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Carter's And OshKosh:
The Changing Landscape of Branding and the Business of Design

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

Frederick J. Rowan II

EDITORS' NOTE *After starting his career with DuPont, Fred 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 Jan Sport 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 the Shepherd Center Foundation in Atlanta.*

COMPANY BRIEF *Atlanta-based Carter's, Inc. (www.carters.com), is one of America's oldest and largest manufacturers and marketers of premium, essential children's products, for newborns up to six-year-olds, while also licensing its name for bedding, toys, and shoes. Founded by William Carter in Needham, Massachusetts, in 1865, it employs more than 7,800 people and sells through department, specialty, mass-market, and nearly 340 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. Carter's (NYSE: CRI) reported total sales of $1.1 billion and net income of $74.3 million in 2005.*

Carter's recently acquired OshKosh, another leader in the industry. Why did you feel that was the right acquisition for the brand, and have you been happy with the way the acquisition has progressed?

We acquired OshKosh because we felt it was the other great consumer brand in this market, besides Carter's. The brand had a unique proposition, distinctly different from our own. We felt, unequivocally, that OshKosh had a distinctly strong point of view that was not the same as Carter's. In other words, because it could offer that, it offered substantial growth opportunities. At the same time, we felt the company shared some commonalities with Carter's, in that it's a brand that has extremely high awareness and trust among consumers, and OshKosh's core products could have significant growth. It's not a high fashion brand. Its name and products are needed by consumers for their young children. Plus, it can have a lifestyle agenda that sweeps over multiple product categories, from playclothes to sleepwear to baby products. In short, we felt it could be a billion-dollar brand – it generated less than $400 million when we purchased it last July.

At this point in time, the integration of OshKosh into Carter's is going well and we're on schedule. I would say we're very excited about the potential of the brand and its importance to our long-term growth. It has definitely extended our earnings curve.

It is always a challenge to mesh two companies that both have long histories and market positions. How have you been able to successfully combine the corporate cultures?

Cultures are fundamentally the way the people view personal ethics and business principles. All things must begin with a basic philosophy of decency, honesty, hard work, and competitiveness. It's a must that we have low egos, so we can learn and work as a team. OshKosh overwhelmingly passed the first test or we would have moved on. It didn't take long during due diligence to realize these are decent people who want to do well as individuals and as a group. Given that, we felt we could teach the importance of trusting the power of fewer things, product leadership, horizontal management, and high levels of execution, which are our business principles.

We certainly studied the cultures extensively during the due diligence stage. After all, it is critical that we operate in the same playing field. You could call it a high-quality Midwestern culture. Subsequently, we really have had no material surprises, so we know that what they told us was the truth. That is important. In some ways, we operate more quickly than OshKosh does, but people have been most willing to pick up the pace. One thing we did is form an operating committee, comprised mainly of OshKosh executives. One of our senior executives spends at least half his week in OshKosh, and they work together to achieve our common goals. So we found their culture was not an issue. If anything, it was a benefit.

How will the acquisition affect or change the distribution of your products?

