

Case 32 Build-A-Bear Workshop*

Selling brand experience was not something new in the retail industry, but combining it with the teddy bear was a unique concept from Build-A-Bear Workshop Inc. When founder and CEO Maxine Clark opened the first company store during the dot-com era of the late 1990s, many critics were skeptical about the future of her brick-and-mortar business. Nobody expected the small start-up selling customizable teddy bears and other stuffed animals to make any profits, let alone become one of the country's fastest-growing retailers. Maxine Clark managed to build a successful nationwide organization, focused on personalization and customer involvement, with a simple motto: "Where Best Friends Are Made." In 2005, her efforts were praised with Fast Company's Customer-Centered Leader Award,¹ and the future held great potential for Build-A-Bear.

However, while Build-a-Bear celebrated its 10th anniversary with the making of its 50-millionth furry friend in 2007, the company's future prospects began to fade. Following a huge success in the early years of operations, Build-A-Bear Workshop was faced with a decline in sales figures as of 2008. The comparable store sales for fiscal 2008 declined by 14.0 percent, following a 9.9 percent decline in 2007, a 6.5 percent decline in 2006, a 0.2 percent decline in 2005, and an 18.0 percent decline in 2004. While a different reason or issue was blamed for each decline, these declines were a significant issue for the firm. The 2007 decline was primarily blamed on changing customer preferences, competition from other children's activities, and weaker mall traffic, and the 2008 decline was blamed on a decrease in consumer spending and a recession. Consequently, gross margin decreased to \$190.5 million for fiscal 2008 from \$209.1 million for fiscal 2007, a decrease of \$18.6 million, or 8.9 percent. As a percentage of net retail sales, gross margin decreased to 41.3 percent for fiscal 2008 from 44.7 percent for fiscal 2007 (See Exhibits 1 and 2).²

Although Build-A-Bear had performed impressively in the past, experts in the toy industry now questioned whether it could further innovate its products and bring more value to the customers. Had Build-A-Bear reached its potential? What new products could Build-A-Bear offer to maintain its market share and step up its financial performance? The company's recent differentiation strategies focused on opening new Build-A-Bear Workshops in areas other than the traditional mall-based locations to compensate for the slowdown in mall traffic. Build-A-Bear was also excited about launching a new Build-A-Bearville Web site during

the winter of 2008 at which customers could bring their furry friends to life online and experience new adventures in a virtual world. Build-A-Bearville was designed to compete directly with popular Webkinz World, an online world of plush animals where kids could play games and care for their virtual pets. The Webkinz World Web site was launched in 2005 and since then had experienced enormous success among children and their parents around the world.³ Could Build-A-Bearville help break the Webkinz obsession and get the kids to return to Build-A-Bear?

Build-A-Bear Background

It all started on a simple idea that Maxine Clark heard over 30 years ago from Stanley Goodman, former CEO of May Department Store, "Retailing is entertainment and the store is a stage—and when the customers are happy, they spend more money." On the basis of this idea, Build-A-Bear Workshop brought the teddy bear alive and was the only global company that offered an interactive make-your-own-stuffed-animal retail-entertainment experience. Inspired by Goodman's statement, Clark brought the brand experience to the toy industry in 1996 and established Build-A-Bear headquarters in St. Louis, Missouri.⁴ Clark created a custom-teddy-bear empire built with "heart" and was personally involved in setting the strategic agenda, building the organization, and maintaining the strategic leadership. As the former president of Payless Shoe Source, Clark based the Build-A-Bear concept on two of the hottest trends in retailing—entertainment and customization. Her years of retailing experience paid off and gave Clark unique insights into creating her own successful concept for mall-based retailing.⁵ Having no children of her own, Clark took every opportunity to interact with her customers, employing both low- and high-tech methods to communicate with Build-A-Bear fans.⁶ Weekly store visits and numerous e-mails provided Clark with valuable customer feedback that she put into practice to build a truly customer-centered organization.

