



Freeport Studio

We never lost confidence in Fran. But when you miss forecasts by 70%, you've got some problems. Our bet was Fran would find the solutions so we'd break-even by year two.

—Leon Gorman, President
L.L. Bean, Inc. Freeport, Maine
October 1999

In November 1999, Fran Philip (HBS '83), senior vice president and general manager, faced some tough choices. Either she came up with a credible plan to make Freeport Studio profitable in the next year or risk having the business closed by its parent - retailer and catalog powerhouse L.L. Bean.

Freeport Studio was a new brand of women's clothing sold through a catalog. L.L. Bean created the brand in an effort to revive stagnating sales and reduce seasonal sales swings. After an intensive review of internal needs and external opportunities, L.L. Bean decided that a women's catalog clothing brand both fit well with the company's existing operations and had great potential in the marketplace.

Freeport Studio was launched with great excitement in January 1999. The excitement soon faded when sales for the first few months were below expectations. The business seemed to recover in the spring, but then the bottom fell out - results for July fell short of plan by some 70% and total fall demand (July-November) was off by 60%. First year sales estimates, which had been reduced from an initial \$80 million to \$66 million after the slow launch, were reduced again to \$43 million after the fall catalog drop in early August. Any hope of a profitable year had also disappeared. Projections were revised from an estimated \$6 million profit at the time of the launch to a \$2 million loss by November. Compounding these problems was a troubling unsold inventory that was approaching \$12 million.

Philip was devastated. She knew she had little time to make changes to the spring catalog, which would be mailed in January. As soon as the catalogs had started under-performing, the market research department had conducted extensive customer research. Philip, a seasoned cataloger, knew she would need that information. "I don't know if it's the clothes or the creative or the customers who're getting the catalog," Philip said to herself, staring out into the dark Maine night, "but by the time the spring book goes out, I'll have done everything I know how to do." If she

James Weber, Senior Associate - Center for Case Development, and Professor Rajiv Lal prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. While this case describes real events, certain data have been disguised.

Copyright © 2000 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

failed and the catalog was closed, staff members would be forced to find other positions within L.L. Bean and the company would lose a great opportunity to jumpstart its growth.

L.L. Bean

Leon Leonwood Bean founded his company in Freeport, Maine in 1912 to make a better hunting shoe by attaching leather uppers to rubber bottoms. Bean then mailed circulars to a list of non-resident Maine hunting license holders guaranteeing his Maine Hunting Shoe to give “perfect satisfaction in every way.” When 90 out of the first 100 shoes he manufactured were returned because they fell apart, Bean stood by his promise, fixed the problem, and replaced the shoes.

The business took on Bean’s personality and values: dependable, honest, friendly, and personally interested in the customers. Bean, known for his thrift, encouraged his customers to send their Maine Hunting Shoes back for repair when they became worn, rather than discarding them. During discussion of a production incentive system, Bean, concerned about maintaining quality, reportedly stated he “would rather see an employee do a good job than hurry, and anyway, I eat three good meals a day and couldn’t eat a fourth.”¹ Throughout its existence, the company strove to meet Bean’s values and what he referred to as the Golden Rule: Sell good merchandise at a reasonable profit, treat your customers like human beings, and they will always come back for more.

L.L. Bean specialized in outdoor related products such as clothing and equipment for hunting, fishing, and camping, but also sold dog beds, tote bags, travel items, and other “interesting” goods and gadgets. Given its heritage, clothing products were typically designed to keep a body warm and dry in the often harsh conditions of the Maine woods. Bean continuously added products to his line as long as he had thoroughly tested them and believed they were the best available.

For many years, the business consisted of the catalog, a manufacturing plant, and a single, but large, store in Freeport. Since 1951, the store was open 24 hours a day – 365 days a year to better serve its customers. Bean himself could often be found in the store shaking hands and talking with customers, and he seemed to be as happy offering outdoor advice as making a sale. Bean remained active in the business until his death at age 94 in 1967. By that time, sales had reached nearly \$5 million.

Leon Gorman, Bean’s grandson, became president of L.L. Bean shortly after Bean’s death. Gorman’s efforts to modernize the business, combined with a greater interest in outdoor leisure activities in the 1970s and 1980s, led to a period of rapid growth. By the early 1990s, sales had reached \$1 billion. Throughout this period, L.L. Bean’s business strategy and product focus had not changed significantly. One factor contributing to the growth in the late 1980s and early 1990s was increased sales to Japan. L.L. Bean had long mailed its catalogs internationally, but such sales had been modest. In the early 1990s, surging catalog sales to Japan spurred L.L. Bean to open nearly 20 retail stores in that country as part of a joint venture.

By 1999, under Gorman’s continued leadership, L.L. Bean, long a Maine institution, had become an internationally known brand. The “flagship” store was still located on its original site and had grown to over 140,000 square feet in area. With 3.5 million visitors per year, it was Maine’s second most popular destination behind only Acadia National Park. L.L. Bean had also opened 10 outlet stores. These stores, located primarily in the northeast, sold discontinued items, seconds, and overstocks. The company’s primary business was its catalogs which earned some 80% of total sales. L.L. Bean offered 16,000 products in over 70 different catalogs, and mailed over 200 million catalogs per year to the six million active customers in its master file. It manufactured 5% of the products it sold, including the Maine Hunting Shoe, and used outside vendors located worldwide for the

¹ Historical material from “L.L. Bean, Inc.,” HBS No. 366-013, by Charles Leighton and Frank Tucker.

remainder. Overall, L.L. Bean employed 4,000 people year round and an additional 6,000 during the Christmas shopping period, nearly all in the Freeport area.

Challenges in the 1990s

Despite its success, L.L. Bean faced several challenges. The most pressing were stagnant sales and a heavy dependency on the 4th quarter, or holiday season. Sales, which had grown 15% per year for the three years ending in February 1995, had grown less than 2% per year since then. The lackluster sales were caused by falling demand for many of L.L. Bean's core products and poor performance overseas.

L.L. Bean had long been a seasonal business with slow sales in January through October and a huge jump in November and December. This led to an unproductive use of company resources and had L.L. Bean typically running at a loss for its first three quarters of the year. The problem was becoming more severe as the company grew larger. L.L. Bean needed to find and hire some 6,000 seasonal workers yearly. Many of these were telephone representatives, but in recent years, several large companies in other industries had moved their customer service operations to Maine and seasonal workers that L.L. Bean had trained began to find permanent positions elsewhere.

The Search for Answers

In the fall of 1997, L.L. Bean hired the Boston Consulting Group (BCG) to work with a team of L.L. Bean employees to come up with solutions to the sales growth and fourth quarter dependence problems. Fran Philip was selected to lead this group and would report directly to Gorman and his top team (which later became known as the Office of the President, or O.O.P.).

Philip was an experienced cataloger. After graduating from the Harvard Business School in 1983, she held management positions at two catalog companies, Williams-Sonoma and The Nature Company, before joining the startup team at Calyx & Corolla in 1988. There, she and her partners created an innovative system of sending flowers directly from the growers to the consumer. At Calyx & Corolla, she was the vice president of operations and in that role was responsible for customer service, communication with growers, systems development, and finance and accounting. The business sent out 11 million catalogs per year and was earning \$15 million in sales by 1994 when Philip was lured away by L.L. Bean. At L.L. Bean, Philip conceived of and merchandised several new catalogs. She was selected to head the BCG/L.L. Bean team partly because she was the newest member of the L.L. Bean senior management group and Gorman felt it was important to have someone less tied to the traditional thinking of the company.

Gorman had asked the BCG/L.L. Bean team to come up with several new sizable concepts to drive demand and profit to the off-peak months. The team considered many ideas in their search; both extensions to existing lines and categories totally new to L.L. Bean. Concepts considered included women's sportswear/casual clothing, plus or large-sized clothing, home lines, and travel lines. The women's sportswear/casual clothing included items such as dresses, jumpers, pants, and other garments that women might wear shopping, to dinner, or to a professional job on casual Friday. The casual clothing segment, often referred to as updated sportswear, was a bit dressier than weekend shorts and T-shirts, yet not formal. L.L. Bean had an existing women's apparel line that tended to be less dressy than the updated sportswear segment. Home lines was a broad category and covered items such as bedding and bath linens, indoor and outdoor furniture, and garden accessories. L.L. Bean had previously launched a home line and it had become one of the company's fastest growing and most profitable segments.

