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NexCen Brands: On the way back

by Christa Hoyland * • 20 Apr 2010

NexCen Brands launched its multi-branded business model in 2006 with a smart strategy: Buy up and manage a variety of retail and quick-service restaurant brands. As with similar companies, the premise was that the variety of concepts would speed up development across the brands. It would also protect the company as sales inevitably fluctuate across the different segments.

In just 14 months, the company's buying spree resulted in nine brands, including five QSRs. Trouble came in April 2008 when then-chief financial officer Kenneth Hall found that the interest payment on the loan for Great American Cookies was so large the company suddenly faced insolvency.

The company posted a $38 million net loss in the third quarter of 2008. Then, it fell behind in reporting its quarterly earnings and was delisted by Nasdaq. Rather than give up, the company dug in with Hall now at the helm and dealt with the momentous challenges.

Almost two years later, the company narrowed its net loss to $0.5 million for the last quarter while reporting its fourth consecutive quarter of operating income. Hall is ready to declare that the company has gotten past what he calls "a little speed bump."

"I think we've proven operationally we're back on track," he said, noting that the company improved its operating income on an adjusted basis 175 percent over the prior year. "That's despite a very challenging year last year."

NexCen has been able to get to this point by restructuring its debt and revising its strategic plan. The company's new strategy focused first on reexamining its business model, leading to the decision to sell off its two licensed retail brands, Bill Blass and Waverly, to focus on its core competency, franchising.

It kept its two retail shoe brands and five QSRs: Great American Cookies, Maggie Moo's Ice Cream & Treatery, Marble Slab Treatery, Pretzel Time and Pretzelmaker. Focusing on multi-branded franchising is one of the main reasons NexCen has been able to right itself so quickly, Hall said.

"We're not relying on one brand, but we have seven different brands," he said.

That diversity is especially helpful in international franchising, where the company has focused since U.S. franchise lending has all but dried up. Country developers who sign master franchise agreements for one brand welcome the opportunity to develop additional NexCen concepts as well, Hall said.

So even as NexCen Brands focused on getting its business back on track, NexCen Franchise Management, which manages the brands, was focusing on growth. The company's brands entered 22 countries over the last two years, including the recent opening of a Great American Cookies in Kuwait.

Growing the brands domestically has been more challenging as franchise lending has all but dried up. So the company has begun to focus on non-traditional locations, a new initiative led by recently hired Tony Valles.

Another significant strategy shift involved taking a hard look at costs.

"Having grown as we did, we focused on looking to make sure we were spending the right money in the right places and not the inappropriate amount in places where we couldn't realize the value for those expenses," Hall said.

By tightening its belt, the company was able to pay down its debt by $60 million. NexCen will continue to make modest payments on the debt's principal over the next 15 months until the next material balloon payment is due in January 2011.

Finally, NexCen focused on improving its internal controls in order to return to its reporting schedule. By November 2009, the company was able to get back to reporting its quarterly earnings on a more timely basis, more proof the company is once again on the right course.

"I like to think the turnaround is complete given our four consecutive quarters of operating income and positive cash flow," Hall said. "As it relates to the legacy debt and how we address that, it's an immediate priority of ours for this year. And it's something that we hope to resolve in the coming months."

R.J. Hottovy, an equity analyst with Morningstar, Nexcen appears to have made a turnaround. but with so many brands in the highly competitive QSR segment it's too early to tell if the achievement will be lasting.

"Certainly it seems like they're headed in the right direction, but it's too early to tell longer term whether or not they'll be able to sustain their business."

QSR brands strategy

While NexCen Brands was focused on coming back from its financial crisis, its franchising arm, NexCen Franchise Management, targeted strengthening and growing the brands. Domestically, that meant launching a reimaging program for the QSR brands' stores, turning to non-traditional locations and continuing to focus on product innovation to keep drawing consumer attention.

For example, Great American Cookies re-imaging involves moving the cake decorating to the front of the store, a smart decision, according to Dave Stone, a partner with New England Consulting Group. Now, the cake decorating can be a theatre experience and showcase the brand's main product.
"Part of the value proposition is watching them make the cookies," Stone said. "It's fun, it's engaging, it's a visualization of what they're offering."

