ORAL HISTORY COLLECTIONS, F.I.T.

THE FASHION INDUSTRY LEADERS

NORMAN HINERFELD

Chairman of the Executive Committee
Kayser-Roth

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Interviewed by
Mildred Finger
Kayser-Roth, Inc. now a division of Gulf & Western, Inc., resulted from the merger in 1958 of the Julius Kayser Co. without the Roth Company. Both companies had specialized in stockings, although the Julius Kayser had previously diversified into other types of fashion merchandise. The Julius Kayser Company was formed in 1865; The Roth Company was founded by Chester Roth and Alfred Slaner.

With the merger, the company had a combination of strong management and a strong financial structure; it grew rapidly. The Gulf and Western Company retains the management of the Julius Kayser Company. Chester Roth and Alfred Slaner retired some years ago.
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Institute of Technology, this will be an interview with Norman Hinerfeld.
Mr. Hinerfeld is the Chairman of the Executive Committee of Kayser-Roth.
The date is February 24, 1984; the interviewer is Mildred Finger.

Mr. Hinerfeld would you talk about the history of the
Kayser Company, before the time that it merged with the Roth Company?

A: Surely. The Julius Kayser Company had been founded by a
Mr. Julius Kayser approximately in 1895, and in time became a publicly traded
company listed on the New York Stock Exchange.

Q: What were the products that they...?
A: The original products that Julius Kayser made were women's
full fashion hosiery, women's gloves, and women's lingerie. And during periods
of the 1920's, it was undoubtedly the largest company of its type in the industry,
and the Kayser brand was a very well known brand for many, many years.

Q: In what year did you say it was founded?
A: I believe it was about 1895, approximately. During the 1930's,
the company started to age and go into decline. Probably the most serious error
that was made at that time, in the late 1930s, was that the DuPont Company ap­
proached the Julius Kayser Company and suggested they introduce a new fibre
in women's hosiery called nylon, to replace the silk hosiery that Kayser and
the rest of the industry were then manufacturing. Since Kayser was the largest
hosiery manufacturer at the time, DuPont selected them for the priv­
ilege of this introduction. The then management of the Julius Kayser Company de­
cided to pass this opportunity and by the time they woke up to the fact that
nylon was going to be the fibre of the future for hosiery, they were no longer
a major factor in the women's hosiery business.

Q: They were making silk hosiery?
A: They were making silk hosiery. Right. And they were convinced that women would never give up silk hosiery for a synthetic fibre.

After World War II, several groups--different investor groups--bought control of the company and eventually....

Q: Was the original management gone by then?
A: The original management was long since gone, and the ownership was in several families...including, I believe, if I remember correctly, that members of the Bache family--the investment banking family--had probably a controlling interest, even though the stock was held publicly. In a period of about 1951, I believe, another group of investors bought control of the Julius Kayser Company, and this group consisted of Abraham Feinberg; my father, Benjamin Hinerfeld; a gentleman named Joseph Katz; and later Mr. Philip Goldsmith. This group had all been in the women's hosiery business; Katz, Hinerfeld and Feinberg as partners, and Goldsmith had his own separate firm, Diamond Hosiery Mills. And their hosiery businesses and the Kayser hosiery business, plus the Kayser lingerie and robe business, were all combined together into a single company, still a public company listed on the New York Stock Exchange.

In 1954, '55 I believe, the company decided to expand from its original base. The purpose would be to accumulate companies that had branded products, and by having a group of these companies with a broader financial base, to finance a national branded distribution and build a national branded distribution for a variety of wearing apparel products. At this time this was a rather unusual thing. There were very few national brands in the apparel field.
The company very quickly acquired a company based in Los Angeles--Catalina--which was at the time in the misses' swimsuit business, and in a very small way at the time--the early stages--in the misses' sportswear business. And they had acquired then the Holepruf Hosiery Company, based in Milwaukee, which was in similar businesses to Julius Kayser--women's hosiery....

Q: I'm sorry. Could you spell "Holepruf"?
A: H-o-l-e-pr-u-f. That was a brand. Holeproof Women's Hosiery had been an old, old brand of women's hosiery. They made hosiery and they also made "luxite" lingerie, and had made "Holeproof" men's socks. So those two acquisitions, plus the existing company, were the Julius Kayser Company. Unfortunately, while the conception of which way to go was very good--and eventually became the pattern for the entire company--the execution had some problems and the company was struggling along. I guess at the time, with these two acquisitions, it was doing perhaps $40 million in volume and losing money.

Then a series of management misfortunes took place....

Q: Who was the top management at that time?
A: The management were these four investors. They were the operating management of the company, replacing the former managers. And Mr. Katz died; my father, Ben Hinerfeld, died; Mr. Goldsmith decided he wanted to do other things, that he wanted to be bought out. About a year before all this happened, in 1955, I had joined the company. I had been in the armed services and before that, at Goldman Sachs down on Wall Street. And Mr. Feinberg, whom I had always considered my father's partner, said, "We've got enough problems. You'd better come in here and you and I can be partners."

So, he and I bought out Mr. Goldsmith and bought working control
of the company and decided to see what we could do about it.

