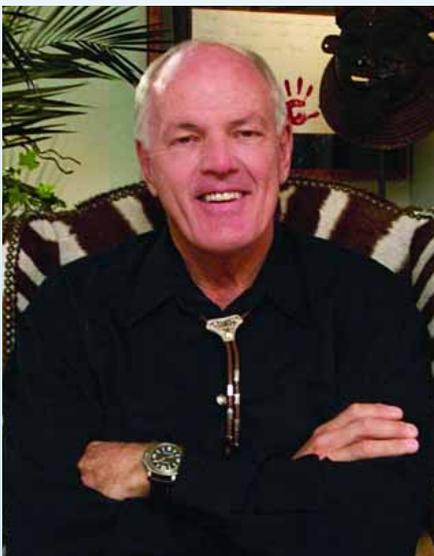


carter's®

We Couldn't Stay Little

An Interview with Frederick J. Rowan II, Chairman and Chief Executive Officer, Carter's, Inc., Atlanta



Frederick J. Rowan II

EDITORS' NOTE All things considered, Carter's has always been a rather conservative (albeit highly successful) enterprise. Privately held for 138 years, it launched an IPO two years ago. However, even before 2003, Fred Rowan relates, "we pretty much operated as a public company" because "we felt it was important to have all of those attributes." Thus, while he believes that "the changeover has made us a better and stronger company," little – other than necessary compliances with the Sarbanes-Oxley Act – has changed. For example, "going international is simply not on our radar," the chairman and chief executive officer states, considering that "our outlook for organic domestic growth is so strong." Instead, he deems it "more important now for us to focus on what we have already in hand." Similarly, adding to the portfolio of 170 Carter's stores "isn't one of the foundations that we're dependent upon to grow the company rapidly," he continues. "It's not what we call a 'major growth platform.'" As for the kinds of brand extensions so many

manufacturers have attempted, "for now we're focusing on those categories where we hold dominant positions," by which he means "baby clothes, sleepwear, and play-clothes." So, "rather than expanding with new lines, it's more important to us to continue to gain market share, to increase our retail shelf space, and to maintain dominance in" those categories. And finally, even taking into account today's prevalence of online sales, "we don't sell products ourselves over the Internet because we don't want to create conflicts with our department-store base." How, then, has Carter's been able to remain number one in its class and weather the economic downturn of recent years, with quarterly reports that "have been quite good since the IPO" and an increase in net income of nearly 21 percent from December 2002 to December 2003?

To begin, Rowan explains, "our business wasn't negatively impacted over the past few years because of the strength of the very young children's market in which we compete. It is far more insulated from downturns and even fairly steep recessions than other markets. Parents and grandparents tend to make sacrifices on themselves and even on their older children during difficult economic times, but they continue to purchase for newborns, infants, and toddlers at strong rates." Then, he proceeds, "we have a real differentiation point," which "distinguishes us from other brands: Carter's has developed a terrific emotional connection with mothers, grandparents, and gift givers. Quite simply, they trust us." What is more, "people have a penchant for buying from the leader in any product category," and his company "is second to none in product quality, sales, profitability, supply-chain expertise, inventory management, customer service, and consumer relationships." The corporation has "a clearly defined culture," its chairman and CEO proudly conveys, "which we take great pride in and we feel has been one of our particular strengths."

And finally, "when we recruit for talented employees," Carter's is on the lookout "for candidates who have a high level of integrity" because, he contends, "nothing is more important." At the end of the day, "if you're the" company "with the highest level of both core competencies and integrity among your employees, you'll be the leader."

After starting his career with DuPont, Rowan held senior-level positions at both Aileen Inc. and Mast Industries. Following that, he served as president and chief executive officer of the H. D. Lee Company, overseeing the Lee jeans, Bassett-Walker, and JanSport divisions, and as group vice president of H. D. Lee's parent company, the VF Corporation. Having joined Carter's in 1992, he presently serves on the board of trustees of the Fishburne Military School in Virginia and Trustee of the Shepherd Center Foundation in Atlanta.