The team soon focused on updated sportswear because it seemed to address the key problems facing the company, and it was an attractive market. Women tended to buy clothing for themselves evenly throughout most of the year, but there was a slow period during the holiday buying season. (See **Exhibit 1.**) A large portion of these sales were through catalogs. The segment was large and growing faster than the overall women's apparel market. (See **Exhibit 2.**) This was due to women wearing updated sportswear type clothing in more situations and an increase in the number of companies with casual dress codes five days a week. In response to this market opportunity, two large catalog companies, Land's End and Eddie Bauer had expanded in the segment by creating new brands. Other competitors, such as J. Jill, Coldwater Creek, and Nordstrom, were growing rapidly in this segment as well; both in terms of sales and in their 12 month buyer files (those who had purchased within the past year). (See **Exhibit 3.**) Finally, a large portion of individuals who bought from L.L. Bean, bought also from companies that focused on updated sportswear. (See **Exhibit 4.**)

The BCG/L.L. Bean team created several charts to further clarify their thinking on how L.L. Bean might compete in the market. The first chart looked at where many women's apparel companies positioned themselves in terms of the clothing's style/fashion and its intended end use (See **Exhibit 5.**) The team also looked at the product mix of likely competitors and the price point range within those offerings (See **Exhibit 6.**)

The Catalog Industry

Catalog retailing had several key characteristics not found in other forms of retailing. First, customers only saw what was in the catalog and many aspects of the catalog were fixed several months to a year prior to its arrival in the home. Quick changes in merchandising and price, common in store and internet based retailing, were not possible in catalogs.

Second, catalog retailers' lifeblood was its customer file and mailing lists. The single best potential buyer for a catalog was someone who had bought from that catalog in the past – the more recent, or more often, or more money the individual spent, the better. Thus, a new customer not only improved today's sales, but also increased the likelihood of future sales as well. At the same time, there was a high attrition rate among customers. The catalog industry had a historical attrition rate of some 50%. L.L. Bean's experience was no different from the industry average - fully half of this year's customers would not be customers next year. This meant that it was necessary to constantly find new customers to survive in the industry. Maintaining and growing the 12-month buyer file was a key performance criteria.

A catalog company found new customers by more efficiently converting names on its existing mailing list to customers, and by obtaining new lists from list brokers. List brokers typically rented out lists of names on a one-time use basis. Because catalog shoppers tended to buy from more than one catalog company, it was valuable for a catalog company to rent the buyer files of other catalog companies. This "sharing" of lists was facilitated by list brokers. Thus, L.L. Bean would both rent its list to a broker and rent other lists from the broker. Sharing of customer data, not common in other forms of retailing, was the norm in catalog retailing. Extensive data about a list was readily available prior to its rental. (See **Exhibit 7** for a copy of a list data card describing J. Jill's list.)

"One of the things I loved about the catalog industry," Philip stated, "was all the numbers. Buying habit data existed that you just didn't get in other channels. With my training, it was great to be able to make decisions based on quantitative analysis and not just intuition."

Freeport Studio

In December 1997, the BCG/L.L. Bean team finalized the business concept of what later became known as Freeport Studio. Leon Gorman and the O.O.P. approved the concept and asked Philip to create a business plan. Philip's first hire was Cindy Marshall, an L.L. Bean marketing manager with prior experience at J. Jill. Philip and Marshall wrote the plan over a weekend and it was approved by late January 1998. The business plan called for the first catalog to be mailed in January 1999. Philip called the schedule aggressive, but attainable. For L.L. Bean, she noted, it was like going into "warp drive."

Philip spent early 1998 forming her key management team. She knew that to successfully launch Freeport Studio in such an aggressive timeframe she needed the best possible talent. In particular, she was looking for individuals with a combination of L.L. Bean tenure and significant outside experience with other retailers. Philip also wanted like-minded entrepreneurs who could share her vision for Freeport Studio and be comfortable with the risk and ambiguity involved in a new startup. In addition to Marshall, the marketing manager, Philip hired Deb Snite, a seasoned merchant as product manager, Jill Gravel, a strong buyer to manage inventory and sourcing, and Kristina Boissonneault, a systems specialist known for her project management skills as operations manager.

Concept Overview

Freeport Studio would offer "high quality, well designed sportswear (updated sportswear) for the active busy woman." The line would include "dresses, jumpers, skirts, slacks, jackets and other related separates that are versatile, easy to wear, and easy to care for." Comfortable yet easy-care and wrinkle-free fabrics, such as Tencel[®] lyocell (a form of rayon), were emphasized. While Freeport Studio planned to offer styles and colors more fashionable than L.L. Bean's traditional look, it did not plan to stray so far as to not fit with the L.L. Bean image.

Freeport Studio would be an affiliated brand of L.L. Bean: a clothing line sold under the name Freeport Studio, but with the subtle inclusion of the L.L. Bean name in catalogs and advertisements. In 1997, the dressier women's clothing category was a highly profitable business for L.L. Bean with \$30 million in sales. Sales had been flat, however, and there was concern that the category detracted from the overall L.L. Bean image and that that image did not do justice to the category's potential. With Freeport Studio, most updated sportswear type clothing would be removed from the L.L. Bean catalogs. This would both focus and strengthen the core brand, as well as allow Freeport Studio to focus its own message to its customers. Freeport Studio would be marketed through its own catalog mailed 10-12 times per year, yet avoiding the peak holiday season.

Freeport Studio planned to rely on L.L. Bean for all operational tasks, such as receiving and storing stock, shipping products to customers, and order processing and other aspects of customer service. Within each of these operational groups, however, Freeport Studio formed sub-teams to focus on the unique requirements of the Freeport Studio business. Kristina Boissonneault set up a separate call center staffed with specially trained Freeport Studio "consultants" who could advise customers and help them match various products to create complete outfits. She also worked with the fulfillment center to create the special packaging the new brand required to achieve a high quality delivery presentation. "Special touches" used to reinforce the quality image of the product and the service were shipping clothing on hangers or wrapped in tissue.

Market Overview

Trends The women's apparel market was estimated to be approximately \$80 billion, with nearly \$7 billion sold through catalogs. While the market had been growing at some 4% per year, the updated sportswear segment was growing faster at 6%. The segments where L.L. Bean traditionally competed – the basics category and the “all other” category which included sleepwear – were growing at 3%. These trends were driven by increased casual dressing in both work and social situations.

Competition Freeport Studio intended to position itself in a segment with relatively few existing catalog competitors – the casual Friday, updated classics, and relaxed weekend niche. (See shaded box in **Exhibit 5**.) Its primary competitors were J. Jill (\$136 million total net sales), Coldwater Creek (\$247 million) and Nordstrom (\$4.4 billion). All three of these companies had grown the women's updated sportswear catalog portion of their businesses rapidly in recent years. Other competitors were J. Crew, Tweeds, and a new Orvis spin-off; May's Pond. Industry leaders, such as Eddie Bauer, Lands' End, Spiegel, and Talbots, were also considered competitors. Finally, several gift and home catalogs were adding casual clothing to their lines.

Product Strategy

Vendor Base Freeport Studio expected to source some 80% of the line from a handful of key local suppliers which were also current L.L. Bean vendors. The Goodman Group, based in Brockton, Massachusetts, was an instrumental vendor to the startup. It supplied a number of competitors in the industry and was very eager to work with Freeport Studio. Goodman provided design assistance and expertise that lowered Freeport Studio's overhead needs. Two other Massachusetts based vendors, Susan Bristol, Inc. and KGR, were key partners as well.

Pricing Philip and Snite, the product manager, believed Freeport Studio could price its products 10% or more below that of its key competitors while offering equal or better products. This was achievable because its product line would be completely private label and because it planned to enter the market at large volumes by leveraging the assets of L.L. Bean, (namely mailing lists and financial backing). Gross margins were expected to be approximately 55%.

Marketing Strategy

Philip was confident that Freeport Studio could offer high quality products, an unbeatable guarantee of complete customer satisfaction, and, with the experience of L.L. Bean, outstanding customer service. What would determine the success of the business, she felt, would be creating the right presentation of the products (Creative Plan) and reaching the right potential customers (Circulation Plan).

Creative Plan Freeport Studio planned to “communicate its brand personality through copy, photography, and other creative elements.” It would attempt to differentiate its catalog through “creative imagery, positioning, layout, and voice.” To align Freeport Studio with the core strengths of L.L. Bean, the catalog would show its products were suited for “women who enjoy the outdoors and need clothes for the rest of their busy active lives.” This meant that the clothing would typically be shown being worn by women engaged in an activity such as working professionally, shopping, preparing a meal, playing with children, or visiting with friends. Often, the settings were outdoors. The visual imagery was supported by copy writing touting the comfort and easy care nature of the garments. (See **Exhibit 8** for selected catalog pages.)