Q: How much did you know about this business? I mean, had you heard about it? Had you....

A: Well, I had a layman's knowledge of the business, really. The only experience I had in a related business was in 1951, when I managed a small tricot knitting mill where I was selling fabrics to the apparel trades, and manufacturing a textile product, actually. But that was really the only direct experience I had with the business.

Q: To take a moment...Let's just run through your schooling and what your interests were as you were growing up.

A: Okay. I grew up a good part of my life in northern New Jersey; Passaic, New Jersey. I went to Passaic High School, and then went to Harvard College and graduated in 1951. I majored in Economics and Literature. Then I went to Harvard Business School and got a Master's Degree there. I concentrated most heavily on finance and marketing. And immediately thereafter I joined the underwriting department of Goldman-Sachs. I spent a relatively short time there and ended up in the United States Army for a couple of years. And when I was discharged from the army was when I joined the company.

Q: But before that, you had worked for another company very briefly. You just started telling us about that...

A: The textile business. Yes, well...Between the time I graduated from college and went to the Harvard Business School....A group of investors had bought a tricot mill in Connecticut and I was asked to go up and run it. And I had never run, I guess, any kind of a mill before this experience, and I certainly knew nothing about tricot mills. But after working at the thing
for about fourteen hours a day, seven days a week, I learned a few things about how to operate a tricot mill. And it was a lot of fun. I guess that's what attracted me to the softgood business. At that time, nylon yarns were in very short supply, and if you had a quota allocation from DuPont for nylon, it was like running the U.S. mint. All you had to do was make a product which was salable and it was automatically a very profitable enterprise. So I became, at a very early age, convinced not to go into high tech businesses, or the steel business, or the banking business--textile must surely be the most profitable industry in the world. I have never, in the 32-33 years since then, found any part of the textile or apparel business nearly as profitable as that first experience. And I'm still looking! But that was really my introduction to textiles and apparel. And when I arrived at the Julius Kayser Company it was really a learning experience for me. Unfortunately for the company, they had to be my educator while presumably Mr. Feinberg and I were running it.

We decided, after about six months, that the company had great prospects but was lacking two essentials: The first essential was, we were woefully short of capital. Mr. Feinberg and I probably were personally signing our notes with 20 different banks throughout the United States, and it was a real struggle to maintain our cash flow and build the business as we were going. And we decided that if we did not want to build the business, we could probably continue it by slowly husbanding our assets and moving along. But if we wanted to realize what remained very ambitious plans, we would have to figure out some way of getting a major infusion of capital...

Q: Did you say that you were doing about $40 million at that time?
A: $40 million, yes. Which at the time was a sizable company in the industry. It's not today, of course, but at that time it was. The other thing we were lacking was that Mr. Feinberg knew a lot about marketing women's hosiery—he had been in that business all his life—and I knew very little about anything. And we really lacked good professional operating management, to build a business of this nature, and the two of us recognized it. So we said to ourselves, "We will have to find people willing to invest capital and we have to find people who are willing either to come in as partners with us, who are good operators, or we will have to bring in professional operating people."

So we started looking around. First we brought in an investment group based in southern California who were not operating people but who thought this was a great opportunity and invested a sizable amount of capital in it, which gave us breathing areas so we could start moving around. And then, in March of 1958, we negotiated a merger with Chester Roth and Alfred Slaner, to merge the Chester Roth Company into the Julius Kayser Company. It was a public company so that would be the surviving company, and we formed Kayser-Roth. And when that merger was done, Mr. Roth was the President; Mr. Feinberg was the Chairman; Mr. Slaner was the Executive Vice President, and I was the Vice President. So we were the management who... We were the founding parents, I guess you might say, of Kayser-Roth, in 1958.

From that point on...

Q: Excuse me. At that time the Roth Company was doing about $100 million?

A: No. The Roth Company was doing about $40 million, and the Julius Kayser Company was doing about $40 (million), so the combined company...
was doing about $80 million. The difference was that the Roth Company was quite profitable, and even though we weren't losing money in the Julius Kayser Company, we were making rather modest profits for the amount of volume that we were doing. But we now had the two things that we were missing: We had an adequately capitalized company for what we were attempting to do, and we had a management team, at this point. Both Roth and Slaner were very professional management people who had great experience, knew what they were doing, and had the ability to grow as the business grew. So this was a very important merger. And the Julius Kayser Company brought to the merger a listing on the New York Stock Exchange, the Kayser brand, the Holeproof brand, the Catalina brand, and two hopefully very active partners, Mr. Feinberg and Mr. Hinerfeld. And the Roth part of the merger brought the professional management of Roth and Slaner, good capitalization, a very fine manufacturing base for both hosiery and socks in the South, and a very solid reputation in the private label hosiery business. So we were ready to start developing our plans, which also came along with the merger.

