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Pacific Sunwear CEO Outlines Comeback Plan

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By ALISHA GOMEZ

In the past year, Anaheim-based Pacific Sunwear of California Inc. has been hit with slumping sales, big losses and an insulting, long-shot takeover bid by a smaller rival.

Now for the next round.

New Chief Executive Gary Schoenfeld is stirring things up at the embattled teen clothing retailer, reversing many of the strategies of former chief Sally Frame Kasaks, who stepped back to a director position in June.

Schoenfeld, a turnaround executive known for his work with Cypress-based Vans Inc. before its 2004 sale to North Carolina's VF Corp., gave Wall Street a taste of his plans during his first conference call last month.

Some highlights: Shoes will be brought back; belts, wallets, sunglasses and other accessories will be ramped up; and big household brands—such as those from Huntington Beach's Quiksilver Inc., Costa Mesa-based Volcom Inc. and Irvine-based Billabong USA—will be played up.

Schoenfeld said he's also out to boost customer service among store clerks who may ignore moms and other older shoppers. He wants edgier clothing brands to boost the chain's hip factor.

Investors are optimistic. Shares of Pacific Sunwear, which fell harder and faster than those of rivals during last fall's Wall Street meltdown, now are outpacing competitors.

Since the start of the year, Pacific Sunwear's stock is up more than 200% with a recent market value of about \$350 million.

Key rival Zumiez Inc. of the Seattle area is up about 80% for the year on a recent value of about \$420 million. City of Industry-based Hot Topic Inc. is down 30% at about \$300 million.

Analysts like what they hear but still are on the fence.

Schoenfeld's "prior knowledge of the action sports industry from his prior time at Van's should prove advantageous in developing the go-forward strategy," wrote Adrienne Tenant of FBR Capital Markets Corp. "Many of the initiatives the company has pursued in the past two years are likely to be reversed to some extent. Because of this change in strategy, we believe there is uncertainty around the turnaround."

Nobody said righting Pacific Sunwear would be easy.

The company runs 916 PacSun stores selling clothes inspired by surfing and other California styles. Like other retailers, it's slumping amid the worse shopping downturn in recent memory.

Sales for the three months through Aug. 1 were down 22% from a year earlier to \$243 million.

Same-store sales measuring business at stores open for at least a year fell 24% from a year earlier.

The company posted the latest in a string of losses driven by markdowns and write-offs for unsold clothes at \$14.2 million, versus a profit of \$3.7 million a year earlier.

The recession has compounded a perennial challenge for Pacific Sunwear: appealing to fickle teen shoppers.

Pacific Sunwear “continues to struggle to gain traction with the teen customer,” wrote Liz Dunn of Thomas Weisel Partners Group.

But tell Schoenfeld something he doesn’t already know.

“PacSun has lost some of its cachet and vitality as a destination for teens,” he told analysts on the company’s conference call. “We’re committed to getting that back.”

Pacific Sunwear’s stores have too much of the same clothes and accessories, said Lisa Walters, a founder and principal of New York-based retail consultant Retail Eye Partners.

“It’s the biggest pitfall they need to correct,” she said.

Part of Schoenfeld’s strategy is to restore Pacific Sunwear’s cachet, which has been dented by poor sales and heavy price cutting that has veered the company into discount retailing.

The company now runs 300 “value stores” (not including outlets) that offer discounted clothes and other products. That’s been a good fit during the recession but could hamper the company as it rebounds.

Moving away from a being a discount retailer is “very much front and center for us,” Schoenfeld said.

To do that, Pacific Sunwear is looking to piggyback on the big names of surf and related styles—Quiksilver, Volcom, Billabong and others—by giving them more prominence in stores and marketing.

Schoenfeld calls them Pacific Sunwear’s “heritage brands.”

“Unfortunately it feels like we’ve lost our way with some of the heritage brands,” he said.

Schoenfeld also is looking to smaller, edgier brands, including Costa Mesa-based RVCA Clothing, one of the darlings of surf-inspired clothes.

Getting others could be a challenge as some up-and-comers may be reluctant to abandon surf shops and boutiques for Pacific Sunwear’s mall stores catering to Middle America.

Schoenfeld acknowledged there are brands “that we’d like to have right now that aren’t prepared to be in PacSun.”

Zumiez and Irvine-based Tilly’s Inc. have done a better job attracting hip brands, according to consultant Walters.

Pacific Sunwear has gotten into edgy clothes inspired by mixed marital arts—currently the biggest

challenge to surfwear's dominance among teens.

Mixed martial arts brands from Grand Terrace-based Tapout LLC, Irvine-based Silver Star Casting Co. and Las Vegas-based Xtreme Couture MMA are among those sold at Pacific Sunwear.

There are some bright spots. A pair of jeans from the retailer's own Bullhead brand recently were voted best skinny jean by Seventeen Magazine readers.

"The fashion is better and they're featuring some of the younger and up-and-coming brands," Walters said. "They're definitely hitting a note with brighter colors and their denim selection."

The results of Schoenfeld's efforts are months off yet, she said.

"I think in six to nine months we'll start to see his work in the stores," Walters said. "It's going to be a slow road."

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