Since the opening of the first store in 1996, Build-A-Bear Workshop capitalized on its unique experience and attracted a strong base of loyal customers. The company's target market consisted mainly of families with children, primarily ages 3 to 12. Build-A-Bear stores also appealed to grandparents, aunts, and uncles of children and to teen girls who occasionally brought along their boyfriends as well. The Build-A-Bear experience was also sought by child-centric organizations, such as scouting organizations and schools, that were looking for interactive entertainment options of the type Build-A-Bear Workshop could provide. Overall, it was the company's belief that its stores, which were primarily located inside malls, were "destination locations and drew guests from a large geographic reach."⁷

*This case was developed by Professor Alan B. Eisner, Pace University; Professor Helaine J. Korn, Baruch College—City University of New York; graduate student Lucia Vojtkova; and Professor Dan Baugher, Pace University. Material has been drawn from published sources to be used for class discussion. Copyright © 2009 Alan B. Eisner.

Exhibit 1 Income Statements

	Fiscal Year		
	2008	2007	2006
Revenues:			
Net retail sales	\$460,963	\$468,168	\$432,572
Franchise fees	4,157	3,577	3,521
Licensing revenue	2,741	2,616	979
Total revenues	<u>467,861</u>	<u>474,361</u>	<u>437,072</u>
Costs and expenses:			
Cost of merchandise sold	270,463	259,078	227,509
Selling, general, and administrative	185,608	177,375	158,712
Store preopening	2,410	4,416	3,958
Store closing	2,952	—	—
Interest expense (income), net	(799)	(1,531)	(1,530)
Total costs and expenses	<u>460,634</u>	<u>439,338</u>	<u>388,649</u>
Income before income taxes	7,227	35,023	48,423
Income tax expense	2,663	12,514	18,933
Net income	<u>\$ 4,564</u>	<u>\$ 22,509</u>	<u>~\$ 29,490</u>
Earnings per common share:			
Basic	<u>\$ 0.24</u>	<u>\$ 1.11</u>	<u>\$ 1.46</u>
Diluted	<u>\$ 0.24</u>	<u>\$ 1.10</u>	<u>\$ 1.44</u>
Shares used in computing common per share amounts:			
Basic	19,153,123	20,256,847	20,169,814
Diluted	19,224,273	20,448,793	20,468,256

Source: Build-A-Bear Workshop, 10-K report.

The theme-park-environment stores operated as specialty retailers of plush animals and related products, including approximately 30 styles of teddy bears as well as various clothing, shoes, and accessories for the stuffed animals. Build-A-Bear Workshop stores generated very strong sales wherever they opened. The company differentiated itself from the competition with marketing initiatives that facilitated stronger connections with its customers.⁸ Approximately 3,000 square feet in size, every Build-A-Bear store stood out thanks to a highly visual and colorful appearance, with custom-designed fixtures featuring teddy bears and other themes relating to the Build-A-Bear Workshop experience.

Build-A-Bear Experience

Build-A-Bear Workshop provided a unique and exceptional approach to the entertainment retail industry. The company's core concept was based on allowing its customers, uniquely termed "guests," to make, personalize,

and customize stuffed animals of their choosing. The customization feature provided customers with more value than they would receive from mass-produced products. In addition, personalizing the product stimulated customers' creativity and gave them a feeling of empowerment. This concept "capitalized on what was believed to be the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals."⁹ As Maxine Clark pointed out, "We [at Build-A-Bear] don't think about ourselves as a toy store—we think of ourselves as an experience. Unlike the rest of the industry, Build-A-Bear Workshop sales don't peak around holidays; they are evenly distributed."¹⁰

The Build-A-Bear Workshop atmosphere was based on a highly visual environment, with the teddy bear theme carried throughout the store creating a fantasy land where stuffed animals came to life. "Shopping at one of the Build-A-Bear's colorful, [brightly] lit stores [was] one part consumption, ten parts entertainment,"¹¹ and this entertainment

Exhibit 2 Balance Sheets (in thousands of dollars, except share and per-share data)

