

FAO *is* A-OK!

When last we left FAO Schwarz, we left it for dead. Every single one of its stores was closed, and it was in Chapter 11 bankruptcy. That was five years ago. Today, as David Niggli, FAO's president and chief merchandising officer will tell you, it's a whole new story.

The place is teeming with shoppers, but somehow it doesn't feel crowded. Multicolored lights twinkle above, like stars over Fifth Avenue. The sweet smell of candy mixes with the soothing rhythm of a reggae beat.

A few feet away, you are treated to the now-famous Myachi guys, doing amazing tricks with beanbags (*see sidebar*). Step inside the Harry Potter boutique and it's like you've wandered into Diagon Alley. The young wizard behind the counter casts a stony look at you and you're convinced that you actually have.

Little kids are dancing with abandon on the famous giant keyboard. And, yes, the fellow with the boomerang airplanes is still there, throwing his little toy plane at the crowd and watching bystanders duck as it pulls a u-ey and returns safely to him.

This is retail as retail should be done. In a word, "astonishing."

The coolest part of this toy story is that FAO is about to expand exponentially, but it's going to do it right. This time, it will open its stores as small boutiques, inside some 600-700 Macy's department stores nationwide.

David Niggli has been through all of FAO's ups and downs over the past 21 years. His explanation for its remarkable comeback story is remarkably simple. He says that all FAO Schwarz has done is what every great brand does when it loses its way: It re-ignited what made the brand great to begin with.





David Niggli of FAO Schwarz retails the greatest toy story ever told.

You once described FAO Schwarz as being like a toy museum.

Well, if I said that, I meant that's what a lot of people *thought*—but we *don't* want people to think that we're like a museum. We're a toy store, and a place to have fun. We're a place where people are having a good time playing with the toys, which is not a museum.

FAO is also thought of as a luxury brand.

For many years, that was indeed the image of FAO Schwarz. It was seen as an expensive toy store for rich people. But that's not really what we're about and it's not what the founders of this company were about.

Our mantra is: "Good stuff made right sparks play." That doesn't have to be a \$90,000 miniature racecar. There are a lot of wonderful toys out there that are affordable. There are plenty of things that are \$10 and under. There are some things that are a little bit more money, but there really is something for everybody in the store.

What kinds of things?

It might be as simple as a set of blocks that a child plays with for hours upon hours. Or it might be an action figure, where a little boy or girl creates a magical world that they've dreamed up. These are the kinds of toys that, when we go back and look at our own childhoods—or even among children of today—really get played with.

It's really about toys that lead to hours of play, that are well made, and memorable. These are the toys that lead to the best things that we're looking to develop in our children. These are the toys that get loved to death.

I'm continually struck by how many times people come up to me and have an FAO Schwarz memory: "I was

here when I was a kid and I still have that Teddy Bear." Or, "Every time my Dad went to New York on business he'd bring me something from FAO."

Part of the reason this brand has lasted so long is because of that legacy factor. We want to make sure that the items and the toys that we're selling today are the toys that 20 years from now, those kids will be coming in and telling their kids about, and having those same kinds of memories.

That doesn't seem to include electronic toys.

That's right. The store has gone back to its roots as a specialty toy store. Our mix of products is not the mix that you're going to find in a big box retailer. You're not going to find our toys in Toys R Us, Kmart, Wal-Mart or Target. We're an alternative to that.

We're not saying that all electronic toys are bad. But what we've experienced through the years is that they don't lead to a long-lasting play value. As a parent myself, I've seen how a lot of electronic toys have a very short lifespan. Your child gets it and understands what it does, but then after that you don't really see that toy around very much.

Do you still consider Toys R Us and Wal-Mart to be competitors?

They are competitors in the sense that they are in the toy business. I always say to people—and I don't mean it as a slight to either one of them—go to each of those stores and then come to us. We're a very different proposition. We're a different type of toy business and there is very little overlap between us in terms of our product mix. I think it's less than 10 percent that we carry that they carry too.

How has that affected your merchandising strategy?

We've tried over the last several years to edit down and focus on key brands and key items. Folks don't come to us to be the toy grocery store. Our shoppers are really looking for an edited mix

Myachi Masters

They are four young guys — Maverick, Chunk the Monk, Crazy Ivan and Animal — who are out to teach the world to play Myachi. The world, in this case, would be “boys ages 7-13,” and its domain would be “the magic section of FAO Schwarz.”