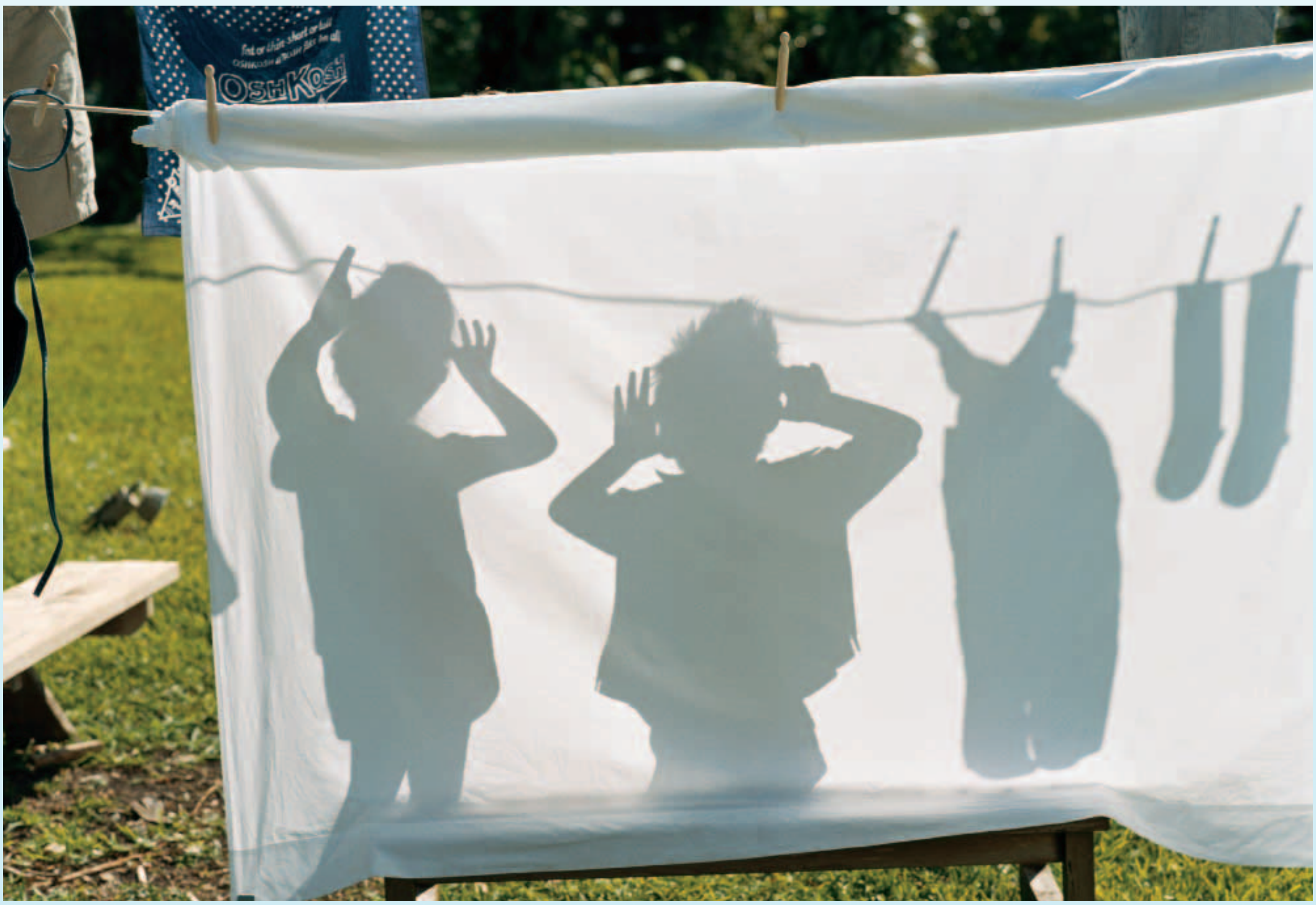
We expect OshKosh's distribution to be a bit different from Carter's. However, OshKosh had taken the emphasis off its wholesale department store and chain store accounts, which was a mistake. One of our strategic objectives is to reposition OshKosh strongly in a number of wholesale accounts, and we've been successful in the early stages. Ultimately, having a department store business and our own store business is important to both our brands.

You operate in a very competitive marketplace, which is packed with a number of well-known brands. How challenging is it to differentiate and really show the unique qualities of your brands?

It's vital to understand that our competitive arena can be characterized as a "sea of sameness," with significant rewards for great brands. Great brands deliver great promises in two arenas – emotion and product.

We needed to change – even Carter's. Companies resist change – even the good ones – and most assuredly they resist mostly while conditions are favorable. They continue along the safest and soundest route. There is clear evidence that consumers are unhappy, and our customers are seeking differentiation. But, they will definitely give their open-to-buy to great franchises.

We believe we have the two best brands in the market to develop a unique point of view. That's what great brands do. One of the characteristics of great brands is that they are led by highly skilled and passionate brand managers and product leaders, which enables the brands to



Designing the best consumer experiences is the focus of the (Carter's, Inc.) Brand Committee.

develop a distinct emotional point of view. They also have signature products, and both our brands have that. OshKosh's core products are not as dominant as they used to be, but they will be again. We are developing these characteristics.

