SEPTEMBER 2005 UNDER NEW MANAGEMENT

UNDER NEW MANAGEMENT

Inc.

THE MAGAZINE FOR GROWING COMPANIES

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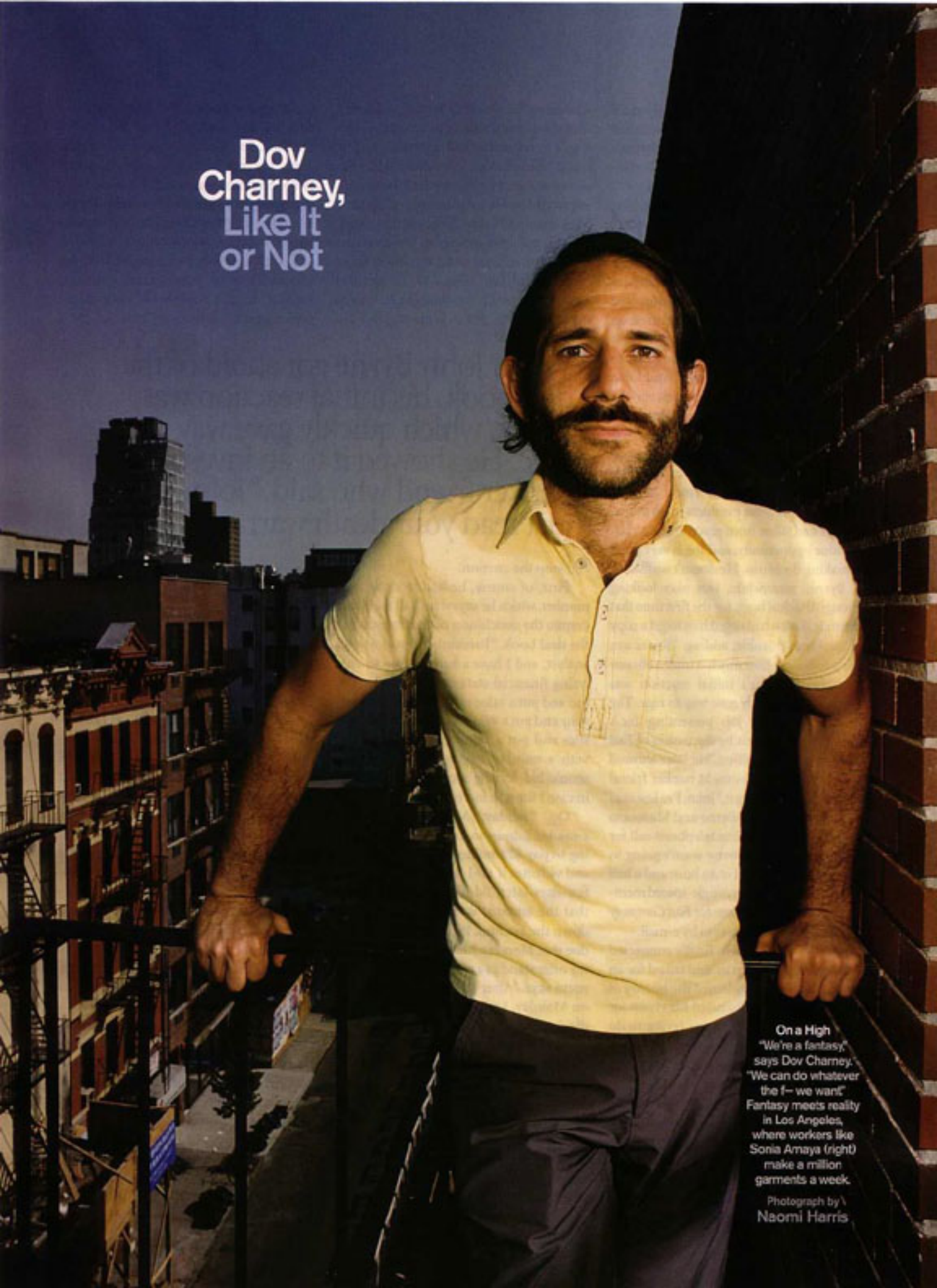
Inc. The Magazine for Growing Companies

Dov Charney, Like It or Not



On a High
"We're a fantasy," says Dov Charney. "We can do whatever the f— we want." Fantasy meets reality in Los Angeles, where workers like Sonia Amaya (right) make a million garments a week.

