

TRADEMARK 

THOUGHT LEADERSHIP SERIES



“Thinking Outside the Box” with Kip Tindell
Chairman and CEO of The Container Store.

By Terry Montesi, CEO of Trademark Property Co.

Terry: I’m here with Kip Tindell, Chairman and CEO of The Container Store. Thank you very much for agreeing to visit with us.

Kip: Glad to be here.

Terry: I thought I’d start by you giving us the elevator pitch on The Container Store, what it is today, and what it is you all do.

Kip: Well, what we really do is give our customers the promise of an organized life, and I think that’s really a substantial benefit to everybody. Somehow, when we started the business in 1978, we had some inkling that people would be short of time and space, but we had no idea that people would be as multitasking and short of time as we all are today. I think that’s been a great tailwind to our business, a little bit like, you know, conscious eating has been a tailwind to the Whole Foods business.

But if you’re getting two kids ready in the morning to go to school; they’re disorganized, and you’re disorganized, it’s a mess, it’s not fun. But if everybody’s organized, it can be fun. When you have enough time, maybe the sandwiches are cut in a heart shape, you know? Everybody’s on time, everybody’s happy. It’s a beautiful morning rather than a terrible morning. So, if you’re reasonably well organized, you have a much better chance of accomplishing everything you want to get accomplished in life.

And then we do that in a very conscious capitalist way, in accordance with the foundation principles that our company’s built upon, that are identical, really, to the tenants of Conscious Capitalism. We’re big advocates of that. I think it leads to engagement on the part of employees. People join the business and they never leave. We have 10% turnover in an industry that has over 100%. The vendor relationships between The Container Store and our vendors is one of my favorite things. We’re really creating a decades-long, synergistic relationships with the community; really all the stakeholders. When you have that type of activity at every level with the employee, the vendor, the community; the shareholder’s going to do great too. So it’s more fun, but I think it’s also more profitable. As people get to understand Conscious Capitalism, they understand that it’s fun and it does great things for the

world. But if all you want to do is make as much money as humanly possible as quickly as possible, I would submit to you that Conscious Capitalism is the most effective way to get there.

Terry: Well, what's fun is I asked you about an update on your business, and instead of doing what most people do, which is to say here's how many stores we have, and here's what our sales are, you talked about the psychic part of your business and the soul of your business. And that's one of the things that I really identify with.

I know people will be interested in the more mundane stuff, so, how many stores today, revenues? It's fun for you to get to share your historic revenue growth.

Kip: We still only have 70 stores. We started with one in 1978, but you know, we never counted growth by quantity of store locations. We have still grown since inception, and a compound and annual growth rate of a little over 23%. Which everybody tells me that there's nobody else, no other retailer that's grown more than 20% a year for more than twenty years.

Terry: Nor any other sort of business. That's a great stat.

Kip: It's a complicated business. We sell solutions rather than items. But, people count the stores and think that we expand slowly, and I'm like, actually we expand more rapidly than most, if not all. That allows you to remain who you are. I think the business just keeps getting better, I think the culture keeps getting better. Each time we open a new store, I think we hire the best staff we've ever had, and the culture is as strong there as it is at the home office, or with the existing stores. I want to open as many stores as we can, and we're growing at about 12% square footage growth right now, and that's very fast. Right now in retail, because the real estate retail community is not really developing as much now as they have historically, we would like for that to accelerate.

Terry: So would we.

Kip: And when it does accelerate, we'll maybe take that 12% to 15 or 16%, but 12% seems about right, now. And that's easy if you stop and think about it. You have a finite set of human resources, but also financial resources. So, if there's more real-estate development, we can get more turnkey deals from our developers and open more stores on the same finite supply of capex dollars.

So, we're not just making a copy of ourselves when we open a store; we're reinventing ourselves every time we open a new store. We have key people from other locations there to learn from that and to take those changes back, and it's a big celebration when we open a store. I think about giant retailers who open three a day and don't get to do that. We have a party with the best caterer, and the best band, and the best everything in town comes together.

Terry: I've been there.

Kip: Two or three thousand people dancing, and it's a big celebration.

Terry: So what are your annual revenues today?

Kip: You know, we're still under a billion dollars. We're still in the \$700 million [range]. It's like, when are we going to get to a billion dollars? But we're getting there, and marching quickly to it.

Terry: Next, you've already mentioned Conscious Capitalism, that's actually how Kip and I met, through Conscious Capitalism, at their CEO summit. I'm familiar, but if you'd help our audience become more familiar with Conscious Capitalism, and how you got involved - that'd be great.

