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ISSUE 1346
NOVEMBER 18, 2013

WEEKLY

THE WEEKLY DIGITAL MAGAZINE FOR THE SPORTING GOODS INDUSTRY

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FINDING STRONG THIS PAGE: Produced by Saucony in collaboration with *Runner's World*, the independent documentary film Finding Strong premiered before the New York City Marathon to a live audience at the New York Institute of Technology Auditorium

ON THE COVER: Long-time owner of the Running Spot, Bob Roncker. The Running Spot and it's four-unit chain was recently acquired by Running Specialty Group.

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Skechers brand ambassador
Meb Keflezighi



SKECHERS EXTENDS MULTI-YEAR AGREEMENT WITH MEB KEFLEZIGHI

Skechers USA, Inc. announced a new, multi-year agreement with famed distance runner, Meb Keflezighi, under the Skechers Performance Division. Keflezighi will continue as the official brand ambassador for the GOrun line of athletic footwear through 2016.

The ongoing partnership is a testament to Skechers Performance Division's commitment to the running category and the GOrun platform. Besides appearing in media campaigns, Keflezighi will continue working hand-in-hand with the Skechers Performance Division in testing and developing new products.

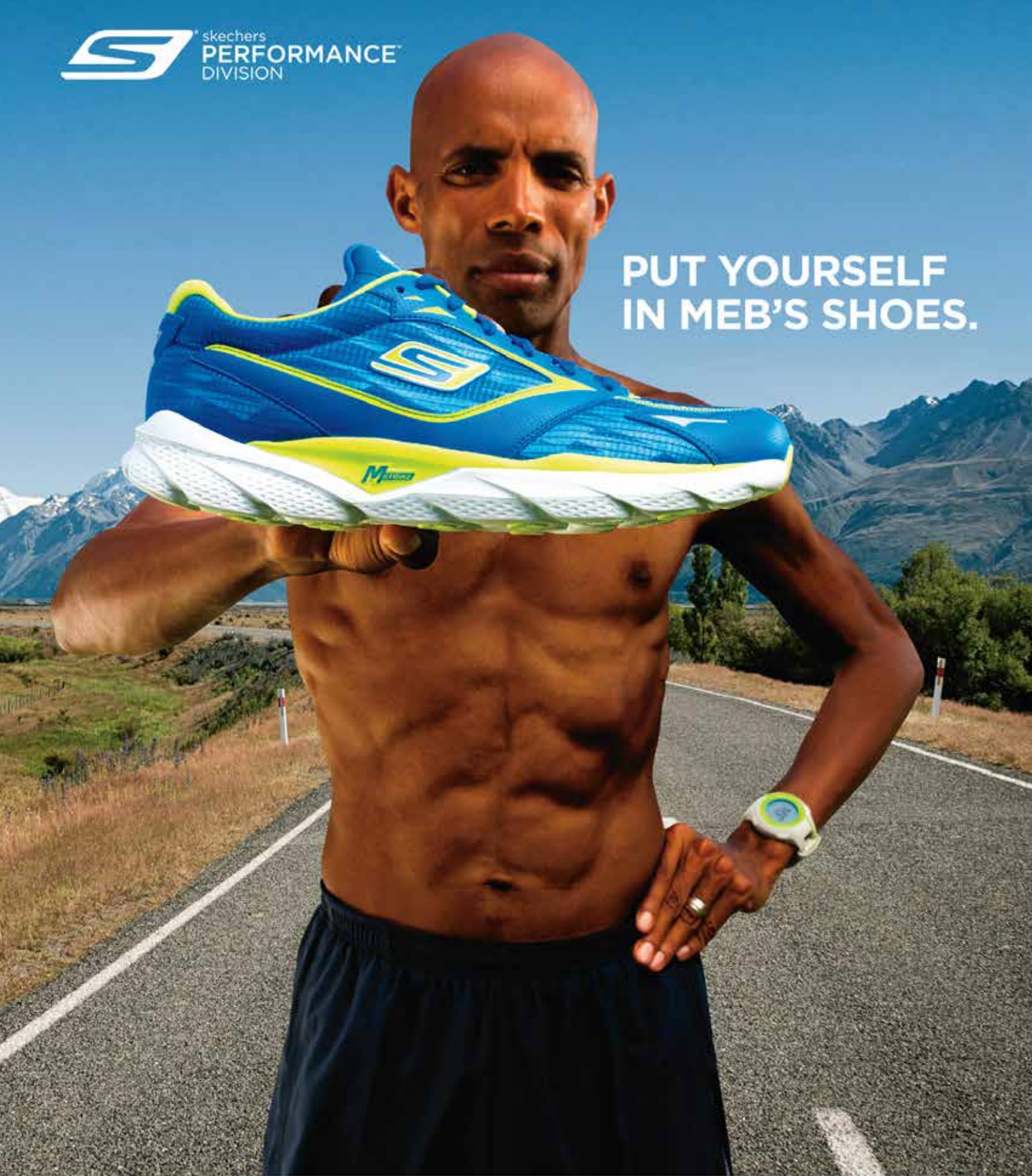
"Our relationship with Meb has been instrumental in elevating Skechers Performance and GOrun into the award-winning line that it is today," said Michael Greenberg, Skechers president. "Meb's hands-on approach, tireless commitment and genuine love of the brand and products have further solidified our partnership, and we are looking forward to future successes, both for Skechers and Meb, in the years to come."

Originally signed in 2011, Keflezighi's role has evolved from appearing in media campaigns and racing in Skechers Performance footwear (in which he has won multiple accolades including the Houston Trials in 2012 and the first American finisher in London) to a deeper integration with the brand in the design and development process.

