



## THE VALUE KING

SAVERS INC.'S TOM ELLISON HAS QUIETLY BUILT HIS FAMILY'S CHAIN OF THRIFT STORES INTO THE WORLD LEADER IN SELLING USED GOODS. By Max Kvidera

Tom Ellison is late. ¶ The chairman of Bellevue-based Savers—the world's largest for-profit seller of used items—as well as the owner of a private-equity investment company and a real-estate development firm is running to another meeting. ¶ That is how Ellison, 51, spends his days: either in a hectic series of meetings or in the air over North America. The man who helped build the little thrift chain best known in the Puget Sound area as Value Village into a growing international player spends about half his time on the road. There are properties he's redeveloping in Toronto and Vancouver, B.C., and Savers stores to check out across the United States. In between, there are philanthropic endeavors as well. »



Don't let the serious look fool you. Savers Chairman Tom Ellison has happily become the king of thrift stores by reselling our used items.

PHOTOGRAPH BY JOHN KEATLEY



Ellison says he remains involved with Savers, which now has 215 stores located in 23 states, as well as Australia and Canada. The firm turns a solid profit from reselling clothing, furniture, kitchenware and toys. But his interests now include private-equity investing through his firm Legacy Capital. He is also an investor and an advisory board member with Evergreen Pacific Partners, a private-equity firm specializing in small to midsize established companies.

His first business love, however, remains real estate. Ellison developed what would become Legacy Commercial originally to help develop sites for Savers stores. In the early 2000s, he decided to separate the two companies. Today, Legacy owns and manages about 2 million square feet of property in Canada and nine U.S. states.

Ken Alterman, who became Savers' CEO in 2005, says Ellison taught him plenty about real estate—much of it via hands-on experience.

"Tom is all about growing this business," Alterman says of Savers. "The way he built this company was going on the road, city by city, and setting up stores. He found the winner [locations] by learning from the loser [locations]. But he's into it. He gets excited about finding the right spot for a new store. He still has the level of excitement that he had 20 years ago."

### The Savers Way

THE STORES Ellison opens today are a far cry from the often cramped, poorly lit shops overflowing with all kinds of unwanted merchandise that used to dominate the nation's thrift industry.

Savers operations are clean, brightly illuminated stores offering modern decor and trained personnel, who earn more than minimum wage. On the racks, you'll find clothes sporting designer- and name-brand labels such as Brooks Brothers, Calvin Klein, Gap, Lands' End and Liz Claiborne. Out in the parking lot, things have changed, too, with today's customers as apt to be driving BMWs or Volvos as economy cars or rust-hungry pickups. In short, Savers has helped make it hip to be thrifty.

Here's how the Savers' program works: Nonprofit partners collect used clothing and household items and deliver them to a Savers' store. The store pays the nonprofit a bulk rate for the goods; the store also credits the group for items that donors deliver to the store. Store personnel then select the best merchandise to display on the retail floor.

Only about half of the donated items make it to the sales floor. Savers ships the rejected goods—an estimated 220 million pounds annually—to developing countries or to wholesalers.

The company helps facilitate the collection process by training the nonprofits on how to hire people, buy equipment, establish routes, train employees and ensure that the group's program makes money.

"It takes about six months for the group to be profitable," says Alter-

man. "We underwrite the costs during the training process—they get paid, but not as much as when they run on their own. We wouldn't be successful without them and they wouldn't be successful without us."

### Moneymaker

ONE THING'S for sure about the Savers strategy—it works. From a single store in San Francisco in 1954, Savers has grown into an organization that this year expects to record sales of \$650 million. This may just be the beginning. Under an aggressive expansion program, company executives, now headquartered in Bellevue, hope to operate 300 Savers stores with sales of about \$1 billion by 2011.

