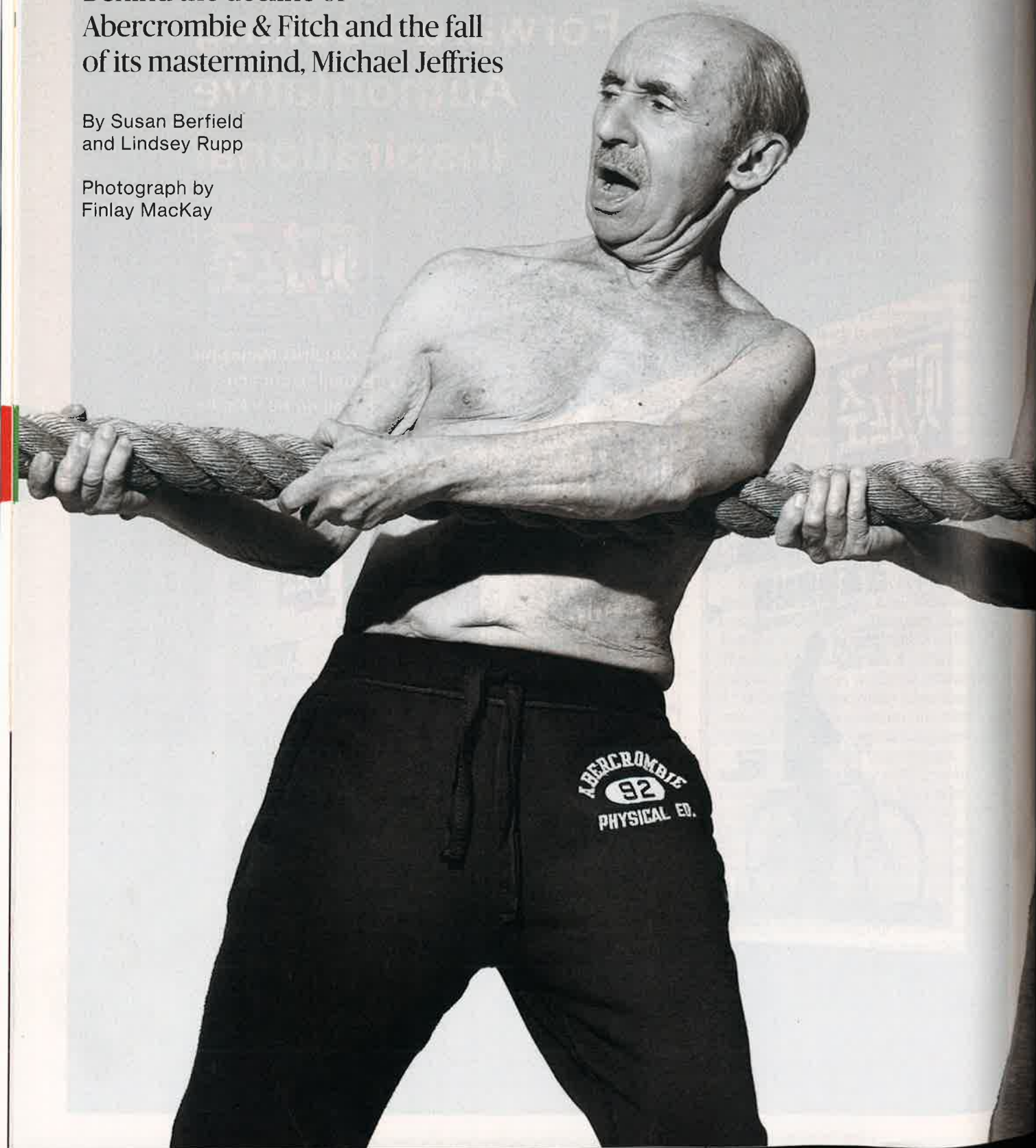


Holding on to R

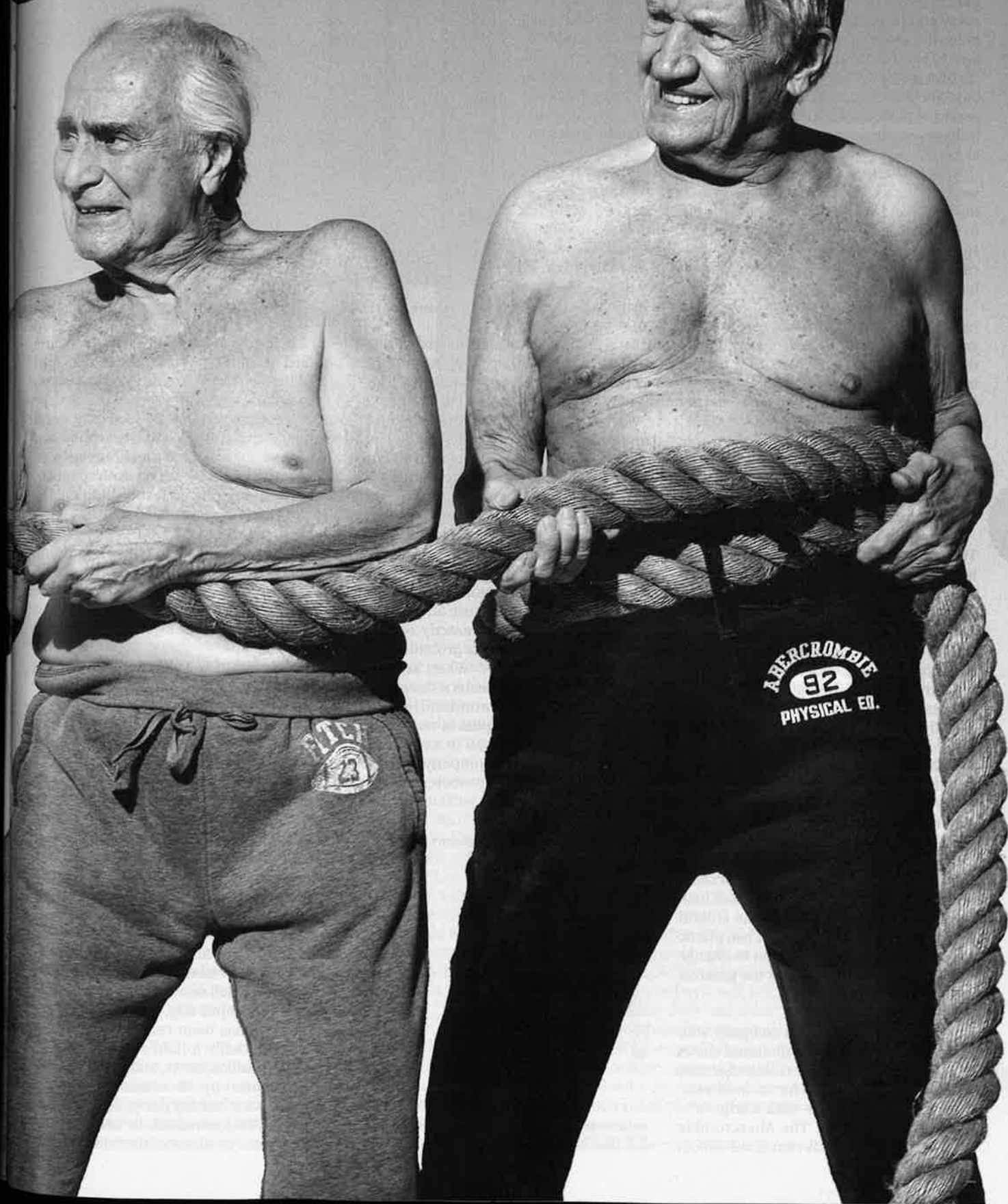
Behind the decline of
Abercrombie & Fitch and the fall
of its mastermind, Michael Jeffries

By Susan Berfield
and Lindsey Rupp

Photograph by
Finlay MacKay



elevance



On Sunday morning, Dec. 7, Michael Jeffries called some of the senior executives at Abercrombie & Fitch to discuss the holiday season. That was typical Jeffries. He was the creator and chief executive officer of the modern-day Abercrombie and had controlled virtually every aspect of the company for the past 22 years. He approved every piece of clothing and for a while every employee, too, including the clone army of beautiful young men who stood shirtless at store entrances. He instructed staff on how to present themselves, down to the length of their fingernails. He obsessed over the publication of catalogs filled with cavorting boys and girls that many called pornographic. For years it was sold sealed in plastic, and one had to be 18 years old to buy it. He had built an empire of cool based on preppy, well-made, expensive clothes, worn low and tight.