Circulation Plan Freeport Studio planned to produce four different catalogs; one per season. Each of the four catalogs would be followed by 1 or 2 remails: a catalog identical to its predecessor except with a different front and back cover. As had been standard practice in the industry, catalogs would

be sent several months in advance of the season. The reasoning behind this was that people like to have the clothes at the start of the season, and that, historically, it had taken several weeks from the time an order was placed to the time it was received by the customer. Thus, Freeport Studio would mail its spring catalog in January, followed by remails in February and March. Similarly, April-June mailings covered the summer season, July-September the fall season, and October and November for the winter. The last regular catalog of the year would arrive in homes during the first week of November – no catalogs would be mailed in December. The first mailing of each catalog would be the largest with later mailings being progressively smaller and focused on the best customers.

A total of 20-25 million catalogs, all to U.S. customers, were planned for the first year. Larger mailings yielded higher sales, but with diminishing response rates, did not necessarily mean higher profits. The overall response rate for the catalogs was expected to be 2% - 5% during the first year and the average order value was estimated at \$100. The catalog would primarily be mailed to existing L.L. Bean customers; particularly those customers who had purchased L.L. Bean's women's apparel products. Philip believed that the extensive L.L. Bean master file would be a sufficient base on which to build the Freeport Studio business.

In order to rapidly build the 12-month buyer file, Freeport Studio would test segments of the L.L. Bean customer database as well as test small numbers of rented mailing lists. Tests generally involved mailing small numbers of catalogs, say 10,000, to each of several different customer segments, and then using sophisticated regression and other modeling techniques to identify the best potential buyers. Philip and Marshall planned to send such test mailings to a very broad range of potential customers. Such tests were expensive, but could potentially uncover valuable customer segments that later could be targeted with larger mailings.

Initial financial performance estimates for Freeport Studio are shown in **Exhibit 9**.

Overall, the Freeport Studio concept satisfied Leon Gorman's requirement that any new business must fit with L.L. Bean's business model. Key criteria included meeting the L.L. Bean Golden Rule, a high overlap with existing customers, a highly productive category, primarily direct mail, and taking advantage of the company's operational strengths. (See **Exhibit 10** for further details.)

The Launch

The startup team spent 1998 hiring the remaining staff, selecting vendors, designing the clothes, selecting mailing lists, and creating the catalog. Much of this work involved overseeing and coordinating with outside service providers who helped in areas such as the selection of fabrics, determining clothing design specifications, and producing the creative elements of the catalog. The Freeport Studio name, product offer, and catalog design had been shown to various focus groups and received positive feedback. By the end of the year, they were ready to go.

Freeport Studio mailed its first catalog on Friday, January 15, 1999, with an in-home arrival date of the following Monday and Tuesday. Almost immediately, Philip and her team knew there were problems. The 80 specially trained phone reps received only half the calls expected. Catalog sales followed predictable patterns with 40% of sales typically occurring in the first 10 days a catalog was in the home.

January 28th Demand Assessment

Ten days after the customers received their catalogs, Philip and her team began to conduct an early demand assessment. A number of key issues were identified:

Catalog Delivery Issues The catalogs were slow to arrive in homes because they were mailed over a three day holiday weekend and there was bad weather throughout much of the country. As of Thursday of the delivery week, three states had not received the catalog and five major states had received only partial deliveries. Compounding this problem, the delivery tracking service with which Freeport Studio had contracted functioned poorly making it difficult to know which areas had received the catalogs and which had not. In response, Philip decided that future mailings would avoid three-day weekends and a new tracking system would be developed.

Prominence of L.L. Bean Logo There was evidence that the location and prominence of the L.L. Bean logo was a problem. After much debate during the initial catalog planning sessions, it had been decided to place the logo in the lower right-hand corner of the front cover. This would, the team believed, let customers know this was an L.L. Bean affiliated brand, yet not make too strong a connection so that customers would think Freeport Studio and L.L. Bean were one and the same. Anecdotal feedback after the mailing indicated that some felt the logo was not visible enough. Further, when catalog recipients who called to request their names be removed from the mailing list were asked if they knew it was an L.L. Bean brand, many responded they did not. Three steps were taken to address this issue. A telephone survey was used to further probe the connection between the Freeport Studio and L.L. Bean brands. A "Dot Whack" would be placed on the cover of the March mailing catalog announcing a "new L.L. Bean brand." Dot Whacks were simple sticker labels that could be added to a catalog cover after it was otherwise completed. It was too late to make any changes to the February mailing, and only a Dot Whack was possible for the March mailing. For the summer catalog, first mailed in April, the L.L. Bean Logo would be placed directly under the Freeport Studio name at the top of the cover page.

Lack of "Wear Now" Merchandise/Sale Merchandise Freeport Studio had apparently overestimated the willingness of consumers to buy spring clothes in January. This trend had been declining in recent years as faster delivery allowed purchases to be made closer to the season of use. Further hurting sales was the abundance of fall/winter merchandise on sale in January. L.L. Bean's Women's Book, mailed at about the same time as the Freeport Studio catalog, had a prominent sale Dot Whack on the cover, and competitors had placed a greater emphasis on sales items in their January catalogs as well. The team decided to increase the number of catalogs mailed in March because the merchandise would be wearable on receipt and the Dot Whack would increase response rates. The first fall catalog (mailed in July) would be repaginated to place lightweight fabrics and sleeveless items near the front. Further, they considered reversing the circulation plan in general so that early mailings would be small and later mailings would grow larger as it gets closer to the season. Finally, the spring 2000 catalog would include a sale section of fall/winter goods.

Initial Merchandise Learnings Early sales patterns indicated some positive results as well. While Philip and Snite had created the first product line to be purposefully broad, they were now able to see clear trends of what the customer wanted. Snite noticed that Tencel® coordinates were selling strongly, as well as prints and two-piece sets. She and her product developers immediately added more of these styles to the fall '99 and spring '00 lines in development. Jill Gravel, the inventory and sourcing manager, realized that petite sizes were selling out causing her to reorder more quickly than anticipated. On the front line, Boissonneault, the operations manager, reported many customer requests for Tall and Plus sizes, which had not appeared in the catalog. This led to extended sizes being built into the plan for the next year.

Other Issues With early performance figures in, Philip lowered the estimate of sales from the January catalog from \$10.2 million before it was mailed to \$7 million based on the 10 day results. (See Exhibit 11.) Further, net sales for year 2 were dropped from \$91 million to \$65 million. Philip took this step in January 1999 because budgeting was due for the next fiscal year. On a positive note, individual customers of Freeport Studio were spending 50% more than individual customers of L.L. Bean's Women's catalog. The average order size at Freeport Studio was \$150 compared with \$100 for L.L. Bean.

March-June

The situation at Freeport Studio improved after the poor launch. Performance of the spring catalog picked up in March largely, it was believed, due to the Dot Whack and timeliness of the clothing. Results from the summer catalog, first mailed in April and followed by May and June remails, met forecast. Freeport Studio's 12-month buyer file had reached a respectable 122,000 names after only five months of operations. During the spring performance review in June, Philip and her team felt optimistic that their hard work was beginning to pay off.

Summer Disaster

The optimistic mood disappeared the following month. Freeport Studio mailed its first fall catalog in July and the phones did not ring. Ten days later it held its first review. Sales were forecasted to be \$2.87 million, 73% behind the plan of \$10.47 million. Reasons cited for the shortfall included the busy vacation period, delivery problems in several key states, and mailing at a time when most catalogs were focused on price reductions on summer items. Further putting pressure on Philip and her inventory manager Gravel, were rising levels of unsold merchandise.

The August mailing performed only slightly better than July: 60% below plan. This led to Freeport Studio cutting its total fall (July-Sept) sales projection from \$37 million to \$20 million, decreasing first year sales projection, for the second time, from \$66 million to \$43 million, and reducing first year contribution from a gain of \$5.7 million to a loss of \$2.2 million. Gravel now estimated year end inventory figures at \$12.5 million.

November

Philip, desperate to discover what was holding the business back and how to turn it around, reviewed the market research she had commissioned over the previous months. In July, L.L. Bean's market research department had conducted a telephone survey of those who received the July mailing; had sent a written survey insert out with the August catalog mailing; had placed a survey inside the packages of products ordered by customers in August and September; and had conducted focus groups in October. The data indicated that consumers' awareness of the catalog was high and it was easy to shop and order products. Customers also liked the selection of fabrics, and the perceived quality of the products had improved since an earlier survey conducted in January. They ranked the catalog poorly on "Fit my Lifestyle" questions. The research also indicated the customers wanted more color, and a review of what was selling showed customers were in fact buying the brighter colors. (Details from the survey mailed with the catalogs appear in **Exhibit 12**.)

