

MAXINE CLARK, CHIEF EXECUTIVE BEAR, DESCRIBES BUILD-A-BEAR WORKSHOPS AS "EXPERIENCES."





Warm, Fuzzy and Business Savvy

 **BUILD-A-BEAR WORKSHOP** FOUNDER, CHIEF EXECUTIVE BEAR AND CHAIRMAN IS BUILDING THE RETAILER THROUGH CUSTOMER-FOCUSED STRATEGIES.

About 10 years ago, after leaving her position as president of PAYLESS SHOESOURCE INC. (PSS), then a division of THE MAY DEPARTMENT STORES CO. (MAY), Maxine Clark recalls she was shopping with 10-year-old Katie, the daughter of a good friend, and became frustrated because the stuffed animals they wanted for their collections were sold out. Katie remarked that the toys were so simple that the two of them could make their own. Beyond an afternoon craft project, Clark says, she soon realized that

she and Katie had stumbled upon a solid retail concept: a format store that would allow people to make their own customized stuffed animals.

Researching existing retailers, Clark explains, she found that few targeted children and even fewer aimed at both boys and girls. She says she discovered one store where kids could make their own stuffed animals. Unable to persuade the owners to sell, Clark says, she decided to reinvent the concept for mall-based retail.

Armed with executive skills she had honed since joining May as a trainee in 1972 after graduating from the University of Georgia, Clark explains, she wrote a business plan and invested \$750,000 along with \$4.5 million in added capital from a local angel investor. The first BUILD-A-BEAR WORKSHOP INC.® (BBW) retail experience debuted in a St. Louis mall in October 1997, and in its first year the store generated sales of \$1.7 million, more than double the expected revenues, reports the company.

By August 2005, Build-A-Bear Workshop reports, it had grown to more than 190 stores in the U.S. and Canada, as well as 16 franchises in Australia, Denmark, France, Japan, South Korea and the U.K. Beyond making stuffed bears, frogs and pigs at the stores, customers can order from the company's Website or make stuffed toys at its satellite ballpark stores (fans in Cleveland can make their own Slider, Cincinnati fans their own Gapper and Philadelphia fans can stuff a Phanatic) or at its 53-foot mobile store, which travels to fairs and special events. Build-A-Bear Workshop reported 2004 net income of \$20 million on rev-

your child." In fact, Clark says, she deems her competition to be other family entertainment activities rather than toy companies.

To help create a customer-friendly atmosphere, Build-A-Bear Workshops are painted in primary colors, fixtures are sized for the under-four-foot crowd and aisles are wide enough for strollers. Customers pick the skin of a furry friend for a base price of \$10 to \$25,

select an optional sound (\$3 for a stand-

dard sound, \$8 for a custom message), add a heart, then help stuff the animal before creating a birth certificate

and, if they wish, dressing it (about \$4 for

a shirt, \$12 to

\$15 for balle-

rina dresses,

beach outfits and

sports uniforms). The

buddy goes home in a

cardboard Cub Condo

box with a cutout

door and windows.

"Maxine has built a powerhouse brand around a unique interactive retail-entertainment concept," notes Amy Ryan,* retail analyst and principal at ThinkEquity Partners LLC. Carrying a 25 percent long-term growth rate, she says she sees demand for experiential retail concepts as relatively untapped. Citing a multidimensional growth strategy, which includes building the North American store base, international franchises and a licensed product portfolio, as well as a solid store economic model, Ryan calls Build-A-Bear Workshop a company with staying power.

The company says it envisions kids sleeping on sheets festooned with furry friends and taking bear-covered backpacks to school, and it is talking about licensing agreements. In one deal, the company licensed a toy line that is made by HASBRO INC. (HAS) and sold at TARGET CORP. (TGT) stores.

Best in Class

"We've always thought big and planned ahead, and we're always looking at being best in class," says Tina Klocke, chief financial bear. For example, rather than contacting individual stores, Klocke says, customers book parties and other group outings through company headquarters or the Build-A-Bear Workshop Website. The central system wasn't the cheapest way to go at first, allows Klocke, but it frees store managers to deal with shoppers and gives customers a single source to answer party-related questions.

