

2009 Underwear Outlook

Four factors that will shape the men's business in the year ahead

BY GILLIAN KOENIG

Growth in men's underwear sales has come to a screeching halt as retail volume nationwide continues to slide on fears of the growing financial crisis. But the news isn't all bad. Here are the key trends to watch:

Men's underwear sales are slowing down

According to The NPD Group, men's underwear sales dropped 5 percent to \$3.6 billion for the 12 months ended in August '08, compared with \$3.8 billion for the same period last year. "As traffic declines in stores we see incremental sales declines in our men's underwear business," said Salomon Harari, president of underwear manufacturer Basic Resources, which produces men's product under the Sean John and Body Glove labels, among others. "September was not such a good month, and October seems to be following September traffic."

Underwear sales at department and specialty stores have been the hardest hit, posting drops in unit share volume of 16 percent and 26 percent, respectively, for the three months ended August '08. And while men's underwear sales slid 8 percent at department stores and 6 percent at national chains for the 12 months ended in August '08, all store channels except off-price retailers have experienced decreases. Sales of men's underwear slid nearly 27 percent at online retailers and 6 percent at chain stores, while discount retailers bucked the trend, posting nearly 8 percent gains in overall dollar sales of the category for the 12 months ended August '08.

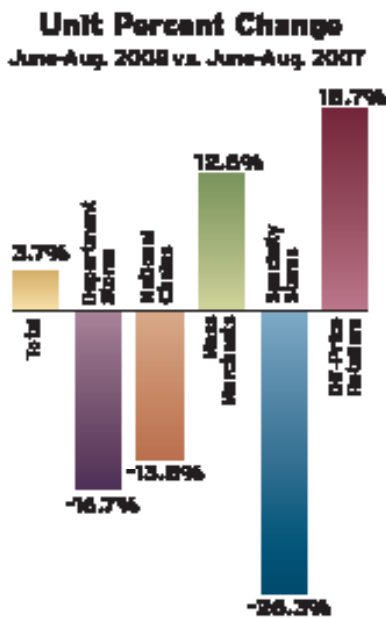
"The lag in the department and specialty stores comes from the replenishment cycle," said NPD's chief analyst, Marshal Cohen. "More underwear is bought as a commodity in mass merchants and discount retailers. Even in tough economic times, when you need new underwear, you need new underwear, and as more name brands become available at lower-priced stores, the lower-priced channels are perceived as offering enough value to fit the need today."

But expect bright spots and opportunities in the market

Despite the economic storm pounding the retail landscape, there are many signs of vitality in the underwear field. Discount stores, whose sales rose to nearly \$249 million for the 12 months ended August '08 from \$230 million the prior year, are benefiting from an influx of cost-conscious consumers, and other retailers see opportunities in the discount sector. Online underwear retailer Freshpair.com

caters to the fashion-conscious male, but in the coming weeks the company will launch a new online company that will focus solely on the lower-priced market. "We saw sales changing awhile ago and decided to do something," said Freshpair Inc.'s president, Michael Kleinmann.

Standout fashion labels like Calvin Klein and Emporio Armani also continue to inject energy into the men's underwear category through provocative ads and fresh styles. And companies like Diesel, which launched its fashion-forward line of men's skivvies in 2007, have yet to see a real slowdown in business. "Our wholesale and retail sales are up about 150 percent over the last year," said Diesel CEO Steve Birkhold. "Obviously we are in small-scale growth mode—we have been intentionally underdeveloped as we wanted to keep our distribution tight—but we are extremely healthy in this category."