The plan was to develop this company as a series of branded apparel manufacturers that would be distributing primarily to the department and specialty stores. And from 1958 to about 1965, we really kept ourselves focused on this direction. We also agreed at the very beginning (and never deviated from this pattern) that we would run our business as decentralized, divisionalized companies, rather than as a single, vertical organization. We made this decision because we decided we were not going to have one or two divisions, which would essentially be the company. We would have many divisions, serving many different segments of the market--product wise as well as
customers--and that to do this successfully we would need operating management in each of these divisions who would concentrate, specialize, be very professional in what they were doing and hopefully properly develop these markets. And that is the way the company was organized. It has always had a very small corporate organization. The firing line in each of the divisions is where we invested our money--in people, equipment, time and energy--and we tried to keep the corporate organization, the corporate overhead, as small as possible so as not to inhibit the way the individual divisions could operate.

So, as I say, we set out on this course for about seven years--until about 1965--when we determined that there was another segment of the market place that was growing very rapidly that we had very small participation in, and that was the mass merchandising. They were growing very rapidly in the apparel field, and instead of having thousands of customers, we were talking about maybe a dozen customers who were fast approaching 50% of the entire apparel market. So we said to ourselves, "Our initial strategy was fine. We've accomplished certain things that we set out to accomplish. Now, if we're going to keep pace with what's going on in the market, we'll have to start a second major direction." And what we did, we decided the way to get into this business was to find a company that had a large, very efficient manufacturing base, to be the basis for developing this second channel of distribution. And the company we settled on was called at the time the Colonial Corporation, and it was a company that was doing about $35 million. And there were several other companies that it owned, in related fields, so that the total volume was, I guess, perhaps $80 million, with the collection of other companies. The core company we were interested in in the acquisition was Colonial.
And this started us into the field of developing business with the mass merchandisers.

Q: Excuse me. Are you referring to Sears, Penney when you talk about mass merchandisers?

A: Sears and Penney and, at that time, the Grand Company....

Q: K-Mart?

A: K-Mart was just starting then. It really wasn't a major factor at that point. At a later point it became very important. Montgomery Ward was another, and there were a few discounters, like Korvette's at the time. Not anywhere nearly the number that there are today. But, as I say, there was a relatively small number of firms having a very big piece of the apparel bite.

Well, we had to...We found out, when we bought the Colonial Company ....And we got a wonderful manufacturing organization, but they were no place as far as being able to market to the kind of stores we were going after, so we had to spend a couple of years redirecting their marketing efforts, which was done. And from that base, and from several other acquisitions that we made....

Q: Like what?

A: Well, let's see. I have to think now....We bought the W. Shanhouse Company in outerwear...

Q: W. "Shanhouse"?

A: Shanhouse. S-h-a-n-h-o-u-s-e.

Q: This was to be for private label also?

A: Private label for the mass markets. We had owned, as part of the original Julius Kayser Company, Nazareth Mills, which we transformed into ...(this was not an acquisition, it was really a transformation)....a major
supplier of private label knitwear to the mass merchandiser market place. Part of the Colonial acquisition...One of the companies was A.J. Schneieron, which was an old company. They were making lingerie for the mass merchandise market, and this business was greatly expanding. We bought a large women's glove company, whose name completely escapes me right now...

Q: Was it Wear-Rite?
A: Wear-Rite. Thank you very much. That was dealing with the mass merchandise market. So, between developing internally and acquiring companies, by 1972, 50% of our business was dealing with mass merchandisers, private label, and 50% of our business was branded, dealing with the department and specialty stores.

Q: And what was your total volume by then?
A: By 1972, we were probably doing about $425 million.

Q: Now, Alfred Slaner had withdrawn before that.
A: No, no. No, what happened was, in 1961 my former partner, Abe Feinberg, decided to leave the apparel business and retired from the business, and Chester Roth became the Chairman at that time. Slaner remained a Vice President at that time, and I was a Vice President. Then in 1967, Slaner became the President of the corporation, I became the Executive Vice President of the corporation, and in 1973 Slaner became the Chairman of the Executive Committee and I became the President of the corporation. But Roth, Slaner and Hinerfeld, from 1961, were the corporate management of Kayser-Roth.

In 1976--the early part of '76, latter part of '75--we merged the Kayser-Roth Corporation into Gulf & Western Industries...

Q: I'm sorry. Just to interrupt for a second...Alfred Slaner
seemed to be very clear that as of '69, he sold his shares in Kayser-Roth, so that he was not part of the Gulf & Western deal.

A: Well, let me clarify that. The way the controlling stock interest was held in Kayser-Roth, in 1958, when we merged, a private company--Harrison Factors--was set up, and Harrison Factors owned, I guess, about 38% of Kayser-Roth, which was, as I say, listed on the New York Stock Exchange, and the public stockholders owned the balance. The shareholders in Harrison Factors were Roth, Slaner, Feinberg and Hinerfeld. In '61, when Feinberg retired from the business, Harrison Factors bought Feinberg's holdings, so the same Harrison Factors owned the same amount of stock in the company, but there were now only three shareholders in Harrison.

In 1969, Alfred Slaner sold his interest in Harrison Factors to Chester Roth, but he did not retire from the business. He remained as professional management in the company until 1975-76, when we merged with Gulf & Western. So while he was not a major shareholder any longer, he remained for a time as President, then as the Chairman of the Executive Committee.