The extension comes as Skechers recently launched a new product line, Skechers GO MEB to specifically serve its elite running platform. The collection consists of GO MEB Speed 2, Meb's official racing shoe, and the GO MEB Strada, Skechers Performance Divisions' first 8mm neutral running shoe. The line will be targeted for specialty accounts and priced from \$90-\$140.

Said Keflezighi, "I run to get the best out of myself and to inspire others to do the same. I am thankful to Skechers for giving me the support I need to do what I love."

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THE NYC MARATHON RETURNS TRIUMPHANTLY

In the shadow of Hurricane Sandy and The Boston Marathon, the 43rd ING New York City Marathon hit back with a vengeance. Returning after a one-year absence after the hurricane forced the marathon's cancellation in 2012, a record 50,740 runners hit the ground travelling through five boroughs on their 26.2 mile trek around New York on November 3. The 50,304 finishers marked the largest marathon in the history of the marathon.

The official gear sponsor, Asics America, brought the marathon spirit to every corner of the New York City with its "We Are Marathoners" campaign. A traveling treadmill activation challenged pedestrians to keep up the 4:46 mile pace of its star marathoner, Ryan Hall. For a fourth year, Asics brought back its Support Your Marathoner initiative, which allows friends and family to virtually motivate runners with personalized video and text messages delivered directly to competitors on screens throughout the course. A limited edition version of the GEL-Kayano, which marked its 20th anniversary, in race colorways was also available.

"The energy that comes to the streets of New York on race day is palpable. This year, perhaps more than ever, the pride and passion of the city and the running community will be felt across the world," said Asics America CEO Kevin Wulff. "This same energy is at the core of Asics' pursuit of competition, camaraderie and continuous improvement. We are honored to have been a sponsor of the ING New York City Marathon for more than 20 years and look forward to bringing the community together again this year for one of New York's finest days."

New Balance also stepped up with the launch of a limited edition New York City 890v4, featuring bright colors and unique discovery elements from the Brooklyn Bridge to a cement-colored AbzorB Crash Pad and vibrant street art graphics. Under the overall slogan, "Powered by NYC," New York street artists were also on hand at the New Balance booth at the Expo, performing live installations and offering runners and fans the opportunity to have their gear personalized with words of inspiration, time goals or simply their name.

With the exception again of Nike, the Expo included all the major footwear brands – including Adidas, Brooks, Mizuno and Saucony. But a number of the newer brands to reach run specialty arrived as well, including Altra, Hoka One One, Newton Running and On Running, with some marking their first appearance at the marathon. The North Face and Salomon were two outdoor-oriented brands exhibiting. Oofos, the recovery shoe, also made its first appearance at the expo, as did Barefooters.



YMX was among the newer apparel resources joining Moving Comfort, Gore Running, 100% Play Harder, CW-X, C3fit and 2XU.

For accessories, Mio made an appearance joining veteran sport watch brands Timex, Polar and Garmin. Fitbit, which has been making more of an effort to reach sporting goods shelves in the last year, also made its first appearance at the Expo while Adidas unveiled its miCoach Smart Run watch. Oakley made its first Expo exhibit as it sees a bigger opportunity to address runners with its sunglasses. Other accessory vendors included Sof Sole, Superfeet, Balega, Thorlo, Mojo, Fitletic, Spibelt, Nathan, Sweaty Bands, FuelBelt and The Stick.

Security was notably increased both at the Expo with bag-checking lines and an increased police force and barriers along the race route. In the wake of the bombings at the Boston Marathon, New York City joined a number of other marathons to ban hydration vests. The list of banned items at the marathon included strollers, vests with pockets, and "costumes covering the face or any nonformfitting, bulky outfits extending beyond the perimeter of the body"

Brent Hollowell, VP of marketing at Nathan Sports, in an interview at the Expo said Nathan made up for any reduction in hydration belts with sales of fuel belts and hand-held water bottles that have seen a spike after the ban. Although Nathan is all about runner safety with its hydration and visibility items, he hopes law and race officials will be able to lighten up on security measures to enable runners to again run races the way they like to train. But Hollowell also said the tightened security measures weren't dampening the spirit of runners he saw at the Expo.

"Runners are a hearty group," said Hollowell. "If anything, it feels like there's more support for one another out there and more talk about being there for each other. It's really a statement of positivity and about the viability of the community and the sport. We've heard a few say they can't wait to get back to Boston."

Brian Beckstead, co-founder and global VP of sales at Altra, also noticed a positive vibe in the Expo crowd.

"As you talk to people, you get the sense that they feel blessed, excited and even honored to be here," said Beckstead in an interview at the Expo. "There's also a lot of positive remembrances of the last year and a feeling we're going to overcome these challenges. It's making runners a lot more excited and determined than ever."

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CUTS FISCAL YEAR GUIDANCE AS Q3 PROFITS SLIDE

Mizuno reported operating profit fell 13.8 percent in the six months ended September 30, to ¥2.6 billion (\$26.2 mm). The Japanese-based sporting goods giant blamed rising import prices due to the weaker yen, in addition to higher costs such as raw materials and personnel expenses.

Revenues totaled ¥88.3 billion (\$889.3 mm), up 8.5 percent compared with the same period a year ago. In the Americas, revenues were up 28.7 percent and advanced 8.3 percent on a currency-neutral basis. Led by the Wave Sayonara, footwear, especially running shoes, as well as apparel remained strong in the region.