Photograph by Naomi Harris

American Apparel is exploding, and sometimes it appears its founder might do the same. All id, all the time—is this any way to run a $250 million company?

By Josh Dean

Photograph by Misha Gravenor

He has his store manager summon a group of workers he feels don't have quite the right look for sales. Nothing personal, he'll tell them; I wouldn't want my sisters working in the stores.

THIS IS NOT your typical CEO story. But then this is most definitely not your typical CEO. I refer to the shirtless man, the scrawny, square-shouldered dude with the hairy chest talking to his mom on a cell phone while circling a picnic table in New York City's Washington Square Park. Periodically he stops to eat chicken and mashed potatoes from a plastic deli tray parked next to a woman studying Spanish. It is his first and probably only meal of the day.

The CEO—who actually answers to the title senior partner—is probably five-eight and might top 140 pounds if his pockets were full of change. With a tangle of brown hair and muttonchop sideburns that meander across his face until they meet his mustache, forming a seamless band of hair from nose to nape, the 36-year-old proprietor of one of the hottest brands in fashion bears a strong resemblance to a young Gabe Kotter with a whiff of Vincent Gallo. He is also commonly said to look like a 1970s pornographer, and that is the sort of comparison that makes him very, very happy.

He is Dov Charney—T-shirt salesman, tastemaker, ladies' man, pied piper, bon vivant.

He is the founder of American Apparel and he is proudly Canadian.

Today, on the first genuinely hot day of an otherwise mild start to summer in New York City, Charney is giddy, which by all accounts is the norm. A tightly wound dervish of energy, he sits down, then quickly stands back up and strolls off to get some private time with his mom, returning a few minutes later to say, "She's such a Jewish mother. She still treats me like I'm 15."

"Look at this traffic!" he says, taking in the legions of students, tourists, and random New Yorkers crowding the streets around the park, just a few hundred yards from his company's flagship store on Broadway. "I bet we set a record today!"

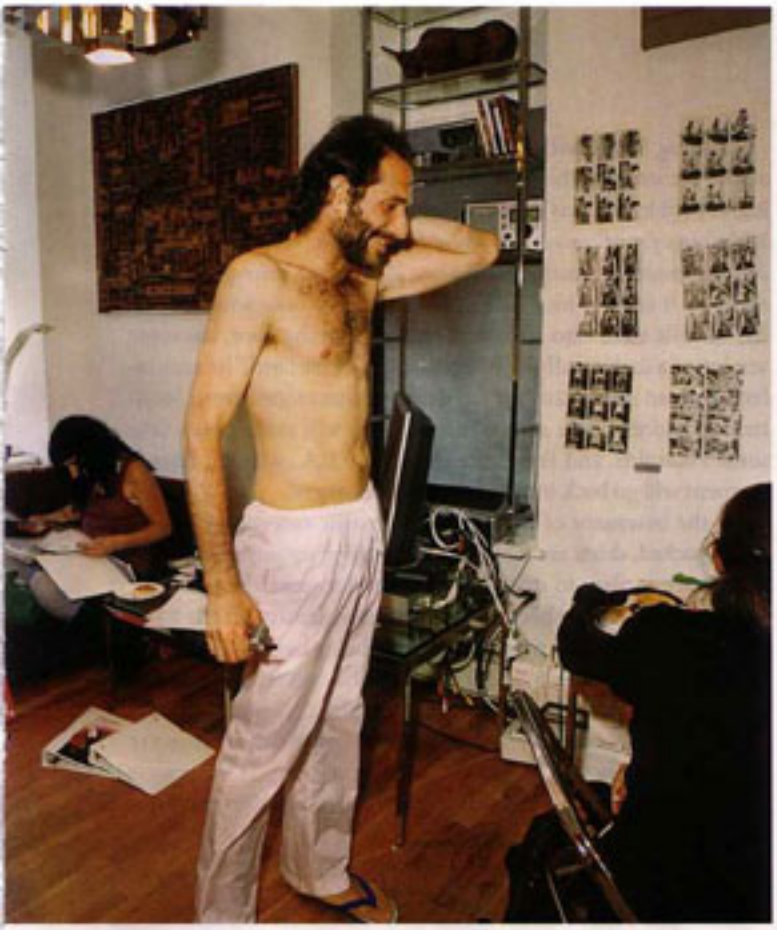
Charney is in town, rather than in American Apparel's Los Angeles headquarters—a massive pink factory adorned with billowing "Legalize LA" and "Industrial Revolution" banners—for a couple of reasons. One, as he will tell anyone who asks, is that "if you are in the T-shirt business and you're not in New York in the spring, you are an idiot." Thus, he journeys east for a month or two. This trip, though, has another, larger purpose. Charney is tinkering with his seven New York retail stores, laying the groundwork for up to 10 more. This is but part of a bold plan to open the 100th store worldwide by next summer—there are currently 57 American Apparel stores, 29 of them in the United States—and an even bolder plan to have 1,000 shops by 2008. All this from a company that had not one retail store as recently as October 2003.