COMPANY BRIEF Atlanta-based Carter's, Inc. (formerly The William Carter Company and Carter Holdings), is one of America's oldest and largest manufacturers and marketers of premium, essential children's products for newborns to six-year-olds, while also licensing its name for bedding, strollers, toys, and shoes. Founded by William Carter in Needham, Massachusetts in 1865, it employs more than 4,200 people and sells through department, specialty, mass-market, and nearly 170 Carter's retail and outlet stores throughout the United States. After purchasing the company from Investcorp for approximately \$450 million in 2001, Berkshire Partners took it public in 2003. In that year the newly named corporation (NYSE: CRI) reported total revenues of \$704 million and net income of \$23 million.

Over the past few years, leaders in most industries have spoken about growth obstacles since 9/11 and the resultant economic downturn worldwide. However, Carter's seems to have weathered the storm quite success-

fully, even showing an increase in net income of almost 21 percent from fiscal 2002 [December 31] to fiscal 2003. How did you manage that?

No, our business wasn't negatively impacted over the past few years because of the strength of the very young children's market in which we compete. It is far more insulated from downturns and even fairly steep recessions than other markets. Parents and grandparents tend to make sacrifices on themselves and even on their older children during difficult economic times, but they continue to purchase for newborns, infants, and toddlers at strong rates because babies are such a special event in one's life.

Another reason why we've been doing so well is that we're the number-one brand in our market. If you expect to do a good job during an economic downturn, it pays to have a substantial market share and really be on top in your game.

How did Carter's become – and how has it remained – number one in its market? In other words, how do you differentiate your products from those of your competitors?

I don't think there's any question that the infants' and children's clothing business is more competitive – largely because most have gotten better and there are new entries. There are so many names now! On the other hand, we have a real differentiation point, something that distinguishes us from other brands: Carter's has developed a terrific emotional connection with mothers, grandparents, and gift givers. The emotional connection is our color and artwork on the garment. Quite simply, they trust us because of superior product performance, and that very much helps to separate us from the competition. In addition, people have a penchant for buying from the leader in any product category, and Carter's is second to none in product quality, sales, profitability, supply-chain expertise, inventory management, customer service, and consumer relationships. We operate our business from a holistic perspective. We're neither one- nor two-dimensional, as are many of our competitors. We're multi-dimensional. It's not an easy formula to emulate.

The Carter's brand, per se, is actually targeted at department and children's specialty stores. We also have a brand just for Target, which we call Just One Year, and we manufacture one exclusively for Wal-Mart, which is called Child of Mine. It's definitely a challenge to manage the various levels of distribution, but I think we're doing a good job. The keys are clear differentiation in the brand name, the products themselves, the packaging that's associated with each of the core products, and the associated marketing agenda, which includes presentation on the selling floor. We're very careful to make our brands distinctly different.

Currently, we're in the midst of a major brand study for Carter's, although it's still in the embryonic stage. Our objective is to substantially elevate the product agenda and the emotional content of the Carter's brand and thereby to provide a much more aspirational shopping experience. We want to make sure that our Carter's brand and its products appear distinct in our department stores, specialty stores, or chain stores.

dent upon to grow the company rapidly. It's not what we call a "major growth platform." Once we complete the extensive study I just mentioned, we'll obviously want our own stores to mirror our expectations for the brand. And then, whatever we do in our own stores, we'll also immediately do for our department stores. Fundamentally, if it's good for the brand and our own stores, it's going to be good for our department stores. Our intent also is



Carter's has developed the Celebration Club. Will you highlight what it offers? And has it been successful in developing repeat customers?