Much of that growth will happen in the United States. Ellison says the number of stores here in the 20,000- to 30,000-square-foot range could eventually represent 1,000 locations in America. While Savers has areas of strong concentration—metropolitan Phoenix and Puget Sound, for instance—entire regions, such as the Southeast and Mid-Atlantic, have no stores. By itself, California could support 100 stores, according to Ellison.

Not only does the company frequently earn a 10 percent profit margin, but it also pays more than \$100 million annually to its more than 120 nonprofit partners in the U.S., Canada and Australia.

"We covet every market we aren't in now," Ellison adds. "We have focused on Canada which has become a dominant retailer. Now it's time to focus on the U.S."

Canada, with a population that is about one-tenth the size of the United States, is maturing as a Savers' market. The company already has 103 stores in the country, but Ellison estimates Savers could open another 30 or 40 locations in each of the next few years.

A handful of stores have also opened in Australia. If the concept proves successful there, the company may next expand to the United Kingdom, which is a huge, untapped market. "We like international growth," Ellison says from his Legacy Properties offices in Bellevue. "As we get Australia on firm growth footing and Canada begins to slow down, we'll enter a fourth country. We would go to the U.K. and then the continent. Thrift stores don't exist in Europe and in the U.K. There could be three times the number of stores as in Australia—where there could be 50 to 55 stores."

### Growing pains

DESPITE THEIR interest in overseas moves, Savers officials are aware that expansion to other countries can be tricky. They found that out the hard way during their initial move Down Under.

A top charity in Australia approached Savers about opening stores there after the organization learned just how much an affiliated nonprofit in Canada was making through its partnership with the American thrift operation. By 2003, Savers had opened five stores in Australia but was struggling to make a profit.

Ellison says that his research indicated there was a shortage of retail stores in Australia. While that was true, unexpected cultural differences, as well as the cost of shipping goods and labor—often double the rates found in the U.S.—all combined to make for a rough introduction to Australia.

Savers learned the important lesson that it doesn't always work to import a manager from another country to run a new operation. The company first brought in an experienced Canadian manager to launch the Australian stores, but she lacked the understanding needed to succeed in the unique Australian market. A local manager with a better understanding of the nuances of the country was found to replace her.

Another issue was that the word "thrift" has a bad connotation in Australia, and tends to mean shoddy or poor quality. Savers officials hit on the idea of playing off the more advanced Australian enthusiasm for recycling by positioning the company as the "recycle superstore." The

mixture of cost controls, better management and an improved image have helped Australia's Savers stores turn a profit in recent years.

Despite such hard knocks, Ellison and his team believe the market is ripe for fast expansion. Except for one instance, Savers has avoided acquisitions in favor of opening its own new stores. Acquisitions haven't made much economic sense because the thrift industry remains highly fragmented. Savers is probably six times larger than the next largest for-profit thrift-store chain. Still, Ellison never says never.

"There are five or six chains around the country we would go after if we were in an acquisition mode," he says. "But right now we are doing fine opening our own stores."

### Building an empire

SUCH TALK of growth and acquisitions would have been foreign to the ears of Ellison's grandfather, Ben, and Ben's brother, Orlo, when they entered the thrift-store world. In time, the Ellison family would become synonymous with the American thrift-store industry.

Back in the 1920s, several Ellisons had joined the Salvation Army, which promulgated the concept of collecting old clothes and other items, fixing them up and reselling them to people of limited means. In fact, Ellison's Aunt Stella was credited with coining the term "thrift store."

The Ellison brothers served various tasks in the "Army," including overseeing bread and soup lines during the Great Depression. They traveled throughout the western United States, opening new thrift shops and troubleshooting struggling stores for the Salvation Army.

Eventually, the Ellisons decided to follow their entrepreneurial spirit and open thrift stores of their own. In 1954, Ben Ellison persuaded his son, Bill, to leave a job at Seattle's KIRO radio and join him in opening the Purple Heart Thrift Store in San Francisco. Later, other family members started their own thrift shops in the West and around the country. Tom Ellison jokes that his stores often compete against thrift businesses that are owned by his relatives.