"We're going everywhere," Charney says. It takes him just four months to open his stores, plain white boxes that the meticulously managed American Apparel image machine calls "community centers." A big smile pushes those hirsute cheeks up under one of the many sets of giant aviator sunglasses that almost always adorn his face.

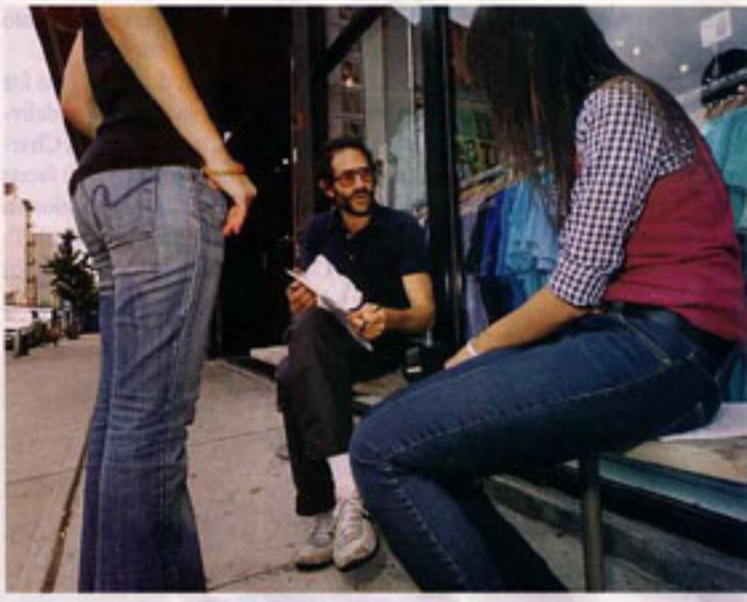
"I should fall on my face soon and then I'll slow down," he says. "But for now, it's on."

SO WHAT IS this American Apparel? A company of basics built upon a foundation of simple, plain-colored T-shirts. Tees were the

Photographs by Naomi Harris



"The micro I can handle." The company has grown so fast—doubling most years—that Charney takes refuge in detail work. *From left:* Talking to customers, conferencing in the corporate apartment, interviewing job applicants on Orchard Street.



first items Charney produced when he set up shop in 1997 and still account for the lion's share of the business—but the line is spreading like a rash. Today American Apparel makes socks, underwear, sweatshirts, jackets, dresses, tank tops, polo shirts, baby clothes, dog clothes, and, as of this summer, swimwear. The clothes have no logos, no ornamentation, not a single flourish or bauble; differentiation comes from an array of colors that now includes fluorescents and from slim and sexy cuts that attract young buyers and allow the simple cotton garments to serve as something larger—core elements of a fashionable wardrobe.

Charney, a Jew from Montreal imbued with what he calls "the Yiddish hustle," has forever been obsessed with T-shirts. As a teenager, he recognized that Canadians were missing out on the higher-quality, better-fitting Hanes T-shirts sold south of the border. So he'd make bus or train trips to nearby U.S. towns, stock up, return home with shirts, and sell them at a premium. At Tufts University in Boston, he kept on selling, then quit school and fell in with a guy who proposed they make T-shirts for wholesale. That venture was the seed of American Apparel. Charney knew he could develop the ultimate T-shirt, having picked up an unnatural fascination with quality and cut, two things that the major industry players (which still tend to view the item as a disposable basic) *largely ignored.*

From American Apparel's earliest days, Charney obsessively sourced his cotton. To experiment with fit, he went to strip clubs. Just as the clubs offer a diverse menu of women to suit every fetish, so too do they offer a diverse menu of body types—perfect for sizing T-shirts meant to flatter women's bodies. Charney also loves to be around women.