The Celebration Club is something we launched a few years ago. You sign up on our Web site free of charge, and members are offered helpful information, invitations, and special offers from both our retail and outlet stores. To be honest, though, it hasn't met our expectations. We're counting on the brand study to really energize the company. I cannot overemphasize the eventual power of this study. It will excite our customers and our consumers – it is already stimulating our people.

As for the Carter's-owned retail and outlet stores, of which you now operate about 170 nationwide, do you foresee adding locations, or have you covered the country pretty well already?

We expect some growth, some expansion, but adding Carter's stores isn't one of the foundations that we're depen-

to offer some exclusivity for the Carter's brand customer.

Obviously, the United States is your primary – or perhaps your only – market. Are you considering sales overseas?

At the moment no, we're not, because our outlook for organic domestic growth is so strong. With multiple growth platforms and significant opportunities in each – all here, in the U.S. – going international is simply not on our radar. I personally think it's more important now for us to focus on what we have already in hand. This is not to say that we won't sell overseas eventually, but as of now, we're not even sure of our brand-name awareness in other countries. One day, we'll take a look, but not today.

So many brands in so many product categories have added extensions and expanded their lines. Carter's, of course, has a very strong core business. Do you anticipate it remaining relatively consistent, or do





you foresee adding new products under the Carter's name?

We're already pretty broad, as we compete in the essential three categories: baby clothes, sleepwear, and playclothes. And then there are the licensed products, such as bedding, toys, shoes, and strollers. For now we're focusing on those categories, where we hold dominant positions. Rather than expanding with new lines, it's more important to us to continue to gain market share, to increase our retail shelf space, and to maintain dominance in our core categories. Of course, there are some opportune product categories we could definitely get into, but again, not today. We're very disciplined about avoiding excess complexity and living up to our customer and consumers expectations.

But you do have a new product line, Baby Bubbles.

Yes, Baby Bubbles is a complete collection of apparel, bath items, and accessories – robes, towels, bodysuits, dresses, bibs, blankets, and more – in foamy white, light blue, lemon yellow, and apple green, with duck, frog, and bear appliques – but it's actually part of the Carter's Classics line.

What we do at Carter's is tier the brand. We have our Carter's Starters, which are the more basic essentials for a newborn or infant – multi-packed opening price points, and then we have our Carter's Classics, which are better products with higher-price points for the higher-end consumer. Carter's Classics are probably given more as gifts than Carter's

Starters, even though our Starters are also very strong in the gift market. With the two tiers, we can obviously attract a much broader consumer base to our brand.

Your products are the type that people probably want to touch and feel before buying. However, considering the prevalence of Internet purchases today, will your colorful and detailed Web site [www.carters.com] remain strictly informational, or will you also make it a sales venue?

It's true, especially in the infant and very young children's business: Consumers like to handle the merchandise and to see it more clearly than they could on the Internet. But particularly in our product categories, it's also very important in this day and age to have a very strong Web site, where we can convey information concerning our products and our company to mothers, grandparents, and gift givers.

We don't sell products ourselves over the Internet because we don't want to create conflicts with our department-store base. However, our Web site does include a store locator, which requires that you enter no more than your zip code to find the nearest Carter's-owned store. In addition, our site provides direct links to www.babycenter.com, www.beallsflorida.com, www.jcpenny.com, www.kohls.com, and www.sears.com, all of which enable you to buy our products over the Internet.

You've been with Carter's since 1992, and you became chairman, president, and chief executive officer while it was still privately owned. In 2003, though, it became a public company, traded on the New York Stock Exchange. Has your role changed over the past two years? And is heading a publicly traded company more challenging?

Personally, I like working for a public company a lot more, even if all CEOs don't share my opinion. I think the changeover has made us a better and stronger company.

As yet, we haven't felt any unusual pressure to meet short-term goals at the expense of long-term planning. That hasn't been an issue. Sure, we have to meet certain quarterly objectives, but we always had to do that. Even when we were privately owned, we

pretty much operated as a public company. We felt it was important to have all of those attributes.