For the full year, Mizuno revised downward its operating profit forecast from ¥7.0 billion to ¥5.5 billion, which is still up 52.6 percent year on year. Its revenue forecast remained unchanged at ¥183.0 billion, up 11.8 percent year on year.



LOOKS FOR Q4 PICKUP AFTER SUBPAR Q3

Adidas Group posted declines in profits and revenues in the third quarter, but confirmed its full-year guidance and said it still expects improvement in the fourth quarter, when the build-up to next year's soccer World Cup in Brazil will start to kick in. The third quarter was hurt by distribution problems in Russia, currency effects and ongoing weaknesses in the global golf market.

Results were generally in line with analysts' estimates that were adjusted downward following a company warning in September due to those issues.

Revenues in the third quarter were down 7.0 percent to €3.88 billion (\$5.2 bn). Currency-neutral (C-N) sales were stable as strong momentum in Latin America and Greater China offsets declines in Western Europe and North America. Among its major brands on a currency-neutral basis, TaylorMade-Adidas Golf's revenues slid 16 percent and the Adidas Brand was relatively flat while Reebok grew 4.7 percent.

The Adidas brand generated 14 percent growth in the running category, with growth in all regions due to a strong reception to its Boost and Springblade introductions. In Sport Lifestyle, Adidas Originals was up 4 percent, driven by a 60 percent gain in the action sports category. The teen-focused Adidas NEO label grew 12 percent for the quarter.



SEES FISCAL SECOND QUARTER REVENUES GROW DOUBLE-DIGITS

Asics Corp. said sales in its America region, which includes the U.S., Brazil and Canada, rose 33.2 percent in the six months ended September 30, to ¥46.2 billion (\$468.2 mm), due to the strong sales of running shoes and the effect of foreign exchange rates. Sales gained 12.0 percent on a currency-neutral basis.

Operating income in the region jumped 59.4 percent to ¥5.1 billion (\$51.7 mm) from ¥3.2 billion, and climbed 33.7 percent on a currency-neutral basis due to improvements in the cost of sales ratio.

Subtracting first quarter sales from six month results shows that second quarter sales grew 39.8 percent to ¥24.3 billion (\$246 mm). Operating profits more than doubled to ¥2.46 billion (\$25 mm).

In a separate release, Asics America noted that momentum continues with an 8.5 percent increase in the fiscal second quarter in the running footwear category, including the newest releases of award winning GEL-Nimbus 15 and GEL-Cumulus 15, which were released in May 2013. Additional growth in fast-rising categories such as tennis and Onitsuka Tiger were indicated to have played a significant role in Asics America Group financial progress in the fiscal quarter. Asics America Group said it is on pace to show continued growth throughout 2013 and is on track to reach its billion dollar sales goal by 2015.

"In Q2, Asics America experienced phenomenal growth that was led by footwear," said Asics America Group President and CEO Kevin Wulff. "We continue to innovate and listen to what consumers want in all aspects of running from performance running to athletes who use running to train in another sport."

Overall, Asics Corp. reported revenues grew 21.4 percent in the first six months, to ¥153.66 billion (\$1.56 bn) from ¥126.6 billion a year ago. The gains were due to the strong sales of running shoes in the Americas, Europe and other regions and the effect of foreign exchange rates. On a currency-neutral basis, sales grew 12.0 percent in the Americas and gained 7.3 percent in Europe. Sales dipped slightly in Japan.

Earnings rose 36.3 percent in the period to ¥7.92 billion (\$80.2 mm) from ¥5.81 billion a year ago. The income increase was primarily due to the recording of gain on sales of property, plant, and equipment arising from the sale of the land of former Kanto Kashiwa Distribution Center.

Subtracting first quarter sales from six month results shows that companywide sales jumped 27.4 percent in the second quarter, to ¥77.1 billion (\$779 mm). Operating profits nearly doubled to ¥5.3 billion (\$54 mm).



SEES 2013 PROFITS DECLINE

Puma SE warned that it expects 2013 earnings to be “positive, but significantly below those of 2012,” impacted by one-off restructuring charges of around €130 million (\$174 million) to be booked in the fourth quarter.

When reporting second quarter results in July, Puma had projected higher net earnings in 2013 versus 2012, largely predicated on cost-saving measures.

The charges hitting the fourth quarter are related to noncurrent assets such as the shutdown of a development center in Vietnam and shifting design teams from London to its home base in Herzogenaurach. Puma also reiterated that it sees a low- to mid-single percentage drop in currency adjusted full-year sales.

The latest warning comes despite Puma reporting that its third quarter results came largely in line with expectations. Profits were down slightly before charges with sales sliding 1.4 percent on a currency neutral (C-N) basis. Puma already lowered its profit guidance in May due to weakness in Europe and Asia.

“We know that our business is currently in a difficult position with challenging sell-through, sub-optimal distribution and low brand heat,” said Bjoern Gulden, who took over as CEO in July. “But we also know that Puma is an amazing brand with a great history, global awareness, fantastic logos, great assets and talented people. I am therefore convinced that - although it will take some time - we will turn this business around and make 'the cat' shine again.”

