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Athlete's Foot on firmer ground

NexCen Brands CEO Bob D'Loren tells Fortune's Matt Boyle about his big plans for the newly-acquired athletic shoe retailer.

By Matthew Boyle, Fortune Writer

NEW YORK (Fortune) – When Bob D'Loren was 19 and just out of high school, he worked at a high-end shoe store called Mr. Jay's in Great Neck, on New York's Long Island. It was the only place for miles to get a nice pair of Bruno Maglis, he recalls.

Thirty years later, D'Loren is again peddling shoes, but this time on a slightly larger scale. Last November, his NexCen Brands (Charts) acquired The Athlete's Foot, the well-known athletic shoe retailer that fell on hard times, forcing a top franchisee with 100 stores to file for Chapter 11 in 2004.

D'Loren, who previously ran an investment boutique, has been on an acquisition tear of late - backed by hedge funds like D.E. Shaw and Citadel - to assemble a collection of retail and consumer brands that NexCen develops and licenses.

In addition to Athlete's Foot, NexCen's stable now includes fashion house Bill Blass (acquired in February), ice cream chains Maggie Moo's and Marble Slab Creamery (both acquired in March) and home fabric maker Waverly (May). NexCen has used a combination of cash, common stock and warrants to acquire those brands, which altogether are expected to deliver more than \$1 billion in sales annually.

Zappos is a shoe in D'Loren's plan for Athlete's Foot - a top franchise which generates sales of about \$400 million from 600 locations in 45 countries - includes a fresh new logo, a new apparel line launching early next year and an in-store design and merchandising overhaul. The new look for the

stores will allow franchisees to tailor the product mix to target four different core customer groups - hard-core jocks (performance), urban trendsetters ("street sports"), the skater crowd ("fusion") and Abercrombie-clad suburbanites ("classic athletic").

Most suburban strip mall locations will include the performance and so-called "classic" product lines - the latter would include, say, Converse's popular Chuck Taylor sneakers and clothes stylish enough to wear outside the gym. "It's Abercrombie & Fitch meets Russell Athletic," D'Loren says, by way of explaining the classic look.

Urban stores will most likely target the trendsetters and jocks via the "street sports" and performance displays. Stores in California, meanwhile, might showcase the so-called "fusion," line, which could include brands like Vans.

But it's more than just products - each merchandise group will have its own store fixtures, plastered with graphics that express the particular style. The chain's new logo, which downplays the chain's full name and plays up its initials (TAF), will also feature prominently.

Kicking back in a lime green couch in his well-appointed corner office on the 34th floor of a Sixth Avenue high-rise in midtown Manhattan, D'Loren explains his approach. "The athletic footwear industry over the last ten years has changed," he says. "What's happened is music, sports, pop culture and fashion have all converged. Most of the industry knows this, but they haven't responded."

Some savvy Athlete's Foot franchisees had picked up on this shift, D'Loren says, but "they were doing it on their own, in an inconsistent way, which muddled the brand." So now, D'Loren wants to address this from the top down. "[The Athlete's Foot] just wasn't a well run company, but we are fixing that right now," he says.

Will it work? One key is getting footwear and apparel makers on board, in particular athletic juggernaut Nike (Charts, Fortune 500), which has seen demand slip for its performance-oriented shoes as shoppers flock to more trendy, casual brands like Skechers (Charts). This has impacted sales at specialty athletic retailers like Foot Locker and Finish Line, which posted same-store sales declines of -5.1 percent and -4.1 percent, respectively, in the first quarter. (Yesterday, Nike reported a 32 percent increase in net income for its fiscal fourth quarter, beating analysts' expectations.)

Susquehanna Financial Group analyst John Shanley says that the urban "module" in the new Athlete's Foot layout will only work if Nike's high-end shoes, like its much-desired Jordan brand, are on the shelves. "If they don't get access to marquee footwear from Nike, the company will not be able to attract those shoppers into its stores - period," he says.

Nike stock jumps on strong demand D'Loren knows this, and says he plans to sit down with Nike soon to explain the new merchandising approach. "We have to show our vendor partners that we are able to merchandise their products the way they want," he says. "That's critical."

Also critical, of course, is convincing franchisees to spend up to \$60,000 to redesign their stores. All new franchisees - there are 225 locations in the pipeline - will lay out their stores according to the new system. Existing franchisees will not be forced to update their stores immediately, but they must adopt the new merchandising system if they want access to the company's new line of branded apparel, whose development D'Loren personally oversaw. "I told my guys to go shopping and buy the best 20 pieces of apparel they saw, and then design stuff that blows everything out of the water," D'Loren says.

Apparel currently comprises only 10 percent of sales at a typical Athlete's Foot, and D'Loren would like to see that rise to 20 percent - with half of those sales coming from the company's own line, which will feature the "TAF" initials seen in the new corporate logo. Other changes include hiring professional "trend spotters" to stay on top of the latest fashions, a corporate intranet to share best practices between the stores and in-store flat screen TVs that will handle product pitches and employee training.

While he's fixing Athlete's Foot, D'Loren's scouring the globe for new concepts to buy - focusing, he says, on businesses in the "luxury" and "treats" markets that would cost between \$50 and \$150 million. (NexCen paid about \$51 million for Athlete's Foot.) "We want to do the world's first five-dollar chocolate chip cookie," he says.

If that sounds strange, well, so did five-dollar coffee once.