In 1970, Chester Roth decided that he wanted to have Harrison Factors as his personal holding company, so I had my interest in Harrison Factors transferred out of Harrison Factors by taking my pro rata stock in Kayser-Roth out so that I owned it directly, and Harrison-Factors was then owned solely by Chester Roth and his family, but Chester and I remained the partners who were the controlling stockholders in the company, and we continued--the three of us as the management, two of us as the stockholders.

In 1976, after the merger with Gulf & Western, Alfred Slaner retired from the business. I became the Chairman of the Executive Committee,
and Jim Spiegel, who was a Vice President of Gulf & Western Industries, became the President and Chief Executive Officer of Kayser-Roth. Chester Roth remained on for about two years as Chairman, but was not active in the business anymore. Then he retired from the business, and so at that point Spiegel was the President, I was Chairman of the Executive Committee. We were in the corporate management, and that started the next phase of the life of Kayser-Roth.

At the time we merged, I believe Kayser-Roth had a volume at that time of about $540 million.

Q: Do you know what the net worth was of the company?

A: The net worth of Kayser-Roth at the time we merged was $175 million. Since that time, we've embarked on several other marketing directions, I guess the most basic of which is that we decided, around 1979, that there was going to be another shift, a general strategic shift, in the way apparel is marketed. Up to this point, branded business was done with the department and specialty stores; the private label business was done with the mass merchandisers. We came to the conclusion, for many reasons, the mass merchandisers were going to have to develop their own controlled national brands and we started a program of developing these brands. Today, if you look at our business, it's about one third conventional national brands sold to department and specialty stores, one third private label sold to a whole variety of people, and one third controlled national brands that we sell to mass merchandisers and...a very interesting development that took place within our hosiery area...In 1971, about a year and a half after L'Eggs started their program, we started No Nonsense hosiery, and No Nonsense hosiery is a national brand sold primarily in supermarkets and drugstores. With that move and controlled brands like Cheryl Tiegs at Sears and
Jonathan Logan at K-Mart, we have a whole collection of brands of a totally different concept from when we started back in '58. It is about a third of our business today. And about a third, as I say, conventional brands, and a third private label. And this year Kayser-Roth is doing in excess of $1,100,000,000.00

Q: Really.
A: Yeah.

Q: Why the dramatic growth? That's a very large business.
A: Well, this is the growth. You look at our growth curve from 1958, to 1976, to 1984, a little bit up and down, but it's been fairly steady. We've not grown dramatically. If you live long enough, it keeps adding up.

Q: The last figure you quoted to me...
A: Was $540 million, in 1976. Well, that's eight years, and the business doubled. The business more than doubled from $80 million in 1958...You know. As the base gets bigger, you just keep adding 5-6% a year, or 8-9% depending on how good business is, and that's what happens. When you take a business, up, down, sideways; it moves dramatically, it moves not so dramatically...But overall, the business has been one of steady growth in sales and profits, with very few dips along the way, and today the net worth of the business is close to $400 million.

Q: Now, the biggest segment of volume is still hosiery, I see, of all the brands together.
A: Well, if you consider all hosiery as one category, that would be true. We do about 35% of our total volume in hosiery, and that in-
eludes men's, women's and children's hosiery.

Q: Socks and Supphose, as well. Right?
A: Socks, and then we have...We bought, two and a half years ago, the Burlington Industries hosiery business, and so we have Burlington socks, and we have just become the licensee for Liz Claiborne hosiery. And then we have a big private label hosiery business in both men's and women's as well as children's....

Q: And all this is still run with separate division heads?
A: Absolutely. Absolutely. And in recent years we have got a president of all the hosiery divisions, and there are individual presidents within them. And a president for all the apparel divisions, and individual presidents for each apparel division....

Q: Now, in your apparel divisions, do you include the lingerie and also the swimwear? Is that...
A: Sportswear, swimwear, menswear...We cover the complete waterfront, with almost every product that's worn, we have someone making it.

Q: When did you start the menswear, for instance? I don't think I heard about the menswear before.
A: Well, the menswear started in several different places. We ...I talked about Colonial corporation....

Q: Yes, right.
A: Whose business at the time was almost entirely men's and boys' sports shirts. Today, Colonial makes all kinds of products--men's, women's, boys' and girls'. At that time that was strictly a male operation. We purchased, in 1966 I believe, the Champion Pants Company, which makes fine men's pants. We bought a series of men's tailored clothing companies, which, over the years,
went up, went down, went sideways, and except for one, that business--Madest men's jackets, Goldsmith...

Q: Mardest?
A: Mavest. M-a-v-e-s-t...And Lawrence men's tailored clothing.

We have in Catalina, actually from the very beginning, a men's active wear division, that makes men's swimwear, sportswear and outerwear. Our business is divided between men's and women's--male and female--rather than...And male and female is maybe 55% female-45% male as a rough balance. We do a lot of things for children. Her Majesty is children's wear, and Nazareth is children's wear. Catalina has children's swimwear and certain sportswear items. The mix of products, as I say, is very broad. We have a whole series of women's sportswear companies--Catalina, Cole of California, Century Sportswear, Pandora Industries, our newest acquisition...