Kip: Well, I'm very passionate about Conscious Capitalism. I really think it's the best way to operate a business and it's the most profitable way to operate a business. It's certainly the way to operate a business that does the world and all of the stakeholders the most good. Raj Sisodia, who co-wrote the book with John Mackey, the Whole Foods guy, the book is Conscious Capitalism. Raj did a study, he looked at all of the largest conscious capitalist companies that were publicly traded – Southwest Airlines is a great example. Herb Kelleher is always espoused these theories. Herb told me like 35 years ago that you can build a better business on love than you can fear, and I went, "Who is this guy?"

Terry: That was kind of weird at the time.

Kip: Nobody was talking that way 35 years ago. And then Jim Sinegal at Costco, another great example of it. He pays his people about double what his nearest competitor does, and on a store by store basis, they do better.

Terry: Way more business.

Kip: Raj looked at all of the publically traded companies, and he looked at their returns over the last 15 years, and what he discovered is that conscious capitalist companies outperformed the S&P indexed 14 to 1. I mean, that's stunning; it's not 20 or 40% more, it's 1400% better.

Terry: That's incredible.

Kip: It's not just altruism, you really are doing better for your business while you're doing better for the stakeholders, and while you're doing better for the world.

Terry: Conscious Capitalism. How did you get involved? Who founded it, and what is it? What is its purpose?

Kip: It's as easy as saying that business is not a zero sum game. Someone else doesn't have to lose an arm for you to win. I think it's easier to be successful if everybody is trying to assist you, rather than trying to get back at you. You have employees, and customers, and the communities, and particularly the vendors, really trying to create win-win situations with you. You get huge employee morale, huge employee productivity. Maybe the most fun thing in

business is to creatively craft a mutually beneficial relationship with that vendor, and create a product that's exclusive to The Container Store, that's better than any other shoebox out there, and is hugely economically valuable to the manufacturer and to The Container Store.

Terry: And to your customer.

Kip: Oh, it's the best shoebox in the world! And it's completely clear, and it's unbreakable, and it stacks better than anything else. So, really all of the stakeholders, as executives, or management; we're trying to elevate all of the stakeholders: Community, vendors, employees, and shareholders. Milton Friedman famously said that the only reason that corporations exist is to maximize shareholder return. And we're like, Milton, I know you won a Nobel Prize and everything, but we believe if you really and truly take better care of the employee more than anybody else, and I mean really take better care of her more than anybody else, then she's going to take better care of the customer than anybody else. And, if those two people are ecstatic; your shareholder's going to be ecstatic. But if you just myopically focus on the shareholder, as so many people are taught to do in business school then the magic is rarely there. And you know, if employees aren't happy, the customers aren't happy, and the shareholders aren't happy either.

So the important thing to understand about Conscious Capitalism is that it works. John Mackey and I truly believe that we can quit talking about it in about ten years, because most capitalists are going to adopt that methodology which is most successful, right? And this works better. It's also different from socially aware companies. We don't just operate a certain way, and then give five or ten percent of the proceeds to great causes. Conscious Capitalism really believes that it is acting for the betterment of all the stakeholders that causes the company to do better and make more money as such.

Terry: Yeah, it's actually a business model. When I first got involved, I thought; what is this? And as I got further into it, you discover it's really a business model, it's not just some fluffy way of thinking. And you and I have both seen a lot of very successful businesses adopt that model.

Well, congratulations, by the way, on being named the Chairman of the National Retail Federation. That's a big honor. So, given that, help us understand what you think that the challenges are in the retail business that you and the National Retail Federation are working on today.

Terry: So, last year, you agitated a little, and you were quoted as saying that American retail is in a funk. I was wondering if you could elaborate on that. Do you think we're still in a retail funk today? And if so, what are the causes of that, and what's going to get us out of that retail funk?

Kip: Well, a consistent, better than 4% GDP would be nice. I think the economy is getting better. It's also getting a little bit more even handed. Gas prices are helping certain retailers

more than others, but that's helping everybody. Not everybody, but most people. The economy is clearly improving.

I think what retailers have to do is that – most retailers are experiencing slight traffic declines, rather than slight traffic increases. That's also true for industries besides retail. Fewer season ticket holders are going to games. The local swimming pool has slightly fewer people swimming. The state parks have slightly fewer attendance.

Terry: Why is that?

