History of PSUN – Jason Mestancik

Pacific Sunwear of California, Inc. ("PacSun", "Pac Sun" or "the Company") has come a long way from being a surf shop, to a specialty retailer selling casual apparel, footwear, and accessories for teenagers and young adults. Pacsun with its headquarters in Anaheim, California has its distribution center located in Olathe, Kansas.

In 1980, Tom Moore opened the first surf shop in Newport Beach, California. After great success in this one store, he opened one more the next year. This new store was opened in a mall in Santa Monica Place which would be the general location of PacSun stores in the future.

1982 was a very successful year for the Company. With more than $1 million in sales, they made ten more stores. Every one of the ten stores were located in malls near the coast.

1987 was a year when the Company got a great amount of financial support from venture capitalists. The Company then grew to 21 stores and made $18 million in sales in 1988. Due to the quick expansion, owners did not foresee that bringing the store to Minnesota and the east coast was not nearly as successful. The clothing sold at Pacsun was not conducive to the weather in these areas. Michael W. Rayden was brought in to deal with this problem.

Eight stores closed in the early 90's, two in Texas, two in Washington D.C. and the last four being in hometown California. With all of Rayden's reforming of the Company, the Company now held a multitude of different brands: Stussy, Mossimo, Quicksilver, Rusty, and Billabong. These brands and new positioning helped the company have 60 stores in the U.S. with 13 spread across Washington, Florida, Connecticut, Arizona, Nevada, and New Jersey. The other 47 were located in California.

The Company came out with an IPO in March of 1993 and by 1994 the Company expanded way faster than any projections that were made. In 1994 there were 118 stores in 17 states. This was quickly followed by opening another 55 stores and maintaining a positive net income for 15 consecutive quarters.

The Company's stock fell 15% when Rayden announced his resignation in early 1996 and Greg Weaver, the Company's chief operating officer, took over as president. Weaver came into his position at the Company when they had 198 stored in 33 states. He managed to add 30 new stores before the year end, and 50 stored in 1998.

The Company bought a Florida based company, Good Vibrations, in 1997 and gladly took in their $17 million in sales. Also in 1997 the Company opened its first non-mall store in Greenwich Village in NY.

The Company came out with a new branch of stores called d.e.m.o. and in the 1998, 15 of these stores were opened. By 1999 the Company had 344 stores and annual sales of $321 million with plans to open 108 more stores and 25 more d.e.m.o. stores the next year.

The company never stopped expanding, and even with recent shut-downs of stores in Alabama and Florida, the Company owns 826 stores in 50 states and in Puerto Rico.

Business Model of PSUN – Daniel Wu

Pac Sun encompasses a wide selection of product offerings geared towards its primary target market of teens and young adults. According to Pac Sun's 2011 Annual Report, the Company "is a leading specialty retailer rooted in the action sports, fashion and music influences of the California lifestyle." To achieve this level of product diversification while not comprising quality and popularity, Pac Sun's business strategy revolves around developing its brand recognition. In addition, the Company focuses on implementing cost reduction strategies and localizing its assortments.

One pillar of the Company's success is its ability to partner with nationally recognized brands such as DC Shoes and Quicksilver. The Company's strong relationship with its heritage brands allows them to tap into these developed markets, providing them with a large platform of established customers. Besides its heritage brand selections, the Company has also created a number of proprietary brands such as Bullhead and Kirra. Not only do these proprietary brands complement its heritage brand selections but they also allow the Company to provide products that the heritage brands aren't offering—creating a Venn diagram-like effect. Moreover, to maintain its status as new and contemporary, Pac Sun is highly engaged in finding the next big trend by including a mix of up-and-coming brands. When we analyze its sales distribution, we can see that it is about evenly split between its heritage and proprietary brand.

Beyond simply acquiring and creating brands, Pac Sun has a unique strategy of optimizing the brand exposure.. Through selective partnerships, major brands can occupy a space within its stores, called "brand shops," and display its products in a more attractive and exciting manner.

Up until 2007, Pac Sun was opening new stores rapidly with about 50 stores a year. But due to the tremendous negative impact on consumer demand as a result of the recession, Pac Sun has had to close down a number of unprofitable stores. Since 2007, the Company has closed about 40 stores a year and it plans on shutting down another 50 more. However, by downsizing, the Company can more easily optimize the performances of its remaining stores. To do this, Pac Sun is looking to expand beyond only in-store marketing and into alternative mediums such as television, print advertising, and mobile marketing—markets of which, Pac Sun has historically lacked any presence in.

To further trim down costs, Pac Sun sources its products both domestically and internationally. According to its annual report, it can "benefit from the shorter lead times associated with domestic manufacturing and the lower costs associated with international manufacturing." Also, Pac Sun has invested in various loss prevention programs. Some of which, include: increased application of surveillance cameras, education on loss prevention, and the higher monitoring of product returns and voids—actions that have resulted in an impressive historical inventory shrinkage rate of less than 2% of net sales.

To boost its performances on the top line, Pac Sun has a localized assortment strategy. Beginning in 2010, Pac Sun stores were segmented and divided into various categories such as customer segmentation and brand performance. This new clustering strategy allows the Company to tailor its products to characteristically different customers and in turn, leads to higher sales. Currently, this localized assortment effect makes up about 20-40% of a typical Pac Sun store.

Sources

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