In addition to dominant core products, you need a breadth of categories. Great brands have category breadth, which enables them to become lifestyle brands. We feel that the marketplace will reward brands that aim to have a truly distinctive point of view, powerful emotional formulas, and dominant core products. Carter's is further along that curve than OshKosh, but we feel that OshKosh has inherent capabilities in this area, so it's just a matter of being great brand managers. And, of course, we need to be careful about how we restore the OshKosh brand's preeminence.

Your products are sold in a wide range of retail outlets. How difficult is it to convey the characteristics of your brands to those retailers, so they can pass the message on to consumers?

I think it's very challenging, but I don't think the answer is to train the retail world how to do things. I think it's imperative that our marketing agenda accomplishes great brand awareness, without us having to train enormous numbers of people. The presentation of products should be designed to make it simple for the consumer to understand our brand's propositions. For example, packaging and point-of-sale fixturing of our product is critical. That's a skill that great brands have. They have a way of communicating to consumers quickly and clearly at the point of sale, so that they don't have to have someone educate the consumer at every move. I believe that most consumers don't like to have a lot of information thrown at them. They prefer to have very little information, so they can purchase things pretty easily and have an emotional experience. Once again, the more emotion you can tie into the product agenda and the marketing presentation, the more people will want the products. That's more about our own marketing agenda than it is about what the sales force does on the floor.

It is certainly easier to return the brand to its highest aspirational level through our own stores. So our strategy is to have both a strong wholesale business and a strong retail presence. The better job we do at retailing, by setting very high standards and a high aspirational formula for the consumer, the more people will go to a department store or a chain store and purchase our products.

To what extent does the Internet drive your sales?

At this point in time, we're using the Internet more to help the consumer understand the brands' points of view, to understand the emotional quotient and the features and attributes of our product. Some of our wholesale customers have their own Internet sales sites, and they sell our products online. We don't intend to compete with them. So we use the Internet more as an educational tool.

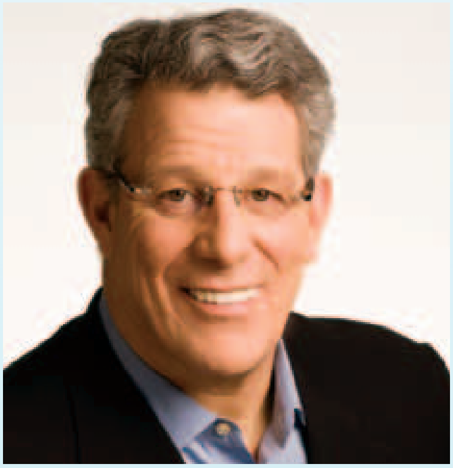
You spoke earlier about the breadth of your product categories. Are you planning to add new product extensions to Carter's or OshKosh, or will your product portfolio remain relatively consistent?

I don't see any point in bringing in product extensions in either brand. I would prefer us to get a lot better at what we already do. Although the brands are in different stages of development, they are both large lifestyle brands that already have category extensions and a good licensed product agenda. We must trust the power of fewer things. This marketplace does not need extensions – it needs revitalization and lots of emotion.

What about your retail stores? Are you planning to add to your network any time in the future?

From 35 to 40 percent of Carter's business is done through our own stores. The rest is done through our wholesale accounts. That trend is reversed with the OshKosh brand: Sixty-five or 70 percent of its revenue is achieved through its own stores. We don't foresee any shift in the OshKosh formula. We just want to get better at what we do, with substantially increased emphasis on doing well with our wholesale accounts.

With Carter's, we do intend to change the mix a bit, because we think that will afford us significant growth. But more vital, it's about putting the brand's best foot forward. This business is about energizing the mother and gift giver. Emotional experience and high-valued products is the mantra. Traditional means of advertising are secondary to walking the consumer through a "journey." A great store must be a product and emotional journey.



Joe Pacifico, President of Carter's, Inc.

Does Wall Street have an effective understanding of your brand, and your rationale behind the acquisition of OshKosh?

Definitely. The market rewarded us for the acquisition. The investment community felt, as we did, that it was a great franchise that was undernourished. Carter's is uniquely qualified to turn the business around. We have many years of experience as a management team, and we were prepared for it, although we weren't seeking an acquisition at the time. I'd say that both the market and our people inside felt that this would be a tremendous opportunity for us to extend the growth of both the top and bottom line.