American Apparel started as a strictly wholesale operation, selling to bands, museums, artists, designers—basically anyone who wanted to print on high-quality blank T-shirts. Even today, wholesale dominates (AA has some 60,000 individual accounts), which explains why black and white still make up nearly half of all sales. From $40 million in 2002, sales have doubled or nearly doubled every year and are expected to top $250 million in 2005. With five sizes and an ever-growing palette of colors (the jersey tee alone comes in 36), American Apparel has more than 10,000 SKUs in production.

At the largest apparel-manufacturing facility left in America, some 2,000 factory workers pick from two million pounds of fabric stored on-site, then cut, sew, and finish garments. Posters, billboards, advertisements—they're all conceived and produced in the factory too, and soon a dye shop will be added. Charney once pushed an image of AA as socially conscious and sweatshop-free, but today he says the story is vertical integration. While other companies have fled America to save money, he's *making a killing by staying put.*

Jane Buckingham, president of the Intelligence Group (formerly Youth Intelligence), whose Cassandra Report is the arbiter of what's cool with America's youth, says that American Apparel is one of the most influential brands going. Her group surveys two sets of kids—trendsetting early adapters and mainstream followers—to get a sense of which brands are moving young people. It was among the trendsetters that American Apparel first came up a few years back. Today the brand is prominent among both trendsetters and followers, straddling a difficult line. It appears high in every category of cool—sitting alongside brands such as Marc Ja-

cobs and Diesel that are far more expensive and spend exponentially more money on marketing. Buckingham points to a convergence of factors—the sexy imagery of American Apparel's ad campaigns, the relative inexpensiveness, the social consciousness, and the fit. "It's sort of what you want to feel," Buckingham says. "You want to feel sexy in a T-shirt that costs $12."

WHEN HE'S IN NEW YORK, Charney rises late in his corporate apartment, typically around noon, despite the fact that he schedules all of the day's appointments for 11:30 to 12:30. He has no assistant, carries no organizer, and rarely checks his voice mail. You can send him an e-mail, which he will eventually acknowledge, or you can just show up around noon on the corner of Houston and Orchard, where he lives and entertains above the Lower East Side shop he considers American Apparel's prototype store. Soon enough, he will appear, carrying a tall Lucite glass of instant coffee he spooned into some room-temperature water on his way out the door.

Today he starts with Ricky, a contractor who does odd jobs for the New York stores, everything from small renovations to delivering supplies. Taking over a table in a nearby pizza joint, Charney tells Ricky that he needs a few good men to oversee all facets of maintenance for what will soon be a $50 million operation in New York alone. "Right now there's a fight to win top-notch T-shirts, and we're going to win," Charney says, tugging at his tight V-neck. "This is very valuable what we're talking about."

Leaving Ricky with an offer to join up full-time, he heads across the street to the store, fielding cell phone calls while picking at problems. *This display looks awful—put a swimsuit on it. We're out of mediums—that shouldn't happen. Why aren't we using this space? It's costing me money.* He grabs a lime-green polo and puts it on over his T-shirt. "Something's wrong with the collar," he tells a kid who, like most everyone on the floor, has some version of a dark scruffy hipster haircut. "Get me Siori," he says, referring to an American Apparel designer summoned from Montreal to address these sorts of crises. They will make notes, take some Polaroids, and FedEx the changes to L.A., where a revised garment will go back into production tomorrow.

In the basement of the store, it's a manic enterprise—boxes are unpacked, shirts are folded, a guy is taping up tiny plastic bags that Charney plans to stuff with "little underwears." The bags, he explains, save money because they increase density on the floor. Initially, men's briefs struggled. But since being bagged and placed in bins near entrances, they've become a bestseller. That's found money—the underwears are made from fabric scraps.

"I think if we can get another $400,000 out of this space, we're golden," Charney says of the basement storeroom. "This store is a prototype store; there should be nothing wrong. What we're do-

Scenes From a Revolution These garment workers—legal and well paid—are part of a work force of 2,000 at the largest apparel facility left in America. That's not to say the big pink buildings can hold American Apparel a lot longer.

