

DKNY's Sole Purpose

Hoping to gain market share during a tough economic climate, DKNY is expanding its footwear offering, including adding a new, lower-priced women's line — and just in time for its 20th anniversary.

By JOCELYN ANDERSON

NEW YORK — As DKNY preps to celebrate its 20th anniversary in 2009, footwear is a bigger push than ever.

This year, the New York-based company revamped its women's bridge and active lines, led a major expansion in men's and debuted the DKNYc line.

"It was my opinion that there was no greater opportunity than footwear for the company," said Mark Weber, chairman and CEO of Donna Karan International, during a joint interview with Sal Agati, EVP of DKNY Shoes. "We were in the shoe business, but it wasn't reaching its potential."

Founded in 1989, DKNY debuted women's footwear in 1992 and men's in 1993. However, Weber said it remained an accessory to the ready-to-wear business until recently, when a team of executives were hired to make it a focus. First to join was Agati in June 2007, and together with new designers, he and his team were charged with invigorating women's bridge, men's and activewear. (Donna Karan Collection is run through LVMH sister company Rossimoda.)

And even amid a worsening economy, the company saw potential for a new line of apparel and footwear in the better business. This summer, DKNYc delivered to stores, including launch partners Macy's and Lord & Taylor. Core price points are around \$125 (compared with bridge shoes, which retail for \$250 to \$800).

According to Weber, the new initiatives will help DKNY — already a \$3 billion company — gain market share. Weber said he expects to add another \$1 billion in sales of footwear and other growing categories such as handbags over the next three to five years.

"Our job is to make sure that 20 years from now, somebody is going to say how smart we were on our 20th anniversary," said Weber. "Staying power says a lot."



From left: DKNY Chairman and CEO Mark Weber and Sal Agati, EVP of DKNY Shoes.

FN: Why did you put so much emphasis on shoes in the past year?

MW: For our shoe business to grow, we couldn't handle it as an accessory to apparel. It needed to be a freestanding unit. And it needed someone at the helm who knew how to design the shoes, how to make the shoes, what the quality level should be and how to ship them all over the world. We've invested very heavily in the [category]. We decided we wanted to enhance the team, and they continue to bring in powerful executives who really understand the shoe business. Now that it's a separate unit under separate management within the DKNY group, it has accelerated dramatically. In 2007, we stabilized the business and found out what size we could be and cleared up any

problems we had. In 2008, the business is up by close to 40 percent.

FN: Given the difficult economy, why was it a good time to expand?

MW: We have a right to be in the shoe business in a meaningful way. We were performing well in shoes to begin with. The real difference here was taking a stand that shoes are a core competency in the company, and therefore, worth investing in, treating specially, nurturing. This is about maximizing an opportunity. Sal and the team have dramatically changed the sourcing, gotten new suppliers interested in us, brought in new designs.

SA: I give a lot of credit to the management here that in a difficult environment they said we're going to move forward

because we believe we have such a good idea and can make this work. In an economic environment that hasn't been good — and didn't just start getting bad last month — we have continued to grow and launched a new label that has been beyond our expectation. So if you have a really good idea, especially in fashion, you go with it.

FN: A lot of your focus has been on the men's footwear market. Why?

MW: DKNY has a very long history in men's wear. Over the course of time, because the real core culture here had been women's, they didn't reach the potential in men's. So we made a decision as a company over the past year to reinvigorate the men's business. Because we view men's shoes as a core competency in the company, we're doing men's shoes in-house with guys who have men's experience.

FN: How much bigger is the men's line?

SA: The content of the line is immeasurable. It was two launches a year of about three to five styles at a time. Now, we launch in a given season between 60 and 80 SKUs.

FN: What prompted the launch of DKNYc?

SA: We were limiting exposure to the brand by only having women's dress footwear available in bridge. Our bridge line is highly specialized — it's at the higher price points and has limited distribution. We thought there was such a hunger for the consumer to have a piece of DKNY.

MW: The DKNYc business has allowed us to reach a customer [who wants] shoes in our brand that are more affordable. It's a wider base. DKNY is an aspirational brand to many people. The problem is that not everyone would have access to it. It's in the zone of DKNY, but it's a separate label for a different channel of distribution.

FN: Is it a different customer?

SA: In a sense it is. It can be a little bit younger of a customer — a little bit more youthful in their desires. It's a little bit broader, in the sense that it goes dress to dress-casual to even more casual. So it gives us the opportunity to be a bit more casual, but it appeals to the same DKNY sense of style.