	January 3, 2009	December 29, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,000	\$ 66,261
Inventories	50,586	48,638
Receivables	8,288	7,068
Prepaid expenses and other current assets	16,151	14,624
Deferred tax assets	3,839	3,606
Total current assets	<u>125,864</u>	<u>140,197</u>
Property and equipment, net	123,193	139,841
Goodwill	30,480	42,840
Other intangible assets, net	3,903	4,016
Investment in affiliate	7,721	4,307
Other assets, net	8,991	8,330
Total Assets	<u>\$300,152</u>	<u>\$339,531</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 37,547	\$ 45,044
Accrued expenses	12,593	11,788
Gift cards and customer deposits	29,210	34,567
Deferred revenue	7,634	8,708
Total current liabilities	<u>86,984</u>	<u>100,107</u>
Deferred franchise revenue	2,033	2,511
Deferred rent	41,714	41,697
Other liabilities	1,696	1,608
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01, Shares authorized: 15,000,000: No shares issued or outstanding at January 3, 2009 and December 29, 2007	—	—
Common stock, par value \$0.01, Shares authorized: 50,000,000:		
Issued and outstanding: 19,478,750 and 20,676,357 shares, respectively	195	207
Additional paid-in capital	76,852	88,388
Accumulated other comprehensive (loss) income	(12,585)	6,314
Retained earnings	103,263	98,699
Total stockholders' equity	<u>167,725</u>	<u>193,608</u>
Total Liabilities and Stockholders' Equity	<u>\$300,152</u>	<u>\$339,531</u>

Source: Build-A-Bear Workshop, 10-K report.

factor provided Build-A-Bear Workshop with a competitive edge in the toy industry.

The culture at Build-A-Bear Workshop encouraged employee contribution and collaboration, and the resulting above-average employee retention rates at Build-A-Bear contributed to the quality of the guest experience, the building stone of the company's differentiation.¹² Maxine Clark recognized that Build-A-Bear's success was largely dependent on the support of her employees, also known as "associates."¹³ Therefore, Build-A-Bear was highly selective in the hiring process and ensured that the chosen associates stayed actively involved in what was happening with the company. For instance, fewer than 4 percent of the applicants for store manager were hired in 2008.¹⁴ Build-A-Bear's excellent customer service largely contributed to the chain's overall customer satisfaction, which was close to 90 percent.¹⁵

The primary role of the associates, also referred to as the "Master Bear Builders," was to share the experience with the guests and guide them at each phase of the bear-making process. The process itself consisted of eight steps carried out on the Build-A-Bear "assembly line," which comprised different bear-making stations.

At the *Choose Me* stage, customers were introduced to all the furry characters in the store and would select one, which soon became their new friend. Each store usually carried over 30 different stuffed animals, which varied with the season. The prices of the Build-A-Bear furry friends ranged from \$10 to \$25. At the *Hear Me* station, customers could personalize their new friend with a sound selected from several choices, including giggling, barking, meowing, or growling, which would be placed inside their stuffed animal during the stuffing process. Guests could even record their own 10-second Build-A-Sound message for an additional \$8. The *Stuff Me* station allowed customers to stuff their new friend with the help of one of the Master Bear Builders. At this stage, customers would bring their stuffed animal to life by selecting a small satin heart and placing it inside their new furry friend. Each animal was also given a special bar code that would allow it to be reunited with its owner if ever lost. The furry friend would then be neatly pulled shut at the *Stitch Me* station. Next, customers could brush their animal at the *Fluff Me* station to make sure their new friend was well groomed. At *Dress Me*, customers were able to express the true personality and style of their new best friend by choosing from hundreds of outfits and accessories. Build-A-Bear provided the "beary" latest furry fashions thanks to partnering with fashion leaders such as Limited Too, Skechers, Hello Kitty, Disney, and Harley-Davidson. Build-A-Bear Workshop also licensed a variety of college and university logos that were placed on Tiny Tees shirts, and it sold bear-sized MLB, NBA and WNBA, NFL, NHL, and NASCAR sports stuff. At the *Name Me* stage, customers registered their new friend on one of the in-store computers. This information was used to create their personalized birth certificate and enter their friend in the Find-A-Bear ID program. Finally,

customers concluded their bear-making process at the *Take Me Home* station, where they received their customized birth certificate and each new furry friend was then placed in its own Cub Condo carrying case.¹⁶

