

Ross Stores thrive as buyers look for discounts

By Ashley Lutz and Jeran Wittenstein, Bloomberg News

Ross Stores Inc. is outperforming rival chains in a sluggish economy, luring budget-conscious shoppers with 60 percent discounts on Calvin Klein shirts and Nike sneakers.

At a market value of \$8.7 billion, Ross is now less than \$100 million away from overtaking Gap Inc., despite having a third as many stores and no e-commerce site. Ross' stock has climbed 18 percent this year, while Gap has dropped 28 percent.

Ross CEO Michael Balmuth keeps promotions and fashion displays minimal to maintain low prices, while placing buyers in New York and Los Angeles to guarantee the Pleasanton company gets hip merchandise.

In a time of high unemployment and falling consumer confidence, the strategy has paid off. Sales gained 9.3 percent last quarter, and the company has raised its forecast for profit this year.

"Consumers haven't ever fully recovered from 2008, and trade-downs to cheaper merchandise aren't embarrassing for people anymore," said Pamela Quintiliano, an analyst with Oppenheimer & Co. "As department stores continue to restrain orders, factories in China are willing to sell to Ross to stay in business."

Ross got its start in 1957 as a full-priced department store in San Bruno. The chain shifted to discounting in 1982, when the store was still limited to the Bay Area. Business has boomed steadily since the start of the most recent recession, with sales rising 41 percent since 2007 to \$7.87 billion in the company's last fiscal year.

Ross now has about 1,000 locations, compared with 3,300 for San Francisco's Gap, including its Banana Republic, Old Navy, Piperlime and Athleta brands.