Boardroom Catalyst: Director Dave Kollat Zigs When Others Zag

Kollat's retail radar spurs improved returns at Big Lots and Wolverine Worldwide

By Caren Chesler

David T. Kollat was in law school for two weeks before realizing it wasn't for him. It's not that the subject matter bored him, nor that the girl back home in Elkhart, Ind., had just broken his heart. It was that he knew that the world already had far too many lawyers. Marketing was another story. There were only 46 people in the U.S. with master's degrees in marketing. The numbers were even lower for Ph.Ds.

"I thought, 'If I can't make it given those odds...,'" Kollat says with a smile.

It was classic Kollat. He zigs where others zag. He went into retail when most other business school graduates from the Midwest went into manufacturing. He invested in a specialty electronics firm that targeted people wanting expensive home entertainment systems rather than a firm that would try to take on Best Buy or Circuit City. He summers in Aspen.

Kollat's willingness to take the road less traveled has served him, and shareholders, well. It allowed him to parlay a research job in the retail industry into a 25-plus-year executive

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position at The Limited. And it has allowed shareholders at The Limited, Wolverine World Wide, Select Comfort and Big Lots to share in the retail savvy he brings to the boardroom as an Outstanding Director.

Case in point: Kollat has been a boardroom leader in the turnaround at Big Lots. The Columbus, Ohio-based, closeout retailer sells discontinued goods — goods that manufacturers have discontinued because they've either changed the packaging or wanted to get rid of excess. In the late 1990s, Big Lots began to lose market share to the then rapidly expanding dollar and discount store industry. It also made a disastrous foray into the toy business with the purchase of K.B. Toys. The stock, which traded as high as $50 in 1998, had dropped to around $7 by 2001.

In 2000, the board replaced chairman and CEO William Kelley with CFO Michael Potter. Big Lots shed K.B. Toys and in 2002 embarked on a nationwide overhaul, updating its existing stores and opening 65 new ones. Initially, the plan worked. The stock was up 64% that year at a time when the S&P 500 was down 18%. But as sales failed to materialize as predicted, operating expenses as a percent of sales increased significantly and net profit margins deteriorated.

By 2004, profits were down about 70% from the prior fiscal year. To Kollat it was clear why. Potter's reorganization plan focused on revenue growth rather than on cost cutting. In addition, management had gotten distracted buying junk — flats of seconds, etc. — rather than trying to find unique or quality closeout inventory. As a result, the company found itself with low sales per store, operating expenses at an unacceptably high level and too much unproductive inventory. The situation called for a CEO with strong merchandising skills who could address the deficit in sales per store and had experience in fixing troubled businesses with operating expense problems.

"Customers would treat a trip to Big Lots like a treasure hunt. They'd go in regularly to see what was new. But as the inventory got to be less interesting, fewer people came in," says Brenda J. Lauderback, a former president of the wholesale division of Nine West Group and a fellow member of the Big Lots board. "David recognized this and pushed for new management."

Kollat led the three-member search committee to find a new CEO. The board hired a recruiting firm and gave it a list of target companies and people. For six months, Kollat dedicated several hours each Friday to talking to the recruiting firm until he had vetted about 200 candidates. Together the search committee narrowed the field down to three.

Kollat said the company faced a challenge, though. There were not a lot of retailing executives who wanted to work in closeout retailing — or to live in Columbus, Ohio. "It wasn't like going to work for Armani," says Kollat, grinning. The committee brought the candidates out to Columbus to essentially sell them on the company. In the meantime, it had taken the

DIRECTOR'S SNAPSHOT

Born: July 7, 1938; Elkhart, Ind.

Education: BA and MBA in marketing, Western Michigan University; PhD in Business Administration, Indiana University

Career Highlights: Founder and president of retail consultancy 22 Inc.; executive vice president, The Limited Inc., in charge of marketing and strategic planning, and president of the company's Victoria's Secret Mail Order

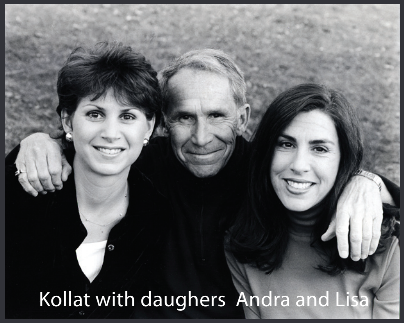
Hometown: Columbus, Ohio and South Beach/Miami, Fla.