Build-A-Bear Workshop provided a unique shopping experience, as customers created an emotional bond with the toy through the interactive process of bringing it to life. As CEO Maxine Clark commented, "The store offers a total experience from start to finish. It's about so much more than just coming in and buying an off-the-shelf bear, although you can do that too if you want. But most people prefer to make their own—even if they have to stand in line to do it. Shoppers are, and typically desire to be, involved in the entire bear-making process."¹⁷

To emphasize the strength of its brand, Build-A-Bear Workshop instituted the Fur Stuff Club (a loyalty rewards program),¹⁸ as well as a bear identification system that aimed to unite children with their lost BBW teddy bears.¹⁹ The company's CIO, Dave Finnegan, believed that the "experience starts with the [stuffed animal's] barcode." As customers registered their furry friends at a designated kiosk, each consumer would be prompted to scan the bar code and add his or her name, mailing address, and e-mail address—information that would later be stored in the corporate database. Build-A-Bear also launched an automated Stuff Fur Stuff Club, which served as an electronic history of the guests' preferences and purchases. The program tracked the purchased products, the frequency of the customers' visits, as well as their response to certain offers. The Stuff Fur Stuff Club encouraged loyalty and attracted shoppers by awarding them 1 point for every \$1 they spent. After earning 100 points, customers would receive a \$10 reward. Thanks to the automated program, the company could analyze purchase patterns and history trends and learn who was redeeming their points and what they were using the points for.²⁰ Both the bear identification system and Stuff Fur Stuff were differentiating features that allowed Build-A-Bear to recognize and communicate important information to its guests, as well as stay ahead of the changing customer preferences.²¹

Expansion and Innovation

In November 2004, the company expanded the make-your-own concept from stuffed animals to dolls with the opening of its first Friends 2B Made stores, where guests could make their own doll friends. By the end of 2006, Build-A-Bear Workshop operated one stand-alone Friends 2B Made store and eight other Friends 2B Made stores adjacent to, or within, Build-A-Bear Workshop stores in the United States.²² The company also expanded its merchandise assortments by establishing licensing agreements with professional baseball, basketball, hockey, and football teams and with NASCAR.

In 2005, Build-A-Bear Workshop partnered with Ridemakerz, allowing fathers and sons to customize their own toy cars.²³ In the same year, the company introduced Build-A-Bear Workshop On Tour, with a bear-covered

mobile trailer that opened up into a complete 800-square-foot Build-A-Bear Workshop store. The On Tour idea was part of the company's integrated marketing strategy to bring the Build-A-Bear Workshop brand and experience to places other than malls where families go and have fun, such as various sporting and entertainment venues across the country.²⁴

Build-A-Bear Workshop teamed up with major-league baseball to provide fans across the country with opportunities to support their favorite teams in unique ways. Build-A-Bear opened five Build-A-Bear Workshop ballpark stores across the country. The ballpark stores were open during the teams' home games and included the same experience and interaction as the mall-based stores, with exclusive animals, outfits, and accessories. Clark also believed that the promotion of Scott Seay in 2006 to president and chief operating "bear" would allow Build-A-Bear to gain efficiencies throughout the organization.²⁵

In March 2009, John Haugh joined Build-A-Bear Workshop as president and chief marketing and merchandising bear. Prior to joining Build-A-Bear Workshop, Haugh served as president of It's Sugar, LLC, a candy and confectionary retailer. Haugh stepped in at a difficult time to be a retailer, amid the economic recession of 2008–2009. Meanwhile, Tina Klocke was named chief operations and financial bear. Klocke assumed formal responsibility for store operations in addition to her continuing role as chief financial bear.