How large a role does corporate citizenship play in life at Carter's? Do you get involved in the communities in which you operate?

I think corporate social responsibility is very important. We're a quiet company, in that we prefer to let our results speak for themselves. We don't seek press coverage. We love winning, but we don't do it for trophies. In a way, our culture is a throwback culture. It's built upon the principle that promises made are promises kept. We live by high ethical standards and we tell it like it is. In that sense, we're a very straightforward company. We don't give long speeches; we prefer to actually do things. We donate a substantial amount of money to good causes, but we don't seek press coverage. Because of the nature of our products, we tend to donate to causes that help young children, mothers, and grandparents. We enjoy doing things for mothers and young children, but only because we believe it's the right thing to do. We don't do it for media attention.

Many members of your executive team have been with the company for many years. How important has that longevity been to the success of the brand, and what is it about your culture that keeps people at Carter's?

It's true that we have been together for a long time. Some of us have worked together for almost 30 years, and that has been fundamental to our success. We could almost finish one another's sentences, so we're able to grasp things quickly and execute rapidly. I think what really makes us tick, though, is that we're all very competitive, but with low egos and a lot of trust in one another. Yet, none of us seeks adulation in the press – we're all very unselfish. We prefer to perform quietly.

There are a lot of successful corporate cultures. Ours is built upon the principle that we try to hire people for the qualities that you can't teach: working in a team without having a big ego, a hard work ethic, and an honest approach. In my view, that's what has kept us together. Plus, we like one another. We're very different people, but we like one another, and we like to work together. At the end of the day, it's not about our backgrounds or education; it's about fundamental principles and an attitude toward the business and one another.

Because we live in a globalized world, quality is valued and needed in all parts of the globe. That must open a lot of doors for you internationally. Are you looking at opportunities in other countries?

I'm sure at some point there will be international opportunities for us. However, at the moment we are experiencing domestic organic growth, and with the addition of OshKosh there will be even more growth domestically. Because of that, we've elected not to prioritize international business. A few years from now, we'll do some market testing on our brand strengths and our ability to compete abroad, but that's at least a couple of years away.

Do you see continued consolidation taking place in this industry?

I do see continued consolidation among retailers and suppliers. There's no reason for there to be so many names out there. They may think of themselves as brands, but most of them are just names. Brands, once again, are built upon powerful points of view, unique personalities, and the ability to have expanded categories and dominant core products. Not every brand has that capability, and some will never have it, no matter how well they are led. In today's environment of so much sameness, there are great opportunities for the great brands. One of the reasons we're so upbeat is we think we do have the potential to do much better with our branding formulas and our core products than we ever have done. Even Carter's, our core business – the flagship, if you will – has organic growth, but we have to get better. We're not happy with our branding formula. That's why we've been carrying out intense brand studies for almost two years now, and that's why we're starting a brand study for OshKosh. We just think that this is a great time for great brands. But it's a rough journey for just a name.

In such a crowded market, isn't it difficult for consumers to distinguish between brands and names?

I think it's already pretty clear that if you're not number one or two in your sector, it's very hard to stay alive. Most sectors aren't growing, so you have to really fight for market share. In the young children's sector, we do have the benefit of favorable demographics. But, at the same time, there are just too many people competing for space. That goes across all brands and all endeavors; it's not just in apparel. For instance, it's pretty obvious that there are far too many names in the automobile industry, and that a shakeout is occurring and accelerating. I think that a company such as ours, that feels that it has a great brand, had better get on with it. After all, we don't have five years to do things. We have to do a lot this year and a lot more next year. The need for moving rapidly is prevalent in the marketplace, and those who understand that will do extremely well. Branding requires investment. Branding requires resources, and it requires the commitment of the entire company. Branding never stops. You don't work on branding one year, and another subject the next year. So I guess the net result of that is that not many people are going to do well, and there will be ever fewer players. I know we have the resources – meaning cash, talent, and technology – to make it work. I feel like our organization pretty clearly understands that. We spend an enormous amount of time communicating that and working hard at change.

You mentioned technology, but your products are not naturally associated with technological advances. How do you use technology in delivering the product to market?