Since 2003, we've certainly had to increase our communications with the outside world considerably. We've had to build our skills to interact with the invest-





ment community and to keep people well abreast of what's going on at Carter's. This has placed greater demands on governance, particularly with regard to the Sarbanes-Oxley Act of 2002, so we've really had to beef up in certain areas. For example, as a privately held company, we formerly didn't have to have an independent board. As a publicly owned company, however, one has to. So, we now have an independent board of directors and independent committees. But the board is very engaged; it's very closely allied to and supportive of our strategic direction. And our board members, I might add, are all accomplished executives, who provide a concentrated focus and are quite candid. We also now have a very stringent code of ethics, which is audited each year by Ropes & Gray. So yes, we now have to see things from the shareholders' point of view. I never have nor will I ever forget that I'm working for other people – a very large group of investors – and I answer to our board.

Since Carter's went public, have

the financial community in general and the analysts in particular effectively understood your vision for the brand?

Most definitely. We feel we've gotten a very fair shake from Wall Street. We had an initial public offering, and I think there was a very clear understanding during that process of who we were and who we wanted to become. I think we really articulated where we wanted to take this company, and Wall Street understood and approved. And fortunately, our quarterly reports have been quite good since the IPO. So once again, I think we've gotten a very fair shake because we have not disappointed them.

What with all of the corporate-governance debacles that prompted the enactment of Sarbanes-Oxley, it seems that the public has tarred all corporations with one brush. Are you optimistic that the honesty and integrity that really are pervasive throughout the corporate world can be conveyed? And do you believe that individual companies can restore

their reputations and regain the people's confidence?

Oh, yes, I'm optimistic. In truth only very few companies and their executives tainted their respective industries. The vast majority of CEOs and great companies played fairly and upheld a high code of ethics. I do think it's going to take some time to regain the public's trust, especially as we've been suffering through a bad economy for several years. Yet, I think that ultimately this whole experience will make most companies stronger. The ones that get through this and are determined to live by a strict code of ethics and high standards are going to be much better equipped. All of what has happened has added more responsibilities to the roles played by the CEO and, perhaps even more, the chief financial officer, but I deem this a good thing. Was there an overreaction by the public and by politicians? No question about it. There have been a number of ridiculous demands in my opinion, but I think that, over time, most will get sorted out.

Good corporate citizenship has always been important to you and to Carter's. As a part of the company's culture, do you consider it your responsibility to be involved in the community?

Definitely. I don't think you can separate the two: the company and the community. We contribute not only to the Atlanta community, where we're headquartered, but we also try to make sure that we spread out in those communities where we have stores. I think it's vitally important for everyone to give something back.

The retail side of your industry in particular is known for high employee turnover. Have you found that Carter's is still exciting and able to attract top young talent? And have you been pleased with your ability to retain those employees?

Yes and yes. In my opinion, to attract top talent you have to offer people a future, growth opportunities, and a good rewards system, which we do. You should also have an open style of management, which we do again, and terrific communications within the company. Plus, one should have a clearly defined culture, which we take great pride in and we feel has been one of our particular strengths. So, we've had no problems attracting talented people, and we've had no problems retaining them. And don't the teams with the best talent win?

Everyone claims to have a unique corporate culture, but ours truly is. Nothing is more critical because it defines who you want to become and where you want to go. Our culture distinguishes us as an exceptional company.

When we recruit for talented employees, we try to look for those characteristics you can't teach people. We look for candidates who have a high level of integrity, a strong work ethic, and are very competitive individuals. But at the same time, they must be able to function as part of a team and to be coached. We also demand an extreme focus.

In the final analysis, nothing is more important than a high level of integrity. Lots of companies experience difficulties, but if you're the one with the highest level of both core competencies and integrity among your employees, you'll be the leader.

You touched on your added responsibilities as the CEO of a corporation that's now publicly traded. Your time and efforts must be pulled in a number of different directions. How challenging has it become for you to remain focused? And do you consider that a key priority when it comes to the role played by CEOs in today's world?