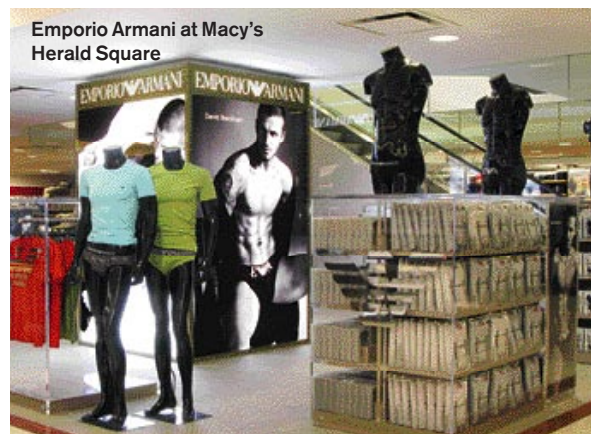
Men's Underwear Sales

	Dollar Volume (000)			Dollar Percent Change	
	Sept.- Aug. '06	Sept.- Aug. '07	Sept.- Aug. '08	Sept.-Aug. '07 vs. Sept.-Aug. '06	Sept.-Aug. '08 vs. Sept.-Aug. '07
	Total	\$3,530,458	\$3,852,541	\$3,658,478	9.1
Mass Merchants	\$1,583,322	\$1,547,588	\$1,529,081	-2.3	-1.2
Specialty Stores	\$423,884	\$615,588	\$572,294	45.2	-7
National Chains	\$530,984	\$587,715	\$549,903	10.7	-6.4
Department Stores	\$349,255	\$350,241	\$321,644	0.3	-8.2
Off-Price Retailers	\$206,765	\$230,780	\$248,955	11.6	7.9
All Other	\$206,395	\$196,568	\$200,992	-4.8	2.3
Direct Mail/E-tailers	\$163,210	\$204,218	\$149,794	25.1	-26.6
Factory Outlets	\$66,643	\$119,843	\$85,816	79.8	-28

SOURCE: THE NPD GROUP

2(x)ist's national sales director, Jay Weiskopf, told DNR that sales have been up through mid-October and "in-line with our projections for the season and the year to date."

Other brands, like Emporio Armani, whose retail price points range from \$12.50 to \$69, are also reporting solid sales. "We're experiencing double-digit growth in existing markets and triple-digit growth in new entries," said John Hooks, deputy managing director for Giorgio Armani SpA. According to Hooks, current projections show Emporio Armani underwear gaining a 5 percent share of the department store channel, and the company is looking to launch Emporio Armani Socks and Swim in 2009, based on the success of underwear.



"Before the economic challenges, the men's underwear market was doing very well as men migrated to the boxer brief, and fashion, color and style continued to be talked about," said Cohen. "So business may slow down a little, but overall the underwear category is okay."

Product will be value-driven

The consumer is currently in the driver's seat when it comes to men's underwear. Sales continue to gain momentum at value stores like Wal-Mart and Target as consumers tighten their belts and realize they can still get high style at low prices. "There's a real absence of style differentiation as the lower end of the market has caught up with the higher end," said Cohen. "Sales are going to be driven by price."

Even retail channels that are not necessarily discount-oriented are centering much of their business on mid-priced basics. Brands like Fruit of the Loom and Hanes, which sell in \$10 and \$20 multipacks, are currently "very strong" sellers at Freshpair.com, according to Kleinmann. "Those big brands are the real drivers in the men's market. It's basically the Wal-Mart customer online, but because we offer free shipping, it's better than a Wal-Mart."

Basic Resources' Harari agreed. "Value is driving sales. Our package programs are what has really driven our business—fashion is not where the growth is."

And just as consumers want to cut costs, expect retailers and manufacturers to find ways to trim their budget as well. Kleinmann said he hopes that Freshpair will be able to offer free shipping through the holiday season, but depending on the economy, they may not do so.

Bold color and graphic prints will direct trend, but consumers will have fewer fashion choices

Fashion and innovation will also drive men's underwear sales in the year ahead. Bold color and graphic prints will dominate for spring '09, generating excitement in the category and giving the aspirational consumer a reason to buy.

"Graphics and color are driving our sales—even our metal-studded Diesel logo," said Diesel's Birkhold, adding that the brand, which retails between \$26 and \$40, is seeing very little price resistance. Calvin Klein Underwear will launch its Pro Stretch Reflex line of high-performance microfiber underwear for spring '09, which will retail from \$22 to \$26, and will debut a glow-in-the-dark waistband—Pro Stretch Glow—adding a fun fashion injection to its core group.

"Calvin Klein is very strong and the one brand that we are bringing in both fashion and basic lines," said Kleinmann. "But we have still cut our fashion buys drastically—probably by half—even with brands like Calvin Klein and Diesel." This means that the style-savvy consumer will have fewer fashion choices to select from in the coming months.

"So many department stores are cutting back on fashion colors and styles," said NPD's Cohen. "But they need to communicate brand features and why the more expensive product should be purchased over the less expensive one."

Intimo president Nathan Nathan says that in the aftermath of department store mergers, the solution lies in retailers' ability to increase their vendor structure. "Department stores need to become merchants again—they are competing with so many other forms of retail, so they need to have a product line that is different from all these other tiers and invest in that," said Nathan. "It's not about selling brand equity but about selling product that is compelling and different—that is what the consumer is reacting to." ■