

PEM America Poised To Deliver Great Product, Strong Margins For Years to Come

PEM America is a \$100 million+ manufacturer, importer and global distributor of textiles and accessories based in New York City. It has grown substantially over the past decade because it has operated debt free and is structured for continual growth. Recognized as a fashion forward leader and combined with a lean infrastructure, PA can deliver the much needed margins today's retailers require. Keith Schneider, President of the Infant and Juvenile Division, has brought 20 years experience to the company, most recently as the Executive Vice President of Russ Berrie and Company Inc., and General Manager of the Russ U.S. Gift division from 1985-2005. Here, Schneider comments on a number of topics relevant to the juvenile textiles buyer.

PEM America appears to have made huge progress in 2008. How was this achieved in a difficult retail environment?

It was always our strategic plan to spend most of 2007 and 2008 partnering PEM America and its Good, Better, Best strategy with the appropriate retailers. We accomplished this by observing the marketplace, but more importantly, by talking and listening to the people who are the leaders of the independent retailers. As President of the division, I personally traveled around the country visiting these people and then built the strategic plan out of the direct feedback we received.

Please discuss your plan to offer retail financing to independent retailers.

I have spent more than 20 years dealing with specialty retailers and my reputation has always been to make yourself the obvious supplier. Our new product will bring smiles to our growing customer base but the fact is that they can, "Sell it before they have to pay for it!"

Your product range is very large compared to a year ago. How did you approach the product development needed to create such a huge range?

Fortunately the PA team is very strong. Cheryl Resnick has 15 years of baby experience and really has her finger on the pulse of what is happening in the marketplace and can translate this direction to our team of designers. PA has more than 25 designers and we brought in Dewey Cabe, one of Target's strongest top of bed product development and design fashion directors, as a full time PA employee a year ago. He has made a huge difference and really took a lot of the guessing out of the development for



dream sleep grow

us and our customers.

As a "Field of Dreams" philosopher, I have always felt that if you build it they will come. We designed a product matrix which included who we wanted to be and stayed within our expertise. Our business sector is expecting growth of \$5 million, and yes, 2008 has been a great year so far.

What is the current state of the Infant and Juvenile market?

I have been through tough retail years before, but if you take a "last man standing approach" you will benefit in the long term. Companies do crazy things in tough times like closeouts with no regard where the product may end up. We are focused and believe that we have a strong brand separation in "Beansprout" for our better customers and our "Step by Step" for mass. We are perceived as good value, and we are bullish on the baby business.

The recent news that 4.3 million babies were born in the USA in 2007 represented the biggest birth rate in history – even bigger than the 1957 official launch of the baby boom era. This was our main drive for focusing all of our efforts on baby, as it is the fastest growing sector of retail. Fortunately for retailers their margins are better in children's textiles than they are for the adult category.

If this is the case why is it not more competitive?

This Infant and Juvenile sector of retail is very competitive and companies who think this is easy picking are in for a deep bruising surprise. This is not a business built only on price. Clearly product is price sensitive but more importantly, there is a recipe for retail success that includes the fashion, the construction, the manufacturing, the distribution, and the retail financing. We believe we are in position to grow substantially as we are the only manufacturer in the sector who owns their own factory. This allows us faster reaction to trends and immediate production for hot markets, but most importantly, we have our own inspection and testing facility on site.

Tell us about product recalls for safety.

As a father of four young children, "child safety" is critical and there are no short cuts taken by PA. We have never had a child safety recall and are taking all measures to maintain our perfect score card. The new safety legislation is there to protect children, not manufacturers.

Does having your own factory help you with minimums?

We are now doing exclusive bedding and blanket programs for retailers who do not want to make a huge commitment, which our customers appear to love.



Mod Daisy



Noah's Ark



Mod Star

What are the short term and mid term plans for PEM America's Baby Division?

Controlled growth is the best environment to operate in as it allows a company not to stress out its employees and its infrastructure. We feel there will be a good opportunity to grow both organically and by way of acquisitions, and are currently on the lookout for good companies who may fit our matrix.

