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Outlook for Affordable Luxury Retailers Remains Bright

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MARTINSVILLE, N.J., June 29, 2011 /PRNewswire/ -- Coming out of the recent recession, consumers have become more selective than ever by focusing on certain factors when deciding where to spend their money. Specifically, retail sales over the past two years have highlighted consumers' preference for trendier goods and services, better value, and superior quality.

Furthermore, even as the unemployment rate continues to hover around 9%, this number varies significantly among workers with different levels of education. While the unemployment rate is nearly 15% for those who haven't completed high school, it is a much more modest 4.5% for those with a college degree. In other words, unemployment is lowest among the highest educated and, presumably, highest earning groups.

As a result, many different retailers offering the consumer affordable luxuries have fared well since the end of the recession and are projecting 2011-2012 to be among the best years in recent memory. Ken Schapiro, President of Condor Capital Management, has identified a broad range of consumer-oriented companies that are poised to benefit.

When most people think of companies selling affordable luxury goods, images of fancy clothes, shoes, or accessories rightfully come up. Companies such as Coach and Steve Madden remain popular retailers as they have expanded their offerings from the primary feature that they have been known for. Coach, which is widely recognized for its handbags, now counts accessories – including wallets, footwear, and jewelry - for more than one-third of its sales mix. Meanwhile, Steve Madden sells sunglasses, belts, and handbags to complement its stylish shoes and boots.

With this said, however, the definition of affordable luxury now extends well beyond just physical goods. Many dining companies offer products and an experience that enable them to transcend traditional fast food restaurants, yet are still relatively inexpensive versus upscale eateries. Two companies in this growing niche segment that Condor Capital has recognized are Chipotle Mexican Grill and Crumbs Bake Shop (currently trading under 57th Street General Acquisition Corporation).

Chipotle has been called a leader in the "fast casual" segment where customers can enjoy a feel-good environment and eat comparatively healthier food at prices that are more than some competitors', yet still affordable. The company's "Food With Integrity" campaign promotes the company's use of animals that are raised naturally without hormones and local produce that may even be organic, if available.

As for the food itself, instead of placing an order at the register and having the meal prepared in a kitchen that is out of view, Chipotle has instituted an interactive model that allows the consumer to customize his/her meal by dictating to the preparer which of the high-quality ingredients to include.

This combination has been a strong recipe for Chipotle, as evidenced by revenues that surged 24% in the first quarter of 2011.

Another name is Crumbs Bake Shop, the largest domestic retailer of gourmet cupcakes. With a variety of sizes and mouthwatering flavors such as Caramel Apple and S'Mores, Crumbs has done its part to make sweet treats an affordable luxury. Most cupcakes cost a relatively higher \$3.00 to \$4.00 and the average transaction ranges from \$18.00 to \$20.00. Meanwhile, to save on costs, the company employs a unique business model where it uses a contract manufacturing model to source out the production to local bakeries instead of baking the treats in-house. As a result, it only costs Crumbs slightly more than \$1.00 to produce the average cupcake and brings the company's average sales per square foot to more than \$1,000 – among the highest in the industry. With regards to the company's expansion plans, management hopes to complement its online store with nearly 200 physical locations by the end of 2014, a number significantly higher than the 35 shops now.

All-in-all, with unemployment relatively low among the highest-educated portion of the population, it stands to reason that the strong momentum for affordable luxury companies out of the recent recession will continue.

This surge is expected to not only be led by goods companies like Coach and Steve Madden, but by dining companies like Chipotle Mexican Grill and Crumbs as well!

At the time of this article, Condor Capital Management held long positions in Coach, Steve Madden, Chipotle Mexican Grill, and 57th Street General Acquisition Corp.

Condor Capital

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