Q: Pandora, is it?
A: Pandora, yes. So that our aim has been to encompass what we consider the important areas of the apparel business, as far as product and as far as consumer and retail customers. We probably have over 100,000 active retail customers.

Q: Before you get to that...You said there was a third group of merchandise. The first was hosiery, the second was apparel. What was the third?

A: No, I said that from a marketing point of view, we have conventional national brands, we have controlled brands for the mass merchandisers, and we have private label. So those are the three. As far as the operating divisions, in the operating divisions we have about 16, I believe, in the apparel
field and 8 in the hosiery field, spread through all the various product areas.

Q: Right. Okay. Well, you go on with whatever you want to say then. I have eighteen questions.

A: Okay, fine. Let's see...I was off on another direction before, and I don't remember where I was...We discussed the products.

Oh. As far as brands are concerned, we've never lost our concern with building and developing and acquiring brands. We went through a phase in the past 10-12 years of designer labels: Oscar de la Renta for all menswear, John Weitz for certain menswear items, Liz Claiborne for accessories and hosiery. I guess you might say Kayser-Roth and its predecessor, the Chester Roth Company, is probably the first apparel company in the United States to become interested in designer brands. In 1935, the Chester Roth Company made an exclusive licensing arrangement with Elsa Schiaparelli, at that time probably one of the leaders of couture in France. And we were her exclusive licensee for many, many years and we manufactured a variety of products under the Schiaparelli brand, and also sub-licensed to fields that we were not in. So, I guess, from that early heritage, we have had a continuing interest in designer labels. And this interest, of course, continues...

Q: After Schiaparelli, there was a long pause, and then was St. Laurent the next one?

A: I would say that for hosiery, St. Laurent...We introduced St. Laurent to the American market, with hosiery. And that at about that same time, our first relationship with John Weitz...We did a line of junior swimwear under the John Weitz label. And I'm a little hard pressed to remember....

Q: Men's junior?
A: Women's. This was his first foray into female clothes at the time. This goes back...My goodness. It must be in the early 1960s, when all this happened.

And then we introduced Larry Kane to the men's fashion business. That must have been about 1967. That's really when this early...

Q: That's very early. 1970 was when the growth...

A: That's right. So, as I say, we've been interested in designers and designer labels for a long time and have done this for many, many years.

The company...We've always deemed ourselves as being a marketing company, but to be a successful marketing company we've always felt it was important to be good manufacturers. So we operate, in the United States and abroad, I guess about 160 factories, employing over 27,000 people; people who are direct employees of the company. And our point of view is that we decide what it is we want to market, whom we want to market to, and then what is the best way to source the product: in our own factories domestically, our own factories offshore or and someone else's factories offshore. And we're very flexible from that point of view. When we started the business, we manufactured 100% of the business domestically. Today, I would say, overall, we manufacture about 75% domestically and 25% offshore.

Q: The product determines that, doesn't it?
A: Absolutely.

Q: Hosiery is probably still done...
A: Our hosiery is 100% domestic. And certain other products, like accessories, is just about 100%.

Q: What do you mean by that?
A: Accessories are done almost entirely offshore.

Q: And your apparel?

A: Apparel, it depends on the product. As I say, the overall mix is 25% offshore and it varies from one extreme to the other.

Q: It's interesting to know about how it works, because there is a real picture coming through from all the Oral Histories I'm doing. I would assume, for example, that your men's suits, to the extent that you make them, you make them here.

A: Uh humm.

Q: And your sportswear is probably made offshore.

A: Offshore, and we make a lot of it domestically. We make a lot of it in factories in the Caribbean area.

Q: I see. Your offshore being under regulation 807....

A: Some of it we do on an 807 basis, some we use foreign piece goods and make the whole thing offshore in our own factories.

Q: Right. From what you said before, you don't have such a thing as "a sales force." Each company has its own sales force? And showroom...

A: Yes, and many of our divisions have more than one sales force, depending on the size of the division. But there is certainly no Kayser-Roth sales force. There is no Kayser-Roth general merchandiser. No Kayser-Roth manufacturing Vice President...

Q: Is there Kayser-Roth data processing?

A: There is a Kayser-Roth data processing consulting service, and we have individual data processing organizations in each of our divisions. We have individual financial organizations in each of our divisions. We are
really decentralized. Many of our competitors have hone a completely different direction, but this is the path we chose for ourselves.

Q: And you don't find the duplication is sometimes excessive?
A: Well, we've obviously come to the conclusion that what duplication we do have more than offsets the problems that you get by centralizing these functions. Of course, being decentralized does not mean we're not compatible. We have a very compatible financial reporting system. We have a high degree of compatibility in our EDP systems throughout the company. And we try to keep a close liaison in our manufacturing organizations throughout the company, even though they are run separately. When it comes to marketing, we find that the more specialized we are in marketing the better off we are, rather than trying to have a single, powerful corporate marketing entity.

