institution for nearly half a century, whose deeply discounted duds and cheeky marketing campaigns long ago put the "off" in off-price retail. The family-owned business, with 18 stores in and around the city, has little debt and is profitable, with annual sales of about \$160 million, according to its second-generation chief executive, Marcia Wilson.

But Ms. Wilson is 66, her four sons have no interest in running the business, and she figures there comes a point when a company has to change or be left behind. Yet she doesn't want to sell it all and walk away. Last year, she began searching for private-equity players to help finance a national expansion. By this summer, however, she pulled back, uncomfortable with the strings attached to PE funding. "I want to do things my way. When private equity comes in, we all know what will happen," she says.

Her new plan: Hire a chief executive from outside the family and the company—a first for Daffy's—and get an expansion rolling before seeking further funding from investors.

In late summer Ms. Wilson tapped retail recruiter Kirk Palmer & Associates to find a CEO. Once her new executive is in place, Ms. Wilson hopes to jump-start Daffy's online sales (its website is a marketing vehicle), add 14 New York-area stores over the next five years, and set up the purchasing and distribution infrastructure to go national.

Daffy's is already slated to open a new store at Bay Plaza in the Bronx next spring and is in discussions about a lease in Times Square.

“We've got a great franchise and a great name and a great opportunity to grow in this environment,” says Ms. Wilson, who envisions her new role as creative rather than operational. “At my age, I don't have the energy to do it. And there are people out there who have the expertise to do it that I don't have.”

Off-price has been one of the few relatively strong areas in retail the past few years, as consumers tightened their purse strings. Sales at discount apparel retailers dipped just 0.9% in the 12 months ended in September, according to market research firm NPD Group, while sales at department stores fell 2.9%.

Yet the competition is more brutal than ever. The country's biggest off-price retail company, The TJX Cos., owner of T.J. Maxx and Marshalls, has steadily increased its revenues to \$20 billion, dwarfing all others. Department stores are rolling out their own discount chains. Online businesses like Gilt Groupe and Rue La La, with their spontaneous-sounding “flash sales,” have far surpassed Daffy's in size.

Meanwhile, Daffy's has the same store count and total revenues that it had five years ago.

“They're stuck,” says Howard Davidowitz, chairman of Manhattan-based retail consultancy and investment bank Davidowitz & Associates. “I go to their stores; I think they are good merchants. But every business has got to go somewhere. There's going to be new competitors, new stores, increasing use of private label—everyone is moving in the direction of off-price. They need a game plan.”



THE POWER OF SCHLOCK

Ms. Wilson's father, 96-year-old Irving Shulman, founded Daffy's in April 1961 as a single store in Elizabeth, N.J., called Daffy Dan's Bargaintown. Mr. Shulman, a Russian Jewish immigrant, had a knack for dealmaking and for publicity.

When Daffy Dan's first opened, he'd spend the first half of the week driving around in his Ford station wagon looking for deals, then sell whatever he'd bought in the store on Thursday, Friday and Saturday. The stuff was cheap—cardigans for 25 cents, towels for 17 cents, hooded sweatshirts for 44 cents. “The prices were like everything fell off of a truck,” Mr. Shulman says. “I'm a schlock man all the way through.”

His chairman's office today at the company's Secaucus, N.J., headquarters is filled with mementos of that era, and he loves to recall his attention-getting pranks, like putting a mannequin on the roof of the store, posed as a suicide jumper.

Ms. Wilson became a buyer in 1970 and ultimately took over the business. (Neither of her two brothers was interested, both she and her father say.) A fashionable brunette with a bold sense of style, she shortened the name to Daffy's in 1987 and opened a flagship in Manhattan, at Fifth Avenue and 18th Street, long before other off-price retailers had set up shop in the neighborhood.

“They were very early to the table,” says **Faith Hope Consolo**, Chairman of Prudential Douglas Elliman's Retail Group, who worked on that deal while at another firm.

At the time, the Flatiron district wasn't much of a draw, and hunting for bargains was a bit *déclassé*. “It's now in vogue to shop discount; it's the thing to do, like going green,” **Ms. Consolo** says.