Myachi consists of tricks performed with “a rectangular palm-sized beanbag,” and is described as “a cross between tai chi, three-card monte, Hacky Sack and juggling.”

It was created in 1997 by Stephen Ochs, “a former stockbroker from Larchmont, N.Y., who had in mind a college drinking game where players tried to one-up each other flipping a cigarette lighter in fanciful ways. The main rule then? You drop it, you drink.”

But he’s re-invented that idea as a game for kids and has since sold a million Myachis (the name is a combo of Mr. Miyagi from “Karate Kid” and tai chi).

The Myachi Masters, who range in age from 22-31 and are paid \$500 a week, see their job as a decidedly wholesome one. Or at least Cody Hatch (a.k.a. Maverick) does: “Mainly, I’m just trying to get kids up, coordinated, moving, motivated, stimulated and educated,” he says.

[SOURCE: Rachel Dodes and Stephanie Kang, *The Wall Street Journal*, 4/7/08].

that guides them, as opposed to just a bunch of toys in a store.

We cut out about 10,000 SKUs about three or four years ago, or about a quarter of the total. We realize that there are a lot of toy brands out there that say that they are specialty toys but not all of them are really that special.

That’s where things really started turning around and we began hitting our stride. Our mission became clear. And really, the funny thing about it, it’s very close to the original mission of the founders. It was really just getting back to our roots.

What’s the story behind your toy auditions?

Our thinking is that there are a lot of people who have wonderful, creative ideas who don’t always have a forum to get to the right people. People literally come to our toy auditions from all over the world. People come on planes. They come on buses. We’ve had children come in with inventions.

We had a gentleman come visit us who has these wonderful creatures he makes out of socks. They are different than sock puppets. They are these kooky monsters, and really fun.

We found two moms from Brooklyn who had a concept called “Brownstone Buddies,” which is really all about diversity and kids coming from all different worlds. We’re going to be introducing a whole line of these great character dolls early next year.

And then there was a woman who came in and showed us these handbags for girls that she zipped together. You unzip one of the bags, give it to your best friend and they become friendship bags. It’s amazing how many great ideas just go unnoticed.

What’s hot for the holidays?

I’m really excited about the private-label toys that we’re bringing out this year. We’ve taken a lot of toys that we have seen good success with in plastic and brought them back in wood.

We’ve got a great line of infant toys that are all made from 100 percent organics. We’re taking the “Patrick the Pup” character, which is our best-selling character for ten years now, and doing a baby Patrick in an organic line that I’m really excited about.

We've opened up a lot of new shops in the store. We just opened a shop with a company called Barefoot Books, which is a wonderful self-publishing company. They have wonderful books with stories about cultural diversity and the environment, for infants on up to chapter books.

We've got a great medical center, which is a whole imaginative piece. It's almost like a doctor's office where you go in and there's a little examining table with X-ray charts and all sorts of fun things like that. So, there are a lot of good things going on in the store.

Tell us about those Myachi guys.

Myachi is exactly the type of product that we love because it's so simple. That's the brilliance of it. It's a basic sack toy, but Myachi has created this whole cult of kids who are collecting them and doing new tricks with them. It's getting kids off the couch, and getting them to be more active.

It's fun and interactive and yet, once again, it's an affordable toy. It's accessible for everybody. Anybody can do it. It's not one of those things that gets bought and tossed. They want to get to the next level. They want to do the new tricks. They want see and learn all the different moves that the Myachi guys are doing.

So, you get a little theater along with product.

Well, with a product like that, the first thing you want to do is demonstrate it, because otherwise it's just sitting on the shelf and gets lost.

Whether it's the Myachi guys—or the guy with the paper airplane you see who has been playing with that plane in our store for years—it's the theatre of it. You walk up and you find yourself getting caught up in it.

How will you create theater in smaller settings as you roll out into Macy's?

We bring a lot of the theatre just by the nature of the product. We always sit in the Macy's children's department and bring a "fun factor" in.

We do encourage playing with the products, and our associates are always working with our customers to show them the toys and explain them. So, a lot of it comes through the service and the products.

Why Macy's?

Macy's fits into what we want to say—that FAO is not an elitist or an overpriced toy store. Macy's is the pre-eminent department store in the United States today. They have various price ranges. They go from Louis Vuitton to value-priced items throughout the store.