As far as product differentiation, we have grown our Infant and Juvenile accessory business and we are experiencing great success. Our baby blanket programs are doing well, due to their price points and fashion. We have added great new musical mobiles, wall art, décor lamps, switch plates, snow globes, picture frames, baskets and rugs, and our match back blankets are doing really well. We are price point conscious and all of our product is selling at or under the benchmarks that exist in the marketplace. On our PD trips to outer China we have been searching for points of difference while remaining sensitive to retail pricing, and this is exhibited in some of our new programs.

What plans do you have for international growth?

I spent 15 years working internationally, so international is definitely on the radar. We are expanding our international distributors as we speak, since we have the infrastructure now built to make it an easy transaction for the global markets. There are sister companies in Hong Kong, Shanghai, Hangzhou, Qingdao, Nanjing and a 450,000 square foot warehouse in New Jersey that will make the international business simpler.

Shifting the focus to product, what is this product matrix you speak of?

Plan your work and then work your plan was what we learned at business school. We took all of our marketing and feedback and built a product matrix which included every item we would manufacture and even determined which retailers would buy the product. We are focusing on product that retailers can have high turns on so items that are lukewarm should never be produced.

What are your top programs going to be?

We believe we have designed our "better to best" contemporary programs forward with a modern accent, which is what we have been told is where the market needs to arrive to. Our new "Noahs Ark,"

"Mod Star," "Mod Daisy," "Leap Frog" and "Camille" are getting everyone excited. The reception of our fashion forward programs like romantic lace "White Butterfly," silhouette "Butter Cream" and our amazing "Zootopia" has been excellent.

How was the "Zootopia" program created?

We were discussing in our matrix the animal genre which remains an annual top seller for each of our retailers. However if you look at the currently large icons being used there is less and less differentiation in the market, so we created a couple of animal programs to excite the palette using artistic embroidery etchings with bright appliqué. We actually have three new animal programs launching as well as being in stock of our current, "Jessie's Jungle," "Turtle Land," and "Scruffy The Dog."

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How did "Mod Star" and "The Mod Daisy" come about?

Clearly this was the easiest development for us to make as retailers who we partner with basically screamed at us to make this. If you hear this enough times you just run into design and feed off their enthusiasm. We saw the trend in the marketplace and guided our designers to the finish line.

Where do you position yourself on girl's programs?

There is so much beautiful product in the marketplace and it appears everybody is doing a great job utilizing the greatest materials, bringing in the fashion, and selling it well. However our focus was to observe all of the closeouts by the big retailers, as the majority were in the girl's category. We felt that there was a huge embrace to some of the very modern by everyone except many of the consumers. Yes, it sold well in major city pockets but for the most part what sold well in NYC did not sell well in many areas of the country. Clearly this was a signal to us all to treat the country as different

markets. We really love our new "White Butterfly" and "Buttercream" which are monochromatic in nature but will allow consumers to buy a beautiful "Shabby-esque" room for a fraction of the cost of USA domestic manufactured product.

And what about boy's programs?

We have seen the volume balance shift to girl, neutral and then boy. We feel this has more to do with companies designing into the genres. We clearly see the boys being characterized by color and less design fed. We have determined that Zoo, Transportation, Nautical, Sport, and Icons are the meat and potatoes. We have developed fabrics to deliver our best boy's offering ever.

What about your programs for the retailers wanting to offer lower retail options?

Our ability to design, manufacture, and deliver the \$49-\$99 retail bedroom in the bag has always been through our "Step By Step" brand. We will be launching new programs which will include our new eight-piece bedroom set with print, appliqué and embroidery for \$99-\$129 retail, and offering great margins for the retailers.

Why do you think you can succeed where other companies are struggling?

PEM America has an infrastructure for the world as it exists today with streamlined design, manufacturing and distribution. So many of today's manufacturers and retailers have expensive infrastructure, huge debt, and are so large that they can not react to the marketplace. If you look at the growth in most industries it is the small to medium size businesses that can grow in tough retail environments because they can manage their costs.

Do you have any closing comments?

We just want to thank everyone who has worked with us. All of the input we have been receiving has been read, digested and acted upon. Every consumer and retail email has come through my laptop from our website- www.beansproutbypemAmerica.com – and answered within 48 hours. We know our customers are counting on us and we hope they come and see us either at the shows or at the grand opening of our New York City showroom at 225 Fifth Avenue. Stop by – you will be glad you did.



Zootopia



Leap Frog