Ms. Wilson soon started shopping regularly in Italy, where styles were considered ahead of those in the U.S. and there was less competition for deals. The company now has a buying office in Florence, and Italian fashions account for a quarter of Daffy's merchandise, differentiating it from competitors.

Under Ms. Wilson's leadership, the chain opened locations at West 34th Street and Broadway, at East 44th Street and Madison Avenue, on East 57th Street and elsewhere. Revenues nearly tripled from 1990 to 2005.

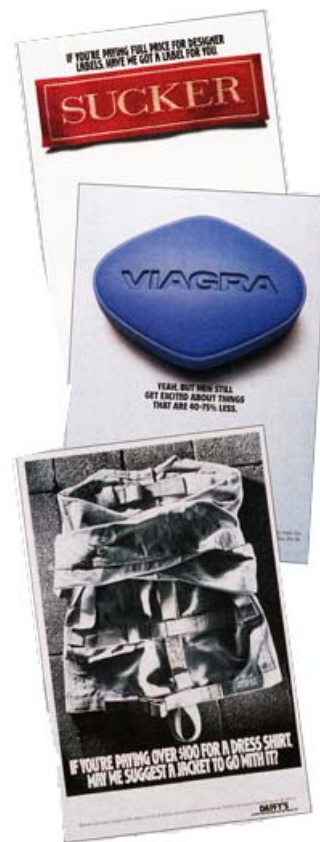
Daffy's signature in-your-face ads (“If you're paying full price for designer labels, have we got a label for you. Sucker”) have continued well into the new century. The pranks have been cranked up lately, too, with an “undressing room,” featuring models in the windows trying on designer duds.

Meanwhile, Daffy's 10 buyers—the core of the operation, since they not only buy, but set prices and pick which stores get what merchandise—continue to scour the world for deals. “It's gotten a little tougher,” concedes Olga Galan, Daffy's children's wear buyer, who's been with the company for 17 years. “There are so many people trying to do the same thing now.”

The recent recession also means manufacturers have less leftover inventory for buyers to dig through. Yet Daffy's relatively small footprint still gives it a competitive advantage: It can buy up modest lots that would be meaningless to a larger operation, for instance, or clean a vendor out of merchandise that has already been picked over by others—on the cheapest of terms.

CHANGING THE GUARD—GUARDEDLY

Daffy's is in many ways a throwback. For now, it has the cash to expand, Ms. Wilson says. The business never took on much debt, even during the finance bubble, and remains profitable,



though she won't specify an amount: "Let's just say we're very profitable. That's the secret of Daffy's, darling."

As one point of comparison, off-price giant TJX earned \$1.2 billion on its sales last year, representing a net profit margin of 5.9%. That publicly traded firm is valued at \$18.5 billion, or 15 times last year's profits.

Yet in the past few years, competitors have been moving much more aggressively than Daffy's into new markets. "Off-price retail is the bright spot," says Madison Riley, managing director at retail consulting firm Kurt Salmon Associates. "There will be a point where that maxes out. There always is."

Ms. Wilson and her pick as the next chief executive have their work cut out for them. And it won't just center on the changing dynamics of off-price retail.

The real issue in any CEO transition is whether the new chief will have the freedom to do the job, observes Hal Reiter, chief executive of retail recruiter Herbert Mines Associates. "If the owners are going to recuse themselves or partner with the CEO, that's very good," he says. "If they want some kind of puppet, it's probably not going to happen."

John Davis, a Harvard Business School professor and family business expert, estimates that maybe one-third to one-half of the transitions from family CEO to outsider ultimately end up successful. "When these things are not handled properly," he warns, "there tends to be a reaction, and it's like an organ transplant that just doesn't take."

Then again, there may be no other option for a maturing business, says retail consultant Mr. Davidowitz, who has worked with many family companies over the years.

"These are very personal decisions," he explains. "Nothing is going to be easy. But the worst mistake is to do nothing, because the competitors are relentless and the environment keeps changing."