The company estimates that it hosted 116,000 parties in 2004, entertaining 1.2 million guests, mostly children under age 10. It says it has found that at least 20 percent of party guests are first-time Build-A-Bear Workshop visitors, and all attendees leave with a goody bag that includes a coupon to use on a return visit. Guests who can't attend the party can build their gift online or call the company to order a custom-made animal that can be shipped anywhere in the world.

Other efficiency gains that Klocke points to include a point-of-sale system that Build-A-Bear Workshop rolled out earlier this year and a merchandise planning system that will kick off in time for 2005's holiday season. Both these systems as well as its purchasing and inventory-control processes should help the company streamline operations, enabling it to get the most popular accessories in the right stores at the right time, she explains.

Although Clark agrees with Ryan's assessment of Build-A-Bear Workshop as a distinctive interactive concept and with Klocke's view of the company as a study in efficiency, she pins its success more on the notion of customer appreciation and says that many guests have become friends. "I like to go places where people appreciate your business," she says. "Give honey unto others as you would have them give honey unto you."

CITING A CUSTOMER-
APPRECIATION CREDO,
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enues of \$301.7 million. Some \$300.5 million came from the retail stores, but franchisees contributed \$846,000, more than triple 2003's fees, and licensing fees contributed revenues for the first time, adding \$347,000 to the total. About 2 percent of retail revenues came from *buildabear.com*, the company's online store.

Destination Retailer

Clark, now 56 and holding the titles of chairman and chief executive bear, identifies her chain as a destination retail-entertainment experience, meaning that the stores offer more than just a buying opportunity. "A family can spend \$35 at Build-A-Bear Workshop or \$35 at the ballpark," she says, pointing out that since the stores are generally in malls, a trip to Build-A-Bear Workshop makes a fine family activity on a blustery day. "You can come in and have a good experience with

She says she expects that philosophy to guide her and her bear pack to more international locations as well as deeper into new concepts and licensing.

“So many simple techniques just aren’t used,” says the chief bear, whose 19 years in various May divisions before being named Payless president in 1992 included stints in merchandise development, planning and research, as well as marketing and product development. “People train associates in selling, but sometimes you sell when you don’t sell.” She argues that it’s as simple as asking whether a guest has been in the store before, then saying “welcome back” if the customer says yes or “we’re glad you’re here” if he says no. “It’s as important as hiring people who share your values,” Clark adds. “We can’t make rules for everything, so we need people who use good judgment. It’s about having people in your company who are friendly and who like people.”

Clark, a petite brunette who was named one of the 30 most powerful people in discount retailing by *Discount Store News* when she was at Payless, says she has carried that philosophy of customer — and employee — appreciation into the company bearquarters, located in an office park outside St. Louis and decorated with artwork that mirrors the visuals guests see in stores. As a way to show the importance of guests’ feedback, Build-A-Bear Workshop has created a wall of fame that displays some of the photos and letters the company has received over the years. The approximately 230 employees there dress casually and bring stuffed animals and occasional live pets to work. The company has 750 full-time and 5,000 part-time employees who help keep the world filled with friendly furry friends.

Despite its warm and fuzzy atmosphere, the company takes customer research seriously, says Clark. Its major guest segment, she notes, is families with children aged three to 12. The 2004 database shows that about 80 percent of Build-A-Bear Workshop stuffed animal recipients were children under age 14.

business-savvy input, such as ideas for new products and suggestions for new store locations.

To help her stay close to customers, Clark serves on the board of the Simon Youth Foundation (SYF). The foundation runs 21 Educational Resource Centers across the U.S.

PARTICULARLY TO APPEAL TO BOYS, BUILD-A-BEAR'S MOBILE WORKSHOP SETS UP AT SPORTS STADIUMS.



“No matter how big you get, you have to stay connected to customers and associates in the stores,” Clark says, noting that she visits stores regularly and hits the Build-A-Bear Workshop at the mall near her home almost every weekend. “I could not imagine being locked away in an office,” she adds.

The Answer Is Yes

Clark responds to as many as 1,500 customer e-mails a day. She insists that this is less daunting than it might seem because “complaints go to managers first, and they take care of them,” she says. “The answer is always yes.” Clark indicates that customer correspondence includes not only requests for help with school projects and compliments about store experiences but also

for at-risk youth, many at malls operated by SIMON PROPERTY GROUP INC. (SPG) that feature Build-A-Bear Workshop stores. Since 2000, SYF has awarded more than \$2.4 million in financial assistance to at-risk youth. The nearly \$38,000 Build-A-Bear Workshop Endowed Scholarship Fund resulted from Clark’s efforts to organize events at two New York City-area malls. Notes Dr. Richard Markoff, SYF’s executive director: “Maxine and her wonderful staff have made a major difference in the lives of at-risk and economically challenged youth with their gifts of time, talent and treasure.”