Photographs by Misha Gravenor

ing is getting this one right and then we spread it like an infection." It's that easy, he believes. Get one store perfect and the next 999 need only follow directions.

Charney's phone rings, as it does every 20 or 30 seconds. "Yeah, okay," he says into a headset. "Empire State Building? Put your offer in and let's talk next week." The New York landmark, it seems, has a retail space he's eyeing. "It's what, 250 for 2,000 square feet? It's a sweet deal. Let's put the gun in his mouth and make the deal. You make that deal and you're the big d— in town." Charney is also shopping Tribeca, Midtown, Murray Hill, Rockefeller Center, the no man's land by the Garden, and several locations near the Time Warner Center at Columbus Circle. If you are a pedestrian in New York, you will see American Apparel. (This being New York real estate, however, it's a slow, tedious process, made more so by competition. "Bank of America keeps knocking me off," Charney says. "We both want the same size box—3,000 square feet—and guess what? They've got better credit.")

Charney's designers will sketch on a napkin and fax it to L.A. "If we decide to have a new design in stores by the weekend, I can be shipping by Friday," says the VP of operations.

Between calls, Charney micromanages. *Take down those photos; get rid of these boxes. Why are these hangers here? We need a nice little Epson printer.* He has his store manager summon a group of workers he feels don't have quite the right look for sales; he plans to reassign them to cleaning, stocking, and maintenance. Nothing personal, he'll tell them; I wouldn't want my sisters working in the stores. He asks for new lighting—referring to bulbs by price and product number—harangues a kid for wearing a skullcap, and then has an epiphany: "I want quicker transfers between stores. Let's get something small—maybe a moped! Get a kid to just ride it from store to store. Some kids get off on that—living off exhaust! A customer could wait while this yahoo gets on his bike and gets his ass over here."

He remembers that he's supposed to call a reporter from the *Chicago Tribune* and so an interview breaks out midmeeting as sweeping and folding go on around him. The salespeople, reassigned, basically, for being unattractive, sit and wait for the meeting to continue.

As Charney explains to the reporter, the whole sweatshop-free, made-in-America thing is no longer a selling point—"it's like a sexy girl who keeps telling you she's sexy; it's nauseating"—but will always form the core of American Apparel's success. It gives the company a vastly shorter supply chain that allows for immediate response to trends as well as the ability to cut off an item that is stagnating on shelves. With top-heavy management and factories half a world away, the Gap can't do that.

"We're a fantasy," he says, chuckling. "American Apparel is make-believe. We can do whatever the f— we want."

IN THE WORDS of American Apparel's "content adviser," Alexandra Spunt—hired on a whim after she interviewed Charney for an alternative weekly newspaper in Montreal—Charney "has no inner monologue." He will say whatever is on his mind, however

bizarre, infuriating, or prurient, to anyone, from the homeless guy arguing with a parking meter in front of the Orchard Street store to his top executives to journalists. Now that he's successful and a brand name in his own right (at least in apparel circles), Charney has begun to acquire the slight taint of perversion, something he doesn't entirely discourage. (Sexuality, after all, is the primary component of his company's advertising.) As it pertains to him, the taint is partly understandable and not entirely deserved. He appreciates women, doesn't believe in marriage or monogamy, and isn't ashamed to acknowledge consensual sexual relationships with employees of his company.

"People think because I talk about hot ass that I'm some sort of pervert," he says, fast walking up Houston Street en route to the Broadway store. "Hot to me is intriguing, tastemaking. Just because my language is colloquial, people misinterpret me."

His style does, however, make him an easy target for critics, and also opens a door to the sort of problems executives across America—who go out of their way to project vanilla—dread. A few weeks after our last meeting, a former employee filed a lawsuit leveling sexual harassment charges against Charney, and though he vehemently denies the accusation, it's likely to haunt him for some time.

Bad Dog
Hed Kayce, Charney's constant companion, has had a problem. American Apparel stores are white boxes—precise but not fussy. It's Charney who's fussy, especially about the young women who work the floor and the cash registers.