Q: On what basis do you do your overall planning? Do you plan three years ahead of time, five years... Do you get your people together from all the divisions? How does that work here?
A: We have a three year time frame where we do our strategic planning. We do our tactical planning on a one year basis, trying to make sure that this ties into a longer framework. As far as strategic planning, we don't kid ourselves... In a market that's as volatile as the markets that we find ourselves in, long range plans and concrete... are next to impossible, but we do select directions. I mentioned some of our strategic plans over the years to develop national brands for department and specialty stores; to develop a marketing organization for the mass merchandisers; to develop controlled brands for the mass merchandisers; to develop offshore manufacture. These are the long term strategic goals that we set for ourselves, certainly in much more detail on the
divisional level, but we do this. We have a very formal planning process. Planning starts at the operating unit level, goes up to the divisional level, and up to the corporate level. And we in turn present Kayser-Roth plans to Gulf & Western, who are our bankers, and Gulf & Western operates with us...again, on a highly centralized basis...They literally act as our bankers. We have to convince them that how we want to invest their time and money makes sense, and if they agree they fund us; if they don't agree, we go back and do some more planning.

Q: You've actually found a conglomerate that can work in such a way as to make it easy for a softgoods manufacturer to adapt to their system?

A: Well, we've survived eight years now. I can't speak for tomorrow, but for eight years it's worked very well. They've been, I would say, an understanding parent and a reasonable banker for us.

(Side 2)

Q: You have mentioned now and again the kinds of stores that you sell, which is the stores that there are. Have you got any kind of figure in your head about how much of your business comes from department stores, how much from specialty stores, how much from mass merchandisers, discounters--do you have any notion at all of what all that is?

A: Well, I can give you better than a notion, it just so happens....I'd say, if you took the mass merchandisers and the discounters as a group, we do about 45% of our business with them including supermarkets and drugstores. Supermarkets, drugstores, mass merchandisers and discounters are 45% of the business. We do about 20% of our business with department stores, and we do about 35% of our business with everybody else--everybody else being specialty
stores, chains, smaller specialty store chains, catalogues, retailers, etc...

Q: You really do have it broken down. Have you got any sense of the difference between your store relationships today and, as of, say, 20 years ago?

A: You'll have to define what you mean by "relationship".

Q: Well, there was a time I think when, before the sophisticated techniques with computers and so forth had been developed, when you were apt to know your customers pretty well—your buyers—not only you, but the people who worked for you, the buyers, the merchandise managers, the store presidents. Many of these relationships were really quite close and you got a feeling for where the merchandising was heading, based on what they told you. Now, is there still that kind of feeling?

A: I'll have to give you two answers. In the case of department stores... Back in the start of this business, the general rule was that the buyer or the merchandise manager of the store was there for a long time, was a very professional buyer, and you knew that person very, very well. And that person was an important guide to you as a manufacturer. I would say most of those relationships with department stores no longer exist. The only continuity (and that's not very long) is at the top management level, where the people you knew 25 years ago as the buyer are now the presidents, so you have that kind of a management continuity relationship. But with all the shifting that goes on, at the buyer and the divisional and the general merchandise manager levels, you may know people but every couple of years you know them at a different location. At the buyer level, I would say, as a general rule (there are, of course, exceptions) most of the buyers are not well trained, not professional, they're in the job for a short period of time and they get moved some place else or they go to another
store. So this close relationship with department store personnel is certainly vastly different from what it was when the business started, 25 years ago. When you go to other types of retailers, I don't think that the difference is as great. In the mass merchandising field you generally have, still, very professional buyers with a high degree of continuity and people that you develop rapport with over the years, and they are very helpful to the manufacturers because they are very professional. In the smaller specialty stores there is usually the owner and a few key employees, who are the people who make the buying decisions. There is generally much continuity and a very close rapport between our sales representatives and the people they deal with, much as it was 25 years ago. So I would say, with the one notable exception, these other relationships we don't find that different. But it is a notable difference in the department store business.

Q: I don't think you can remember it yourself, but are you aware of the difference between selling pre-war and post-war, based on the proliferation of branch stores all over the country?

A: You mean department stores now.

Q: Well, also stores like Sears and Penney's have a tremendous...

A: Well, Sears and Penney's were organized for buying differently than department stores. They were organized for chain buying, much as Lerner's was organized for chain buying. So, they have centralized buying. If you have two stores, or 42 stores, it's harder for the buyers to know what's going on in each of the stores, but essentially the buying relationship with the vendor has not changed.

Q: No, but what about the vendor's ability to manufacture in
much greater quantities than they once had to. Has it changed the nature of the merchandise that's been designed to be sold?