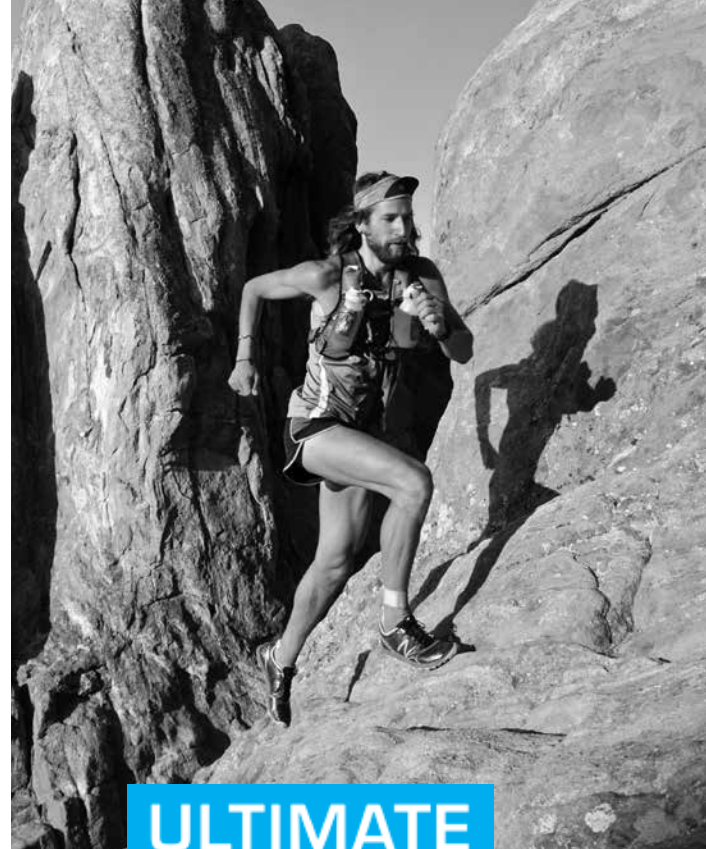


UNDER ARMOUR TO ACQUIRE MAPMYRUN

Under Armour acquired MapMyFitness, which operates MapMyRun and MapMyRide, for \$150 million. Utilizing GPS and other technologies, MapMyFitness provides users with the ability to map, record and share their workouts.

“We will build on the community of over 20 million registered users that MapMyFitness has cultivated in the connected fitness space, and together we will serve as a destination for the measurement and analytics needs of all athletes,” said Kevin Plank, founder and CEO of Under Armour. “Innovation has always been at the core of our company, and now we are better positioned to design open, digital products for the athlete of tomorrow and become more proactive in providing solutions that will help people across the world lead healthier lifestyles.”

MapMyFitness will continue to operate out of its headquarters in Austin. The deal is expected to close by the end of 2013.



ULTIMATE DIRECTION

REBRANDS FOR 2014

Ultimate Direction is revising the brand’s look and feel for 2014 with the introduction of a new logo, color palette and supporting imagery. With products that include the award-winning Signature Series hydration vests and Jurek Collection, Ultimate Direction’s new branding is intended to better complement upcoming collections.

“The Ultimate Direction color and logo have been the same for decades,” said Buzz Burrell, brand manager for Ultimate Direction. “With the wide variety of new and innovative product we have in the pipeline for 2014 and beyond, we needed to update our look and feel on individual products and at retail to help us better highlight our gear and tell the Ultimate Direction story.”

The new logo and color will first appear on Ultimate Direction’s 2014 Runners and Jenny Collection, available at retail in January. All new products going forward will include the logo, color and imagery on hangtags, in-store displays and other supporting collateral.

A bold, blue color will highlight a revised logo and updated imagery to give products a progressive look at retail and in the field. In-store displays and other promotional materials featuring the new logo and color will also benefit from updated black and white photography. The result is a blend of modern, minimalist aesthetic that helps tell the Ultimate Direction story.

The company is a leader in athlete hydration, having been a part of the initial hydration- pack category launch, in 1985. Since then, runners, hikers, climbers and cyclists have relied upon a backpack, waist belt or handheld bottle to stay hydrated outdoors.

SAUCONY DEBUTS FINDING STRONG DOCUMENTARY

CLICK TO PLAY ►



On the Saturday before the New York City Marathon, the premiere of the independent documentary film *Finding Strong*, produced by Saucony in collaboration with *Runner's World*, took place at the New York Institute of Technology Auditorium.

Spanning multiple continents, *Finding Strong* depicts the transformative power of running and its ability to empower communities. The 22-minute documentary explores runners around the world, including elite National Guardsmen in Japan, a youth running community in Brazil, goat-herding girls in Africa's Djibouti, and physically challenged athletes in New York City.

The screening event included a VIP red carpet reception; a post-screening panel discussion; and an after party with *Finding Strong* director Brian Vernor.

The panel included *Runner's World* editor-in-chief David Willey and Saucony's VP of public relations Sharon Barbano along with three of the film's stars: Cintia Guzman, coach of the Djibouti-based Girls Run 2 team; Ben Simmons, marathoner and team member of Achilles International; and Finland's Márten Boström, 2013 World Orienteering Sprint Champion.

Guzman spoke of how running competitively has improved the confidence of many of her runners that often winds up suppressed in the largely Muslim country. An amputee at age 11 resulting from a birth defect, Simmons discussed how receiving custom-made running prosthetics in 2002 transformed his life. Only able to take up running at the age of 30, he has since completed five marathons and recently entered the world of triathlons.

Boström was the 2013 World Champion in Orienteering, where requires navigational skills

using a map and compass to navigate from point to point in diverse and usually unfamiliar terrain while moving at a 5 minute-per-mile pace. Boström spoke how his feats "were important to bringing an identity" to the Finnish people and how he was become a local celebrity and inspired others in his hometown.

Willey said *Runner's World* had never co-produced a film or worked with an advertising partner to this extent before.