MW: There is a customer out there who needs clothes that are more accessible, so she can build a wardrobe. That same situation appears in shoes. We have beautiful bridge shoes at \$350, but not everyone can afford them. And there are an awful lot of retailers in America who have a very substantial business in what would be more accessible shoes that begin at \$125, which is our core price.

FN: Is DKNYc based on feedback you got from consumers?

MW: No, but if you look at the landscape, there are a number of brands out there catering to this customer. We weren't. We figured that we would fill in the pyramid of opportunity. Every one of our ready-to-wear [competitors] in the shoe business would have an offering that was available, that was a broader offering than ours.

SA: But even in DKNYc, the customer still has to reach for the brand. It's still a product that's \$100 and above. We're not down at the entry-level price point.

MW: With that in mind, we are being careful about how we roll it out. It's only being offered in doors that sell these price points [including Macy's, Lord & Taylor, Bon Ton and Zappos.com].

FN: Do you worry that one line will cannibalize the other?

MW: There is a very clear distinction between our three brands. Donna Karan is luxury — every fabric, every detail wrecks of luxury. When you look at DKNY, it's all about fashion — young, but practical. The DKNYc line is for a woman's needs for the office and polished casual needs. The primary difference between DKNYc and DKNY is the price points.

FN: So was it important for the labels to have a different look?

SA: It was. We did that. We have a separate design team for bridge, for DKNYc and even for activewear — and obviously, a separate design team for men's.

MW: We want fresh ideas and energy

coming out of every facet of the business. People always covet the new flavor, whatever is coming out now. But having staying power is much different. And after 20 years, to see this company doing this well is really remarkable. There is no question that if the ready-to-wear is strong, it opens up the ability to do handbags and shoes.

FN: What is the long-term goal for the expansion of men's and DKNYc?

MW: We are a part of a public company, so we have to grow, and we have to grow profitably. We have to make sure our products are in stores that are right for the brand, so that the brand continues to prosper. In terms of the economy, I'm very relieved

weekly. Sell-throughs are great. The response to the product is great. We bought inventory intelligently. On those items we thought would be go-forward items, we're already getting reorders. We're beginning to really see things start to happen.

FN: What marketing efforts have supported these developments?

MW: Our focus has been about building the brand. It's all designed to capture the imagination of the consumer. Will we advertise footwear? Absolutely, when it makes sense. But this is about building the brand, not a particular product. We're not a shoe brand; we're a designer brand that has shoes.

together in one place. If managed properly, you can make a lot of money doing it. So it builds the brand, and at the same time, it's a profit opportunity.

SA: What better way to get your message across to the consumer than to have them walk in to our environment and see it our way? We tell a great story in a very clear way. And we tell it across all the categories and collections.

FN: How big of an opportunity is the online business?

MW: It's a component, for sure. If you have a designer brand, people expect you to have a Website and they expect you to transact on it. All the great stores in America have Websites, and they're doing very well. We're getting better at it.

SA: It's important. We do it with our department store partners that have online businesses, and we do it with the leaders of the online community, such as Zappos and Piperlime. They are a growth area for us.

FN: DKNYc is made in China. How important are "made in" labels these days?

MW: In the luxury business — at Donna Karan Collection — country of origin is extraordinarily important. And for the highest price [levels] in the bridge business, Italy still remains important. But by and large, the bulk of the shoe business in the world is not about where it's made. It's about the fashion and how well it's made. I think there's so much crossover today, nobody cares.

SA: We didn't start off with the intent that this had to be made [in a certain place]. We have our component of sourcing options, and we make the product where we think we will get the best product for the best value. We still produce some product in Italy. We cross. We have what I call the triangle: Europe and South America and Asia.

FN: Who are your main competitors within the shoe business?

MW: In terms of competitors, anyone who's in the business is a competitor, but I don't want to look at them. I only care about what we're doing. When I joined this company, I didn't even ask what happened before. I never looked back.



From top: Spring '09 sneakers from the relaunched men's active line and a style from DKNYc.

right now by the way the government has stepped in and helped these businesses and these banks. I would have rather not had to deal with this, but the government stepped in and stabilized everything, and I believe after the election, the world will be a better place. We'll put all the uncertainty behind us, there will be new leadership, and the world will move on. As for footwear, people need to wear shoes.

FN: What has the retail feedback been like so far?

SA: We're getting feedback daily and

FN: There are more than 100 Donna Karan stores, including DKNY, globally. Are any additions planned?

MW: We're opening stores all the time. We opened a DKNY Jeans store in the Venetian Hotel in Macau, which is, I think, the largest casino in the world now. We are planning to open two Collection stores in the U.S. this year.

FN: How important are the freestanding stores to the business?

MW: Incredibly. Freestanding stores allow you to put your whole message