

■ **Bluemercury** **South Dean Shopping Center, Englewood, NJ**

RETAILING TODAY COSMETIC QUESTS

Bluemercury boutiques stock hard-to-find beauty brands
By Maura K Ammenheuser

The trouble with pricey creams and cosmetics is that finding just the right product for one's skin can be maddeningly difficult. But if something happens to that supply, the whole maddening process must be endured all over again.

Marla Malcolm Beck discovered this when one of her favorite skin-care lines, Dermalogica, which she had been buying at spas, suddenly became scarce.

She solved her problem by creating Bluemercury, a small but growing chain of stores that serve as a clearinghouse for luxury cosmetics and skin-care products and also contain spas. In 1999 she and her husband, Barry, took over two cosmetics shops in Washington, D.C., which they renamed and launched as Bluemercury's first two stores.

At press time the chain was on track to have a total of 16 units operating by the end of 2006, mostly on the East Coast (there are currently two in Illinois). In two years' time the total store count could be about 50, with the potential to grow to about six times that amount eventually, says Beck.

Bluemercury seeks street locations, lifestyle centers and upscale malls, Beck says, and is especially interested in the New York City area, Florida and California. A private equity investor is helping to finance Bluemercury's growth, but Beck, who holds a bachelor's in economics from the University of California at Berkeley and an M.B.A. from Harvard, would neither discuss capitalization nor identify the investor. Neither would she reveal the company's revenues. "We're a very profitable company," she said.

Bluemercury boutiques typically occupy between 2,000 and 2,700 square feet, including spa space, though the chain will take considerably larger spaces in hotels (the largest, at 10,000 square feet, is at the Tropicana Resort and Hotel, Atlantic City, N.J.).

Beck says she called the company Bluemercury because it sounded fast and clean. "I didn't want a name to do with beauty," she said. Further, it is unnecessary, she says, and she points out that the name Starbucks has nothing to do with coffee.

Beck says she seeks luxury clients, mostly women who live a healthy lifestyle.

Bluemercury does not have its own line, but Beck says the company deals in products she loves. These include such high-end, relatively hard-to-find brands as Bliss (its shower gels list for \$23.432 on Bluemercury's Web site), Dermalogica (stick sunblock, \$10) and Nan (eye shadow, \$21.431). Devotees of these brands would otherwise have to scour the Internet, upscale department stores and spas to find them. Additionally, Bluemercury promises "friendly, honest, expert service" - with an emphasis on the last, says Beck.

"Our staff-education levels are off the charts," she said. Indeed, this involves 20 hours of training per staffer per month. "We look for people who are complete beauty junkies."

Such a level of customer service stands out against a retail industry standard that is frequently lacking, according to shopping center operator Chris Cole, who says sales clerks are not always "personable."

Cole is managing partner of The Grove at Shrewsbury (N.J.), a 150,000-square-foot, Metrovation/Terranomics Development-owned lifestyle center where a 3,000-square-foot Bluemercury Accelerated depreciation based on sound engineering. Don't assume that you are already doing everything you can. Our clients have been able to greatly improve their cash flow with cost segregation studies. Retail property owners will typically save \$40K or more for every \$1 M of total building costs. opened in February 2005. Cole says the store manager in the Princeton, N.J., boutique he initially visited impressed him immediately. "This person could not have been nicer," he said.

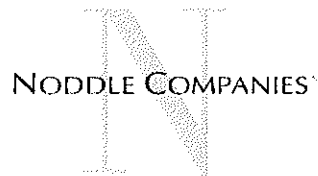
■ **As Seen In...** **Shopping Centers Today** December, 2006

