

BRIC Brand Focus

An Interview with Lawrence R. Rutkowski,
Executive Vice President and Chief Financial Officer, Warnaco Group, Inc.

EDITORS' NOTE From September 2003 until March 2005, Lawrence Rutkowski served as Warnaco's Senior Vice President and Chief Financial Officer. From December 1999 to June 2003, he served as Executive Vice President and Chief Financial Officer at Primedia, Inc. He served at National Broadcasting Company/General Electric as Senior Vice President and Chief Financial Officer Strategic Business Development and Controller of Corporate Finance from November 1993 to December 1999. Prior to this, Rutkowski held a senior management position at The Walt Disney Studios.



Lawrence R. Rutkowski

COMPANY BRIEF Warnaco Group, Inc. (www.warnaco.com), designs, sources, and markets a broad line of intimate apparel, sportswear, and swimwear worldwide under brand names including Calvin Klein, Warner's, Olga, Speedo, and Chaps. Warnaco's products are distributed domestically and internationally, primarily to wholesale customers through multiple distribution channels.

What is the history of Warnaco's business in Brazil and your outlook for growth in that market?

Three years ago, we set up a joint venture in Brazil and it has grown from virtually nothing to our second largest Latin American business, second only to Mexico. In 2009, we expect the joint venture to continue its strong pace of growth. Brazil is one of our fastest growing markets and has the potential to grow at a rate of roughly 25 percent. It has been a key target for us, and we've been very successful in the market.

Have you been focusing your business in Brazil around any particular brand?

Yes, in Brazil our focus is on our Calvin Klein business. We recently bought out our partner and that business is now a wholly owned entity. Also, as part of the transaction, we acquired eight Calvin Klein retail stores that had been operated outside of our joint venture.

For Warnaco and the Calvin Klein brand, is Brazil the key focus, or are there other countries within Latin America that offer strong opportunity?

All of Latin America offers opportunity. We've been in Mexico for more than a decade, so that business is somewhat more mature. But when we look to Latin America, Brazil is our single largest opportunity. We have also expanded into Buenos Aires and, in June 2009, we bought out a distributor in Chile and Peru. So we are vertically integrating those businesses.

Warnaco also has a history in China and seems to be growing strongly there. Will you give an overview of that business?

Until four years ago, we primarily operated in China through a distributor model, so Calvin Klein had significant brand awareness there. Since then, we have vertically integrated parts of that business and now operate directly in key markets, such as Shanghai, Beijing, Shenzhen, and Guangzhou. We're expecting that by 2014, China will be our largest market in Asia. In terms of dollar impact, China is probably the single largest growth business we have for Warnaco over the next five years, and we're looking now to aggressively expand into tier two, three, and four cities.

Are there opportunities as well as you look to Thailand, Hong Kong, and some of the other markets?

Today, we operate directly in South Korea, China, and Hong Kong. We're looking to expand into other areas across Asia where we currently have distributors. We're also looking at opportunities to vertically integrate a couple of those regions, primarily in Southeast Asia.

Has Russia been a focus for Calvin Klein and Warnaco, and do you have a presence there?

Our Calvin Klein business in Russia has been through a distributor, who is quite successful and has grown the business. However, 2009 was a significant challenge for the Russian economy and Russian retail. Indications are that Russia's GDP will return to growth in 2010, so we're hoping to see significant opportunities through our distributor. At this point, we do not have any plans to vertically integrate or directly enter the Russian market for the next several years.

What are your prospects for the India market?

India is similar. It's an area where we didn't have a presence two and a half years ago. While still quite small, we set up a business there, through a distributor, who is well-established in the retail apparel sector.

Have you seen indications of recovery and stabilization for the retail market in the U.S.?

It's better characterized as stabilization. We've seen improvement in the value channels, which includes membership clubs and value retailers, so there has been a bit of a channel shift. The good news is that things are stabilizing and, therefore, we have the ability to better predict the future and plan inventories accordingly. In terms of managing for profitability, it is easier to predict today than it was 6 to 12 months ago.

During this past year in particular, how critical has it been to maintain a regular dialogue with employees, and has communicating the message and the long-term strength of the brands been a key focus for you?

The importance of communicating in periods of instability and uncertainty is absolutely critical. It's necessary to keep people focused and motivated and to help them understand the longer term strategy. Two months ago, we articulated to all of our stakeholders our five-year projections, despite going through the worst global downturn in our lifetime. We felt it was important to confirm that our long-term strategies are still sound and the company is in a strong financial position. We believe this helped reduce the uneasiness of our employees, allowing them to focus on the growth opportunities for the business.

When you joined Warnaco in 2003, what made you feel it was the right fit, and has it been what you expected?

Yes, it has delivered more than I expected. The company had a portfolio of strong brands and opportunities to expand globally. We have done just that with Calvin Klein and, across North America, we have improved our heritage brands including Chaps, Speedo, and Warner's. The company was set in the right direction with significant opportunities to grow in both emerging and mature markets. ●