



How Fashion's VF Supercharges Its Brands

When a century-old apparel firm in North Carolina hit the doldrums in the late 1990s, its ex-Army-pilot CEO decided to change course. No more basic underwear, thanks—we're going into cult brands. And it worked. **BY SUZANNE KAPNER**

2007
RANK
335

ON A TREK THROUGH the Himalayas in 2003, twin brothers and world-class climbers Damian and Willie Benegas dressed almost head to toe in North Face gear as they navigated an uncharted route to the summit of Mount Nuptse. On the other side of the globe, in 2007, Vans, a Southern California maker of skate shoes, put the finishing touches on its latest creation. Named for the Dropkick Murphys, an Irish-American punk band that Vans has helped promote, the slip-on black shoe has green stitching and a four-leaf-clover design. As brands go, Vans would seem as far removed from North Face as California is from Nepal. But they share a common thread: VF Corp. of Greensboro, N.C., owns them both.

At a time when U.S. apparel makers—names like Liz Claiborne, Jones Apparel, and Kellwood—are slashing earnings estimates, divesting divisions, and laying off employees, VF is moving in the opposite direction. Earnings grew 14% in 2007, and revenues 16%, to more than \$7 billion, making it No. 335 on the fortune 500. It's been a boon to investors too. Over the past decade, VF's stock has delivered a total shareholder return of 110%; shareholders in Liz, Jones, and Kellwood have lost money over the same period.

"VF has been both lucky and smart," says Lazard Capital Markets analyst Todd Slater. "The brands it acquired turned out to be early-stage growth companies, but VF has been able to take them to the next level."

VF NOW MAKES EVERYTHING from sneakers to parkas, but it got its start as a glove and mitten manufacturer when John Barbey opened a factory in Reading, Pa., in 1899. (The family trust is still the largest shareholder.) The company started making undergarments in 1919 and listed on the New York Stock Exchange in 1966 as Vanity Fair Mills. Showing the knack for sensing the Zeitgeist that has served it so well of late, the company entered the denim business in 1969 with the purchase of H.D. Lee jeans. It also changed its name to VF the same year to deemphasize its underwear line. In 1986 VF took a huge step, buying Blue Bell. The acquisition doubled its size and added Wrangler and Rustler jeans as well as Jantzen swimwear and JanSport backpacks to what had become a thoroughly diversified lineup.

And then VF stalled. It owned some of the most recognized names in apparel and made healthy profits. But the brands were not growing, and the company lacked ideas and energy. VF was a fashion giant, but a tired one. Recognizing the dilemma, the

The VF Collection

All these disparate brands—from cool surfer dudes to old-school denim to Zen chic—are found in the same corporate closet.

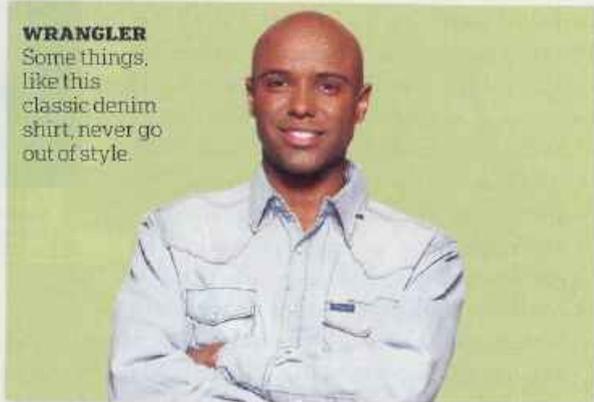
LUCY

Yoga clothes for the Zen- and fashion-minded.



WRANGLER

Some things, like this classic denim shirt, never go out of style.



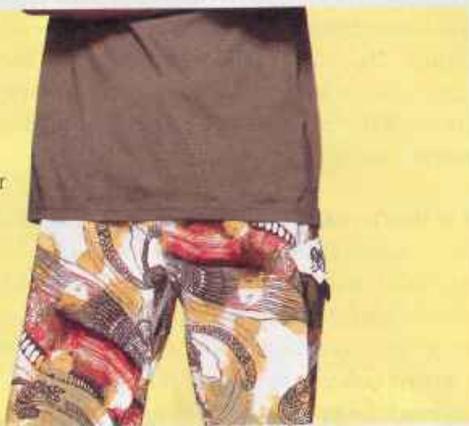
THE NORTH FACE

This lightweight vest is popular with both mountain climbers and urban hipsters.



REEF

The shorts and T-shirt ensemble is great for catching waves—or for surfer-dude wannabes.



VANS

A Southern California classic. The checked slip-on skate shoe is paired with skinny jeans.