Kip: It's just, we have such a super abundance of opportunity and information at our fingertips today, that everything gets spread out more; that's why we have less time. And the wonders of technology, I think, have led to, we all are doing more, but we're able to do our favorite things a little less often than we used to. So that leaves average ticket to the retailers to focus on. Try to get that traffic to where it needs to be, where you want it to be. I don't have statistics on this, but most people I know believe that the vast majority of retailers are having slight traffic declines. Maybe the world is changing, maybe we will for the next decade or more. So, The Container Store has these wonderful, well paid, well trained people. We focus on our average ticket to offset that, and create wonderful new products where the average ticket can be that much higher. We're pleased with our average ticket, but we're creating closet systems now that are even higher-end and even more wonderful than before, and that'll raise that average ticket a lot.

And then, you know, you're also turning over every stone to make sure the traffic is as high as it can be. I believe the best retailers will still have overall traffic increases, and so you have to be doing something in your brick-and-mortar stores to bring them in. We sell solutions rather than items, and I think that's very important. It's harder to sell a solution over the internet than it is with a live, wonderful, smiling, knowledgeable sales person. So you spend 45 minutes solving that toy storage problem you have at home, and you walk out with 12 unrelated items. And that really does solve that. And then we get what we hope is the customer dance; that she does a little dance every time she goes into the toy storage area, because that solution has done so well. That brings you traffic, that brings her back.

Terry: Great. Help give our audience a glimpse into your future. What's some of the changes if you look five or ten years down the line; or three years down the line? You mentioned y'all are working on some big initiatives in your talk this morning - help give us a glimpse into the future.

Kip: Well, we're anxious to continue on our new store expansion growth. We're at 12% now. I believe that we're able, and I would like to take that number higher. Kind of waiting on the retail real estate community to do a little bit more development, but 12% is faster than the overwhelming majority of retailers are doing today. We keep trying to perfect this concept of store-devoted storage and organization. It saves our consumers time. I really believe that closets are going to be a bigger and bigger thing in the coming years and decades. A little bit

like kitchen and bath were in the seventies and eighties. People really want fabulous closets and more of them.

Terry: And you just moved into that business.

Kip: Yeah, well, our best selling product's always have been Elfa, which is, we believe by far the world's best closet organizing system, and we liked the product Elfa so much that we actually bought the company in 1999. And so, since then we've been saying you want to buy Elfa because we own the factory, and it is the best product available. But some people want a more solid, built-in closet

Terry: Custom closet sort of solution?

Kip: Yeah, well, Elfa's custom, but more wood, or wood-like, or solid, not the open wire. Particularly, I think some of the little bit older customer, and in some cases, the more affluent customer prefers that, and they buy both. But she tends to put that in her master bedroom closet, and she puts Elfa in her guestroom closet or in the kids' closet. So, one of our mottos today is 'Closet Domination'. I mean, we're really giving her what she wants; if she wants the solid look, we've got that. We looked at every manufacturer of closets - solid type closets in the world - and we chose the person that we thought was the best at that, and we partnered with them as the manufacturer. And then we redesigned that product to be the best of that type of product, and we're so excited about it we can hardly stand it. We're just in the very preliminary stages of introducing it. The average ticket is sky high, so that does great things. It's totally custom, it's manufactured to order, and then we install it. Most of the people doing that have 20 year old technology; 20 year old designs. This is all fresh; wonderful. I'm lucky in that I get to work with my wife, Sharon Tindell, who is our Chief Merchandising Officer. And she's totally redesigned it to put everything that we know about closets and closet organization into this, and as such, we've called it TCS Closets. So we have Elfa Closets, we have TCS Closets, and it comes in a lot of different variations, and a lot of different finishes, but it's just beautiful.

Terry: And I've seen it - it is. I understand it's been rolled out here mainly in the Dallas Fort Worth area?

Kip: Testing it in Dallas. It's like golf; it's completely custom installed, and so the first few rounds you're not very good and the second year, you're better than the first year.

Terry: Sure.

Kip: But it's going great, and our customers are thrilled with it so far. We're also doing at-home, or, you know, we're going to your home and doing whatever you want us to do in terms of rotating your closet, measuring. Contained Home is the name of that program. People have been asking us to come to their homes and do it rather than do it in stores. For certain people, for certain projects, for 20 years and we're finally doing that.

I think somebody said it's good to listen to what your customers are asking for, and we thought we were listening to our customer better than anybody else, but there's two big examples of things we weren't doing. We didn't think we were going to do the thing at home, and we thought that Elfa didn't leave room for any other type of closet. And then we finally came out with a loyalty program too; we call it POP, Perfectly Organized Perks. And what we've found is that what people want from The Container Store is not so much a discount; they want more communication, they want more hugs. They want to know more about what we're doing, they want to have more input on that. So that's been really successful, and we've been rolling that out. And so then, we know what you like best about The Container Store, and we're able to give you more of that through the POP program, because you're voluntarily telling us and letting us know what we can do. And I think your best customers always want credit for being your best customer. But it's sort of the opposite approach of sort of a mileage thing. We're just establishing a relationship to the greatest degree possible, to learn as much as we can about you, and then finding out what we could do to thrill and delight you. So, a loyalty program, a frequency program. Three big initiatives.