Participants from several focus groups, who were generally favorable towards the catalog, made a number of interesting comments. Many participants felt Freeport Studio clothing was either of the classic style, or a mix of classic and trendy. One participant stated, "It is a very conservative, classic look. The woman depicted in the catalog thinks she is still hip, but is growing more conservative with age." Another stated, "It is a classic style, but still trendy enough where you can show your own personality." Others commented on the lifestyle. One woman stated, "I really like the clothes a lot, but when I take my kids to the playground I would not wear them." Another woman described the models as showing women living the "good life – a professional job, good income, two kids, a husband, and a nice house in the suburbs." Another added, "They (Freeport Studio) are trying very hard to appeal to that type of person, almost too hard. It is more of an ideal, what our lifestyle should be like." In a conversation about colors, a participant explained "There is not a lot of variety in the colors, you just get a lot of those same (earth) tones. I, personally, am a color person. I like the basic colors for some things, like skirts, but I like peppier looking sweaters."

However, another felt that the type of woman attracted to Freeport Studio “is not going to buy a lot of loud colors.”

The market research data led to a proposal for a new creative focus in the catalog. The new design called for placing more emphasis on the clothes, and reducing the clutter by toning down the “lifestyle” look - what was going on in the pictures. Thus, women would be shown posed simply, with few, if any props, and seldom shown engaged in activities. By highlighting details such as fabric and trim, Philip and her team hoped to be able to bring out the quality of the clothing itself. They believed that by refocusing on their original “studio” idea, which they had embedded in the name Freeport Studio, and moving away from the outdoor theme of the traditional L.L. Bean look, they would attract a broader customer base looking for casual clothing. Finally, more brightly colored items were added to the product line. (See **Exhibit 13** for selected proposed catalog pages.)

Philip and Marshall, the marketing manager, also reviewed the results of the circulation plan for the year to devise their circulation strategy for the upcoming year. Freeport Studio had mailed nearly 25 million catalogs in 1999, which was near the high end of the initial plan. (See **Exhibit 14** for monthly circulation figures.) It cost \$0.44 to print and mail a catalog in 1999 and this cost was not expected to change in the coming year. Most of the catalogs were sent to people in the top deciles (10% increments) of the L.L. Bean master file, which contained some six million names. The best buyers were sent up to 14 Freeport Studio catalogs per year while less lucrative buyers might only receive four catalogs.

Roughly 5% of catalogs were sent to names from rented lists. Marshall had selected these lists on an experimental basis. The likely sales per book of rented lists could not be accurately estimated in advance, though it was expected to be lower than the top deciles of the L.L. Bean master file. Total sales for the year were expected to be \$44.6 million from a customer file that had grown steadily to approximately 217,000 buyers. These buyers placed an average of 1.4 orders with an average order size of \$145. The 1.4 orders per customer reflected the fact that while 75% of customers ordered only once, another 16% ordered twice and the remainder ordered more than twice.

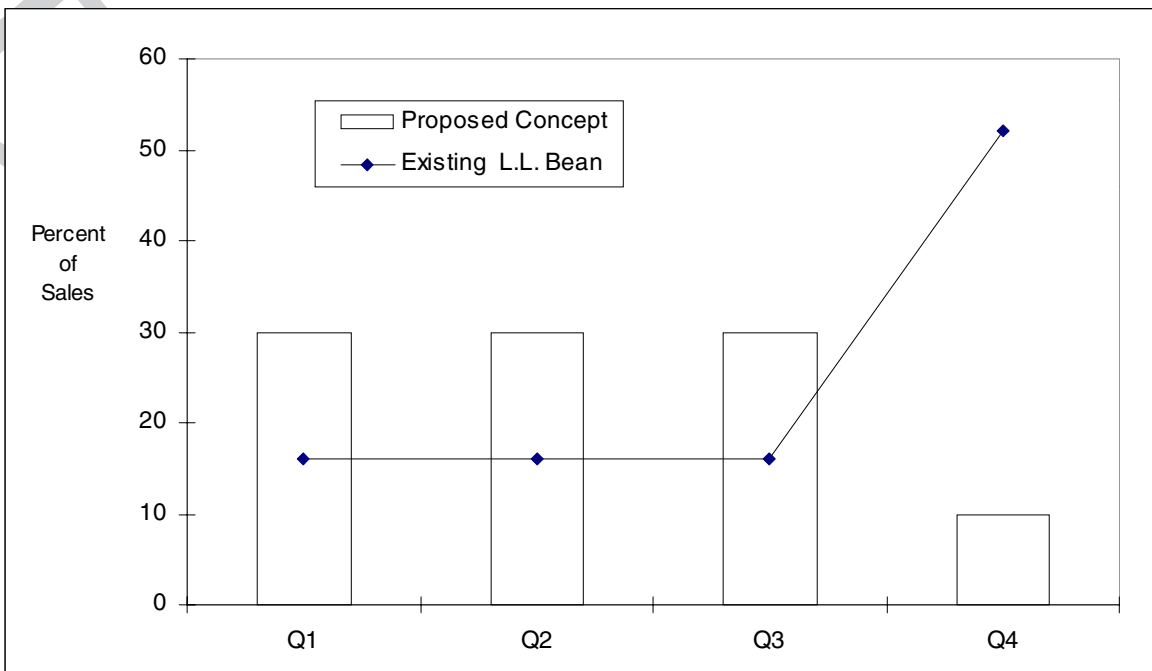
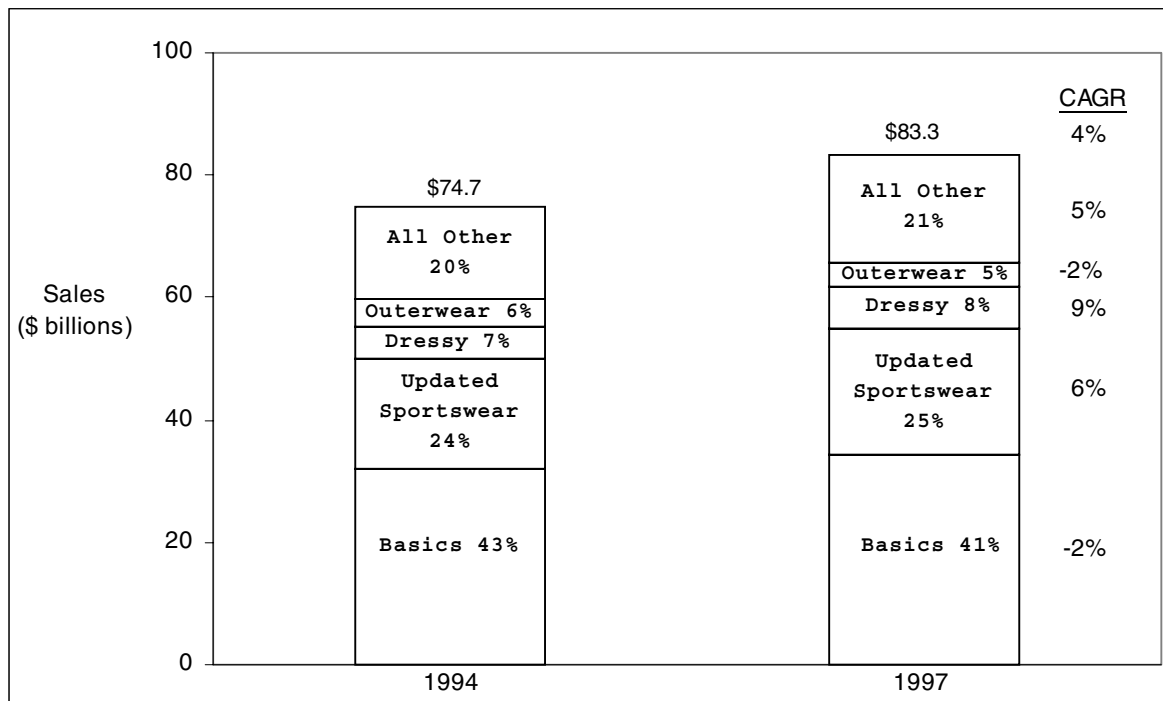
In order to better understand where demand was coming from, Freeport Studio divided sales into first time sales and repeat purchases (see **Exhibit 15a**). Of first time sales, \$31.3 million came from the 19.6 million catalogs sent to the “F2+ 1-3” customers – L.L. Bean buyers who had purchased at least twice from L.L. Bean within the previous three years. Another \$1.3 million in first time sales came from the 1.3 million catalogs sent to people from rented lists. All repeat purchases from these two segments were reported as sales to past Freeport Studio customers, except those credited to package inserts. (Freeport Studio sent a package insert catalog with nearly every package it shipped.) A breakdown of the demand per book for customers in the F2+ 1-3 category shown in **Exhibit 15a** is shown in **Exhibit 15b**. The demand data revealed some key differences. Customers who had purchased from Freeport Studio in the past were by far the best customers. Further, while rented lists ranked among the lowest levels of sales per book, surprisingly, such lists were doing better than some L.L. Bean deciles.

