

Exit Two Ways: Building #19 and Ollie's Bargain Outlet

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Building #19

Whether it works or not, my plan is that my son will take over, continue the business. I will keep on working for probably less and less – I want to give him as much room as I can. I'd like to leave my son with as solid a business as he possibly can have. I just don't think the timing is right – the business is not strong enough. I have to do something about that first, before I hand it over. Maybe that means closing some of the stores, maybe contracting somehow, retiring debt...something.ⁱ

Jerry Ellis, co-founder of Building #19, a salvage and overstock retail chain located in New England, established in 1964 out of the necessity to feed his family after declaring personal bankruptcy, was talking about the next stage of his business, 40 years later. His iconoclastic approach to merchandising had netted him, over the years, 15 stores in Massachusetts, New Hampshire, and Rhode Island (see Appendix A), and a large, loyal group of customers who were committed to Ellis' brand of "shoppertainment."

His trademark, "Good Stuff Cheap," and his wacky cartoon advertisements invited people to come in and poke around – see what they might discover in the organized chaos of his stores.

Operational Model

Although he presented his business as a down-home, folksy kind of place, Ellis was an extraordinarily savvy entrepreneur, marketer, and leader, as well as highly protective of his closely held business. Building #19 was Jerry Ellis through and through. This close association of one individual with the business itself might have served as a warning. As Ellis said,

Yeah, that is the real disadvantage. A long time ago, one of the big guys wanted to buy the company, but one of the drawbacks he found was that it was a one-man business at that time.ⁱⁱ

In order to shield the business and its assets, Ellis designed an ownership plan that carefully balanced his estate planning among his three children. His son, Bill, had already become the president of Building #19 and therefore already owned a big piece of the business. He would inherit most of the rest, with about 10 percent going to long-term employees. The siblings owned the real estate, some leasing companies, and some licensed departments. "Bill, for example, held a separate license to sell Oriental rugs in the Building 19 stores, and other family members held similar licenses to sell specific types of good. Since they were licensed ventures, the assets associated with them were shielded from bankruptcy creditors."ⁱⁱⁱ

Opportunities, Challenges, and Outcomes

The salvage business was based primarily on disasters, storms, and accidents. This meant that the more hurricanes, fires, railroad/shipping accidents and similar dark events, the better Building #19's sales. But, nonetheless, over time the business began to falter. As Ellis said,

Opportunities have dwindled – there were four large hurricanes in Florida in 2004 and very little salvage was received. The retail environment has changed – the big guys, the Walmarts, the Home Depots, the other bigger, stronger, and smarter retailers have replaced our old competitors. These large retail chains have insurance requirements for salvage, and we have been excluded from bidding on their merchandise. Everyone has better constructed and safer warehouses. There are just not that many fires, and when there are fires, better firefighting equipment and processes reduce the availability of salvage.^{iv}

Ellis did have the opportunity to sell his business to the “big guys,” but never acted on it. According to Mat Brown, his long-term illustrator, artist, and cartoonist, with irony:

In today's world, if you don't grow, you wither and die. Jerry used to deal with Sam Walton 40 years ago, and Jerry decided to keep his own business small. The Walton guy – I don't know whatever happened to him.^v

Building #19 seemed destined to remain a family-owned business. According to Bill, “...it's work, it's hard work...it's good work. It isn't what I want to do, but I can't do what I want to do.”^{vi} However, “Bill's loyalty to the business and his love for his father kept him from acknowledging problems, and Jerry's passion for his business and love for his son kept him from letting go.”^{vii}

In November, 2013, Building #19 filed for bankruptcy protection. At the time, its inventory was valued at \$2.25 million and secured insider claims were more than \$9 million, plus \$5 million in unsecured debt.^{viii}

In explaining the filing, Ellis said,

I was like an Underwood typewriter in a world of computers. We woke up one day and the world had just outgrown us.^{ix}

Ollie's Bargain Outlet

I had an idea that I could grow this company. The private equity firm believed I could as well.^x

Mark Butler, the youngest of the four founders of Ollie's Bargain Outlet and current Chairman, President, and CEO, waxed bullish on the long-term potential of the company he took public in 2015 after the death of his three original partners.

The Beginning

In 1982, Mort Bernstein, a recently bankrupt owner of a lumber company, took a trip to Massachusetts and met Jerry Ellis. He was intrigued by the retail premise of Building #19 and its slogan, “Good Stuff Cheap.” “Bernstein swung a deal with the company to bring both its business model and its catchy phrase to the Harrisburg area.”^{xi} Bernstein’s partner, Oliver Rosenberg (“Ollie”) signed the note needed to launch the business in Pennsylvania, along with co-partners Harry Coverman and Mark Butler, then an inexperienced employee of the failed lumber company, and they were in business. They adopted Ollie’s name as the one for the business, as they decided “it was the funniest.” Rosenberg’s name, along with his and Coverman’s funding, were their major contributions, while Bernstein was in charge of operations and trained Butler in the business.

For twenty years they remained a regional chain with a few dozen stores, very similar in scope and style to their forebear in New England.

Change in the Air

While in New England Ellis was bemoaning the limitations of his retail model, brick and mortar style, competition from e-business, and access to inventory, the sleepy Pennsylvania firm began to expand. Rosenberg had died unexpectedly in 1996, then Coverman, and finally Bernstein. Butler bought out the estate each time and, following the advice of a private equity firm, took full control in 2003, and the growth began.