A: Not so much the nature of the merchandise. It's changed the nature of the vendor. One of the reasons why we decided to go into the apparel business and to develop national brands to sell to these stores was because what we surmised (and fortunately it turned out to be a proper assumption) was that as the stores grew in size and number of outlets and in volume of purchases, in order to successfully service these stores, we had to become a larger apparel manufacturer. A smaller manufacturer couldn't cope with it, and that was the underlying reason why the Kayser Company made this transformation, and then Kayser-Roth went off in this direction. The same thing was true of the decision we made in 1965, when the mass merchandisers-Sears, Penney and what have you--were growing so rapidly, we came to the conclusion that the essential for retailers who had to buy in such enormous quantity was that they must have vendors who could manufacture in tremendous quantities, and we saw an opportunity, and that's why we went into that field. The trick, of course, is that when you manufacturer in much larger quantities, you don't become so rigid and inflexible, that you can only make one item. And if somebody changes the button spacing, you no longer can deliver the product. It is also one of the great challenges that we as an industry, or as a company now; to develop further manufacturing techniques to get much greater degree of flexibility in what we're doing. And we've put a lot of things into that area, to accomplish it.

Q: Which, incidentally, encompasses this whole thing of reorders. There was a time when everybody lived on reorders. These days, there's so much production offshore, I would gather that your situation is different both in terms
of stores giving reorders and in terms of ability to accept them...

A: That's one of the things that has changed. There's another thing that has changed. When I started in this business, it was the Misses business, and the Junior business, and the men's business and the boys' business, with two seasons a year. You could talk about one of the other seasons, but there were essentially two seasons. You had a spring/summer line, and you had a fall-winter line. And because the line was on sale for such a long period of time, to get fresh merchandise into the stores you had to do it by reorders. Today, you run 4-5-6 lines a year, in almost every merchandise category, so a good part of your old reorder function has been taken over by bringing new lines and new deliveries. And one line tries to evolve out of the successes of the prior line. So instead of reordering, perhaps, the identical piece of merchandise, it's a slight variation, whether a color variation or whatever. Or, it might be a repeat of something that sold well in season number one, which is carried forward into season number two. A lot of this reorder activity has been handled this way, and this is really in response to the fact that most stores will no longer commit themselves 6-8 months out into the future. They find it too risky. They do what they have to, perhaps, when they're buying goods in the Far East, but they really don't like to make that kind of a commitment. As a manufacturer, we don't like to speculate a year in the future blindly. By shortening the delivery cycle and making the response time faster, each takes smaller bites at the merchandise pie and we learn to adjust to the situation.

Q: What about export? You obviously do a lot of offshore production, which means that you are, in a sense, importing. Do you export?
A: You have hit the sorest point you could have hit me with, because I am tearing my hair out how we can develop an import-export... We do very little export as a company. The entire industry does very little export. I think if you exclude the figures for 807 production, where fabric turns up as an apparel export, I think last year the entire industry in this country exported something on the order of $400 million. As an industry we are terrible exporters; as a company, we are terrible exporters.

Q: But you have at least one division--is it Cole or Catalina?--which you always see in Italy.

A: Well, I have to explain that. We have always had an active foreign licensing program.

Q: Oh. Okay.

A: We have licensed manufacturers all around the world. And the reason we license is because we can't figure out how to market export products in those countries. We also have wholly owned subsidiaries in Canada, Australia, New Zealand and Germany. But aside from those, the amount of direct exports goods which we manufacture here in the United States (or, if we manufacture them offshore to ship to a third country) is a very small part of our total volume, and we are trying to, very seriously, develop an export business. Because we feel that there will be, in a reasonable period of time, a world market for apparel. This is a world market for the manufacturer of apparel. It is manufactured everywhere and the goods is shipped everywhere, but the everywhere... If it is shipped to developed countries... We feel that, as American apparel manufacturers, we should have a sizable amount of business in other countries. But unfortunately we do not at this time.
Q: Getting back to designers for a minute...Apart from the designers whose names you license, what has been the situation with regard to your own designers?

A: Well, our own designers, for the most part, have not become public personalities. But we have...I haven't sat down and counted, but we must have 200 designers who work for us on a full time basis. Some of our divisions have very, very large design studios. Some of the designers have been with us all their working careers, and others, you know, come and go, depending on the situation. But we feel that having an internal design capability is an absolute essential if you're to be in this business.

Q: When you use the word "designer," (because people seem, in industries other than apparel,) to identify them differently...are designers, in your terms, technically trained people; or people who are creative and use technical people to help them produce their product.

A: We have...I'll put them into three classes. We have merchandisers, who are not technically trained, who have the responsibility for deciding what is in a line and how it should be priced and how much of it we should manufacture. Those are the merchandisers.

Q: And what's the road to becoming a merchandiser?

A: Well, it comes from various places. Some...One of the roads is to start out in the marketing area and develop the ability to understand what is salable merchandise, and develop merchandising capability. That's one route. The second route...A number of our designers (and these are people who again come in two classes)...Our designers, some of them, are highly technically trained people. I include patternmakers, for example, who are also very creative and
create the designs and execute them. Then we have a number of designers who, I would say, are sketching and draping designers, who are not that technically trained but are very creative and work with a first rate pattern maker to make the product. A number of these people end up as merchandisers. And some of our merchandisers, I guess, now that I think about it, sort of arrive flow blown out of heaven from a variety of directions. I remember one fellow, a very good merchandiser, who was trained as a lawyer. Why he ended up as a merchandise manager I don't know, but it's a job that's a talent job. There's a certain amount of training that's necessary, but a lot of the work comes in the genes.

