

ONE STEP AT A TIME

R.G. Barry's interim CEO Thomas Von Lehman has plan to make slipper company profitable

Published: Wednesday, April 28, 2004

BUSINESS 01C

By Mark Niquette

THE COLUMBUS DISPATCH

New leader

Thomas M. Von Lehman is the turnaround expert hired as interim president and chief executive at slipper manufacturer R.G. Barry Corp.:

PICKERINGTON -- Visitors to the product room at R.G. Barry's headquarters in years past saw a sea of slippers lining shelves from floor to ceiling. Terry-cloth slippers. Micro-fiber. Open-toed. Close-toed. Pink. Green. Aqua. Hundreds of different styles and colors. But today, many of those shelves are empty.

Interim President and Chief Executive Thomas M. Von Lehman points to the room to explain why the company recently has been in what one analyst called a "death spiral" -- and to show what must be done to return R.G. Barry to profitability. "Each year, they were chasing a new customer here, a new customer there, with new styles," Von Lehman said. "It just created a life of its own."

Essentially, R.G. Barry got into trouble when it tried to compensate for high costs by seeking increased sales with more styles and customers, he said. That caused it to spend more on development, distribution and other infrastructure -- leading to inventory control problems and a cash crisis that put R.G. Barry on the brink of bankruptcy this year.

To cut costs and stabilize the company, Von Lehman is slashing R.G. Barry's customer base from 800 to about 30 and reducing the number of slipper styles it offers by two-thirds to 170. He's also moving all manufacturing to Asia. The company, which thinks it has 40 percent of the U.S. slipper market, doesn't plan to eliminate brands and will continue to develop slippers. But it will make fewer variations to get to its core business.

The changes shouldn't be that noticeable to most consumers because the company is keeping its best-selling styles and top customers while eliminating poor-selling or low-volume styles for mom-and-pop customers, Von Lehman said. In fact, 13 customers account for 70 percent of sales and 80 percent of profits, he said.

Based on that simplified business plan, the company secured financing for the next three years with the goal of becoming profitable again by 2005. "You don't shrink your way to

success, but I think this company had to go through a transition," said Von Lehman, a company turnaround specialist who came to R.G. Barry in January and replaced longtime Chief Executive Gordon Zacks in March. Still, if Von Lehman succeeds, it will be another example of an established U.S. company ending manufacturing to pursue cheaper labor overseas.

R.G. Barry, which at one time employed 3,400 central Ohioians making and selling slippers, will become a company of 200 workers who design, import, market and distribute them. Will it work? Analysts mostly praised the changes Von Lehman is making but say it's too soon to tell whether they will be enough. R.G. Barry's auditors have raised doubts about the company's ability to survive.

One analyst who didn't want to be identified put the odds only at "better than 50-50," but others were more optimistic. "They'll definitely make it," said Craig Sirois, who follows R.G. Barry for the stock-research firm Value Line.

The company's stock, which fell from a one-year high of \$6.39 a share to a low of \$1.43 on Feb. 4 in the middle of its cash crisis, has fluctuated recently between \$2 and \$3. It closed yesterday at \$2.48, up 3 cents. Doug Ruth, a broker for Illinois-based Lenox Financial Services, said he thinks the company's Terrasoles -- a slipper that can be worn indoors and out -- has potential to be a huge hit and "ultimately save the company."

After decades of steady growth since its founding in Columbus in 1947, R.G. Barry's fortunes changed quickly. The company had its best year of profits in 1997 and its second-best year in 1998, then lost \$14.6 million in 1999. R.G. Barry launched a three-year turnaround plan in 1999 but lost \$11.9 million in 2002 and \$21.7 million last year in the face of increasing global competition and retail consolidation. Also, U.S. slipper sales declined from 106 million pairs in 2000 to 90 million in 2002, according to the American Apparel and Footwear Association.

The company tried to deal with its cost problem by moving manufacturing first to the south and then to Mexico, but it was several years behind the curve, Von Lehman said. By the time all manufacturing was moved to Mexico last year, it already was cheaper to make slippers in China, he said.

Moving all production overseas will allow R.G. Barry to focus on what it does best: selling slippers with brand appeal and working with customers to help them manage their inventories, Von Lehman said. "We think 2004 is going to be a rough-and-tumble year," he said. "But once we get through 2004, it will be less of a challenge. Then it's a matter of just doing the business we know."

Von Lehman expects to remain as interim chief executive or as a consultant through next April but thinks his restructuring work will mostly be done by the end of 2004. He said one thing that's not changing is the company's Pickerington headquarters, which employs 77 and could gain up to 20 workers this year when an office in Texas closes.

"It's hard for me to imagine a compelling reason to not continue to have the headquarters here," Von Lehman said. "Every resource you need to operate this company is right here."

* **Age:** 54

* **Hometown:** Fort Mitchell, Ky.

* **Education:** Thomas More College; doctorate in chemistry, University of Cincinnati

* **Experience:** senior project director from 2001 to March 10 of the Meridian Group, a company-turnaround consulting firm founded by his wife; formerly worked as a vice president and in other positions at PPG Industries in Pittsburgh, a coatings, glass and chemicals producer

About R.G. Barry:

* **Based:** Pickerington

* **Founded:** 1947

* **Major brands:** *Dearfoams*, EZFeet, Terrasoles, Angel Treads. Also licenses products under Liz Claiborne and NASCAR brands

* **Where sold:** Major retailers; Wal-Mart, JCPenney and Kohl's accounted for 46 percent of sales during 2003.

* **Sales:** \$123.1 million in 2003

Source: R.G. Barry

mnikette@dispatch.com