Reimaging its stores is an important strategy for the company's mall-based pretzel and cookie brands. Those concepts had a low capture rate of only 3 percent before the economic downturn, so when mall traffic dropped, bringing that rate up was absolutely essential, said Chris Dull, president of NexCen Franchise Management.

"You've got to provide top-notch service," Dull said. "You've got to reach out and grab your customers. They're there, that's a good thing, but you've got to go get them."

NexCen is providing its franchisees with a refresher course on service and local store marketing, focusing primarily on sampling and engaging with customers, especially the latter. The company has instituted a new Wow! Service Initiative that takes lessons from Chick-fil-A and its mall-based stores, where employees consistently greet, offer samples and invite in passersby.

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Dull said sampling and engaging is a common sense strategy, but one operators can let fall the wayside as they "get busy with the day-to-day" tasks of running their business.

Franchisee Edward Daly said he has been sampling and engaging with customers since he became a cobranded Pretzelmaker/Mrs. Fields operators 4 ½ years ago, before NexCen purchased the pretzel brands. The refresher training NexCen is offering is just another example of NexCen's focus on quality products, high brand standards and franchisee support.

The company's franchisee training program includes in-store training and a week-long management course, which Daly said was particularly helpful when he added a MaggieMoo's store to his portfolio last June. He also values the frequent contact and visits with NexCen's franchise business consultants.

"NexCen, I believe, is probably one of the best franchisors out there," he said. "They offer us a tremendous amount of support."

NexCen QSR brands:

Great American Cookies
Total stores: 302, including 292 domestic
Average footprint: 360-600 square feet, mostly in malls, also offers non-baking kiosks and exploring non-traditional locations
Menu: Gourmet cookies made in-store from fresh batter shipped from the company's batter facility. Individual cookies as well as cookie cakes. Innovations include the Double Doozie cookie sandwich.
Initiatives: Reimaging to create cake decorating theatre experience; co-branding with Pretzelmaker; non-traditional development.

MaggieMoo's Ice Cream & Treatery
Total stores: 156, including 152 domestic
Average footprint: 800-1200 square feet, mostly in lifestyle centers and now open to alternative venues
Menu: Gourmet ice cream turned on marble slab with variety of mix-ins plus ice cream cakes, cupcakes, sandwiches. Recent innovations include MaggieMia's Ice Cream Pizza, a twist on the traditional ice cream cake.
Initiatives: No plans to combine NexCen's two ice cream concepts, which have distinct brands, customer base and markets. Focus on expansion through non-traditional locations and some co-branding with pretzel or cookie brands in new locations only.

Marble Slab Creamery
Total stores: 354, including 271 domestic
Average footprint: 650-1500 square feet, mostly in lifestyle centers with limited opportunities for non-traditional

Menu: Upscale, premium ice cream made fresh in stores and turned on marble slab with variety of mix-ins for customization. Also features ice cream cakes, shakes and frozen drinks, and frozen yogurt.
Initiatives: Rebranding to focus on its chef-inspired gourmet product. Reimaging recently launched, with remodels to come based on franchisee renewals. Some co-branded locations with Freshens. Other Freshens partnerships include offering the chain's smoothies in NexCen QSRs.

Pretzelmaker/Pretzel Time
Total stores: 357, including 301 domestic
Average footprint: 360-600 square feet, mostly in malls, some non-baking kiosks and a new focus on non-traditional locations.
Menu: Gourmet pretzels, pretzel bites and pretzel dogs. New on the menu — mini pretzel dogs.
Initiatives: Rebranding and reimaging as part of the strategy to combine the two brands. The combined concept will make the brand the No. 2 pretzel chain behind leader Auntie Anne's and strengthen the brands' marketing budget. With a focus on non-traditional growth, Pretzelmaker aims to earn the No. 1 spot in the coming years.

Read also, NexCen Brands R&D head masters differentiation. Check out our video gallery for a series of videos from QSRweb.com's visit to NexCen Franchise Management's NexCen University and Innovation Center.

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