Skin-care companies with limited spa services have taken shopping center space over the past two years or so to get closer to well-heeled consumers, says Hannelore Leavy, executive director of the Union City, N.J.-based Day Spa Association. These are retailers of products first and operators of spas second, as distinct from full-service day spas that also sell beauty items. Most of Bluemercury's revenue is from retail sales, says Beck, though she would disclose no numbers. About a dozen store-spa companies have taken to the malls, seeking out centers as a way to get their products to market, Leavy says. They otherwise typically sell their lines through department stores, she says. Shopping centers have begun to seek out such companies and day spas for their cachet and the wealthy customers they attract. "What better thing than to take an hour of your day and go get an hour massage?" asked Chris Weilminster, senior vice president of leasing at Federal Realty Investment Trust, who terms the spa experience a "minivacation" for time-stressed people. Federal Realty has been leasing space to day spas for seven years, and Bluemercury is slated to open at the firm's Bethesda (Md.) Row when the 300,000-square-foot, mixed-use redevelopment is completed in the spring of 2007. It's no wonder mall landlords pursue spas, says Doug Chambers, a principal of Blu Spas, an international spa design, consulting and management company with offices in Whitefish, Mont., and Los Angeles. "They look at it as a very sexy addition to the project. It's been a thriving and growing business." Leavy and Chambers caution that leasing agents and prospective tenants should scrutinize the details of any deal, however. Product sales generate far greater profit per square foot than spa services, says Chambers, so a tenant needs to find just the right balance between the amount of retail and service space it leases if it wants to portray itself as a spa. Leavy says she knows of spas that were told after signing a lease that they were forbidden to offer hair or nail care because that would compete with other tenants. Everyone must therefore be sure they understand up front what is allowed, she says. There are several other beauty retailers out there with spa rooms besides Bluemercury. Jurlique, an Australian all-natural skin-care chain, is steadily opening shopspas; as of mid-September it ran 80, 14 of them in the U.S. And many malls are home to Aveda, a skin-care company with 137 "experience centers," as it calls them, in the U.S. and 39 more abroad, says Aveda spokeswoman Nicole Kaldis. They market Aveda's line. Sources frequently mention Sephora as Bluemercury's most likely competitor. The European cosmetics company with U.S. headquarters in San Francisco is practically a staple of mid-market and upscale malls. But Sephora does not operate spas. Several people also cite Elizabeth Arden Red Door, a full-service spa chain that is enjoying success in shopping centers. - The beauty spa business is generally composed of independent or regional players, says Chambers, so Bluemercury's national aspirations make it somewhat unusual. Beck says Bluemercury leans more to the niche side than Sephora and offers better service levels and more multibrand selections than anyone.

Though the chain is still fairly small, it is not hard to find landlords familiar with Bluemercury. Susie Levine Noddle is one. "I know who they are," she said. Noddle, vice president of Noddle Cos., an Omaha, Neb. based development firm, was strolling through the Georgetown district of Washington several years ago and found one of Bluemercury's boutiques. "I'm a real junkie for product, and I fell in love with their store," she said. The inventory includes items one might otherwise have to peruse a number of high-end spas and salons to find, she says. "And the store, by the way, is really sharp-looking," Noddle said as she recalled light wood fixtures, heavy marble tabletops and other features. "It is clean. It is very inviting!"

Weilmiier says Bethesda Row's customers already know Bluemercury because they shop Washington, D.C., stores. But the Grove ran ads on Bluemercury's behalf, says Cole, because the market was unfamiliar with the name, which is not descriptive of what the chain is in any case. The store is meeting expectations, says Cole, though he offered no statistics. Cole says he was sold on Bluemercury because its profile, much like that of an independent or small regional tenant, is in keeping with the center's mix. "But it had a sharp, national presentation," he said. Beyond that, Beck clearly understands retail, he says. "She was very impressive."

Bluemercury will probably exceed Bethesda Row's sales average, says Weilminster (though he would not reveal numbers), because spa-related tenants have proved to be excellent co-tenants in other centers and because he sees Bluemercury as complementary to the center's existing tenant base. "I really think they're an asset," said Noddle, who was thrilled to land a Bluemercury at the Shoppes on Dean, a 50,000-square-foot revitalization project in downtown Englewood, N.J. Bluemercury opened at the center, in an affluent community just across the Hudson River from New York City, in April. Yet, she says, even in that sophisticated market, "the community doesn't really have anything like this."



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