Technology is critical. The way I see it, technology really began with the search for knowledge. Brands are dependent upon knowledge – and consumer knowledge in particular. Beyond that, they're dependent upon the ability to transmit that knowledge right across all company functions. We replenish a high percentage of our business at Carter's, and without technological capabilities, we couldn't do that. We are definitely dependent upon understanding consumers better. So I would say that if we place an emphasis anywhere in our use of technology, it's on expanding our knowledge. We are not as knowledgeable as we should be. We don't know enough about our consumers. We know a lot more about Carter's consumers than we do about those of OshKosh, but we will learn. Forgive me for using a cliché, but knowledge is power, and I'd rate us average at that. We now have a number of talented people with good instincts and high levels of perception, but that has to be balanced with science as well, and that's something we're focused on.

A lot of manufacturing is moving abroad. Has the United States lost its edge in this regard? Can U.S. manufacturing be competitive in a segment like yours?

It's a mistake to view the making of product abroad as an entire movement abroad. We can secure the creative talent we need, the services we need, and the distribution we need in the States. From a sourcing point of view, however, the U.S. doesn't offer a successful formula. I think almost everybody sources globally today. But when it comes to finding good people who can manage brands, products, supply chains, and all the other major functions in a company, we certainly have a commitment to this country. The best talent is naturally attracted to the best-led companies and the ones that have great brands. In our case, the winners attract winners. But to say there's an abundance of talent would be stretching a point. There never has been an abundance of talent. There never will be.

After the new corporate governance legislation was introduced in the United States, did you find your role changed at all? Is it difficult to balance your commitment to corporate governance with your desire to build the brand and implement your strategic vision?

It is clearly more difficult than before. I should start by saying that we like being a public company. We think that going public has helped make us a better company. I'm not referring strictly to governance issues. We've learned to perform at higher levels across all our businesses, because we have an obligation to the public shareholder. And we like dealing with Wall Street. I'm sure there will be times when we won't enjoy every day of it, but I enjoy it now, and so does our executive team. We all participate in the governance area. Of course, the new legislation has enormously increased our reporting workload and costs, but a lot of that work is a good thing and should have been done in the past. However, some of it is a pure waste of time and an overreaction, like many measures that are forced by pure politics. You cannot legislate morality. We never catch on to that. Over time, it might get edited down a bit. Speaking broadly, though, I'm thrilled with our level of governance. We have an outstanding board of directors, each with the highest of ethical standards and lots of experience in this area. They've been great advisers. They're engaged in our strategy and they're independent.

So, in summary, I would say that we're in good shape. What I have done personally is make sure that I don't get an overdose of working on governance. I also want to tend to the brands and have a very strong competitive company. I've been able to find the right balance by adding people with great core skills in our financial area, and we've also added people with great core skills to our board of directors in the last couple of years. Because of that, I can focus on a balanced attack.

You talk a lot about people and it seems that one of the things you enjoy is seeing talent grow. Do you spend much of your time on the human capital side of the business?

I love the people side of the business. I think about people all the time. In fact, I would say it's a passion of mine. Since I was a youngster, I have been enthralled with great leaders. There are not many books about great leaders that I haven't read – good or bad. In my view, it's important to see how people succeed and fail. Nothing gives me more pleasure than to see people succeed. We spend a lot of time on it. It's a critical issue for each one of our senior leaders. We discuss people every day, every week, every month. We espouse the theory that talent makes the difference, and that the teams with the best talent win. And, at the same time, it's not just about the talent. It's also about having a unique chemistry and culture. In that sense, it's about the recruiting process and the characteristics we look for in people. Our recruiting process is very stringent. We don't hire anybody without four people having interviewed them first. I interview many of them myself. If any one of the five interviewers has a reservation, we don't take that person. I think this unique discipline is one of the things that have made us successful.

How important is having a diverse workforce to the success of the company? Is this an industry that really offers opportunities to all types of people?

I can't speak for the industry as a whole, because companies vary. But to us, women are particularly vital. After all, we're selling products for their children. Mothers and grandmothers buy 99 percent of our product. They understand children's needs, and they understand the mother's needs. So we consider women to be critical, and we have a lot of women all through the ranks, including at the senior level. Since going public, we have added a woman to our board, and we're working hard at getting another woman on our board. Having women in our management team and on our board is not just about quotas or looking diverse. It's about having people there who really understand our brands and products and the needs of our particular consumer, and who can make us more competitive.