Personally, I can't speak for other CEOs, I can only speak for the way that I view things. I've always been very focused. I just feel that, especially today, one can't

have a lot of distractions. Maybe you could 10 years ago, but now it's much more difficult to be a great company – and that's ultimately what one should want to be. So, as the CEO, I make sure that we have a very focused growth agenda. I also assume full responsibility for attracting and retaining top talent, for protecting our corporate culture, for setting our high performance standards, for good governance, and for offering a great rewards system for excellent results.

Have we had to adjust some, as I mentioned earlier, since the enactment of Sarbanes-Oxley? Yes, but life and business for me haven't changed very much.

You've been in the textiles and apparel industries for more than 38 years. Did you know very early on that this was where you wanted to remain? Also, how did you end up in this area?

Speaking very candidly, I started out at DuPont, but it was far too large for me. I felt you couldn't be as decisive as you could be in the apparel industry, and that you couldn't see the fruits of your labors as quickly. You know, in the apparel business, you're turning out finished products, so you know pretty soon whether you've won or lost, and I like that a lot. And since I left DuPont, although I've never worked in the high-fashion business, I've always been with a fashionable basics business, which similarly changes every day. So, just the dynamics of this industry – the energy level and the love of the product and the brand – have been natural attractions for me.

I was lucky early on to have been involved with the VF Corporation, running the lead brand, Lee jeans. It's great to oversee a great brand. It's almost impossible today to win if you're third; first and second are just about the only places you can be.

Carter's, another great brand, still keeps me very excited. I absolutely love our products, and I love the people side of the business as well. If you had to narrow my excitement down to two things, they would be the products and the people – and, of course, winning.

Referring again to our corporate culture, the level of competition around here is another of our strengths. Our employees love to win. They love to compete with one another, besides competing with our competition.

Many of your colleagues at Carter's have worked closely with you for many years. If they were asked about your management style, without your being present, what do you think they'd say?

Well, to tell the truth, I'm not sure what they'd say! I know I'm hugely

demanding, but I'm also very decisive, non-bureaucratic, and nonpolitical. I'd further say that, as a former student of this industry, I'm a good teacher. My philosophy is you can't teach if you don't know. I can show people how to do things, not just tell them. And at the end of the day, when all is said and done, I sense great loyalty because I am loyal. I understand the difference between good work and excellence and I have always really rewarded excellence.

Carter's is the number-one brand in its industry today. Your sales and net income continue to rise, and both Wall Street and consumers support you. Still, do you have any concerns or foresee any major challenges over the next few years?

Yes, talent, because you never want to end up on a plateau. You always have to keep upgrading your talent base. Another of my concerns is for us to remain focused. Focus just seems to drift away, and it never drifts in a better direction. You have to stay on top of that. And then there's the matter of execution. Our philosophy is that promises made should be promises kept. In many cases companies don't make sure that the little things get done every hour, every day, every week.

Speaking of "every hour, every day, every week," considering the sophistication of modern technology – the pagers, cell phones, fax machines, e-mail, and all the rest – can you ever really turn off the business and get away from it?

I believe that, if you like what you do, you don't need to get away from it for long periods of time. And if you really love what you do, you're going to think about it seven days a week, but you can still mix in other aspects of your life. I said that I'm extremely focused, yet there are hobbies I really enjoy. It's all a matter of the best use of time.

I don't know much about this concept of becoming burned out. To me, getting burned out simply means that you don't love your work anymore. I don't think it's a matter of overly hard work or too many difficulties. If you decide you want or need a long break from your job, you've just lost the passion for it.

You know, I'd say that still another of this company's great attributes is that we're loaded, fortunately, with passionate people. And passion is as important as core skills. Core skills are obviously critical to doing your job and running a business, but passion: there's just no substitute for it. ●