Family: Children: Lisa (Adrion), 41, and Andra (Gillum), 37

Most Memorable Summer Job: Painting a chain link fence in Elkhart

Most Recent Movie Seen: *A Good Woman*

Favorite Composer: Quincy Jones


Kollat with daughters Andra and Lisa

Favorite Charity: Columbus Children's Hospital; Ohio State University; Indiana University

Something Most People Would be Surprised to Know About Me: "I'm still in love with my college sweetheart."

Won't Leave Home Without: "A sense of humor."

Most Recent Vacation: Aspen, Col.

Current Public Company Boards: Limited Brands, Wolverine Worldwide, Big Lots, Select Comfort unusual step of interviewing Big Lots' senior managers for two hours each and asking them a battery of questions about the company as a whole, their department in particular and the industry at large.

With a firm grasp of the situation, the committee homed in on candidate Steven S. Fishman. It liked his diverse retail background — from Federated Department Stores Inc. to Frank's Nursery & Crafts Inc. — and the fact that he had experience merchandizing products. Additionally, his last two assignments had been for a workout group at Citibank, where he worked two retailers through bankruptcy. That meant he knew how to manage cash.

The results are reflected in the company's stock price, which has risen from $7 in 2001 to nearly $35 today. "We acquired a new management force and he is really good and he's brought us to a new level. And David was instrumental in finding this CEO and hiring him," confirms Dennis P. Tishkoff, CEO of the Drew Shoe Corp. and a member of Big Lots' board.

But it's not all about numbers. Colleagues say Kollat is one of the few board members who raises issues like brand image and product design. One need only look at him to see he has a sense of style. At a recent interview, he answered the door in his South Beach, Fla., apartment wearing Lucky Brand jeans, a creamy black t-shirt and Armani shoes.

"David, with his fashion background, is a breath of fresh air in a midwestern boardroom," says Jean-Michel Valette, an independent advisor to consumer companies and a fellow director on Select Comfort's board. Valette notes that it is easy to point to the high-profile director who has fixed a problem. But one doesn't always recognize the person who had the foresight to avoid a big problem in the first place. Kollat is that kind of person. "The real achievement and value isn't the heroic rescue from the precipice. It was seeing and avoiding the precipice in the first place," sums up Valette.

Today Kollat is putting this quality to work at Wolverine Worldwide, where he serves as lead director. Returns at the Rockford, Mich.-based shoe company are good. The company reported record revenue and earnings per share for fiscal 2006, marking its sixth consecutive year of record results. The stock rose from $20.26 to $31.08 over the last year. But Kollat believes the company should be doing better.

While return on assets has risen from about 6% to 12% over the last seven or eight years, he believes it should be 20%, which is what leaders in the industry achieve. And that's a difficult situation to address. Management can be more easily motivated when the company is doing badly. "If you're losing money, you don't have to take attendance at a meeting to decide how we will make more money. It's another thing to get them to change when things aren't that bad," Kollat explains.

He points out that the increase in earnings has been driven primarily by an increase in the rate of profitability, not by an increase in the rate of sales growth. This situation isn't going to last forever. The rate of improvement of the profit margin is likely to slow, so if the company wants to continue to increase earnings, it must improve the rate of sales growth.

The question, Kollat asks, is how hard do you push? Some say that retail businesses like the shoe industry grow only at the rate of increase of the population, but Kollat thinks that's too slow. "That's textbook stuff," he says. "We grow slow because the market grows slow? Well, then what are we getting paid for? To figure out ways to grow faster! It's impossible, from my perspective, to be a director and say, 'OK, our goal is to be average. Everybody pitch in, and by God, we're going to be average.' What are they paying me for?"

Fellow Wolverine board member Michael Volkema says Kollat may have strong opinions, but he doesn't impose them on the rest of the board. "We've all met the loud directors and the ones with the quiet voices who never seem to get heard. Dave has an interesting way of being heard and of ensuring others are heard at the same time," says Volkema, who also serves as chairman of Herman Miller, Inc. He says Kollat has a way of facilitating discussions so that even those who had preconceived notions before the meeting walk away from it feeling content, whether it went their way or not.

"You're really comfortable that the process was reasonable," Volkema says. "Peter Drucker once said that the thing that all great leaders have in common is that they have followers. There's a clear consensus that Dave is someone we could follow." ■

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Dennis P. Tishkoff, fellow Big Lots director

David Kollat will speak about "CEO Succession: How and When to Fire Your CEO" at **ODX New York** on June 14, 2007. Please call Ajay Bhambri at (212) 542.1229 to attend.