Q: Speaking of genes... What is the story in your company, in your kind of company, about succession. What is the story concerning how you will be succeeded, and so forth?

A: Well, we had an interesting experience, because we've been around for over 25 years as a company, and many of the companies that we purchased, from the people who developed these companies, joined us and worked out their careers and retired, so we had to go through second generations. So at the operating division level, to go back to 1958, as of today, we have one division president, who was division president in 1958 and is still a division president today... Everyone else is successor management, and we've tried to develop people upward through the organization. Not in every case. We have some who were taken from the outside. But, in the vast majority of cases, the division presidents and senior management executives that we have have come up through the organization and proved their worth. This is not a family business. In the days before Gulf & Western, maybe the corporate office looked like a family affair, with the three of us sitting here... But throughout the company it was,
hopefully, a meritocracy, not family placed around. The people in this firm earned their spurs. If they could do the job, they got the job.

At the corporate level... We have very few people at the corporate level, and the people who are here came from a variety of places. A couple from Gulf & Western, in the financial area. And the rest, just from other places. And I would guess this is an organization which will continue to feed people up through the system, or bring them in from the outside as needed. But we've gone through all the changes...

Q: Right. Yes. In the past, the question was "is there going to be a family or is there not?" but that's all been done already.

A: That's right. Right.

Q: The whole question of financing--banks vs. factors, etc.--Obviously, what happened with the beginning of these companies was very different from what's happened since you have been with the company. But in a general way, is financing done through banks, or do you generate your own capital, by public issues, or....

A: You're talking about Kayser-Roth?

Q: Yes.

A: Let me give you a brief history. When we started, the way we financed this company....And this is something my father really developed... He was the first financial man in this company. He said, "Let's acquire companies that own real estate, and then sell the real estate and lease it back and get the cash to operate." So, with all our early acquisitions, we would put up the cash, and it was all done by selling off the real estate of the company. We had no choice, because if we didn't do it that way, it just wouldn't have been done.

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Later on, Roth, Slaner and I purchased a factoring company--L.N. "Domerick,"--which we owned outside of Kayser-Roth....

Q: Would you spell that?

A: D-o-m-m-e-r-i-c-h. Dommerich. L.E. Dommerich. An old-line factoring company, which owned Harrison Factors, aside from Kayser-Roth. And we got very familiar with the factoring business. Eventually we sold that company to the Chemical Bank, and it's now the factoring division of the Chemical Bank. So, we considered the factors in this business that we were comfortable with. We do a small amount of factoring today in very selected areas. For example, in our small export business, we factor our foreign receivables. A couple of other divisions, for various reasons, we factor. Gulf & Western has a factoring company and we do some with them, and some with other factors. Essentially, we do not finance our business with factors and we never have from the very beginning, even though we were in the factoring business. The way we've always tried to finance our business is with long term financing. That's I guess the secret of our business--to get low cost long term financing, which meant that you went to institutions like insurance companies for long term financing. And for short term financing, the banks. And the bank financing was usually a seasonal financing, which we would clean up once or twice a year. But our essential long-term financing was done with insurance companies, and building up the equity of the company to cash generation. Since we're part of Gulf & Western, aside from the small amount of factoring that we're doing, our one source of financing is Gulf & Western. So the question is, how does Gulf & Western do its financing, and if you have a spare afternoon to read their 10-K, you'll see that any way the creative mind of man can figure out, Gulf &
Western does it...Gulf & Western, between its consolidated financing and its associated financial companies, I believe at times is in the market for as much as several million dollars a year, and every conceivable type of piece of paper they use--and use very creatively--are a marvelous financial institution. If I were wearing my hat right now, I would tip it to them. So it's a combination of selling commercial paper, and short term borrowing, and term loans, and long term financing, and short term financing, off-shore/on-shore financing--a wide variety. But looking at it as if we were an independent company today as Kayser-Roth, I think I would still attempt to do as much of my financing as possible on a long term basis, despite the high rates today. Because in a business such as ours, it is more important to have the capital available when you want it, than paying 1-2% more interest, on a pre-tax basis. Maybe we're more conservative than some other people, but that's the way we look at it.

Q: And one final question--What have been your relationships with the unions over the years? Which unions have you dealt with and what were the circumstances?

A: As a company, I guess about 10% of our employees are unionized. Where are we unionized? With the ILGWU, Amalgamated Textile Clothing Workers, with United Textile Workers, and a few other unions that are outside the garment trades. I would say in general we have had very good relationships with the unions over the years. We certainly have not encouraged unionization of our facilities. We didn't think it was necessary, from our employees' point of view or from the company's point of view--the unions of course have a different viewpoint on this question. But, our employees are always free to go
vote in the union if they feel it desirable. Most of them have decided it's not desirable.

Q: Is that a function which is corporate--labor?
A: Well, we have corporate labor attorneys, who act for our individual divisions just as though they were outside labor attorneys. But we expect each division to deal with its own union situation, with its own people. In other words, it's up to the division president to run the business.

Q: Thank you very much.
A: It was a pleasure.