"The film is beautiful, not just visually but also in its point of view and sensibility, and it captures so many of the themes and ideas that *Runner's World* focuses on," said Willey.

Indeed, he remarked during the panel discussion following the film's premiere that the film didn't even touch on two major events – Hurricane Sandy that cancelled the 2012 New York City Marathon at the last minute as well as the Boston Marathon bombings – that much like stories in the film demonstrated the transformative power and strength of running community.

Following the cancellation of the New York City Marathon in 2012, Willey noted that runners were "being judged pretty harshly" for being selfish and even elitist. But the "story quickly changed" as hundreds of marathoners on the Sunday the marathon was supposed to happen went to Staten Island to help those most impacted by the storm while scores of others ran an impromptu marathon around Central Park. In the same vein, runners at the Boston Marathon within seconds rushed to aid to those impacted by the bombing – including some tying singlets around legs as tourniquets – to help save lives. Said Willey, "The running community is nothing

if not resilient. Runners as individuals are resilient and strong and they naturally come together as you saw in the film."

The invitation-only event brought together nearly 300 attendees and included media, retailers, executives and athletes from the sport of running. An art sale benefiting Achilles Kids featured a gallery of 20 cinematic stills curated from the *Finding Strong* documentary, all of which sold during the event. Achilles Kids, an extension of Achilles International, offers walking, running and rolling programs to 4,000 disabled children in schools across the United States.

"It couldn't have been a more appropriate time to celebrate the tremendous power of the running community than during New York City Marathon weekend," said Chris Lindner, chief marketing officer and SVP of commerce for Saucony. "This amazing film brings our brand mission – to empower the human spirit through running – clearly to life in a compelling and very beautiful way. This first-ever film collaboration with *Runner's World* proves that running is about much more than finish lines and medals; it's about building strength—individually and together—by putting one foot in front of the other."

The *Finding Strong* film schedule encompasses both trade and consumer screenings, and includes The Running Event (December 2013) and the Outdoor Retailer Show (January 2014), in addition to film and running events throughout 2014. Each of the live screenings will include a post-screening panel discussion with local thought leaders in the running community. The *Finding Strong* film is also available to upload and view at saucony.com/findingstrong. ■

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Running Spot's longtime owner Bob Roncker

RUNNING SPECIALTY GROUP ACQUIRES RUNNING SPOT

By Thomas J. Ryan

Running Specialty Group (RSG), the joint partnership between The Finish Line and Gart Capital Partners, has acquired Bob Roncker's Running Spot, the four-unit chain in the Greater Cincinnati and Northern Kentucky area. The acquisition brings RSG's store count to 46.

Terms of the sale were not disclosed.

Longtime owner Bob Roncker will remain with Running Spot to coordinate the training programs, events and other community outreach programs. The Running Spot has garnered widespread industry accolades and awards including consistently being named to Competitor Group's Top 50 list of Best Running Stores in America. Last year, Bob Roncker's Running Spot was one of four running specialty stores nominated for Running Store of the Year, a distinction it won in 2008.

"The Running Spot is a top-notch specialty running business with an amazing owner and staff," said Ken Gart, managing partner of RSG. "Bob and the Running Spot team are truly committed to their communities and customers through their many programs that range from training programs for all level of athletes to races and medical outreach activities. His vision and enthusiasm for 'all things running,' go a long way to explain why The Running Spot has been the leading specialty store for runners in Cincinnati for so long."

Roncker, a former high school teacher and coach, with his wife Mary Ann, opened his first specialty running store in 1981 in O'Bryonville because of his passion for running and because he recognized there was an unfilled niche for a specialized running store for area runners. After two and a half years, Bob Roncker's Running Spot gradually expanded to a multi-level store down the street from its original location. Three additional stores in Glendale, Loveland, and Newport, KY, opened between 2002 and 2009.

In an interview with *SGB*, Roncker said he and his wife had explored selling the business a few years ago and attracted nearly 20 interested parties. They decided not to sell at the time after realizing "there were still some things we wanted and needed to do" before giving up the reigns.

Earlier this year, however, the couple became more convinced about selling because "we simply felt the timing was right." The earlier sales process had also already identified a number of likely buyers, including RSG.

Roncker contacted the parties and found many that were still interested. In the process, Roncker said that although price was obviously a "big consideration," he wasn't necessary looking for the "highest bidder." Other considerations included how the sale would affect his four stores and the role they serve in their respective communities, as well as his employees.

Roncker chose RSG after receiving assurances from other store owners who have been purchased by RSG over the last two years and also conversations



with the team at RSG, including Ken Gart and Chris Brown. Said Roncker, "They were very fair and we just felt very good there. And I thought that they brought some things that we did not have."

In particular, Running Spot had no e-commerce operations and saw a huge advantage in being able to tie its stores into the expansive selection offered on RSG's run.com website. Previously, if a store didn't have a certain size or color in a style, they could order it from the vendor but it would typically take 10 days or more to arrive and they'd lose a sale. With run.com, a turnaround on an out-of-stock item in the store will take approximately two days.

Roncker also liked the idea of being able share best practices across RSG's network of stores across the country for himself and his team. Said Roncker, "I feel good with what I'm doing but I certainly don't claim to have a monopoly on all the ideas."

Finally, he said RSG should offer his employees opportunities to grow professionally and perhaps move. Said Roncker, "I know over the years we've had a number of our staff members move out to Colorado, for example. Now with their ownership of Boulder Running, it may very well work out that they can move to a very desirable part of the country and have a job waiting for them."

Roncker said he essentially becomes an employee of RSG and gets to focus on one of his favorite roles over the years in community outreach.