Terry: No, I think our audience is interested in your business, but also your view of the retail business, so I'm going to talk a little bit more about that. So, one thing I'm interested in is, your response, or your view, of what's really been the biggest change in our industry in decades, e-commerce, and the fact that people can do so much from their home now. I'm sure just like the rest of us, you saw that coming, and had uncertainty about what that's going to do to your business and to the rest of the retail business. What's your view about e-commerce, and what it's done, and what it's going to do in the future, and its impact on the entire retail industry and your business?

Kip: Who was it that Amazon just bought 200 of their stores?

Terry: Was it Radio Shack?

Kip: Radio Shack.

Terry: This is a big topic. I know you've got to have an opinion about this.

Kip: Well, I think people are beginning to realize this – the online store aspect of things is; every few years we hear that's [e-commerce] going to kill brick-and-mortar retailing. It didn't happen before, it didn't happen this last go around. What's happening is that everybody's becoming all of it, you know? We have a click and pick up service where you can order online, come to the store, we'll have it ready for you. You can have two kids sleeping in the back seat, and we'll bring it out to the curb, and there you go, boom. It goes against everything I was taught in retail; which is you get them into the store, and try to get them to spend as long as possible.

Terry: Upsell them.

Kip: You kind of grade yourself on how long she spends in the store, but it's really about how many incremental visits you get per year. And, so, all of the click and pickups, trying to sell

solutions over the internet is easier in the store – but we want to make sure we’re the best. While that insulates the Container Store from the big online retailers because it’s really hard to sell solutions rather than items over the internet. Who thought you could sell shoes over the internet, though, you know?

Terry: Tony Hsieh figured that out.

Kip: Yeah, he sure did. So, we’re doing what the customer wants; however she wants, wherever. For years we said we weren’t going to deliver - we deliver same day. Retail’s getting better; the grocery [store] delivers in an hour sometimes. You can have your flowers delivered, from a grocery store as well as the flower retailers. I think it’s just making us all omni-retailers, which is making consumers using all of our services that much better.

Terry: It’s increasing your ability to serve your customer.

Kip: Yeah, and I’m a big advocate that retail’s getting better. A grocery store like Whole Foods in Texas? Are you kidding me? Think about 20 years ago; I mean, that’s a better grocery store than we had in Texas 20 years ago. Everything is like that; we can really save you time and space, nobody could do that 30 years ago. All retailers - and then technology comes along and gives us wings even more to meet the needs and solve the problems our customer has, and that’s certainly the biggest change in retail. I think it will keep evolving.

So, Amazon buys 200 store locations from Radio Shack... Amazon. I think everybody’s becoming everything; everybody’s becoming omni. Some people obviously have more online, some people have more brick-and-mortar, but it’s the same customer. The same customer is shopping your stores, doing click and pick up, ordering online, getting things delivered. And all of us are getting better at serving this time-starved consumer, and giving her much more precisely what she wants. The other thing about technology is that it makes us all better merchants. The cheese section at Zabar’s at New York was the best cheese section in the country. It’s now available at every Whole Foods store, comparable or better, and all of their competitors too. We have a place in Colorado, and the little grocery store in the small town near our place there looks like Whole Foods. I mean, it’s a better grocery store and you can get things delivered.

So, I’m excited. Particularly being involved in NRF, and how much better we’re all doing as merchants serving the customer. And I hope people realize that - you can just do so much more with retail today than you used to be able to.

Terry: And most retailers’ balance sheets are better than they were five years ago. It’s really one of the strongest times from a financial standpoint, so something must be going right.

Kip: I think you get that if you’re serving the customer better. And we’re serving her exactly how and when and where and what she wants far better than the industry did five years ago, much less twenty years ago.

Terry: So what percentage of your customers are female? You keep using “her”, so it’s obviously a majority.

Kip: Well, you know, we’re a housewares store, essentially. How many couples do you know where the husband buys most of the Christmas gifts? Zero.

Terry: Not many.

Kip: He buys her gifts, and she buys every other Christmas gift on the list. So, it’s a little bit that way in housewares too. We love men - we let them in the store.

Terry: [Laughs] We let them in.