Changing Industry

Although Build-A-Bear Workshop's interactive experience was unique in the toy retail industry, this didn't make the competition any less intense. Kids changed their preference at a rate so fast that a phenomenon one year could be gone the next year. To compete with others in catching children's new preferences and activity time, a specialty retail store such as Build-A-Bear Workshop had to face competition from all different directions, including toy manufacturers like Hasbro and Mattel, which sell their products through giant retail chain stores—Wal-Mart, Toys "R" Us, Target, Kmart, Sears, and other discounted chains. Other competitors included, but were not limited to, American Girl, Vermont Teddy Bear, Russ Berrie, Ty, Fisher-Price, Mattel, Ganz, Applause, Boyd's, Commonwealth, and Gant. Maxine Clark considered her competition to be every company that tried to attract the customer's time and entertainment money.²⁶ As products in the toy industry became more commoditized, many companies searched for new ways to differentiate their offerings beyond simply manufacturing and delivering the toys to the customers. Following the Build-A-Bear example, some of the company's main competitors, including Vermont Teddy Bear and American Girl, took initiatives to recast their traditional products and services in ways that would create experiences for their customers.

Vermont Teddy Bear, established in Burlington in 1981, marketed its product as the "only bear made in

America and guaranteed for life." Struggling to find customers in the local area, the company developed the unique "Bear-Gram" concept of mailing customized teddy bears to visiting tourists. The new concept had huge success, and the company experienced tremendous growth. In 1993, the Vermont Teddy Bear Company hit number 58 on the *Inc. Magazine* list of the fastest-growing private companies in the United States. Since the customers received their furry friends through the mail, Vermont Teddy Bear needed to find innovative ways to create experience for the bear owners. To involve customers in the bear-making process, the company invited all of its fans to regularly scheduled Vermont Teddy Bear plant tours. Each tour featured many fun activities for the young visitors and their friends and families, including a lunch at the Hungry Bear Café or a visit to the Bear Shop, the Bear Museum, and the Vermont Teddy Bear Hospital. The company also created a "wow!" experience for the recipients of its teddy bears thanks to its unique packaging. The gift box included an airhole for the bear and a warning not to turn the box upside down lest the bear get a headache, as well as a sweet treat and a personalized card with a colorful drawing of the headquarters and all the employees' first names. In the Vermont Teddy Bear locations, bear counselors assisted customers with the selection and personalization of their bears. The company also let its customers be creative by customizing a teddy bear look-a-like that captured the personality and appearance of someone special to them.

Another Build-a-Bear competitor, American Girl Inc., also decided to move to a new level in providing value for its customers. Founded in 1986, American Girl specialized in manufacturing high-end dolls, books, and magazines for young girls. Since it was acquired by Mattel Inc. in 1998, American Girl started a rapid retail expansion and concentrated on further product development. To create additional customer value, American Girl took steps to develop new engaging experiences between the dolls, the girls, and their families. In 2005, the company opened its first American Girl (AG) Places, in New York, Los Angeles, and Chicago, providing visitors with a unique retail experience through which they could engage in many exciting activities and bond with their new doll friends. Every AG Place included a theater showing a live play concentrated on the doll collection, a café for grown-up dining experiences or birthday parties, and a doll hair salon or a photo studio. Encouraged by the success of the AG Places, in 2007 American Girl opened two American Girl Boutique and Bistros, in Dallas and Atlanta. These new locations were the company's latest way to connect with girls by allowing them to celebrate special times with their families and friends in a fun and casual environment. According to Ellen L. Brothers, the president of American Girl and the executive vice president of Mattel, the company became much more than a place that sells dolls. "It's the place where imaginations soar—from boutiques to special events, from the café to the theater and beyond."²⁷

Changing Market

While providing unique experiences for the customers became an important competitive advantage in the toy industry, there were also other factors shaping the competitive environment that required attention. While the Internet had helped bolster the retail toy industry, it had also intensified competition dramatically. According to the Toy Industry Association's 2007 report, increasingly popular electronic gadgets, video, and online games like the Nintendo Wii game console and the www.webkinz.com online community could easily attract children's attention and thus reduce the time kids spent with their plush animals. This shift has changed the focus of some companies, such as Hasbro, which turned to the Web to bring attention to new editions of its board games Monopoly and Trivial Pursuit.²⁸ Furthermore, according to the technology-loving experts, electronic toys had the potential to provide the best educational applications thanks to interactive displays of pictures, lights, and sounds. Electronic toys were deemed to be very helpful when teaching young children about cause and effect and hand-eye coordination—two important behavioral learning skills.²⁹