"I'm 70 but it's definitely not retirement time," said Roncker. "I very much enjoy the business with the stores and it's just an opportunity to concentrate on one aspect of the business that I frankly enjoy quite a bit. I'm interested in seeing where we can improve upon the grassroots community efforts that we do."

Training groups and programs that prepare runners and walkers for everything from fun

runs to marathons will continue. Coaching is available for several signature events like the Flying Pig Full and Half Marathons, the Heart Mini-Marathon, the Thanksgiving Day 10k and the Hyde Park Blast.

Roncker's wife, Mary Ann, has handled accounting, health care, 401K and other back-office matters for the stores and will continue to work through the transition period but her job will eventually be eliminated. Roncker remarked, "She's not shedding a tear. She sees plenty of other things she'll be able to do."

RSG was formed with Finish Line's acquisition of the 18-unit Running Company chain in September 2011. Gart Capital Partners subsequently partnered with RSG with the goal of becoming the leading player in the run specialty business. RSG's acquisitions have included the five-unit, Dallas-based Run On! chain, Road Runner in Richmond, VA, and Boulder Running Company.

RSG's 46 stores are primarily located in the Northeast, Virginia, Florida, Ohio, Indiana, Kentucky, Texas and Colorado.

Overall, Roncker believes the ongoing consolidation "is probably beneficial to people like ourselves who are getting to a point where they're ready to step back from what they're doing. It does present a nice exit strategy." He also said that the run specialty channel has continued to get more sophisticated since he opened his first store 32 years ago, and the consolidation will only continue to increase the "expectation level."

At the same time, Roncker believes dedicated independent retailers will have a chance to do well because success continues to be defined by being able to offer expertise at the store level and supporting community involvement.

"I feel very fortunate that I have been able to pursue a career in an area which I love," said Roncker. "With the assistance and resources that RSG provides, our outstanding staff, and my continued involvement, we plan to maintain and improve upon the services that the local community has come to depend upon and expect from us." ■

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CITY SPORTS CELEBRATES 30 YEARS

By Thomas J. Ryan

An inflating needle for a basketball. That was the item high school tennis partners Mike Kennedy and Eric Martin couldn't purchase anywhere near their apartments in Boston, providing the inspiration to launch City Sports.

Thirty years later, the chain has grown to 23 metropolitan stores across the East Coast, with locations in Maryland, Massachusetts, New York, Pennsylvania, Rhode Island, Vermont and Washington, D.C. But management still believes it fills a void in the market in delivering premium sporting brands and a premium service to urban athletes, especially fans of running, training, tennis, swimming and cycling. Yoga and triathlon enthusiasts have been added to the customer mix over the last two decades.

The chain is also preparing to accelerate its growth.

In early 2008, Highland Capital, seeing similar potential as past investments in Lululemon, Pinkberry and Guitar Center, acquired majority control of City Sports with plans to aggressively expand the chain across the country. The economic downturn stalled some of those plans but the chain also began falling short of Highland's lofty goals.

In September 2012, Edward Albertian became president and CEO and has quickly set the chain back on its growth track. Prior to joining City Sports, Albertian was president and COO of the Trans National Group in Boston. He was also president and COO of \$24 Billion C&S Wholesale, the wholesale grocery supply company; COO at Star Markets Company, and Senior VP Store Operations at Staples, where he helped expand the office supply chain in its formative years.

This marks the fourth time Albertian has worked for Tom Stemberg, the founder of Staples who is managing general partner at Highland Capital and board member at City Sports.

Here, Albertian discusses City Sports' strengths in the marketplace, changes he's made since taking over, and expectations for expansion ahead.

WHAT MAKES CITY SPORTS UNIQUE? We're different for sure...We carry brands like Patagonia and Toms that you won't find in the big box retailers and we believe our buying team is a strong differentiator. But what really sets us apart from all other competitors is our store associates; they are the face of the company and our finest asset. They not only make us unique, but they make a City Sports transaction fun with just the right amount of personal athletic knowledge. For instance, we string racquets; in my travels over the last 15 months, I haven't seen anyone outside of a specialty retailer in New York City string racquets. Our racquet sports customers love the quality of our service and the quick turnaround we guarantee with every stringing. Similarly, in our footwear department we provide an extensive analysis of an individual's sport, weight, type of workout, whether they are running, walking, training or doing aerobics before we get to a quality gait analysis. We probably know more about our customers' feet than they do when they leave the store. We spend anywhere from five to as many as 20 minutes with a customer making sure we understand the qualities that they are seeking; pronation, foot roll, flat footed, high arch, etc. If they don't buy something that day, they'll usually come back another day or go online and make that purchase based on the analysis we've done. A big plus for our customers is that our associates are not only experts at what they do but they're athletes in their own right and they're able to talk to the lifestyle, talk in detail about product, and educate the customer in the process to help them determine the best value for their investment. It's extremely rewarding to help someone get into the right pair of footwear for the first time. We also have a lot of expertise in areas like training, weight training, cycling, swimming, lacrosse and new electronic technology. "Find your Fit" is what we focus on every day and we'll work to qualify each customer no matter what they're looking for in our stores, and that means the whole family. Recently we outfitted almost all our stores with the best merchandise available for youth; we're very proud of our new City Sports Kids department.

THE CONCEPT WAS FOUNDED IN 1983 ON THE PREMISE THAT URBAN RESIDENTS NEEDED BETTER ACCESS TO QUALITY BRANDED SPORTING GOODS. DOES THAT STILL HOLD TRUE TODAY? The most recent stores that we've opened show that it does. We opened a new store at 50 Broadway in New York's financial district in March and it's a great example.