My experience over time has been that women are generally very detail oriented, and that's critical for us, because of the importance of detail to our product. Women also tend to know clearly when they have had a good or bad experience and why. Women have high emotional connections with their children. I don't want to say that fathers don't, but women think about it all the time. So when you're trying to build an emotional formula for brands, which is what we're currently in the process of doing, you can gain a lot of knowledge from women. Ethnic diversity is important to us as well. In short, we work hard at making sure we have a good mix. We do it because it serves our ability to win and because it's right.

You have been in this business for a number of years, and yet you still have a passion for it. Is it still as exciting for you today as it was in the early days?

It's still very exciting for me. In the early days I was fighting to make a living, like most people. If I was in the same job I was in 42 years ago, I don't think I'd be too passionate. But fortunately, I've moved up to a position in which I can be influential in our strategic direction and I'm very passionate about that. I think I'm a better CEO than I was a president. I enjoy the strategic planning and execution more than the operational jobs I had when I was president. As I've moved up and grown personally, I have had the great fortune of working with extremely talented people. That definitely makes me excited. I actually enjoy coming to work, unlike most people. Most people have days when they would rather not get out of bed. But, for the most part, I'm highly energized.

Are there one or two key priorities for you over the next two to three years?

I want to make sure that our wholesale accounts clearly understand that we're not abandoning our core business as we build our retail presence. That's not the mission. Our aim is for the branding and retail initiative to make their business stronger. I want to make sure that we get OshKosh integrated, and that's critical. It's critical to us and it's critical to our investors. Plus, I want to make sure that we stay focused. We believe it's important to trust in the power of fewer things. We believe that through focus comes growth. I want to make sure that we keep saying, almost daily, what we are not going to do, as opposed to what we are going to do.

Do you ever think about slowing down, or will you always keep up this same pace?

Sure, I think about slowing down. After all, I'm not a youngster. You never know how long you will stay healthy. There are times when I get up and wonder whether I should retire, but it's not a lingering thought. On the other hand, I don't feel like I will necessarily make it to 100, or that I could stay at it forever. We work very hard on succession planning in this company. Particularly since the acquisition, I've worked diligently to build a good succession plan for every one of the senior positions, and even down to the next level. I think we've done a remarkable job in this regard. So if any one of us is hit by a car, our shareholders are not going to suffer.

These days, businesses run 24 hours a day, seven days a week. How difficult is it for you to really switch off and get away from the business?

I don't think you can ever really get away from the business. There is, with advanced technology, the ability to stay close to the scene. I think that Blackberries and all the other tools that we have are assets, but they can be addictive. It can lead to self-inflicted complexity. One thing that helps in this area is to tell it like it is. You can save time if you can get your point across succinctly. You need to be able to articulate what you want done and your vision of things. People soon catch on. I don't think you need to have excessive phone calls and six pages of e-mails. So, in that sense, I think you have to learn to deal with technology. Of course, that's hard for people, but once again, it's an editing process, and it's absolutely possible.

But to get away from the business – why would you want to get away from the business? I don't want to get away from the business. That doesn't mean that I want to work 16 hours a day, every day, but you can pick your spots. I definitely have a balanced lifestyle. I have a hobby I enjoy, I have a family I enjoy, and I love to work. I've always preferred not to get on public boards, so I can balance my life. I find it hard to focus and keep up the pace if I commit to being a board member and do a lot of other outside activities. But I think it's fine to think about your business on Saturday and Sunday, if you will. I can be out to dinner and have thoughts crossing my mind about things I'd like to do at work, but that doesn't make the dinner worse. It makes it better.

Do you have any thoughts about leadership in general, or when companies should change?

Effective leadership is based on strong company principles, patterns framed by recent events, actions, and facts. There is clear evidence that we must materially adjust our business model, but not our principles.

I feel companies who have brands should build strategic alliances with skilled consultants to continually challenge inside thought. I think the days are over when one can find a "guru" who knows it all.

As we grow older as leaders, we tend to become wiser. However, we also lean too much toward caution and become less competitive. It's the natural process. There's a reluctance to be quick and timely, and a propensity to not teach as much. You either get in gear or get out. I don't feel like getting out yet. ●