Jeffries, who is 70, tried to keep up appearances. He lifted weights, barefoot, in the company gym most mornings. He dyed his hair blond and regularly visited his plastic surgeon, according to former executives who spoke on the condition of anonymity. He wore torn Abercrombie jeans and flip-flops around the woody campus outside of Columbus, Ohio, though he used to put on his lucky Tod's loafers to review the numbers every day.

The loafers had stopped working. Sales at established stores had fallen in five of the past seven years, and 2014 wasn't looking good, either. Profits were expected to be about \$106 million, less than half of what they had been in 2012. Jeffries's pay had been cut by about 70 percent, he had lost his position as chairman of the board, and his employment contract was expiring in February 2015.

On Monday, Dec. 8, Jeffries didn't arrive at work in his black Range Rover. He never showed up. Early the next morning, Arthur Martinez, the former CEO of Sears and the chairman of the Abercrombie board since early 2014, called the senior executives into a meeting. He told them that Jeffries was leaving and the company was looking for a new chief executive.

Abercrombie released an awkward final comment from Jeffries. The employee handbook conveys more emotion. "It has been an honor to lead this extraordinarily talented group of people," Jeffries wrote. "I am extremely proud of your accomplishments. I believe now is the right time for new leadership to take the company forward in the next phase of its development." No one saw Jeffries in the office again, and he couldn't be reached for comment.

Martinez, along with the chief operating officer and two senior executives recently brought on, is in charge until the board selects Jeffries's successor. "The feeling was that it would be difficult, socially and interpersonally, to choose a new CEO with Mike in the chair," says Martinez. "He was the seminal person, he invested his whole life in the company, but he had to step aside. There is a certain sadness about it. It is the end of an era."

Robin Lewis, a retail consultant who's observed Jeffries for years, says Jeffries couldn't make significant changes to Abercrombie. "Mike indelibly linked his entire persona, his soul, to this brand's image. He even tried to make himself look like his customers. He used to run around in ripped jeans and a T-shirt. He had plastic surgery," says Lewis. "For him to change the brand would have taken the greatest psychologist in the world."

Abercrombie is a \$4 billion company with three brands and about a thousand stores in 19 countries. A&F is for college-age men and women, Hollister is for 12- to 18-year-olds, and abercrombie—with a little "a"—is for those under 12. The Abercrombie look across the brands remained almost



A store interior in 1913

unchanged since Jeffries first defined it in the mid-1990s: sweatshirts and sweatpants and hoodies—until recently with huge A&F and moose logos—as well as graphic T-shirts, polo shirts, jeans, shorts, and flip-flops. Jeffries has called the style the "essence of privilege and casual luxury." The A&F stores, mostly in malls, had dark wood shutters and played loud dance music. Black-and-white photos of young men and their abs adorned the walls and the shopping bags.

The attitude—conformist, sexy, exclusive—hadn't evolved much, either. But teens have. They are shopping at fast-fashion chains such as Forever 21 and H&M, which are dirt cheap. Jeffries didn't think A&F should discount. He wouldn't sell clothes bigger than women's size 10 until about a year ago. It wasn't until last spring that he allowed the lights to be turned up in the Hollister mall stores and the shutters taken off the A&F ones. He lowered the music and reduced the amount of cologne sprayed in the stores by exactly 25 percent. And he agreed that the logos had to become less prominent, too.

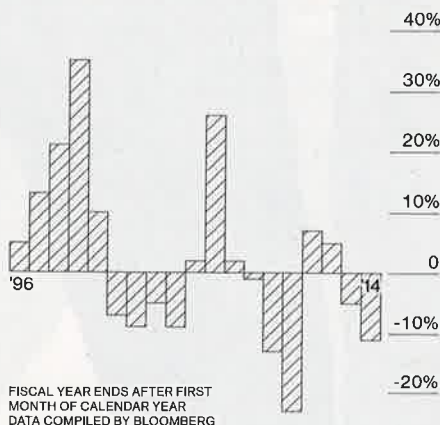
When asked if Abercrombie could ever have the impact on teens it once did, Martinez is almost philosophical, saying, "The wonderful and terrible thing about retail is that occupying the peak is very perilous. Aspiring to and reaching that position puts you in a very vulnerable position. The world moved on, and the company has to move on."