Edward Albertian,
president & CEO,
City Sports

It's been a runaway success for us, it's urban and it has shown us that if we're going to expand this business, it really needs to be built on the backs, shoulders and feet of the urban consumer. Those are the consumers that I believe want City Sports. We inspire the urban athlete and by having the right product at the right time, we become their destination of choice. We've also had a lot of success in markets like Wellesley, MA, and Wayne, PA, and we're starting to break through in areas like Georgetown, which is a spectacular store with a unique and upscale footprint. Typically, the suburban type City Sports store is going to take two years longer to mature than a typical urban store.

WHAT'S THE CHALLENGE WITH SUBURBIA? Simply put, you'll probably have to get into your car and drive, jog or bike a half-mile to a mile. In New York City on 5th Avenue, 48th Street, and 50 Broadway, Boylston Street in Boston, or Walnut Street in Philadelphia, the stores are so simple to access. It's a little bit different but once customers try us, they usually opt for the ease of a City Sports experience.

WHAT INITIALLY ATTRACTED YOU TO THE JOB? The opportunity to work with Tom Stemberg once again. The chance to help lead and improve what I thought was a retailer with big potential was appealing. After hearing Tom's enthusiasm and belief that there was huge potential, coupled with Highland's commitment to the business and the growth plan, I was hooked. I thought it would be a solid accomplishment if we could get City Sports to realize its full potential. It's been fantastic – probably the most enjoyable 15 months of my career, although, I do hope for a winter, a government and an economy that can make up its mind. City Sports has a great amount of employees who are passionate about the business, training, wellness, and above all the customer. Our people live the lifestyle every day. It's very satisfying to be leading a team that cares deeply about the business, its customers, and the freshness of our product offerings.

WHY DID HIGHLAND MAKE THE MANAGEMENT SHIFT? I don't speak for Highland; Tom Stemberg is better equipped to answer that question than me. As noted earlier, I was struck by the level of conviction Highland had in City Sports potential.

WHAT CHANGES NEEDED TO BE MADE? The biggest challenge for me was getting the rank and file to believe the company had a lot of potential. We needed to rebuild the



culture, outlook and vision for the organization if we were going to be successful. We were about to take a lot of money from Highland Capital to build/open new stores and I wanted to be absolutely certain we would succeed. While I always believed we would prevail; I needed to convince the team that with success, longer-term positive possibilities for the business would reappear. Upon reflection, that's exactly what has happened; the team became laser-focused and they're all eager to enter 2014 when we'll open more stores in one year than we have at any time in our history.

DID YOU MAKE ANY CHANGES IN THE BUSINESS STRUCTURE? We've reorganized internally to ensure all support mechanisms are supporting the store managers. I like to say that the store manager is the CEO of this organization – more important than me or anybody else because they deal with the customer every day. We had better be making sure they have the product and supplies when they need them. We've upgraded our finance department, our planning and allocation departments, IT, E-commerce and we recently brought in a new head of marketing; a veteran sporting goods executive who will add a lot of experience. Along the way, we built three new stores this year and as noted earlier, we're on the docket to build five next year. There are a number of positives taking place within the organization; this was a year of transition in getting everybody to feel positive about City Sports and the future.

HOW IS CITY SPORTS PERFORMING? Despite a very challenging macroeconomic environment we have performed well. Early in the year the Boston Marathon tragedy set the sporting goods industry on its heels...there were four-to-five very tough weeks. Our people rallied, we developed the Boston Strong bibs that became widely seen not only in local markets but also throughout the country and also many different parts of the world. 2013 saw yet another non-winter so demand for outerwear and seasonal footwear was barely a fraction of what we expected. Through all the adversity, however, we expect to attain our original earnings' goal, a remarkable accomplishment by the City Sports team.



WHAT CATEGORIES DO YOU SEE DRIVING GROWTH? We know that youth/kids are going to be a major part of our focus going forward. We've expanded youth in about seven stores and will expand to about 18 by the end of the year. Extended sizes have also been a big win for us. A year ago we had nothing for the plus size athlete. We've had a lot of requests from our consumers who are plus size asking for product that makes them feel comfortable but doesn't compromise performance. We've also expanded baseball, lacrosse and racquet sports; all have become bigger parts of our business.

WHAT ABOUT RUNNING? It continues to be a major component of our business. If you go into one of our stores, you'll see anywhere from 140 to 150 pairs of running footwear on our shoe wall and we actively lead Run-Clubs in almost every one of our stores. We're constantly meeting with footwear vendors to understand the best product to put on the sale floor. Today's customer is looking for immediate gratification so we made a corporate decision that we don't want our customer coming in and seeing a pair of shoes that they like and then finding out we don't carry the inventory. Now we're focused more

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WHAT OTHER TRENDS DO YOU SEE EMERGING? Wellness and training are a big part of it. Adventure workouts are also big today and people are working out more and more in non-traditional settings. Besides Run Clubs, we host Boot Camps in many of our facilities. Believe it or not, outside our corporate office, once a week we go to the Rose Kennedy Greenway and run yoga classes and workout classes for the people in our office and all of our City Sports Insiders. We have had up to 300 people every single week working out with us. We're very focused on the customer who's serious about training and who wants to grow from being a novice into a more sophisticated athlete. We breathe, talk and live the lifestyle.