On the other hand, it's hard to see the company's sales being affected. Much of American Apparel's success in projecting an image of cool must be attributed to a branding image originating with Charney's wild, wacky, hypersexual persona and extending out to the highly targeted advertisements—provocative low-fi snapshot photographs of men and mostly women in various states of undress, in some cases wearing only, say, American Apparel socks. The ads, which appear exclusively on urban billboards or in small-circulation hipster magazines like *Vice* and *Index*, are often compared with a controversial Calvin Klein ad campaign of the '90s. But unlike Klein's ads, which were highly styled setups shot by top photographers, these are authentic snapshots photographed by everyone from Charney to, literally, the summer interns. They feature not models but regular people—employees, friends, Dov himself (his bare ass is the star of one), and especially girls Dov meets on the street.

Strolling up the Bowery, Charney checks out every woman who walks by. Spotting a beguiling, bosomy girl in a tight American Apparel T-shirt, he smirks. "See—I'm keeping America beautiful!" In rare moments of weakness, he appears to be sensitive to some of the jabs he's taken in the media, but he is unashamed of his ongoing pursuit of models and, importantly, salespeople. He's recently come to the realization that one reason his stores—which, it should be noted, break their own records regularly—are not as successful as he'd like is that the makeup of the floor staff is just a bit off. "Our cast isn't quite right yet," he explains. "You know how Ian Schrager hires his staff at the hotels? He uses a casting company. Because that's what it is—casting! You can't have all Mary Anns on *Gilligan's Island*—you need Ginger!"

The makeup of AA's staff is a mad science that is hard to teach—or even explain. Right now, Charney feels there's no one here he can trust to do it, and so he's interviewing staff himself—hundreds of prospective workers a week. "I made a mistake with these stores," he says. "I didn't do it myself and it's wrong. So I've had to let people go and there's nothing I hate more than having to get rid of kids. It breaks their hearts. But you know what? It affects sales. Should garment workers at my factory suffer because we f— up the casting?

"What I'm looking for is style—that's not something you can teach a person. You have it or you don't. Let's say one girl has an acne problem but good style, while another one is beautiful but has no style. I'm picking acne!"

THE NEXUS OF Dov Charney's T-shirt revolution is a trio of monolithic pink buildings just off Alameda Boulevard, in an industrial section of downtown Los Angeles that would cause your average tourist to roll up the windows and lock the doors. Over seven floors of the main building, Marty Bailey, Charney's VP of operations, monitors a frantic but efficient vertically integrated production that starts with massive rolls of fabric and ends with finished garments in the course of a few hours. Arriving on the scene in 2002, Bailey found a small company that didn't know how to be big. Sales were booming and Charney—who has a 50% partner (whom he declines to discuss at length) but manages American Apparel exactly as he sees fit—was running out of fingers to stick into a dike on the verge of collapse.

Charney admits he was in trouble. "I called up a guy I trust and asked, 'Who's the best out there at organizing a factory?' He said Marty. So I called him on a Saturday and said, 'Dude, my name's Dov and I need help.' He started Monday; that's the way I operate."

Bailey turned the American Apparel factory into the finely tuned machine it is today: 2,000 workers churning out a million garments a week, flexible enough to turn a late-night sketch into an actual garment for sale in stores within five days. How? Most prominently, Bailey organized the sewers into teams that can be adapted to create any of the garments in AA's line. They are self-policing and are paid based on their speed of production—hourly wages never dip below $8 and can go as high as $18 during particularly fecund periods. Within months, the factory went from 30,000 garments a day to 90,000. Where once there were 1,000 SKUs, today there are 10,000. "I don't think you'll find another shop in the world that does 10,000 SKUs on one floor," Bailey says.

"I think if you're going to be a successful manufacturer in the U.S. you have to have quality, which we do, a focused market, which we do, and you have to turn product quickly—which we do," Bailey continues. "If we decide to have an entirely new de-

Photograph by Naomi Harris

sign in stores by the weekend"—and Charney's roving designers have been known to sketch on a napkin and fax the drawing to Bailey—"if I have fabric in-house, I can be shipping by Friday."

Walking past his teams of sewers, most of them Mexican and nearly all wearing masks to avoid the inhalation of tiny cotton fibers, Bailey says that he can do $400 million in sales and 200 stores without expanding at all. He knows that Charney is a runaway freight train and that he has no choice but to hang on.

"Dov is the visionary and the passion. He's the motivator and sometimes he's the class clown." He smiles. "One thing I always say about Dov: I don't doubt him."