Abercrombie's \$130 million headquarters is about 15 miles from downtown Columbus in New Albany. There are 12 buildings spread across 300 wooded acres. The guards at the gatehouse wear Abercrombie denim shirts and jeans. Visitors enter through the main building, past a black-and-white photo of a seminude couple making out. Employees get around on scooters. There's an outdoor area with benches for meetings and a pit for bonfires. A fitness center takes up the floor below the cafeteria, which serves three meals a day. There's a campus dog.

Jeffries has been reclusive for years. He never really joined retail groups or attended fashion shows, and he isn't known for philanthropy. He sometimes skipped the company holiday party, and he rarely speaks with journalists. In late April, he agreed to a 15-minute interview on the

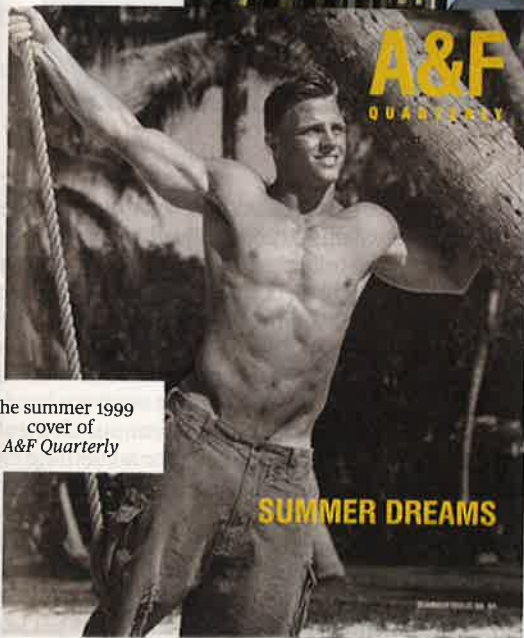
Sales Stripped

Abercrombie same-store sales growth by fiscal year

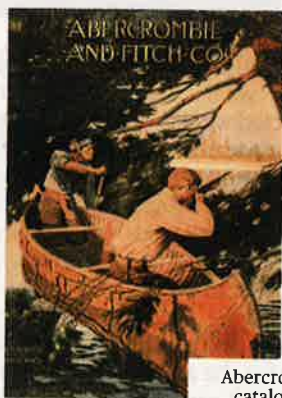




A billboard from 2012



The summer 1999 cover of A&F Quarterly



Abercrombie & Fitch catalog from 1909



Jeffries, left, with photographer Bruce Weber in 2005

campus to show how the company was evolving. It was his first face-to-face interview since 2006. Jeffries wouldn't allow tape recorders or cameras, and his public-relations representative warned that he wouldn't answer questions about any controversial matters.

Jeffries didn't really keep an office. He spent most of his time looking over clothes in a room designed to look like a college lecture hall or in a nearby conference room. He sat there, wearing his usual cuffed jeans with a blue-and-white striped oxford shirt and brown flip-flops. Jeffries described the changes he was making in a way that seemed rehearsed: Abercrombie was introducing more fashionable clothes more quickly, taking away some of its logos, and collaborating with Keds on a collection of sneakers. He talked about having faux-fur salons in A&F stores this winter: "I so love that. Isn't that cool?" (There are no faux-fur salons this winter.) He noted that Hollister dresses could be sold for less. "We feel we put a little more make into the garments than a 16-year-old would appreciate. Does a Hollister dress need to be lined? Probably not."

When asked about his possible retirement, he said: "Succession planning is a big deal." Then the 15 minutes were over. He stood up, offered a quick squeeze of the shoulder, and left.

Abercrombie & Fitch was a century old when Jeffries joined in 1992. It had been a sporting goods emporium for adventurers and the elite: It outfitted Teddy Roosevelt, Admiral Byrd, and Charles Lindbergh. Ernest Hemingway shopped there. After falling on hard times, it was bought by the Limited in 1988 for \$47 million. A first attempt at reviving the brand failed, leaving Abercrombie to sell

croquet sets and long skirts with whale appliqués. Les Wexner, the head of the Limited, hired Jeffries to start over.