NPD Group statistics indicated that in 2007 the sales of online/Internet games increased by 9 percent, bringing that segment's share of the \$22.2 billion market to 7 percent, while the sales of plush toys were flat, at \$1.3 billion.³⁰ Build-A-Bear Workshop recognized the need to infuse more technology into its product line offerings to stay ahead of its competitors. One way in which Build-A-Bear attempted to expand on technology was by offering a technology-based platform for its customization experience through the introduction of a Build-A-Bear video game for Nintendo DS. The Nintendo DS simulation, a game in which players could customize a digitized bear (or character) on screen, attempted to re-create the in-store experience by reproducing the process of shopping and creating a bear in a Build-A-Bear Workshop as a video. Through the use of a touch screen, wireless technology, enhanced graphics, and innovative control mechanisms, the game simulated the same bear-building process as the one in the stores. The game featured eight different characters to be played with and cared for, as well as a kitchen and a dining room to prepare meals for the online characters. The users could also design the room of their favorite character.³¹

Maxine Clark stated that 80 percent of the customers were repeat guests who planned their visit in advance, which meant people who had visited the stores loved them.³² Build-A-Bear Workshop's special mix in products and highly interactive, theme-park-like environment inside the malls were what kept customers coming back and were the key components in the franchises' rapid success. But the declining comparable same-store sales meant that sales based on the repeat customers were not enough. To attract more people to its stores, the company organized Build-A-Party events for kids' birthday parties and scout outings.

The company stayed true to its differentiation strategy by not following the example of its competition, which often used markdowns to sell products. Instead, Build-A-Bear Workshop tried to increase its brand awareness as an experienced retailer by allocating large portions of its budget to national television advertising, direct mail, and other types of publicity (7 to 7.5 percent of total revenues in 2009).³³

At the same time, there was only so much the company could do when most of its stores were inside malls, where traffic was declining partly because of the rising gas price and weak economy. To cope with this issue, Build-A-Bear Workshop had already tried to explore other options such as opening new stores outside the malls and relying more on the online storefront and licensing.

Besides its dependency on mall traffic, Build-A-Bear Workshop also faced constraints that were related to children's ages and preferences. Even as management was strategically trying to lure more customers to the stores, the company was facing a generation of kids that got older younger. The "kids getting old younger (KGOY)" phenomenon was noted on the Toy Industry Association's Web site: "Kids are seeking more sophisticated entertainment . . . and doing so at younger and younger ages." Tastes were maturing and becoming more sophisticated at a younger age, reducing the available time slot for products designed for children. The KGOY generation was very familiar with what technology could offer. Given that children ages 1 to 14 were the recipients of approximately 80 percent of Build-A-Bear's stuffed animals, the Wellbeing study of kids ages 8 to 15 revealed valuable information for the company. According to the findings of the study, announced on Nickelodeon and MTV in November 2006, children throughout the world were growing up younger and appeared to be experiencing higher levels of stress in their daily lives. Despite their young age, kids already felt pressure to succeed. Thus, getting a good grade in school was their top priority. Those who were growing up in an environment with more news media outlets generally felt less safe regardless of where they came from in the world.³⁴ All the findings related to age compression were based on the current generation of children and therefore could be valuable to the toy industry if translated into business-specific strategies. In other words, with the kids' concerns and priorities on the table, what could Build-A-Bear do to make its brand more appealing to them?

The Toy Industry Association's 2007 report contained another interesting finding related to the age factor: The heart of the toy industry belonged to kids seven and under. This segment accounted for over 60 percent of total industry dollar volume, and the reason was simple: These children had more time to spend with toys because they faced fewer school hours, had less homework, and were not as diverted by youth electronics and video games.³⁵ Considering the new trends in children's preferences, should Build-A-Bear Workshop look into having multiple strategies targeting different age groups?