A FEW DAYS after I return from L.A., I ring Charney to see what he's been up to. When I remind him that I've just come from the factory, he laughs. "I don't think it's my company anymore. I mean, as an entrepreneur, the macro—I have no idea how it's holding up." He means the operation, the buzzing, whirring, clattering, hitting-on-all-cylinders production that is churning out a million garments a week. You get the sense that he's in awe of this creature he begat, a T-shirt-pimping hustler who started a revolution by accident. "That's why I like working in the stores," he continues. "The micro I can handle."

At that, the phone clicks. "Hold on," he says. Talking to Charney, in person or on the phone, is an exercise in patience and stamina. Marty Bailey told me that Charney answers his phone every time it rings, no matter how important the meeting. When Charney clicks back over, he doesn't apologize. In his management style, this is normal—conversations are constantly interrupted—and so he's a master of picking back up on his last thought.

I had just read a *New York Times* article that largely praised the retail stores but took exception with what the reporter felt was an unnecessary flaunting of sex; in particular, she questioned the use of porn magazine covers as decoration outside the dressing rooms. I ask Charney what he thinks.

"The peanut gallery is so hard on the big boys," he says. "When you make it, expect them to be all over you—hang on a second."

He clicks over, then back.

"Sexuality's been tied into fashion since Paris in the 1600s—I'm writing a position paper about this now. There were drawings of women in corsets hundreds of years before the telephone. But now there's this sex phobia. It's a waste of time—just a second, I'm sorry."

Holding again.

"People are the cash registers. I don't think sweatshop-free sells garments—it just makes good garments—hang on…"

Doo doo doo…

"There was a time briefly when I saw 'Look, we're sweatshop-free'—pardon me…"

The twiddling of fingers…

"The market is democratic. It's not for nothing that our stores are tracking huge numbers. Is it because people are seduced by this false tribalism? Pardon me."

Holding again.

"You can't argue that Levi's knows jeans anymore. It's all outsourced. Our shirts are better because we make them. They're better because they're not made in a sweatshop. It's gourmet quality, like the Colombian guy who makes coffee from his own hand-picked beans—be right back."

Twiddling of fingers.

"We don't have branding on the shirts; it's not a status symbol. There's something to the branding but I think people buy them because they're good. Think of the last time you went to Dolce and Gabbana. Did you really find something you like? Honestly? More like, it was a pleasant experience—had a good walk, thanks for the coffee, but…Excuse me."

He clicks over again.

"Listen, the *Oui* magazines aren't gonna be there forever. In fact, we're already taking them down." He chuckles. "We're putting up *Playgirl* instead just to f— with people."

Without running one commercial, American Apparel has infected the populace with its message—or at least that segment of the populace that matters.

ONE AFTERNOON, I find myself standing on the corner outside of the Lower East Side store, waiting for Charney to come back from his apartment. He had excused himself for 10 minutes to take a shower, but he left with yet another young, messy-haired female employee, and the 10 minutes had now become 30. I decide to watch people shop. The store is constantly busy and nearly everyone who enters comes out with a bag. What's more, even the people who don't stop, who are merely passing by, seem to take notice. I hear a girl explain to her boyfriend that the ads "use only real models," while another points out to a pal that "these guys make great quality T-shirts." Someone else talks about "made in L.A.—no sweatshops."

Amazing. Without running one commercial, having advertised exactly once in a magazine with a circulation over 100,000, American Apparel has infected the populace with its message—or at least that segment of the populace that matters.

A videotape loops in the store VCR, Charney waxing over and over on the American Apparel way. Nearby, a set of photos accents a girl's plump behind, clad in a pair of very short shorts.

It's one thing on the Lower East Side or in Echo Park, but will this sort of propaganda work in Louisville, or even on the Upper West Side?

Charney has no doubt. He will expand until his cash runs out and then he'll borrow some more. "Wherever there are young people with a little creativity and a little money," he says, "we'll be there."

With a few exceptions, his stores are tracking 10 times the rent. On Broadway, he just had his first $30,000 day.

"It's sickening money, man. We're minting money."

And Charney is having the time of his life.

"Give me the chance of going to Harvard or being there when Google started and I want to be there making $3 an hour sweeping their floors. Or Apple when Steve Jobs started it.

"Maybe I'm delusional but that's what I think American Apparel is." ●

Josh Dean is a New York City–based writer who has contributed to Rolling Stone, Outside, *and* Travel + Leisure, *among other magazines. This is his first story for* Inc.