To learn more about its customers, Build-A-Bear Workshop has also set up the Cub Advisory Board, a group of St. Louis-area kids who report on trends in their schools and provide feedback on merchandise ideas.

The company uses its clothing and accessories to keep bearmakers coming back, Clark says, noting that more than 45 percent of stuffed animals in 2004 were sold to repeat customers and some 30 percent of a typical store's sales are clothing and accessories for a previously purchased furry friend.



FRIENDS 2B MADE GIVES GIRLS AN OLDER, MORE FASHION-FORWARD TOY.

In fact, girls have shown more interest than boys have in buying accessories for their stuffed friends, Clark says, adding that the company is adapting its new interactive retail store-concept, friends 2B made™, where customers can make and dress plush dolls. The plan for friends 2B made, which now has five stores — in Manhattan, Minneapolis, Pittsburgh, St. Louis and Columbus, Ohio — as well as for *friends2bmade.com*, Clark notes, is to continue to test, learn and perfect the concept. “Traditional play patterns don’t go away,” she says. The concept, Clark adds, gives girls a slightly older and more fashion-forward toy than a stuffed animal. In addition to accessories, the stores sell doll-size furniture (rooms 2B made™) and girl-size decorating items to extend the fun.

Boys seem to prefer bears that play sports, Clark indicates. That’s why Build-A-Bear Workshop has pursued licensing agreements with Major League Baseball, the National Basketball Association, the National Hockey League and most recently the National Football League, she says. Build-A-Bear

Workshop has three in-stadium stores where guests can make team bears and team mascot animals. Further, the company partners with several teams by having Build-A-Bear Workshop days at their stadiums. Beary Limited™ edition bears are a popular giveaway for guests who attend the game. The Build-A-Bear Workshop mobile store was part of the NFL experience at Superbowl XXXIX and continues to visit sporting and entertainment venues across the country. Some of the sports accessories, such as the 2004 World Series championship T-shirt, are of interest to collectors, says Clark.

In addition, the company has been developing special-edition characters, outfits and accessories for various holidays.

These range from bear-size flag T-shirts for Independence Day to spooky Cub Condo boxes for Halloween. In 2004, for example, customers could make and dress their own Beary Limited Rudolph the Red-Nosed Reindeer. This holiday season guests will be able to make another Beary Limited edition stuffed animal that will be available in all Build-A-Bear Workshop stores starting in November.

Build-A-Bear Workshop also offers custom animals and outfits branded for corporate clients. Although still a small part of the business, acknowledges Clark, this represents an additional sales avenue.

Following Feedback

Based in part on customer feedback, says Clark, Build-A-Bear Workshop has entered into co-branding arrangements with partners such as SKECHERS U.S.A. INC. (SKX) and TOO INC. (TOO) so that kids can dress their bears like themselves. Clark adds that she learned the value of licensing when she was at May and Payless, where she developed exclusive children’s lines featuring brands from THE WALT DISNEY CO. (DIS).

The company has also entered into more than 25 licensing arrangements with leading manufacturers to develop a collection of lifestyle Build-A-Bear Workshop branded products, including backpacks and luggage, greeting cards and scrapbook supplies. Although licensing revenue is low, at less than 1 percent of total revenues, the company reports, Build-A-Bear Workshop executives say they are excited about its potential to reinforce the brand while boosting the bottom line. To date, Clark says, the best-selling licensed items have followed the do-it-yourself theme and include make-your-own-toy kits and Easter baskets filled with craft items.

Clark says she is counting on her penchant for direct customer feedback to keep her in touch with her business no matter how big it gets. “A lot of people who run companies live in an ivory tower,” she says. “I don’t want to be isolated. That isn’t why I launched my own business.” □

*Build-A-Bear Workshop is not an investment-banking client of ThinkEquity Partners LLC. Amy Ryan, an analyst with ThinkEquity, is not an officer, director or on an advisory board of Build-A-Bear Workshop, nor does she have a position in its securities.