Financials and the Future

The early years of Build-A-Bear Workshop were marked with great success. The company's physical locations grew from 150 stores at fiscal year-end 2003 to 292 company-owned stores in the United States, Canada, the United Kingdom, Ireland, and France in 2008. Due to this rapid expansion, Build-A-Bear Workshop saw an increase in its revenues from \$301.7 million in fiscal year 2004 to \$437.1 million in 2006. Its compound annual revenue growth rate reached 20.4 percent, and its net income jumped from \$18.5 million in fiscal year 2004 to \$29.5 million in 2006, ultimately resulting in a compound annual net income growth rate of 26.5 percent.³⁶

Since new stores generated much higher sales per square foot, part of the company's growth came from opening up more stores. New stores typically paid for themselves in their first year of operation, and comparable same-store sales began to decline in the second and third years. Before 2009, Build-A-Bear Workshop had planned to open 25 to 30 new stores per year so that 75 percent of the U.S. population would be within 30 miles of a Build-A-Bear Workshop. In addition, the company signed licensed product agreements with leading manufacturers to use the Build-A-Bear Workshop brand to develop products for retailers. Internationally, the company's expansion plan was to have well-capitalized franchisees with retail or real estate expertise. Build-a-Bear Workshop operated 292 stores primarily in major malls throughout the United States and Canada, 54 stores in the United Kingdom and Ireland, and an Internet store (see Exhibit 3).³⁷

Unfortunately, the initial successful performance did not last forever. Build-A-Bear Workshop's comparable store sales declined steadily from 2004 to 2008.³⁸ As of 2009, new store development was placed on hold while the economy had a chance to recover from the recession.

Since Build-A-Bear Workshop could not efficiently capitalize in the market, the word on Wall Street was speculation that the firm's current cash flow could support a buyout price much higher than its present value. One of the potential buyers might have been Disney, which already had a partnership with the company and could leverage the Build-A-Bear brand to promote Disney movies and TV shows. To evaluate alternative strategies that could increase its share value, possibly the buyout option as well, Build-A-Bear Workshop hired the investment bank Lehman Brothers, but the findings of the analysis have yet to be released.³⁹

Clark, who was aware of the strategic challenges that Build-A-Bear was facing, was optimistic about the future and stated, "We [at Build-A-Bear] believe that through our highly profitable business model and unique retail-entertainment concept, we will continue to grow total revenues, increase net income, and generate excess cash flow."⁴⁰ Had Build-A-Bear Workshop reached a mature stage in the domestic market, as indicated by its slower comparable store sales and increases in profit? To sustain its domestic market position in such a dynamic competitive industry, Build-A-Bear Workshop will have to continue building on its creativity and boost innovation in its offerings. As Maxine Clark said, "Ray Kroc didn't invent hamburgers.

Exhibit 3 Store Data

Store Data	Fiscal Year				
	2008	2007	2006	2005	2004
Number of stores at end of period					
North America	292	272	233	200	170
Europe	54	49	38	—	—
Total Stores	346	321	271	200	170
Square footage at end of period					
North America	856,504	810,208	712,299	615,194	514,341
Europe	77,520	70,577	56,701	—	—
Total square footage	934,024	880,785	769,000	615,194	514,341
Average net retail sales per store	\$ 1,329	\$ 1,576	\$ 1,761	\$ 1,864	\$ 1,857
Net retail sales per gross square foot - North America	\$ 445	\$ 516	\$ 573	\$ 615	\$ 602
Consolidated comparable store sales change (%)	(14.0)%	(9.9)%	(6.5)%	(0.2)%	18.1%

Source: Build-A-Bear Workshop, 10-K report.

Howard Schultz didn't invent coffee. And Oprah didn't invent talk shows. They just invented how to do it and how to do it better." Clark would have to invent a way to turn the Build-A-Bear experience into a lasting legend.

Endnotes

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