From the data gathered in the first year, Freeport Studio could determine the profile of its better customers. Therefore, it could, for example, rent lists that met more specific demographic and buyer behavior criteria. By doing so, Freeport Studio expected the rented lists to perform at \$1.30 per book next year versus the \$0.98 per book in 1999. The cost of rented lists in 1999 was \$0.11 per name. If Freeport Studio rented names that met the additional demographic or behavioral criteria it desired, the rental cost was estimated to be \$0.15 per name.

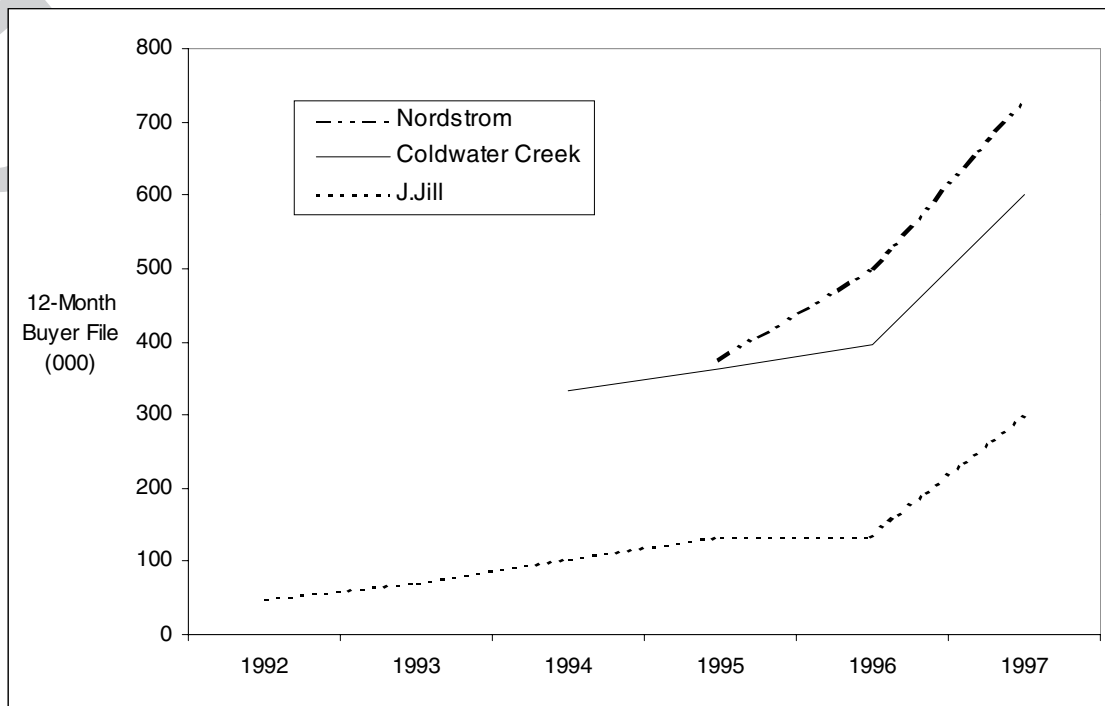
As Fran Philip reflected on the issues facing Freeport Studio, she recalled the trust Leon Gorman placed in her to lead the business to profitability by year two. But Philip also knew that the high attrition rate of customers meant that to be viable beyond year two, Freeport Studio must attract 200,000 new customers in the coming year. Philip estimated that the Freeport Studio yearly attrition

rate would be comparable to the L.L. Bean historical rate of 50%. This rate was expected to decrease with increasing loyalty (measured as number of orders per year) in the customer base.

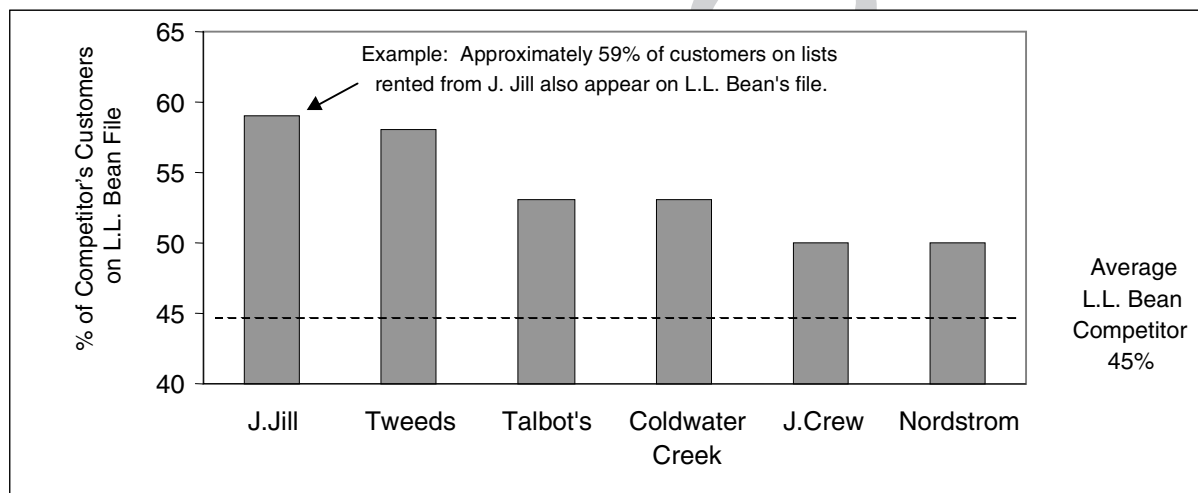
Philip's immediate tasks were clear. She first needed to decide whether she should follow the creative strategy that had been proposed. Then she had to determine how many catalogs Freeport Studio should mail in 2000, to whom they should be sent, and whether the customer file could be built from internal sources. Finally, she needed to produce a pro forma financial statement that would convince Gorman that Freeport Studio's circulation strategy would result in a profitable business next year.

