

latimes.com/business/la-fi-kohls23-2009sep23,0,4928858.story

latimes.com

RETAIL

Kohl's bets big on California

The chain's gamble is about to be tested as it moves into 30 former Mervyns sites in California.

By Andrea Chang

September 23, 2009

When Mervyns called it quits last year, many in the recession-battered retailing world were surprised when Kohl's Corp. rushed to take over dozens of the failed chain's locations.

Both department stores sold a similar mix of mid-priced apparel, accessories and home furnishings. There was a significant overlap in the customers who shopped at Mervyns and Kohl's. The retailers' stores were even alike in size and layout.

On Sept. 30, Kohl's bold move will be put to the test when it opens 35 stores in former Mervyns locations, 30 of them in California.

If the chain succeeds, its gamble could pay off not only for the roughly 5,000 workers it has hired but for communities around the state.

"Any time you create jobs, there is a multiplier impact," said Chapman University economist Esmael Adibi. "The person who gets that income spends it in restaurants, clothing, cars, appliances and other places. The income has to be spent somehow, so that generates by itself further economic activity."

Still, Kohl's faces many of the challenges that led to the collapse of Mervyns and other retailers. With California's unemployment rate at 12.2%, people are cutting back on spending for clothing and accessories.

"The moderate-income consumer is feeling the pinch," said retail analyst Richard Jaffe of Stifel, Nicolaus & Co. "If you're a two-income household earning \$50,000 a year and now it's a one-income household earning \$25,000 a year, you're not shopping. The money isn't there."

One thing is certain: Kohl's is making a big bet on California. The retailer spent about \$250 million to convert the Mervyns stores, and the acquisition will bring its statewide total to 121 stores -- almost as many as Mervyns had here before its demise.



**Los Angeles Convention Center
October 2 - 4, 2009**

Friday 11am - 7pm
Saturday 10am - 5pm
Sunday 11am - 4pm

That will increase the company's California footprint by one-third in a single day, adding locations in places including Redondo Beach, Sun Valley and Whittier.

Kohl's has been eyeing California for years, waiting for the right real estate to become available. The fact that it made its move while others were retrenching was no accident.

"We see this as a great opportunity to actually go the other way," Chief Executive Kevin Mansell said in an interview. "Let's take advantage of other people's weakness; in fact, let's get aggressive."

The Menomonee Falls, Wis.-based retailer, with more than 1,000 stores nationwide, will face heavy competition in California from department stores JCPenney and Macy's, discounters Target and Wal-Mart and off-price retailers Ross and T.J. Maxx.

"It's a state where they're largely under-penetrated," said Michelle Clark, a retail analyst with Morgan Stanley. "It's an attractive market, but there are a lot of players."

But analysts said the chain has already proved that it can weather the recession, noting that Kohl's has managed its inventory well, slowed its rate of new store openings and offers an attractive lineup of private, national and exclusive brands at low prices.

Kohl's has also regularly beat Wall Street's monthly sales estimates this year, posting a 0.2% sales increase in August at stores open at least a year, known as same-store sales and considered an important measure of a retailer's health. Analysts polled by Thomson Reuters had expected a 1.7% decline.

The company's results have been even better in California, Mansell said. Over the last year, he said, the chain's California locations have seen double-digit same-store sales increases -- the best results out of all 49 states where the chain has stores.

For its most recent quarter, Kohl's profit fell 3%, to \$229 million. Still, that's better than many of its peers in a down economy.

Since Kohl's first entered the California market six years ago, it has attracted fans who say they like the chain's low prices, extensive coupon offerings and selection.

"It's like every time I come there's something on sale, and I always leave with something," said Art Hernandez, 46, a logistics manager from Cudahy who bought clothes and towels from the Alhambra Kohl's this week. "It's within my budget, so it's perfect, especially in times like these."

The retailer also boasts exclusive merchandise lines from several big names, including fashion designer Vera Wang, pro skateboarder Tony Hawk and reality television star Lauren Conrad.

Kohl's is "able to take a line and make it accessible," Conrad, whose LC Lauren Conrad apparel brand officially launches Oct. 1, said in an interview. "It's great to have a line that doesn't limit the amount of people who can buy it."

For some shoppers, however, Kohl's can't take the place of Mervyns.

"I had five things in hand but I only got one -- they didn't have my sizes," said Blanca Hatem, 43, a speech pathologist who was shopping at the Alhambra store. "I miss Mervyns. It's harder now that

they're out of business."

But Mervyns' collapse was Kohl's gain, opening up dozens of premium locations around the state at bargain prices.

The chain usually spends about \$11 million to build a store from the ground up, but it cost only an average of about \$7 million to convert a former Mervyns to a Kohl's, Mansell said.

Besides the considerable cost savings, the locations are also bringing Kohl's to more desirable markets. Many of the chain's current stores had to be built in outlying suburbs.

"Instead of having to open up stores on the edge of town in an empty field, they're now able to open on the 50-yard line in the center of town -- both demographically and traffic-wise very favorable," Jaffe of Stifel, Nicolaus & Co. said.

Many are predicting that the retail picture won't improve for several more months, but Mansell said the chain would like to expand to 1,400 stores in the next few years and would again target California for growth.

"Does Kohl's think the consumer is more open to spend? No," he said. "But that doesn't mean we can't be very successful. It just means more and more of our business will come at the expense of others."

[Return to top of page](#)

Copyright © 2009, Los Angeles Times