Kip: They basically just take up valuable isle space and shorten the amount of time their significant other spends in the store. But, no.

Terry: [Laughs] Reverse gender discrimination is happening right now!

Kip: So, we like to hire our customers, most of our employees are women as well.

Terry: So do you know what percentage of your customers are female?

Kip: Well, it’s probably about 70% of the body count, but it’s probably more like 85% of the dollars.

Terry: That makes sense.

Kip: And also, most of our top executives are women - I like to talk about this. I actually think women make better business executives than men. You have the feminization of American business taking place; you have it taking place globally. It’s a completely wasted resource. People think we’re achieving parity, we’re not. Only 24 of the CEO’s in the Fortune 500 biggest companies in America are female; 24 out of 500. Only 21 or 22 US senators are women. I think it’s okay to say that, because we’re nowhere near parity yet. And in many other countries it’s even worse, of course.

So, you had guys that went off the World War II and experienced the military, and they came back to the US after the war, and created businesses, and kind of ran them and adapted them to a lot of what they learned in the military. And that’s a terrible way to run a business, kind of a top-down command structure. What I think the business community of all types is learning, is that more of a servant leadership is more effective. IQ is really important, but sort of a social IQ is –

Terry: Or EQ (emotional quotient).

Kip: EQ is extremely important in leadership. And transparency also. The whole concept of team is one of the best things in life when it’s done correctly. So, I think the feminization of

American business, particularly in retail, is great. So I think something like 16 of our top 21 positions are women. They keep me around because I helped start it, you know?

Terry: Well, we're very aligned on that. You'll be fascinated to hear that, in, I think in about '07 or '08, we were featured on the front page of the business section of the New York Times, and it was for doing something that was radically different. And what was that? We asked our female customers what they want. We held focus groups in Allen [TX] for our Watters Creek development and had area women, interact with our design teams. And we told every design team they had to have a female on our job. And that was so radical that the New York Times picked that up, but all we did was listen to our customer. It's a little embarrassing for our industry, that that was so radical. But I'm very aligned with you on that.

Kip: That's great. It's very good to hire your customers, and if you do, they'll eventually run your company.

Terry: Exactly. Okay, last question. So, I'm in the retail development business, and a lot of the folks that'll be watching you or reading this are either in that or in retail investment. What about what we do, and our places? What advice would you give me, and retail investors and developers about serving our customers, our mutual customers? Serving you, serving the women customer. What advice would you give us in the future to better serve you, to better serve all of our stakeholders?

Kip: Well, I can give lots of advice to landlords and developers. Like most merchants, I've got all sorts of ideas for real estate developers and landlords, but the most important one is the concept of merchandizing a shopping center as carefully as they merchandize a store, or a department. And I particularly like putting retailers who have an identical or similar target customer together. The industry does the exact opposite: they think they don't want to be next to their competitors. Think about in most cities or small towns, all of the car dealers are all in the same place. And so, Gordon Segal, the Crate and Barrel guy, and I really like this concept. We think we attract exactly the same target customer, so we like to be right next door to each other. And when we are, we get a lot of incremental traffic that way. If we're five miles apart, she doesn't necessarily shop both of us when she shops one of us.

Terry: No synergy.

Kip: If we share a demising wall, our stores will tell you that customers cross shop a majority of the time, which I find hard to believe. But if 25% of the time you get an incremental visit because they were going next door, what percentage of your profits are the last 25% of your traffic, like 90%?

Terry: Most.

Kip: So, Gordon and I called it 'Co-opetition'. Don't be afraid of your best competitors that attract the same customer. You know, cuddle up with them. Then you have a stronger draw, a stronger attraction, and they'll shop both at the same time. And then just as retailers have had

[Watch Discussion Highlights](#)

[Watch the Full Discussion](#)

to learn to become fanatical at giving all the conveniences you could possibly conceive of to the customer, I think shopping centers still have a long way to go on that too. We're doing better as an industry, but making it convenient, making it comfortable. So why not take care of them? Let's create centers that are fascinating and wonderful and are a draw on their own, and are comfortable. And I think the industry is doing a better and better job on that, but we have to attract people. When they want to come to your bricks-and-mortar location, there has to be great reasons for them to be there.

Terry: Agreed. Well Kip, thank you so much for your time.

Kip: Thank you.

{OUR **PURPOSE**} TO BE EXTRAORDINARY STEWARDS, ENHANCE COMMUNITIES AND ENRICH LIVES.

TRADE MARK **TM**

817.870.1122 · 1701 RIVER RUN · STE 500 · FORT WORTH, TEXAS 76107 · TRADEMARKPROPERTY.COM