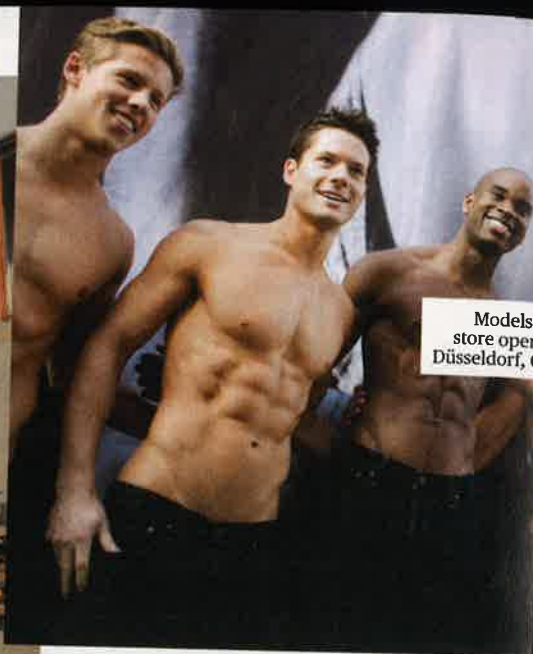
Jeffries, then 48, had been at Federated Department Stores before opening Alcott & Andrews, a company aiming to be the Brooks Brothers for women. After six years it went bankrupt. He moved to Paul Harris, another women's clothing line, which in 1991 also filed for bankruptcy.

When Jeffries arrived at Abercrombie, he wore khakis, oxford shirts, and loafers. He had been married and had a son, but at some point he separated from his wife and quietly came out. His partner, Matthew Smith, was around on social occasions. Leslee Herro, an executive who had been with Abercrombie before Jeffries joined, later recalled Jeffries's first appearance at a Limited annual meeting: "It was kind of like a pep rally. We were all wearing our cargo shorts and plaid shirts. And all 15, 20 of us in the whole company we're cheering. I will never forget the image of Mike in my mind, with his arms up in the air, saying, 'We will be a world-known, fun, spirited brand!'"

Abercrombie & Fitch went public in 1996. It had about 125 stores, sales of \$335 million, and profits of almost \$25 million. Jeffries wrote a 29-page "Look Book" for the sales staff. Women weren't allowed to wear makeup or colored nail polish. Most jewelry was forbidden. So were tattoos. Hair had to be natural and preferably long. Men couldn't have beards or mustaches. The only greeting allowed was: "Hey, what's going on?" Store managers spent one day a week at their local college campus recruiting kids with the right look. They started with the fraternities, sororities, and sports teams. Managers forwarded photos of potential employees to headquarters for approval.

Jeffries sent a weekly "time line" to each store, listing

Employees at the New Albany campus



Models at a store opening in Düsseldorf, Germany

each task, including exactly how to arrange the clothes. One button had to be left undone if a blouse were hung, two if it were folded. Representatives from headquarters conducted what they called blitzes to make sure standards were met. Rehab teams were sent in if they weren't. "This is very much a military operation," Jeffries told the *Wall Street Journal* in 1997. "It is very disciplined and very controlled." When Jeffries visited stores, he didn't challenge managers about payroll or theft, says a former executive—he cared only that the stage was set properly and the staff looked the way he wanted.

In 1997, Jeffries started the *A&F Quarterly*, a magazine and catalog that sold for \$6. Sales staff went on casting calls for the shoots with photographer Bruce Weber. Taylor Swift, Jennifer Lawrence, and Channing Tatum modeled. There were guides to group sex, getting it on in movie theaters, and drinking games. Abercrombie eventually agreed to check the age of potential buyers. When Jeffries shut down the magazine in 2003, he said it was because it was getting boring.

Alisa Durando joined the company in 1996 as a designer. "We could influence Mike about product but not marketing," she says. "He was phenomenal. He was always creating the movie, the lifestyle story he wanted to project."

Jeffries's home looked like an Abercrombie store, with dark wood floors and arty skin pictures. Male models helped out around the house. Jeffries and Smith hosted parties for executives at bonus time or to celebrate a good quarter. Mostly, though, Jeffries worked. He once conducted an earnings call while he was recovering from plastic surgery, his voice hoarse, according to a former executive and an analyst on the call. He would return to work with his face still swollen from a procedure, former executives say. When he traveled, he sent an advance team to make sure his car and hotel looked and smelled the way he wanted. On West Coast trips, he'd call meetings in his hotel room at 5 a.m. Models in Abercrombie outfits were there serving coffee.

He created a fantasy world, and plenty of teens wanted to be part of it. For a decade straight, Abercrombie's profit increased every year as it expanded to 600 stores. During the 2001 recession, Abercrombie's sales started slowing, but Jeffries didn't lower prices. He often waded into controversy. Abercrombie stocked T-shirts that said, "Wong Brothers Laundry Service: Two Wongs Can Make It White." After Asian American students organized a boycott in 2002, the company pulled the shirts from its shelves. A month later, it introduced thongs for preteen girls

printed with "Eye Candy" and "Wink Wink." Parents protested, and Abercrombie stopped selling those as well.

