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Urban Outfitters doubles down on big stores as competitors cut back on space

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Urban Outfitters Inc. marches to the beat of its own drum - and that's not changing anytime soon.

While online shopping is forcing brick-and-mortar establishments to close, Urban is expanding to make room for a pizza restaurant.

While chains such as Target are moving to smaller, flexible "Express" stores, the Urban brand Anthropologie is doubling in size.

And while most retailers prefer having their stores spread out to attract the most customers, Urban is clustering four of its biggest brands at King of Prussia Mall.

The moves in recent months have burnished the company's reputation as a rebel in the retail world.

Maybe it's because the firm was conceived by two graduate students in the heady days of 1970.

The company shies away from media coverage, preferring to "control its own destiny," says director of investor relations Oona McCullough. It declined to provide data for a Wikipedia company profile.

The go-it-alone vibe isn't new. "Urban Outfitters has been exploring new and expanded concepts for years; Anthropologie was a result of these efforts," said national retail consultant Howard Davidowitz of New York-based Davidowitz & Associates Inc.

The company's other brands include Free People (which sells Bohemian chic), BHLDN, pronounced *beholden* (bridal), and Terrain (garden centers). The Vetri chain of pizza and Italian restaurants was added last year.

The company said in late April that it was grouping together four brands - Urban Outfitters, Anthropologie, Free People, and Pizzeria Vetri - for the first time, beginning in the fall, on the second level at King of Prussia Mall.

"The unique opportunity to locate our four Philadelphia-based brands in the Pavilion at the King of Prussia Mall allows us to create a one-of-a-kind shopping experience for our local customer," said Dave Ziel, chief development officer for Urban Outfitters Inc. "It's an exciting layout that enables us to activate the common area between the store locations for a bar and lounge so customers can gather in an environment that has our aesthetic and exceptional customer service."

This has been Urban's M.O.: Zig while others zag, and keep swinging.

Mashing brands together "does defy conventional wisdom with respect to mall shopping traffic patterns," Davidowitz said.

So do the new super-sized stores. "Anthropologie has had a few larger stores [about 25,000 square feet] for several years," he said. "The new superstore [Anthropologie] concept, which measures about 34,000 square feet, may be intended to extend the product offering" such as home goods - a hot area - as a natural extension of furniture.

"This does go against the retail industry trend to smaller stores."

Target recently announced that the first pair of smaller Express stores geared for Center City will debut on July 20 and Oct. 5. While these stores average about 20,000 square feet, jumbo Anthropologie stores will be nearly twice as large.

Bridget Weishaar, senior equity analyst at Morningstar Inc., wrote in a May note, "We think that Urban Outfitters is doing everything right by strategically offering low, entry-level price points with higher prices for must-have items . . . expanding non-apparel categories that are gaining share of wallet, and investing in direct-to-consumer capabilities and experience."

Total company sales for the first quarter of fiscal 2017 that ended April 30 rose 3 percent over the same quarter in the previous year, to a record $763 million, according to last month's earnings call.

CEO Richard A. Hayne attributed the numbers to "more compelling product assortment, improved inventory management, and stronger marketing" - and, as noted by Ziel, getting shoppers to stay longer and spend more.

Urban's stock has fallen from the mid 30s to the high 20s over the last year, yet that is far better than its larger competitor, the Gap, whose stock has fallen by about half.

"The customer response to expanded categories and the larger store format at Anthropologie supports the theory that there is a place for brick-and-mortar retailers if the experience is omni-channel, innovative, and differentiated," Weishaar wrote in the same note.

Why is Urban doing this?

Because it can, said consultant Davidowitz. "Perhaps total dependency on its core concept - edgy, inner-city, fashion-forward apparel with a sometimes fickle teen customer - led it to consider diversification," he said. "Its success enabled it to explore other areas."

But, he warned, "The effort is perilous, in that it can distract the organization to the detriment of its core business."

Catt Leader, 20, a bartender from Vineland, N.J., was not distracted. She loves the retailer's edginess.

She said she does most of her shopping online, but Urban's stores still compel her to come in and browse.

There was plenty for her to see at the four-story Center City Urban Outfitters store recently. It sells items from clothing and sunglasses to vinyl albums and home decor.

"I would love to come in more often," Leader said. "It fits my style. No other company can give me what I want in one place.

"More companies are focused on their online business, and not enough on their stores, and here, it's not like that," she said.

Simeon Siegel, senior retail analyst at Nomura International Inc., said Urban's strategy was risky, but with a potential payback.

"One way to protect against e-commerce is by making stores more experiential," he said. But while "it may bring more traffic through the store, whether it will actually drive higher sales remains to be seen."

"However, one thing is certain: Status quo is not sustainable, and doing nothing will not help in the new norm of retail."