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BUSINESS

American Apparel Fights For Survival With New Plan

American Apparel plans to cut \$30 million in expenses, trim workforce, shrink store size and launch a new fall clothing line.

BY DEBRA BORCHARDT

The troubled American Apparel Inc. said it might not have enough money to survive for the next year and could have to raise additional capital to stay alive. The company known for the sometimes outrageous behavior by founder Dov Charney said it has embarked on a turn-around plan that includes cutting costs and new executive appointments.

American Apparel plans on cutting \$30 million in operating expenses by closing underperforming stores, shrinking store size, cutting payrolls and trying to enter more profitable markets. It is also launching a new fall merchandise line with the hopes of increasing revenue.

But the company warned that it might also need additional capital.

“Even if American Apparel increases revenue and cuts costs, there can be no guarantee that the company will have sufficient financing commitments to meet funding requirements for the next twelve months without raising additional capital, and there can be no guarantee that it will be able to raise such additional capital,” the firm said in a statement.

American Apparel stock dropped 8 percent to 46 cents on the news and is down nearly 65 percent from its 52-week high. The market hates uncertainty and with approximately 20 different lawsuits and administrative actions initiated by Charney and his associates, investors

may be cautious to wade into the legal mess. The company says it will fight the lawsuits, but doing so could prove to be a distraction.

Paula Schneider, who joined the company as ceo in January, said, “We are committed to turning this company around. Today’s announcements are necessary steps to help American Apparel adapt to headwinds in the retail industry, preserve jobs for the overwhelming majority of our 10,000 employees, and return the business to long-term profitability.”

Lloyd Greif of Los Angeles-based investment banking firm Greif &

Co., said: “They can talk about cutting costs, but layoffs alone won’t do it. They need to move jobs offshore and they haven’t done that.”

American Apparel, however, has vowed to stick by the Made in America approach that helped the company build its brand.

“Their biggest issue is declining sales and who says people will buy the new fall line?” Greif said. “They need access to capital. But who would want to get involved? There’s too much risk and the new leadership doesn’t have the degree of turnaround experience one would have hoped for.”

Before joining American Apparel, Schneider held senior roles at Warnaco,

The Gores Group, BCBG Max Azria and Laundry by Shelli Segal.

Schneider’s been steadily reshaping the executive team at American Apparel. The new additions to the company’s leadership team include Christine Olcu as general manager of global retail and Brad Gebhard as president of wholesale. Olcu is tasked with improving store productivity and Gebhard, who has been working in the capacity as a consultant will oversee

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the impritable business and the recently acquired specialty retailer Oak.

American Apparel has never focused on the fall selling season and it remains to be seen if students will respond to new styles for the back-to-school season. Other basics-oriented retailers, such as Joe Fresh, have also picked up market share and pressured American Apparel.

The company, though, is not giving up without a fight.

“Our primary focus is on improving the processes and product mix that have led to steep losses over the past five years,” said Schneider. “Our customers, employees and local communities around the world believe that American Apparel is an iconic brand that deserves to succeed. My job is to make that a reality.”