Exhibit 1 Seasonality**Exhibit 2** Industry Segment Growth

Source: Company Document

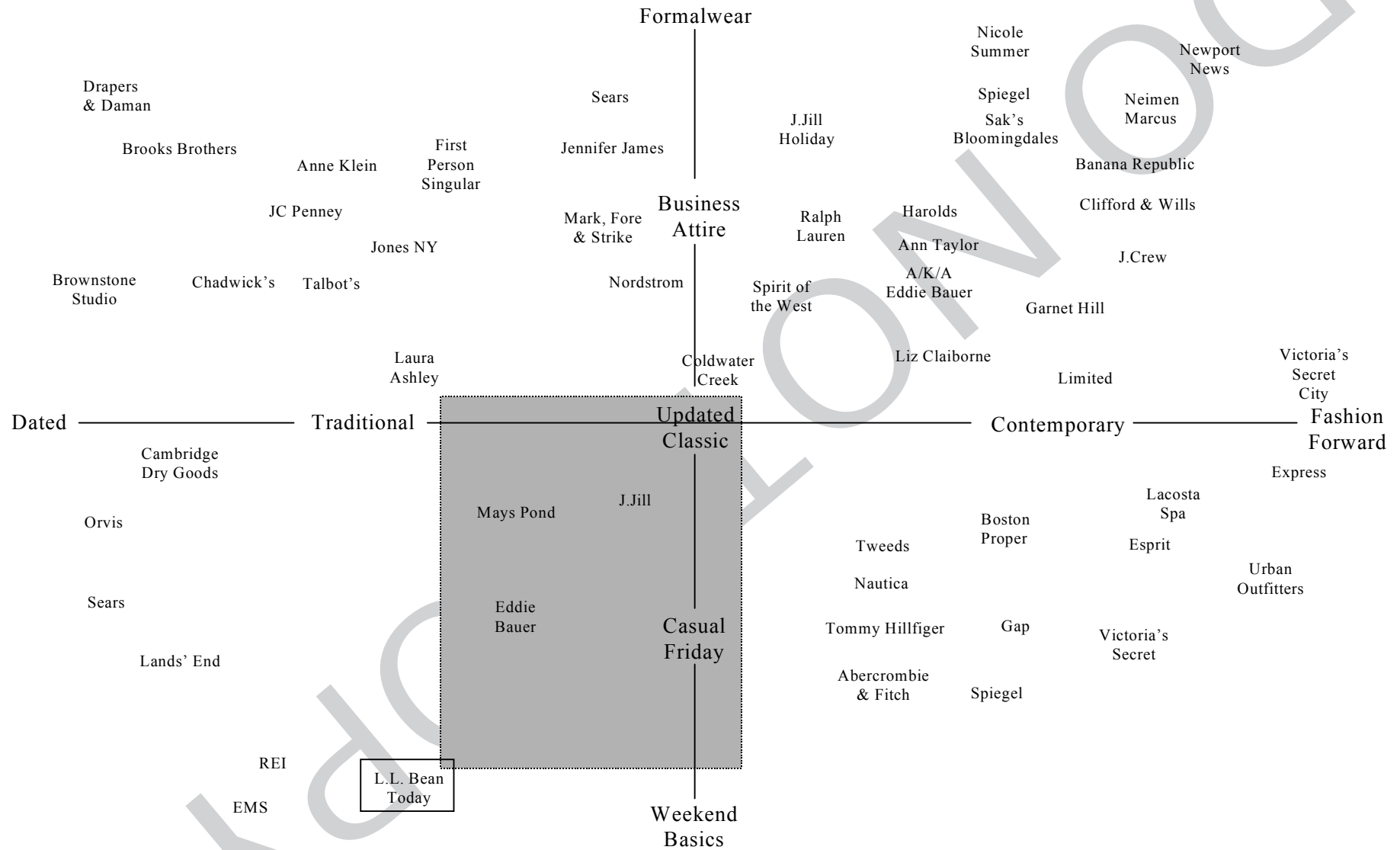
Exhibit 3 Buyer File Growth Rate

Source: Company Document

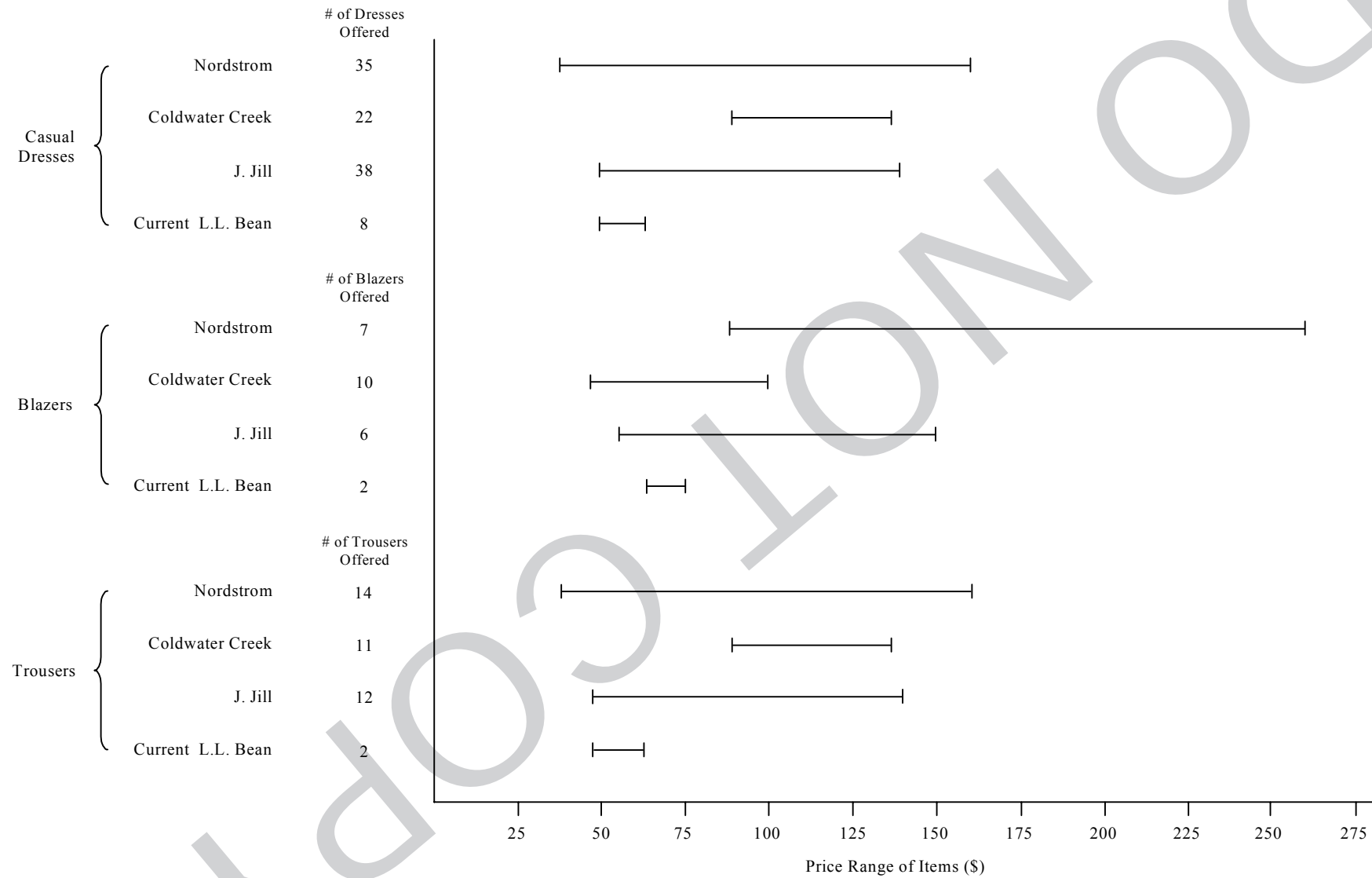
Exhibit 4 Customer File Overlap

Source: Company Document

Exhibit 5 Brand Positioning



Source: Company Document

Exhibit 6 Product Depth and Price Range

Source: Company Document

Exhibit 7 Rental List Data Card

J. Jill

09/07/99 37040

Page 1 of 1

346,076	LAST 3 MONTH BUYERS	95.00/M	NAMES THRU: 07/24/99
591,756	LAST 6 MONTH BUYERS	95.00/M	
945,800	LAST 12 MONTH BUYERS	95.00/M	-----UNIT OF SALE-----
303,146	LAST 13-24 MONTH BUYERS	95.00/M	\$150.00 AVERAGE
	FUNDRAISER'S RATE	50.00/M	-----SEX-----
	PUBLISHER'S RATE	60.00/M	100% FEMALE
	FOOD RATE	50.00/M	
<p>THE J. JILL CATALOG FEATURES SIMPLE, UNIQUE, AND NATURAL STYLE IN APPAREL, ACCESSORIES, SHOES, AND GIFTS. WITH AN EMPHASIS ON NATURAL FIBERS AND CREATIVE DETAIL, J. JILL OFFERS RELAXED CAREER AND WEEKEND WEAR FOR THE WOMAN WHO IS CASUAL IN HER APPROACH TO DRESSING. J. JILL OFFERS MISSES' SIZES 4-20, PLUS AN EXTENSIVE ASSORTMENT OF PETITE AND WOMEN'S SIZES. THE MAJORITY OF THESE BUYERS ARE AGE 35-45, HAVE INCOMES OF \$50,000+, AND SPEND AN AVERAGE OF \$150 PER ORDER.</p>			-----MATERIAL-----
<p>SELECTS: RECENCY: LAST 3 MOS. \$21.00/M, LAST 6 MOS. \$16.00/M, Last 12 Mos. \$11.00/M DOLLAR: \$50+ \$21.00/M \$75+ \$31.00/M \$100+ \$41.00/M, \$150+ \$51.00/M, \$200+ \$56.00/M. STATE, SCF, ZIP: \$6.00/M PRODUCT, SIZE, INCOME: \$16.00/M AGE SELECT: \$16.00/M, CANCEL FEE \$50.00/L</p>			4-UP CHESIRE MAGNETIC TAPE 9-TRACK 1600 BPI PRES SENS \$8.50/M
<p>SOURCE: 100% DIRECT MAIL CUMMULATIVE DOLLAR</p>			-----KEY CODING----- \$3.00/M
<p>@COMMISSION: 20% TO RECOGNIZED BROKERS ** RFM PARTICIPANT ** ***** PRODUCT SELECTION GROUPS SPORTSWEAR DRESSES & SUITS SWIMWEAR FOOTWEAR ACCESSORIES GIFT & HOME *****</p>			----MINIMUM ORDER----- 5,000
<p>** FUNDRAISERS & PUBLISHERS WILL RECEIVE 50% OFF SELECTION CHARGES FOR ALL ORDERS PLACED. ** ALL SPECIAL OFFERS/INCENTIVES SHOULD BE APPROVED IN ADVANCE BY DM MANAGEMENT</p>			---UPDATE SCHEDULE--- LAST: 08/02/99 NEXT: 08/23/99 UPDATE: 10 TIMES/YR
			---NET NAME POLICY--- 85% + \$8.00/M RUNNING CHARGES 50,000 MINIMUM
			---MAG TAPE INSTR--- \$25.00 NON-REFUNDABLE CHARGE DO NOT RETURN TAPE DOES NOT APPLY ON EXCHANGE ORDERS
			---RECOMMENDED BY--- HEIDI THIBODEAU MILLARD GROUP, INC.

