

Victoria's Secret Falters in Failing Malls

In recent years, Victoria's Secret has faltered from being up 6.5% in sales in January 2016 to down 5.5% in January 2018, owing in part to a downturn in malls, where many of its stores are based, the changing tastes and needs of shoppers and a misstep by management.

By Michelle Lodge

Apr 6, 2018 10:47 AM EDT

Sales at Victoria's Secret, the L Brands Inc. (LB - Get Report) unit known for its sexy lingerie and A-list models, are falling amid signs that the company is promoting products that many women don't find appealing, and is operating out of shopping malls they don't care to visit.

Columbus, Ohio-based L Brands said sales at Victoria's Secret in January fell 5.5% from the year earlier, punctuating a reversal from a rising sales trend in 2016. The stock is down 18% from a year ago, compared with about a 13% gain by the Standard & Poor's during a historically great year for the stock market.

"They have to create exciting product" to sell to the millennial generation, who have replaced baby boomers as their core consumers, said Ron Friedman, a partner at Marcum LLP, an accounting firm that advises retail clients. His advice: freshen up the merchandise and maybe do more in-store events to bring in younger consumers.

One trouble with those in-store plans: the stores are often located in what are known as B and C malls, second- and third-tier centers that are out of date and draw fewer customers. "In terms of real estate, Victoria's Secret and Bath & Body Works are both exposed to decline in mall traffic," said Michael Berne, a retail consultant, referring also to L Brand's second biggest unit in terms of sales.

Another problem: the Victoria's Secret stores themselves.

"They look cluttered," said Mette Kurth, a partner in the bankruptcy and finance group at the law firm Fox Rothschild LLP. "Are they selling lingerie, perfume or lingerie to tweens at PINK, a store within a store? It's all mixed together."

Regarding the Victoria's Secret at the Westfield Mall in downtown Manhattan, this reporter can add "confusing" and "dark" to the description. The store sells panties and bras in various spots, and it's hard to determine what the plan is with PINK, the store within a store that's aimed at pre-teenagers.

L Brands declined several requests for comment regarding this story. Tammy Roberts Baker, the vice president for corporate communications, didn't answer her phone, and an intern who identified herself as Santierra Hutson said media requests aren't usually addressed until after a day or two has passed. "We like to make sure things are systematic," she said on the phone. More than a day or two did pass, and the company failed to respond.

Victoria's Secret still accounts for the biggest share of L Brands' sales, but it's declined in the last two years, while sales at Bath & Body Works have increased. In January 2018, Victoria's Secret accounted for 59% of sales, compared with 63% in January 2016; while Bath has risen from about 30% to 33%, according to FactSet.

Investors should be worried about prospect for this year, according to KeyBanc Capital Markets analyst Edward Yruma, whose firm rates L Brands as "underweight."

"2018 points to another challenging year," Yruma wrote in a note. "Progress at Victoria's Secret has been slower than expected, margins remain pressured and a slowdown at PINK could pressure sales. Bath & Body Works seems okay for now, but the competitive environment may dampen comps."

Still, the company has made missteps both in product design and brand promotion that have led to its present predicament, according to analyst Susan Anderson of B. Riley FBR. Company CEO and founder Leslie Wexner, 80, ended a coupon program at Victoria's Secret two years ago, annoying customers and driving them away from stores. The company also promoted a style of bra called a bralette, selling at half the price of a typical \$40 bra, which gained popularity but resulted in lower revenue. Wexner has brought back the coupon program, Anderson said, yet it will take some time for customers shop the way they used to and improve Victoria's Secret's fortunes.

An even greater problem is presented by what Americans actually look like, and whether Victoria's Secret is meeting their needs. Even though more than 40% of middle-age Americans and about 32% of those between the ages of 20 and 39 are considered obese, according to the Journal of American Medicine, the company doesn't sell "plus-size" lingerie, meaning there are lots of people who couldn't find something to buy at Victoria's Secret even if they were persuaded to come into the store, or buy online.

Today's consumers are catered to better by rival Aerie, owned by American Eagle Outfitters (AEO - Get Report) , Berne said. Aerie, which is sold at a shop within a shop at American Eagle stores and online, touts comfort with the tagline "Does Your Bra Make You Feel Good?" and offers an array of colors and styles, featuring models with body types ranging from slender to slightly overweight.

American Eagle stock is up 63% in the last year, while rival Estee Lauder Companies Inc. (EL - Get Report) has gained 77% and VF Corp (VFC - Get Report) has risen by about 44%.

Changes at L Brands likely won't be led by women, since there aren't very many. Nine of the 12 board members are men, with seven in their 70s and 80s, according to BoardEx, a relationship mapping service of TheStreet, Inc. The company's senior management team of eight includes no female executives.

"We find lack of female representation at the highest levels of the company's leadership to be somewhat surprising given its business focus on women's apparel and products..." wrote the proxy advisory service firm Glass Lewis & Co. in its latest report on L Brands, published in April 2017.

The three women are Patricia S. Bellinger, 57, Abigail S. Wexner, 56, the chairman's wife, and Donna James, 60. None of them responded to a request for a comment.

Founder Wexner has been on the board for 55 years. His wife has been on the board for 21 years.