JOHN VARVATOS

Trousers, shoes, and backpack for the metrosexuals among us.



board began to press for better performance. "Figuring out how to grow the top line was key," says director Robert Hurst.

Mackey McDonald, a former U.S. Army pilot who joined VF in 1983 from Sara Lee and became CEO in 1996, agreed with the board that "we would have to change dramatically." He consulted friends like A.G. Lafley, now CEO of Procter & Gamble, and Jeffrey Immelt, head of General Electric. They invited VF management to take a look at their operations. As a result, recalls McDonald, who is still chairman but handed over the CEO job in January to Eric Wiseman, "We began to focus a lot less on manufacturing apparel and a lot more on building brands." The biggest lesson, McDonald muses, was that "we realized we didn't have to come up with brilliant ideas—we needed brilliant ways of executing good ideas."

As part of its soul-searching, VF accepted that it was no longer enough to churn out oceans of dungarees and underwear. Those low-margin items were the commodities of the fashion world and a guarantee that the blahs would continue. Instead, VF decided to bet on "lifestyle brands" that tap into consumer aspirations to fashion, status, and well-being—and carry a price premium. One such brand was The North Face, a maker of outdoor gear such as ski jackets and fleece vests; sports enthusiasts loved the brand, which had also crossed over to become a favorite among the urban crowd.

BUT IF NORTH FACE'S management had been an expedition team, it would have broken down one day's hike from base camp. Orders were late and often incomplete, and finances were a mess. In 1999, North Face lost \$100 million on \$238 million in sales. VF pounced, buying it in 2000 for \$136.6 million.

The first task was to unravel North Face's gnarled supply chain. VF plugged North Face into its network of factories in Asia and what is now a 1,100-person procurement office in Hong Kong. "We went from shipping half the orders on time to over 90% on time," says Mike Egeck, who joined VF in 2000 to run North Face and oversees the company's contemporary-apparel labels. Once operations were smoothed out, VF boosted growth by adding a women's line and developing new products like shoes. VF does not break out sales figures for individual brands, but North Face is the cornerstone of the outdoor division, whose sales have grown threefold since 2003, to \$2.4 billion. "North Face was watershed moment," concludes VF board member Daniel Hesse, because it proved



DYNAMIC DUO FORMER CEO MCDONALD (LEFT) TOOK VF TO THE NEXT LEVEL; CURRENT CEO WISEMAN HAS TO KEEP THE MOMENTUM GOING.

that VF could play, and win, the lifestyle game.

With the success of the North Face acquisition, McDonald felt certain the company had the right formula. So he went shopping. Between 2000 and the first quarter of this year, VF spent \$2.8 billion to buy 18 brands, among them Nautica, which brought with it the John Varvatos label; Vans; luggage maker Kipling; Napapijri, which sells ski clothes and other apparel; Reef, which has a cult following among surfers; 7 for All Mankind, a premium denim brand; and Lucy, a maker of yoga pants and other active wear. During the same period, VF divested slower-growing businesses, even its namesake Vanity Fair brand.

But anyone can go on a shopping spree and end up with a closetful of duds—just ask Liz Claiborne or Jones Apparel, which are busy

divesting many of their acquisitions. VF proved to have a shrewder fashion sense—picking up promising brands and then making them bigger. One reason for its success is that it often spends years examining a brand and developing a relationship with management before signing on the dotted line. (Since 2004 it has had a dedicated M&A team to scout out and analyze new targets.) VF also believes in retaining most of the management of the companies it purchases; then it brings in fresh talent or adds its own expertise where necessary. So when 7 for All Mankind wanted to expand in Europe, for example, VF helped with the logistics, setting up contacts with retailers and distribution centers. Finally, VF is careful not to sap its offspring of their personalities. Reef executives typically start the workday catching waves near their Carlsbad, Calif., office. The Vans headquarters in Cypress, Calif., boasts a halfpipe ramp and concrete floor so that employees can skateboard to meetings. The bosses in Greensboro don't mind a bit.

Not all of the reported seedlings have flourished. A 2005 relaunch of the Nautica brand fell flat, and Napapijri has been lackluster. But VF's batting average remains the envy of the industry; the company made more than \$591 million last year.

Wiseman, who took over as CEO just as the U.S. economy began to weaken, knows that it's up to him to keep the hits coming. Without new acquisitions and more growth from the old ones, VF won't make its financial targets, such as reaching \$11 billion in revenues by 2012. Wiseman, an avid runner, knows he is in for a long haul. "I tell our employees this is going to be a 'run uphill' year." But then, VF has come a long way already. ■

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Fashion Forward

Though most of its U.S. competitors are struggling, VF has kept growing.