At the end of 2002, an analyst asked Jeffries if the chain's tight shirts and low-riding jeans might be unnecessarily excluding some teens from shopping there. "Does it exclude people? Absolutely. We are the cool brand," Jeffries replied.

"There was a brand filter that said everything needed to be cute and sexy," says Durando. "It didn't matter that we were becoming more narrow in terms of who was able to wear our clothes."

Abercrombie sometimes seemed like code for something else. Asian American, African American, and Hispanic college students in California sued Abercrombie in 2003 for racial discrimination in its hiring practices. The U.S. Equal Employment Opportunity Commission joined the case. The suits alleged that minorities were turned down for sales positions, shunted to stockrooms, and had their hours reduced, sometimes to zero, after managers got word that their staff didn't look Abercrombie enough. The company said it didn't tolerate discrimination and settled the suits for \$50 million without admitting wrongdoing. As part of the deal, Abercrombie was subject to a consent decree that required it to hire a diversity officer and give progress reports to the district court. (This summer the diversity officer left, and Abercrombie gave the responsibilities to another executive.)

In the autumn of 2004, Jeffries introduced Ruehl No.925, a line of clothes for men and women in their mid- to late 20s. He described potential customers as having graduated from college in Indiana and moved to New York City. The Ruehl stores—located in malls—had real brick facades, wrought-iron fences, and antiqued windows to suggest a Greenwich Village town house owned by the fictitious Ruehl family. Ruehl was the only brand in the A&F portfolio allowed to sell black clothes. "He had such high standards. It was inspiring," says Durando, who led the women's design team for Ruehl.

Senior executives came and went, none able to exert any influence over Jeffries. If they had ideas different from his, it didn't turn out well, says a former executive who worked on the business side. Jeffries talked of retiring one day but pushed out potential successors. The board of directors, composed mostly of local businesspeople, deferred to him in this matter, and most others.

In 2005, Jeffries opened a grand A&F store on Fifth Avenue, near Prada and Gucci. The shirtless models at the entrance were held to high standards: Amy Zehrer, the executive in charge of stores, later told investors that managers checked on each guy every 30 minutes to find out "how many photos are being taken with him and to see if it's on track."

When Abercrombie opened a store in 2007 around the corner from London's Savile Row, Jeffries was filmed by the BBC walking down the street in flip-flops. "I believe we are going to be here 200 years from now, living in harmony with these businesses," he said.

Jeffries introduced a lingerie brand, Gilly Hicks, in 2008. It had an elaborate back story about a woman named Gilly Hicks and her granddaughter who lived in a manor house in Australia. When Beverly House joined Abercrombie to develop Gilly Hicks, she visited Sydney to see what a manor house looked like. "At one point we tried a floor with antique Parisian stone, and it became too bulky," she says. "So we jackhammered it up. We went way over budget, but that was Mike's world."

House says Jeffries hated the way hanging bras looked, so she put most in drawers. "He thought all those bras, with those two big mounds of foam coming at you, was offensive."

In 2009, Abercrombie closed all 29 Ruehl stores. The brand had lost \$58 million the year before. The Gilly Hicks stores survived until 2013; the underwear and bras are still available in Hollister stores and online.

Abercrombie's same-store sales dropped 13 percent in 2008 and 23 percent in 2009, and though the company remained profitable, signs began to emerge that Jeffries's personality might overwhelm the business, especially if it wasn't growing. In 2010 the board limited his use of the company's Gulfstream G550 to \$200,000 annually, although it also gave him a \$4 million travel stipend.

In 2010, Michael Bustin, 53, a pilot who flew the Abercrombie plane, filed an age discrimination lawsuit against the company. Abercrombie's general counsel said the suit was without merit. The complaint included a 40-page "Aircraft Standards" manual. As Bustin put it in his deposition, "Every single aspect that you can imagine that affected the airplane or our behavior in it was controlled by Abercrombie & Fitch, specifically, Michael Jeffries and Matthew Smith." The four male crew members (models provided to Abercrombie) had to wear jeans, boxers, polo shirts, and flip-flops. The manual specified the seating arrangements for Jeffries's three dogs, the length of the spoon Smith required for his tea, and the proper way to respond to requests ("No problem"), fold washcloths, vacuum, dust, and present magazines. When Jeffries was called to give a second deposition in the winter of 2012, Abercrombie settled the case without admitting wrongdoing. The details weren't made public.