It really felt right for us to go into an environment that was accessible and that mom would be going into on a frequent basis. It isn't just that once-a-year kind of visit. This is a place where mom shops and the demographics are very similar to ours.

As we open up the smaller venues at Macy's, the opportunities for our online business becomes stronger, because as more people become aware of the brand they will want to go online to get access to the full range of products that we carry.

How do you create the FAO experience online?

There are a lot of things that we can bring to online, like the Madame Alexander doll factory where you can actually create your own doll online. We have a new concept with the Muppets called the Muppets' Whatnot, where you'll be able to go into the store and online and actually create your own Muppet.

So, we're adding a lot more customized activities online to create the same kind of excitement that we have in the store.

Those are our strongest areas—as well as our most profitable areas—because the customer has made something in the store that becomes a true memento of their visit.

Is there a typical FAO shopper?

The typical shopper from a demographic standpoint is a mom, 30- to 40-years old, with a four-year college degree. But we're also a tourist destination in our two locations in New York and Las Vegas, so we really get a cross-section of people.

From a teenage perspective, it's interesting that it's never uncool to go to FAO Schwarz. FAO Schwarz has always been an icon unto itself. Last year, we opened a Harry Potter shop and what we found was really surprising—the core customer for Harry Potter at FAO is a teenager.

We have wands, the sorting hats and scarves. Harry Potter is now much more of a collectible brand than a mass-market licensed brand. We worked with Warner Brothers on that to really create an authentic sense of Hogwarts and Diagon Alley. When people step into it they get into the mood. We have a guy who works there who seems to think he really does go to Hogwarts.

I know. He stared at me and I was a little freaked out.

That's part of the theatre. That's part of that experience. He's wearing this robe and he looks like he just stepped out of the movie.

Do you keep a database of your shoppers?

Yes. We use it to analyze in terms of where our shoppers are coming from, what they buy, a variety of things. We do surveys throughout the year to update us in terms of who the customer is and where they're coming from. We also use that in terms of how we look at what we're buying. What are the areas of business that we should be maximizing? What should we be downsizing?

Do you do much advertising?

Actually, we do very little advertising. That's sort of the amazing thing when you look at the awareness of this brand, which is 146 years old. We may occasionally do a print ad, but nothing on a campaign level. In terms of the traffic in the store, to be honest with you, it's never really been an issue getting people to come into the store.

We've found over the years that we get so much editorial coverage that we don't need much else. Or movies like *Big*, where we almost became like a co-star, so much that 21 years later people are still coming in looking for where Tom Hanks danced on the piano. Those kinds of things frankly are better than advertising.

We're not a promotional company, so we're not a slave to what we're going to advertise this week and what we can give away to get people in the door. It's not about coming in to see what we have on a sale day. It's to come in and see what we have that's new. We've been fortunate to have had that reputation for 146 years now.

Why did you get into the toy business?

It was actually a fluke. It wasn't like I was a toy collector or anything like that. I had been in the department store business. But FAO wanted people who hadn't been in the toy business. They wanted people to come in with a fresh approach. That just hooked me, because that's what I got into retailing to do.

I don't even think that we've scratched the surface of the potential of the brand. In today's world, it's rare to find a company that really truly means it when they say they want you to think "out of the box."

What is the greatest lesson you've learned?

Don't forget what your brand is. As time changes and new fads and things come in, you can get swept away and you can think, "Well, we should do this and we should do that." But you always have to hold true to the core values of the brand. Every time it comes back to that; whenever we get back to that, we find success.

We are dealing with children and children today are inundated with information. They are very knowledgeable. They are very savvy. We have to make sure that we are current and relevant to a child of today, but that doesn't mean that we sell out on our core values. Having watched children through my 21 years at FAO Schwarz, I can tell you that the basic elements of play haven't changed.

What's ahead for FAO Schwarz?

I believe that FAO Schwarz has the potential to be so much more than it is now, and than what it has been. I think it's still one of the most exciting places in retail. Nothing offers the same sort of excitement or opportunity to be innovative or really take it to the direction that this brand can go. And it's still a challenge, which to me is the greatest thing. ■



DAVID NIGGLI is president and chief merchandising officer of **FAO Schwarz**, directing all merchandising and marketing. A 21-year veteran of the company, David previously was with Macy's, Gimbels and the May Company.