By 1970, Bill Ellison moved his growing operation to Renton and changed the name to Thrift Village Inc. Additional stores were opened in the Seattle area, and later he established stores in Oregon. Four years after, Tom Ellison joined the family business as a truck driver following high school graduation and has been with the firm ever since. When he started, the company operated eight stores in three states.

"In the 1970s, it was a tough business," Tom Ellison remembers. "The recession of 1974 was in full force, and we were a struggling small business. Sometimes, we didn't know if we would make payroll or not."

As the company refined its store model and management style, the business began to grow. The turning point came in the early 1980s, when the thrift company opened its first store in Vancouver, B.C. Soon, the chain had expanded across Canada.

By the mid-1980s, Savers moved to Bellevue, and Tom Ellison was named president. With the help of John Bacon, vice president of the U.S. division and Rod VanLeeuwen, who ran the Canadian division, Ellison accelerated the company's growth and emphasized professionalism. The store count passed 50 in 1990 and reached 100 by 1995.

Such fast growth caught the eye of the private-equity market. Investment firms were approaching Ellison about acquiring the company, and other firms advised Savers to go public. In May 2000, Ellison sold 50 percent of the company to Boston-based Berkshire Partners, a private-equity investment firm. The move allowed Ellison's family to cash out of the business. In return, Berkshire provided funds for growth and

offered experience working with retailers and high-growth companies. Berkshire sold its investment in 2006 to the private-equity firm Freeman Spogli & Co. Savers' new partner has stakes in several American companies, including Seattle-based Sur La Table Inc.

### Rough patches

THE COMPANY'S growth has been steady, but there have been plenty of bumps. In the past couple of years, Ellison has attempted to ease back from day-to-day management and pursue other interests, such as his real-estate development company.

Gary White, an executive with experience at Target and Gymboree, was hired as CEO in late 2000. It was a move that Ellison would come to regret. White attempted to change the Savers culture and create a Target-like environment. He introduced new merchandise to the product mix. He differed with the company board, nonprofit partners and many employees alike, either firing or prompting several managers to leave.

"The company was changed almost overnight," Ellison says. "Something had to be done or we wouldn't have a company anymore."

After 18 months in charge, White left and Ellison returned to lead Savers. Ellison revived the retailer's esprit de corps. While retaining the CEO title, Ellison hired Alterman in 2002 as a vice president and general manager. A former high-ranking executive at Procter & Gamble and PepsiCo, Alterman was named president and CEO two years later.

### Still innovating

EVEN AFTER 50 years, Savers continues to tweak the thrift model. Currently, it is expanding the size of many existing stores, while also adding a new "racetrack" layout. Alterman says the design emphasizes more vibrant colors and "different sight lines" for shoppers.

"Our stores have traditionally been a lot of straight racks," Alterman says. "By adding different fixtures and widening the aisles, we open up more room for shoppers. We're also reaching out to different customers. Reuse of goods is becoming more hip."

The company has also introduced point-of-sale bar coding in all of its 16 Seattle-area stores, which operate under the Value Village name.



Coding will provide useful information about which items sell or don't sell, as well as data about the best price points. Merchandise in a typical Value Village store turns 12 to 13 times a year, and no item remains in a store longer than four weeks.

Looking ahead, Ellison is optimistic about the thrift-store business. He says the concept is catching on with groups not normally identified as used-goods shoppers, such as college students. While profit margins are smaller than they were 10 to 15 years ago, they remain sizable enough for thrift stores to be a good business.

The challenge will be to make stores attractive enough to appeal to all kinds of shoppers, whether they drive an economy car or a luxury sedan. And, of course, to keep growing in the chain's core markets.

"We have so many growth opportunities in the markets we serve, we could stay busy for quite some time just serving those," Ellison says. "We could open 20 stores a year in those markets. That's the lowest-risk proposition there is." **SBM**