In 2003, Ollie’s had 26 stores and about \$80 million in annual sales. Over the following dozen years, Ollie’s opened more than 150 stores in 13 states across the Eastern seaboard.^{xii} Net sales were approximately \$638 million, and it employed 4500 people in its stores and two distribution centers.^{xiii}

Opportunities and Outcomes

After Building #19’s bankruptcy filing, Butler acquired the slogan, “Good Stuff Cheap,” and in July, 2015, Ollie’s went public. Its shares opened at \$16 and four years later were selling at \$95.64. By 2018, the company had 249 stores in 20 states from Rhode Island to Florida, west to Mississippi, and northwest to Indiana, with annual sales of over \$1 billion. They projected opening about 15 new stores a year with the potential to operate at many as 950 stores from coast to coast.^{xiv} In May 2019, Ollie’s had opened a total of 319 stores and its stock closed over \$99/share.

In an interview with *Mad Money*^{xv}, Butler emphasized the value of shopping in Ollie’s as an experience that was very different from online purchasing. He claimed the bargains simply cannot be duplicated electronically, and his store sales and stock price seemed to verify that claim. (See Appendix 2)

Butler refused to believe that brick and mortar was dead as a style of commerce. His equity firm suggested that a realistic growth goal was 950 stores nationwide and, as of spring 2019, Ollie's was about one third of the way there.^{xvi} His most recent major inventory acquisition included buying and leasing 18 former Toys R Us locations and their inventory of toys.

Ollie's success? Butler claimed,

With our growing size and scale, we're gaining better access to deals expanding our vendor base and building stronger direct relationships with major manufacturers.^{xvii} We have what America wants. America loves bargains.^{xviii}

Appendix 1

Timeline

Building #19	Ollie's Bargain Outlet	
1964		Building #19 launched by Jerry Ellis (Gerald Elovitz) with his partner, Harry Andler (Hingham, MA)
1970		Building #19 ½ launched (Woburn, MA)
1973		Building #19 moved to Burlington, MA
1974-2005		Building #19 ¾ (Norwood, MA), 19 7/8 launched (Lynn, MA), 1/5 launched (Natick, MA), 1/6 launched (Haverhill, MA), 1/7 launched (New Bedford, MA), 1/8 launched (Manchester, NH), 1/9 launched (Pawtucket, RI), 1/10 launched (Worcester, MA), 1/11 launched (Weymouth, MA), 1/12 launched in Swansea, MA, 1/14 launched (Warwick, RI), 1/15 launched (Nashua, NH), 1/16 launched (Hanover, MA), 1/17 launched (Somerville, MA), 1/18 (Cumberland, RI), 3/5 (Cranston, RI), 1/20 launched (Manchester, NH).
1978		Death of Harry Andler
	1982	Agreement between Jerry Ellis and Mort Bernstein for use of name and slogan. Ollie's Bargain Outlet launched by Bernstein, Oliver Rosenberg, Harry Coverman, and Mark Butler (Mechanicsburg, PA)
	1996	Death of Ollie Rosenberg
	2003	Mark Butler became CEO of Ollie's and bought out the remaining partner shares.
	2004	Ollie's Bargain Outlets numbered approx. 30
	2011	Ollie's opened its 100 th store (Barboursville, W. VA)
2013		Building #19 filed for Chapter 11 bankruptcy
	2014	Ollie's opened its 155 th store (Atlanta, GA)
	2015	Ollie's let IPO at \$16
	2016	Ollie's opened its 230 th store (Woonsocket, RI) and 249 th store (Jacksonville, FL)
	2017	Ollie's attained sales >\$1B; stores in 20 states
	2019 (May)	Ollie's opened its 319 th store, stock closed at \$99.34

Appendix 2

Ollie's Bargain Outlet Stock Price from 2017 to 2019^{xix}



ⁱ Vega, G. (2007) Business succession at Building #19: Overall, it's better to be the father than the son, *Entrepreneurship Theory & Practice*, Vol 31:3 (473-485).

ⁱⁱ Vega, G. (2000). Good stuff cheap, *New England Journal of Entrepreneurship*, Vol 3:1. (5-8).

ⁱⁱⁱ Herman, C. M. (Jan 25, 2014). Building 19 reinvents itself as Marka rug store, *The Boston Globe Business section*.

^{iv} Vega, G. (2007) *op cit*.

^v Thompson, R. (Nov 13, 2013). Scituate cartoonist Mat Brown reflects on his career with Building #19, *WickdLocal.com*.

^{vi} Vega, G. (2007) *Op cit*, p. 483.

^{vii} Vega, G. (2007) *Ibid*. p. 485.

^{viii} Chesto, J. (Nov 3, 2013). Building #19 files for bankruptcy to start liquidation sales, *Boston Business Journal*.

^{ix} Herman, C. (Nov 12, 2013). Building #19 owner looks back, ahead, *The Boston Globe Business section*

^x Luciew, J. (Aug 1, 2017). Ollie's Bargain Outlet is booming: \$1 billion in sales, no looking back, *pennlive.com*.

^{xi} *Ibid*.

^{xii} Malawskey, N. (July 16, 2015). Ollie's Bargain Outlet goes public, *pennlive.com*.

^{xiii} Malawskey, N. (June 16, 2015). You could own part of Ollie's Bargain Outlet: Retailer moves toward IPO, *pennlive.com*.

^{xiv} Luciew, J. (August 1, 2017). *Op cit*.

^{xv} Clifford, T. (Apr 10, 2019) *op cit*.

^{xvi} Clifford, T. (Apr 10, 2019). Ollie's Bargain Outlet CEO: We'll open 950 stores – 'Brick and mortar isn't dead,'" CNBC interview on *Mad Money*.

^{xvii} Luciew, J. (August 2, 2017). Ollie's Bargain Outlet: Thriving amid the retail wreck in the age of Amazon, *pennlive.com*

^{xviii} *Ibid*.

^{xix} BOOX Research (May 16, 2019). Sell Ollie's Bargain Outlet: Not A \$100 Stock, *Seeking Alpha*.