Source: Millard Group, Inc.

Exhibit 8a Catalog Page



E. Tencel®/rayon skirt set feels soft as suede and wears with total ease. Top features pintuck detailing on the sleeves; matching elastic-waist skirt has pintucked hem. Hand washable. Storm Blue or Dark Plum. USA. Misses XS-XL, 36" long; Petite XS-L, 33" long. 2C30397 Pintucked Tencel® Skirt Set \$148



F. Stretch faille slingbacks are a super season-spanning style. Breathable fabric uppers and cushioned insoles for comfort. Chunky 1 1/4" heels and lightweight lug soles. Black, Grey or Brown. Imported. Whole and half sizes 6-10; 11M. 2C31384 Faille Slingback \$65

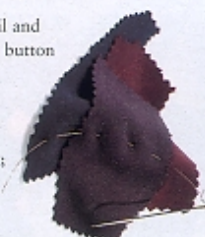
G-H. Taking a relaxed approach, our unstructured jacket and skirt in buttery Tencel®/acetate twill. Machine washable. Raisin, Midnight or Plum. USA. Misses XS-XL; Petite XS-L.

G. Notched-collar jacket with seaming detail and shell-buttoned patch pocket. Back yoke with button and pleat detail.

2C30685 Tencel® Twill Jacket \$98

H. Long skirt has back slit with three shell buttons. Elastic waist. Misses, 36" long; Petite, 33" long.

2C30475 Tencel® Twill Skirt \$68



Working Assets 17

Exhibit 8b Catalog Page



B

B. Soft and seasonless—the cardigan-style jacket and easy, long-sleeved dress. Both, of resilient ribbed cotton knit with satin trim. Machine washable. Black Marl. Imported. Misses XS-XL, 51½" long; Petite XS-L, 47½" long.
2D30402 Marled Knit Dress and Cardigan \$112



C

C. Crafted of ultrasoft, pebble-grain leather, our beautifully proportioned zip-top bag has a comfortable, ¾"-wide shoulder strap with silver-tone buckle detail. Outside snap pocket, inner zip pocket. Nylon lining. Black or Brown. Imported. 10½"H x 11½"W x 2½"D.
2D31686 Scoop Shoulder Bag \$59

D. We call this our "accessory dress." Simple and flattering on its own, it's a great backdrop for your favorite scarves or jewelry. Styled with double princess seams and a full, sweeping skirt. Cotton/polyester knit. Machine washable. Charcoal. Imported. Misses S-XL, 52" long; Petite XS-L, 48" long.
2D30447 Princess-Seam Knit Dress \$95

E. Whimsically patterned neckerchief softens the neckline on a shirt or dress, adds a shot of mellow color. Shadow-striped silk chiffon. By Echo®. Dry clean. Charcoal Multi. Imported. 21" square.

2D31431 Flower Box Neckerchief \$24



E



D.E

Working Assets 31

Exhibit 8c Catalog Page



garment-washed linen

Forget old ideas about linen. Ours is soft, comfortable and completely machine washable. We love its natural ease and crinkled texture which means you can forgo ironing. Perfect now, and right into autumn. Berry, Straw, Eucalyptus or Black. USA. Misses XS-XL; Petite XS-L.



Freeport Studio 1-800-554-4071 7

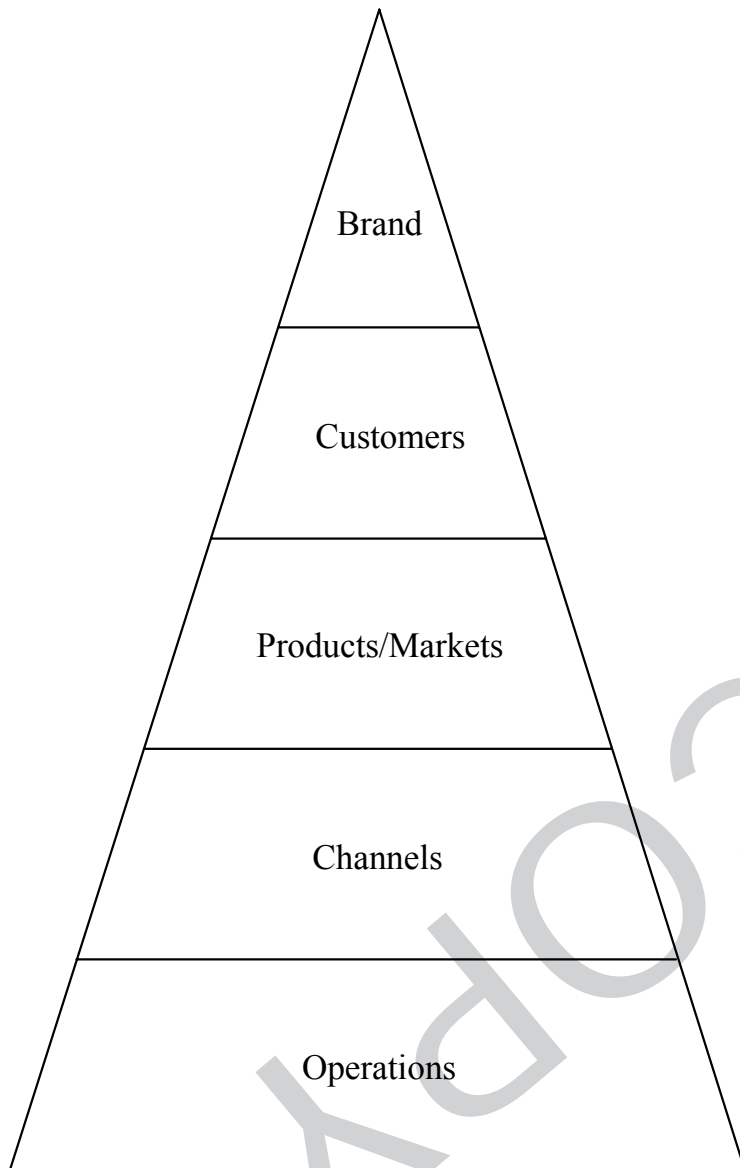
Exhibit 9a Initial P&L Forecast (\$000)

	1999		2000	
Gross Demand (sales)	79,953		127,092	
Returns, Outs & Cancellations	<u>22,755</u>		<u>36,170</u>	
Net Sales	57,198	100.0%	90,922	100.0%
Cost of Goods Sold	<u>25,739</u>	<u>45.0%</u>	<u>40,915</u>	<u>45.0%</u>
Gross Margin	31,459	55.0%	50,007	55.0%
Catalog Costs	10,256	17.9%	12,849	14.1%
Variable Operating Expenses	6,162	10.8%	9,794	10.8%
Other Operating Expenses	<u>4,025</u>	<u>7.0%</u>	<u>4,700</u>	<u>5.2%</u>
Contribution	11,016	19.3%	22,664	24.9%
Interest Costs	<u>515</u>	<u>0.9%</u>	<u>818</u>	<u>0.9%</u>
Pre-Tax Income	10,501	18.4%	21,846	24.0%
Revenue per Catalog Circulated (\$)	3.43		4.35	

Exhibit 9b Forecast Assumptions

	1999	2000
Catalog Circulation	23,310,000	29,202,558
Average Response Rate	3.5%	4.4%
Average Order Size	\$100	\$100
Units per Order	2.9	2.9

Exhibit 10 Concept's Fit with L.L. Bean



L.L. Bean Golden Rule and company values

Affiliated brand

- Freeport Studio by L. L. Bean
- Distinct brand personality, pricing, products
- Distinct creative

L.L. Bean's women's apparel customers

Active women who enjoy the outdoors and need clothes for the rest of their busy active lives

Age 35+, average L.L. Bean household income

Versatile wardrobe essentials: casual dresses, trousers, blazers, skirts, jumpers, accessories, footwear

- Easy to wear silhouettes, soft colors, florals, prints
- Easy care fabrics

Direct mail

- Specialty books, not carried in L.L. Bean full books
- Distinct direct marketing, customer acquisition

Best service

Current L.L. Bean Operations

Exhibit 11 Performance Data as of January 28, 1999

	Original Plan for January	Performance as of January 28	Adjusted Plan for January
Average Unit Value	\$63	\$63	\$63
Units per Order	2.0	2.4	2.15
Average Order	\$126	\$149	\$135
Response Rate	2.62%	0.4%	1.6%
\$ per Book	\$3.30	\$0.61	\$2.27
Total Demand (000)	\$10,218	\$1,881	\$7,014

Exhibit 12 Survey of Catalog Recipients - Satisfaction with Catalog Creative Attributes

(percent very satisfied)	Jan 1999^a Freeport Studio Catalog	Aug 1999^b Freeport Studio Catalog	Top 10%^c of Freeport Studio Customers	Top 10%^c of L.L. Bean Customers	Next 10%^c of L.L. Bean Customers
Quality of products	40	45	52	35	43
Value for the price	15	14	18	10	14
Order information	41	48	52	39	52
Variety of merchandise offered	19	18	20	15	20
Selection of colors/patters	21	16	17	16	16
Merchandise relevant to your needs	16	15	22	7	12
Sizing and fit information	26	26	26	23	28
Selection of sizes	33	30	33	21	35
Information provided in item description	37	35	38	29	33
Ease of finding a specific item	22	23	21	23	27
Clarity of product in photographs	40	34	32	31	41

a – Results from survey inserted in January Freeport Studio catalogs.

b - Results from survey inserted in August Freeport Studio catalogs.

c – Further breakdown of results from survey inserted in August Freeport Studio catalogs.

