

# FAO Schwarz's Next 145 Years

An Interview with Edward M. Schmults,  
Chief Executive Officer, FAO Schwarz Inc.



Edward M. Schmults

**EDITORS' NOTE** Prior to joining FAO Schwarz in September 2005, Edward Schmults served as Chief Operating Officer of RedEnvelope, Inc., a catalog and Internet retailer of affordable luxury gifts. Before that, he led an international project team in developing and expanding European and U.S. logistics operations for an Italian Web-based high-fashion retailer and additionally served as President of Global Sales for an enterprise software company that specialized in product development software for the retail, apparel, and textile industries. Previously, Schmults spent 10 years in the outdoor apparel industry, first at Patagonia, Inc., and then at Moonstone Mountain Equipment. The recipient of a BA in economics and political science from Yale University and an MBA from Harvard Business School, Schmults began his career in investment banking at The Goldman Sachs Group, Inc.

**COMPANY BRIEF** Founded in 1862 and now one of the best-known brands in the United States, FAO Schwarz ([www.fao.com](http://www.fao.com)) has evolved from a small specialty toy store into a world-renowned shopping and tourist destination. Best known for its flagship store in the landmark General Motors Building at the corner of 58th Street and Fifth Avenue in New York, the company is a leader in the world of specialty toys, with a rapidly growing direct-to-consumer presence, including retail stores, catalogs, and Internet channels.

## Are you happy with the current awareness of the FAO Schwarz brand in the market?

Yes, I'm very happy with current awareness of the brand. We've done some research, and more than 100 million Americans are familiar with FAO Schwarz. Fifty-two million have had an experience here, and they view the brand more favorably than they view Louis Vuitton, Burberry, or Coach, according to our research. So I'm ecstatic with that particular set of data. The reputation of FAO Schwarz is really terrific.

However, I don't like the fact that some people think we're expensive. I think maybe that was the case many years ago, when we were selling a lot of the same products that other companies were carrying but weren't discounting them. When I got here, I felt that there was a whole bunch of product in the store, and I thought we needed to streamline our offering. We got rid of some of the really gratuitously expensive items, and what I'm hearing now from moms is, "Wow, everything is really accessible. This is stuff we want to buy every day." That's so important to our survival and to our ability to thrive going forward. If this were just a holiday store, it would be a very difficult business to maintain.

## Is it challenging to differentiate today in the competitive toy market?

About 15 percent of our product line, or less, is in Target, Toys "R" Us, and Wal-Mart. There are a lot of great toy vendors out there, so we make sure we focus on high-quality products built around imaginative play. That's what you'll find here. It's not the easiest of markets, but we're up 27 percent year to date in our flagship store, so I think we're on the right track.

## How is the Internet driving business?

Our customers buy on our Web site. A lot of people are going online. Indeed, that's the fastest-growing part of the business. We put up a toy-buying guide last summer to help parents who were struggling with the news that some toys made in China might not be safe. We have search capabilities by country of origin on the Web site. You click on a drop-down menu, and you can search according to which country the toys come from. We also have a lot of information on our product information pages. We want parents to be comfortable with the quality of our toys and the rationale behind our product selection.

## Many talk about the high turnover in retail and how tough it is to find good people. How challenging is it to attract talent,

## and how do you retain people once you have trained them?

It's a constant struggle, particularly in our Fifth Avenue store. So much in our stores is about the experience of coming here and participating: watching a demo, building your own doll or your own Hot Wheels car, and interacting with the employees. Because of that, I need to make sure that our employees have an enthusiasm for toys. We make our candidates do an audition. Instead of just sitting across a desk from them and asking them about their work habits, I ask them to pick one of our toys and sell it to me. So if someone says, "I've got a spoon here. It's kind of shiny." My response is, "Thanks for coming in today. We'll call you." Whereas if someone says, "This is totally cool. It's a long spoon, check it out. With this, you can reach all the way across the table and get the ice cream and your brother can't," I would think, "Wow, that guy's engaged. He's thinking creatively about it. With a little bit of training on the product knowledge, he's going to be a dynamite employee."

Once we hire someone, the training is pretty intense. We make people pass tests if they want to stay with us. We pay them for the couple of weeks of training, but if they are not suitable for the job on the floor, we let them go. We raised salaries in my first year here, and we have benefits for part-timers. We're continually looking at ways to upgrade the benefits here to make it more attractive. With a Fifth Avenue location, we have to be competitive.

## Looking ahead two to three years, do you have certain key areas in the forefront of your mind?

Yes. One is our need to maintain the right product mix. We also want to increase the educational capabilities of the Web site and the ability of our employees to answer questions about which toys people should buy. In addition, we want to continue to communicate well with our customers and to use the Web more for that. Last, and probably most important, we're beginning to make a move based on the research we did, which indicated that we could become more of a lifestyle company. In the research, customers said they felt we were experts not just in toys but in child development. So, broadly speaking, my goals are to monetize the brand, support the toy business, and position this company to be around for the next 145 years. That would be a wonderful legacy for me to pass on to the next person. ●