In August 2014 a pension fund in Florida claimed the board breached its fiduciary duties by overpaying Jeffries and noted his partner was allowed to act like an executive. Lawyers obtained internal documents that showed Smith, who had no official role at Abercrombie, had made 170 unannounced visits to stores from August 2011 to November 2013, "providing reports on stores' appearance, staffs, and atmosphere," according to the complaint. He had a "direct role" in assessing store openings and closings outside the U.S. On the jet, he received sales reports. (Smith couldn't be reached for comment.) Earlier this month, the company settled without admitting wrongdoing. In court filings, lawyers for the pension fund said Abercrombie had already improved its corporate governance and had agreed to appoint a chief ethics and compliance officer.

In the spring of 2013, Lewis, the retail expert, noted that the A&F brand didn't carry large sizes because Jeffries wanted only thin, beautiful people to shop there. Comments to that effect he made in 2006 went viral. That caused new outrage. Soon people were spoofing A&F's ads and protesting its standards. This time potential

customers were complaining, not their parents. Jeffries issued an apology on Facebook. Benjamin O'Keefe, an 18-year-old, started a petition demanding A&F carry bigger sizes. Executives invited him to visit headquarters in May. "I think they realized what was happening, that A&F wasn't speaking to its customers the right way. But they were afraid of Mike," says O'Keefe. "My sense was they were like, 'We appreciate you being here. We hear you. We wish there was something we could do.'" He didn't think anything would come of the conversation. Six months later, A&F announced it would begin selling larger sizes, primarily online.

A Piper Jaffray survey in fall 2013 asked teen girls what brands they no longer wear: A&F and Hollister ranked second and third. (Aéropostale was first.) By the end of 2013, a year in which same-store sales dropped 11 percent at Abercrombie, the company had closed at least 220 mall stores. Another 120 stores in the U.S. would be gone within two years, it said.

Engaged Capital, a hedge fund that owns a small stake in Abercrombie, issued a public letter in December 2013 calling for Jeffries's resignation and for the company to consider putting itself up for sale. Glenn Welling, the fund's founder, noted that Jeffries's total compensation since 2008 was \$140 million, second only in his peer group to Ralph Lauren. Abercrombie's total return to shareholders was far behind its peers', though. Under pressure from shareholders, Abercrombie restructured Jeffries's contract to tie his bonus to the company's performance. The contract was for just one year. In January 2014 the board stripped Jeffries of his role as chairman and brought in four independent board members, including Martinez.

"It took a very dominant, controlling, detail-oriented visionary to build Abercrombie," says Richard Jaffe, an analyst at Stifel Financial. "And those very same traits undermined the company, kept it from evolving."

Martinez, who's 75 and spoke by phone from New Albany, says that the Abercrombie campus will remain the same. But he will wear regular shoes. "I wear flip-flops at the beach," he says. The Gulfstream has been grounded. The conference room that Jeffries had used as his office is now just a conference room. Martinez sits elsewhere.

He says the first changes will be to the stores. "Mike was very focused on the stagecraft of our stores," he says. "I would say an inordinate amount of time was spent on shop keeping. We want customers to be first. We don't have to turn the company and brands on their heads to do that." The shirtless men are mostly gone, or at least wearing shirts now. The company wouldn't say if it will continue to enforce the "Look Book." The store closings in the U.S. will continue as planned. Martinez says that online revenue could account for as much as 40 percent of total sales in three years.

Then there's the logos. Martinez says Jeffries went too far, so he will add some back, especially internationally, where Abercrombie gets about one-third of its revenue. Beyond that, Martinez can't say what Abercrombie will look like without Jeffries. That's for Christos Angelides and Fran Horowitz, the presidents of A&F and Hollister, respectively, and the new CEO to determine. Martinez wouldn't give any indication of how the search is proceeding. But he did say that Angelides and Horowitz, as well as Jonathan Ramsden, the chief operating officer, are candidates.

It could be too late for Abercrombie to fully revive itself, though. "Getting around a tainted brand is the exception, not the rule," says Jaffe. "Brands can be left standing for something that means nothing." **B**

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