Exhibit 13a Proposed Catalog Page

uncommon cashmere

All cashmere is not created equal.
Freeport Studio starts with the finest-quality yarn.

Plush. Soft. A lasting luxury.

Then, we add special details: delicate
ribbing, feminine shell buttons, unique shapes.
In an exclusive tonal palette of light and dark shades
you won't find anywhere else.

the light tones:

long-sleeve cardigan and cap sleeve top



the dark tones:

shell and short-sleeve cardigan



C,D



C,D

studio note:
subtle tonal colors
invite mixing

Exhibit 13b Proposed Catalog Page

A-B. Quilted Silk. Boxy, hip-length jacket and cropped vest—two key items that give your wardrobe an instant update. We went to great lengths to assure superb quality in every detail, from the sandwashed silk shell and contrast silk lining to the unique channel quilting. Dry clean. By Freeport Studio. Imported. Black/Lead, Hydrangea/Sky, Meadow/Aloe, Smokey Pearl/Aluminum or Geranium/Melon.

A. Quilted Silk Vest. Zip-front with mandarin collar. Side-seam pockets. 2A34019 Misses XS-XL \$78

B. Quilted Silk Jacket. Luminous, durable encased shell buttons and patch pockets. 2A32426 Misses XS-XL \$128

B



Exhibit 13c Proposed Catalog Page

D

studiochoice: pastel skimmer for a kick of color

E

key trends: Soft color. Very pretty. Very wearable.
Simple basics in shades of Pear, Buttercup, Pale Pink, Sky and Orchid.
Give your wardrobe a lift.

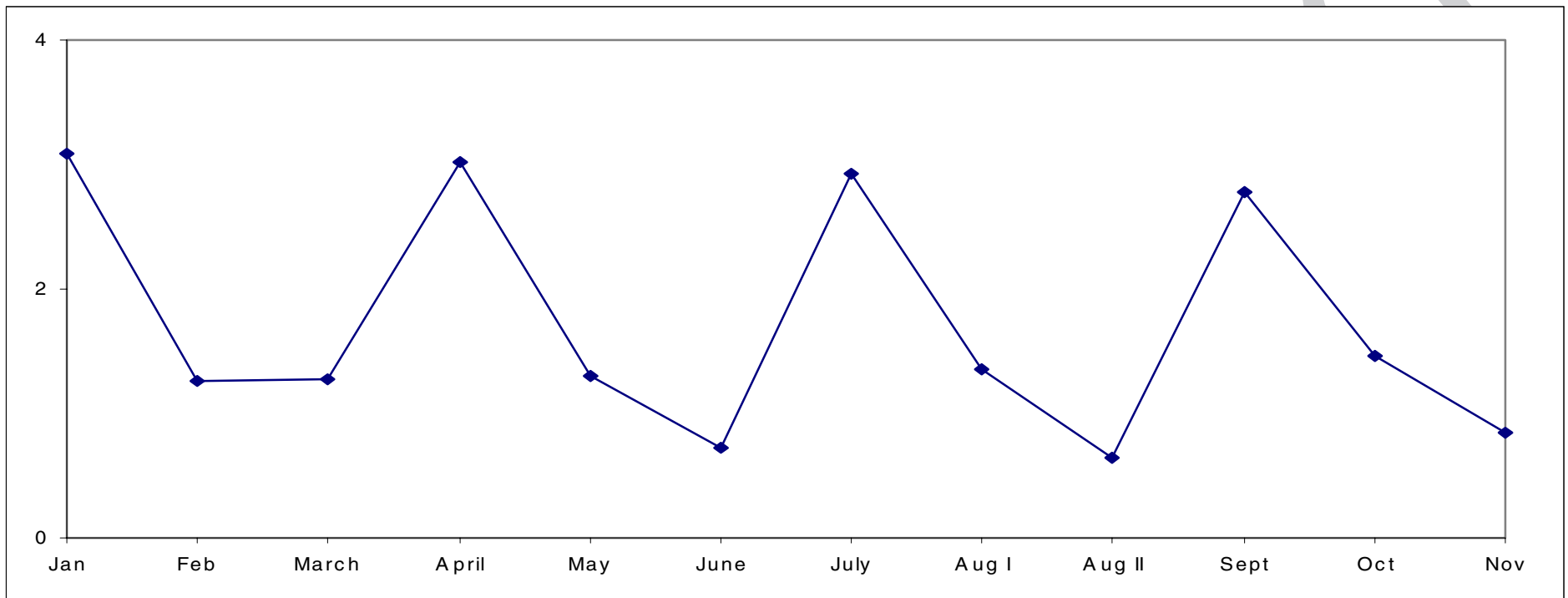
D. Silk Shell. Luxurious layer that's sleeveless without being too bare. Easy fit with straight hem and side slits. Hand washable. By Freeport Studio. Imported. Black, Sky, Cream or Pale Pink. 2A28507 Misses XS-XL \$32

E. Leather Skimmer. Simple, versatile slip-on adds a new note to pants and skirts in cool pastels or pearlized Champagne. Super comfy Lite Flex sole. Imported. Pale Pink, Pale Blue or Champagne Pearl. 2A33782 Whole and half sizes 6-10; 11; M and W \$54

F. Silk Mandarin-Collar Tunic. Easy and elegant in a mini herringbone weave that feels luxurious and is hand washable! Button front and cuffs. Slightly shaped fit with side slits. By Freeport Studio. Imported. Pale Pink, Cream or Sky. 2A32519 Misses XS-XL \$68 Petite XS-XL \$68

F

FREEPORT STUDIO

Exhibit 14 Catalog Circulation^a – 1999 (millions)

a – The figures above total approximately 21 million catalogs. An additional 1 million special sale catalogs were mailed in June, 2 million special sale catalogs were planned for December, and 1 million were sent as package inserts and special mailers over the course of the year for a total of 24.77 million catalogs in 1999. Sale catalogs were produced to liquidate inventory and Freeport Studio might not need to send so many in 2000.

Exhibit 15a Customer Segment Performance - 1999

Source of Customer ^a	Circulation (thousand)	Gross Demand per Book ^b (\$)	Gross Demand (\$ thousand)
F2+ 1-3 years	19,639	1.59	31,289
Outside Rentals	1,309	0.98	1,281
Past Freeport Studio Customer	1,769	4.08	7,211
Package Inserts	450	6.50	2,925
Catalog Requests	810	1.39	1,122
Other Sources	<u>795</u>	<u>0.94</u>	<u>750</u>
Total	24,772	1.80	44,578 ^c

a - F2+ 1-3 buyers were those who had purchased at least twice from L.L. Bean within the past three years. Outside Rentals were those buyers from rented lists. Past Freeport Studio Customers were those who had previously purchased from Freeport Studio (not including Package Insert buyers). Package Inserts were catalogs placed inside packages of products mailed to buyers. Catalog Requests were individuals who called/wrote to request a catalog. Other Sources were largely other past L.L. Bean buyers.

b- Gross Demand per Book is defined as Gross Demand (sales) divided by circulation.

c- Includes an estimate of December sales.

Exhibit 15b F2+ 1-3 Sales by Decile

Decile	Demand/Book (\$)	Response Rate (%)
Decile 1 (Top 10% of L.L. Bean Buyers)	2.40	1.66
Decile 2 (2 nd 10% of L.L. Bean Buyers)	1.05	0.72
Decile 3 (3 rd 10% of L.L. Bean Buyers)	0.94	0.65
Decile 4 (4 th 10% of L.L. Bean Buyers)	0.94	0.65