



Holiday Stakes

Turnaround Talk to Get Test At Wet Seal, PacSun

By [*Kari Hamanaka*](#) Sunday, November 13, 2011

The holiday sales season is shaping up as a bigger test than usual for Orange County's largest clothing retailers.

Foothill Ranch-based Wet Seal Inc. and Anaheim-based Pacific Sunwear of California Inc. both have spent the past few years retrenching.

Both count teens and young adults as core customers. Wet Seal offers fashionable styles to girls and women at nearly 500 stores of its namesake chain and Arden B, which targets a slightly older customer. PacSun has more than 800 stores with a primary focus on action-sports apparel.

Both have lagged relatively new fast-fashion competitors and seen shoppers jump on urban styles and other new trends in recent years. Each has worked to switch out styles at a faster clip, revamped store designs and changed executive lineups in an effort to get back on track.

It's game on locally and nationally for both chains. Retailers of all sorts are getting a jump on seasonal merchandise, promotions and decorations well ahead of Thanksgiving and Black Friday, the traditional kick-off for holiday sales.

Pacific Sunwear is coming into the holidays with more fashionable clothing for women, new customer-service programs, and an increasing number of stores that have gotten redesigns over the past few years.

"The company went through quite a few changes," said Landon Jiuli, manager of the Pacific Sunwear store at Westfield MainPlace in Santa Ana. "PacSun pretty much relaunched, and we want customers to know that this is a different year for PacSun."

A strong holiday sales season could bring some validation for a turnaround effort that's been ongoing for several years and seen uneven results.

PacSun had been in a near-constant sales slump for three years before a bright spot appeared in the April quarter, when the company recorded a 1% increase in sales of stores open at least a year. It was the chain's first increase in same-store sales, considered a key measure for retailers, since 2007.

PacSun managed another gain in same-store sales in the July quarter, finishing the period with \$214.9 million in revenue. It posted a higher-than-expected loss of \$19.3 million for the period, however, and expects more red ink in coming weeks when it reports results for the third quarter.

Better news for holiday sales will depend on PacSun's new offerings for women and a marketing push behind "heritage brands" —a nod to longstanding labels in the action sports segment.

iPads

The merchandise is expected to get some help from technology on the sales floor. Employees at some stores are equipped with Apple iPads to help customers search for sizes or make online orders.

Old-line efforts also are in the mix, with window displays that are changed often in a bid to pull in customers. Last week saw the windows at the MainPlace store billing 50% off on select sweaters, jackets and pullovers with the purchase of one at full price.

The goal is to build on sales momentum. Back-to-school was a "banger" at the MainPlace store, according to Jiuli, with sales doubled from a year earlier.

Wet Seal's store at The Outlets at Orange—formerly The Block at Orange—also saw better back-to-school sales this year, according to manager Kendra Keyes.

The retailer offered shoppers 30% off sweaters, jeans and boots last week in a move

to get ready for holiday sales.

“We’re running a couple promotions to clear out fall merchandise, but not as much this year as last year,” Keyes said.

An effort to hold the line on promotions is a key part of a strategy set into motion by Chief Executive Susan McGalla, who wants to wean customers off the heavy discounting seen in stores and online in recent years.

Last year, Wet Seal offered shirts at special prices of \$10, \$15 or \$20 throughout the holiday season. That type of aggressive pricing is not expected this year.

McGalla

McGalla, the former head of Pittsburgh-based American Eagle Outfitters Inc., joined Wet Seal in January. She set out to score a clear turnaround after years of sputtering results that showed flashes of gains amid periodic stumbles.

Wet Seal took a hit last month with sales of stores open at least a year down 9.7%. McGalla attributed the drop to the company’s decision to eliminate Halloween costumes from Wet Seal racks this year. The dip led the chain to lower its profit forecast for the three months through October to \$4 million, down from \$5 million to \$6 million.

Wet Seal reported \$148.8 million in sales and a profit of \$2.2 million for the three months through July.

The company is expected to report its October quarter earnings Thursday.

Guarded Optimism

Guarded optimism is the best way to sum up how retailers feel about the upcoming holiday selling season, said Frank Kaufman, a partner in Moss Adams LLP’s Irvine office.

“There’s always going to be sales going on,” Kaufman said. “What’s happening is the prices are coming down a little bit now as retailers are getting more and more in tune with the at-once business, meaning the orders aren’t out there as far in advance, and they’re looking at their suppliers to do quick turns and send products fairly rapidly.”

Gains during the back-to-school season came with big discounts that cut into margins, but retailers have regained their footing for the holidays, some industry watchers say.

“We should see fewer unplanned mark-downs at retail because inventory levels appear to be under better control,” said Jess Meyers, project manager at Newport Beach-based consultancy Lyndon Group, and a former chief financial officer at surf-inspired clothing brand Ocean Pacific, now part of New York apparel licensing company Iconix Brand Group Inc. “That said, knowing that the consumer will be looking for deals, retailers will still be employing promotions to bring the shoppers through the doors.”

The final grade for the holiday season will be in the hands of shoppers like Edgar Conde, who manages the The Calendar Club temporary shop at The Outlets at Orange. A recent weekday afternoon found him sitting with his brother, Jose, outside the shop. The temperature was in the mid-70s as holiday music played softly in the background for the lunch crowd at the mall.

Conde said he’ll start his holiday shopping “as soon as the sales go on” with Black Friday.

He waited in line for Black Friday deals last year at the Wal-Mart at The Village at Orange, just a few miles away. He bought three laptops, and electronics are at the top of his holiday shopping list again this year.

The brothers both shop at PacSun and other stores for skater shirts and skinny jeans. Edgar’s view of the chain points to the risks and potential rewards at stake this holiday season.

\$200 for Jeans

“PacSun has pretty good shirts,” Edgar said. “Their pants are way too expensive.”

The good news for PacSun: They weren’t too expensive for a friend of Edgar’s who recently plunked down \$200 for a couple pairs of jeans there.

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