CAN YOU TALK ABOUT YOUR SUCCESS WITH THE CS BY CITY SPORTS LINE? It's a point of great pride for us. Our private label business at City Sports is growing exponentially. Two years ago we had about 150 SKUs in our stores, today we have over 275. A key point of differentiation is that we guarantee our private label for life. Frankly, once a customer has tried a City Sports product, they're hooked. We make a fantastic contemporary and high-quality product and I expect big things from City Sports private label going forward.

AND THE BASIC CITY SPORTS T-SHIRT HAS BECOME AN ICONIC ITEM? After the tragedy at the Boston Marathon we ran a "Show Your Boston Pride" contest. Believe it or not, we received over 250 different photos of people wearing the City Sports shirt from the U.S. and then we got another 100 from different countries around the world. We sell more than 125,000 tees every year and they all say City Sports. These were people who at least visited us. But locals from Russia, China, Japan, and Thailand - were all wearing the City Sports t-shirt. It's a point of differentiation but it's also a point of great pride. It's a big part of who we are and we're enormously proud of our brand.

HOW DO VENDOR BRANDS FIT INTO THE MIX? We're very honest with our vendors about City Sports' brands and we're also respectful of

the impact they have on our business. We work hard to be inclusive, honest and upfront. Where we can complement each other is usually a pretty good spot. We'd love to grow the City Sports line very aggressively, but if it comes at the expense of customers not coming in because they don't see a North Face product, we just wouldn't do that. We never want to lose that consumer, we have great vendors - The North Face, Nike, Under Armour, and Patagonia to name a few. We need to co-exist profitably.

WHEN CITY SPORTS WAS ACQUIRED IN 2008, HIGHLAND OFFICIALS SAW THE LONG-TERM POTENTIAL FOR 300 STORES OR MORE IN METROPOLITAN MARKETS. IS THAT STILL A GOAL? Whether the figure is 150 or 300, our focus is to double the size of this business in the next two to five years. We plan to grow five to six stores per year. In 2014, we'll grow five, maybe six stores and we've already signed leases for five. We have one set for Boston, two in New York City, plus our first store in Brooklyn, Long Island and Rockville, MD. They're all strong urban locations with the exception of the Manhasset, LI, store, which is quasi-suburban. Where it makes sense, City Sports would not be adverse to acquisition possibilities in addition to organic growth as a means to expand as well.

DO YOU HAVE A FIVE-YEAR PLAN? 2013 has been a year of transition and reflection while building on a talented management team to prepare us for a very aggressive path to 2014 and beyond. This management team has risen up for every challenge; our customers, vendor partners and investors are taking note of the improvement. Next year, 2014 is pivotal, with five new stores (and by the way we've never opened more than three stores in one year) will signal 20 percent plus growths, these stores will help to further highlight our brand. If we're successful opening five quickly, I'll be pushing the organization to open 10 the year after. We have to find a way to open stores faster, smoother and with less capital. 2013 has been a big win from that standpoint; we've learned how to open stores that used to take six weeks, to only 10 days! Every new store has performed well. I'm more bullish everyday that City Sports can grow to be a 50-to-65 plus store specialty retailer in the next five to six years. ■



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PATRICK COLLERAN

Owner
Denver Run House

The Denver Run House is a small, independently owned and operated specialty retail shop located in the trendy Highlands neighborhood of Denver, CO. Owner Patrick Colleran opened the shop in June, 2013 – his first foray into the sporting goods world – and the Denver Run House (DRH) is working to build a community running shop, focused on authenticity, customer service and selection.

WHAT WAS YOUR PROUDEST ATHLETIC ACHIEVEMENT GROWING UP? Once I got to high school I was all about running. My proudest high school moment was being selected to run in a big local event called the Howard Wood Relays. I was 18 and thought I was a tough guy but when my mom hugged me before the race I started to bawl because I was so nervous.

WHAT WAS YOUR FIRST JOB? I was a caddie at a country club... it was exactly like Caddyshack but without the Kenny Loggins overtures.

HOW DID YOU GET STARTED IN THE SPORTING GOODS BUSINESS? I had felt for years there was another opportunity for a running store in Denver proper. My good friend Adam Lindahl (owner of TC Running Company) and I talked off and on for several years about what it would take to get a new startup off the ground. I committed to the idea in April 2012 and it's been game on ever since. Before the store I was an analyst on municipal bond deals. It sounds boring on the surface but bonds are how cities, counties and states build schools, libraries, roads, etc. There's real value in that work.

WHAT SET THE STAGE FOR YOUR CAREER? My dad's mantra is "work before play" and I heard that countless times growing up. A running store is the perfect combination of work and play.

WHAT DO YOU LOVE ABOUT WORKING IN THE SPORTING GOODS INDUSTRY? I love the experience of running a business in an industry I love. Every day and every challenge is different. And it doesn't feel like work; it feels like this is what I'm supposed to be doing at this point in my life. Everything before has always felt like work.

WHAT ARE YOU TRYING TO CHANGE? There are good stores around here and they sell good products. What we offer are those same products but with a different experience. Our store is a remodeled bungalow-style house. It's warm and inviting and on a great street in west Denver. To me it's as much about meeting and interacting with people as it is about selling shoes and this is the perfect location for that.

WHAT'S YOUR HIGHEST PRIORITY THESE DAYS? Without a doubt, it's the store. We're new so it's a lot of work not only getting in all the products that we want but getting the word out and marketing effectively. I'm thinking constantly about what we can be doing better and how we can better serve our customers..

WHAT'S YOUR ADVICE TO SOMEONE LOOKING TO WORK IN THE SPORTING GOODS INDUSTRY? Embrace your passion and craft your career around that passion.



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