

MARK A. FRANKS

President and CEO of the
Castle Megastore chain



For 21 years, Mark A. Franks has earned his stripes as one of the most decorated veterans in erotic retail. He's owned and sold video production companies and entire libraries in the United States, and helped prosecute pirates in Australia that ripped off his work—which would eventually lead to him owning and operating a chain of successful adult stores there as well. He's run a distribution operation in Amsterdam that supplied his and other companies' titles to much of Western Europe. Oh, and he's also been partner in an adult novelty company.

That was all before 2003—the year that court-appointed bankruptcy attorneys approached Franks, hoping he would be the man to handle the day-to-day operations of the Castle Megastore chain, which was in Chapter 11 bankruptcy and grappling with over \$40 million in debt. “The company was pretty much wiped out when I got here,” admits Franks. “Nobody was selling Castle anything except by certified check, and those checks had to clear first.”

In July 2003, he was approved by the federal bankruptcy court to take charge. It would be six years of litigation, additional hidden debts and attempts to retain control of Castle by the previous owner before Franks would eventu-

ally become owner and CEO, “Lock, stock and barrel,” as he puts it.

Through the past six years and up to today, Franks has been the point man responsible for revitalizing an industry giant. He's put new meaning to the phrase “cleaning house” by firing all but literally a few of the original employees of the old Castle, and implementing major software programs, promotional events and employee training. Today, Castle Megastore hardly resembles its previous incarnation, with an award from XBIZ for Retailer of the Year for 2009, as well as another nomination for 2010, along with nominations by STOREROTICA Magazine for Retail Chain of the Year. With 18 stores now open—three of which were opened in the last 12 months—all averaging between 10,000 and 12,000 square feet, and smaller Castle Boutiques rolling out in the new year, Franks has proven that with the right leadership, any company can be turned around.

STOREROTICA spoke with Franks to understand more of the no-nonsense approach he's employed to completely reinvigorate what is now one of the biggest players in erotic retail, as well as his thoughts on the rest of the industry.

“There are a lot of people not doing well in brick and mortar right now, but they haven't invested in technology, they haven't invested in people, they haven't improved their operating methods, they haven't done the things that are required by any good business to keep moving forward and keep growing.” — Franks

STOREROTICA: *Had Castle Megastore relied too heavily on DVD sales? What changes did you implement when you came on board?*

FRANKS: Our DVD business is still good today. It's not as good as it was two years ago, but we still do a significant DVD business. It certainly is declining business, but it's like everything else—you have to work at it. There are a lot of people not doing well in brick and mortar right now, but they haven't invested in technology, they haven't invested in people, they haven't improved their operating methods, they haven't done the things that are required by any good business to keep moving forward and keep growing. We were in Chapter 11 last year and we won the 2009 XBIZ Retailer of the Year award. XBIZ didn't even realize we were in bankruptcy. I tell people that it was like finding out you have a heart problem; you go in and get a stint and start taking some medication. It was just a condition we had to deal with, but we were still operating a great company.

We've invested heavily in technology here. When I got here, there was no accounting. I found the best point-of-sale system and back office system that I could buy and we implemented that in 2004. We're a best practices company; we belong to the National Retail Federation and, to my knowledge, we operate the most sophisticated retail system of anybody in the business. We work in virtually real time. Our data is uploaded to our server every five minutes, so we're within five minutes of operating in real time in all of our stores.

We know exactly what we're buying, what's turning, and we operate like a big box retailer. We have a professional merchandising manager, we have a professional marketing manager, all my buyers are ex-big box retail buyers. I have buyers from Dillard's, Quicksilver, Macy's, Linens 'n' Things, Toys "R" Us. We have a lot of managers that have come out of national retail chains, so we don't really think of ourselves as an adult company; we think of ourselves as an adult retail specialty company.

STOREROTICA: *How have these changes directly impacted sales, as well as the overall perception of the Castle Megastores?*

FRANKS: Better than 60 percent of our business now is women and couples. We have a significant number of our managers and employees that are women. That's not by design, that's just sort of the way it's worked out. I always tell people it speaks well of the Castle that we have so many women that want to work at the Castle.

When you go to a Castle, we're like McDonald's. We want you to get the same experience in every store, whether you're up in Alaska or whether you're New Mexico, Washington, Oregon or Arizona.

STOREROTICA: *How has your inventory changed, especially as it pertains to our current economic downturn and the decline in DVD sales?*

FRANKS: Our biggest attribute at Castle, aside from very good customer service, is our selection. We have single stores that have 5,000 square feet of just lingerie. We buy virtually everything that comes out on the market. We have a way of testing things; we use certain stores as testing stores, and we shake out the good items from the bad items through our testing processes. Once we determine what are the good items, we roll those out in all stores. We don't just keep throwing junk out into the stores and making our customers wade through it. We do all the heavy lifting.

We do the same thing with DVDs. We have over 150 programs operating with our vendors. We have best-seller and top-shelf programs and all these programs are designed to offer our customers only the best products out of the lines that we support in our business.

Take a DVD manufacturer; they may have 1000 titles in their library. If you take the 80/20 rule—which is not too far from being correct in retail—out of those 1000 titles, probably 200 of those titles are doing most of the business. Well, I'm not interested in the 800 titles that don't sell. I only want the best product, so I focus on having the best items from every vendor in our stores.

STOREROTICA: *The XBIZ Retailer of the Year Award—along with another nomination for 2010—must feel like true validation of how far Castle Megastores have come. With all the changes you implemented over the years, what do you attribute your current success to?*

FRANKS: It really comes down to the people that work here. I hire the best people I can possibly hire. I have great people on all levels. Most of our buyers have bachelor's degrees in fashion merchandising. They're not somebody that started out in the warehouse. In other words, they're professional buyers, they know how to buy.

We also carry more selection than anybody in the business. So when you come into our store, you're going to get the sense that, if we don't carry it, nobody carries it. We operate our own distribution center here in Phoenix where we have a 50,000 square-foot-facility. We control our whole distribution process so that we can keep things in stock so successfully.



“The catalog titles are titles that did not cut it; otherwise, they wouldn't be in catalog. What happens is when you put all that junk in your store, you are cannibalizing your other DVD business. If a customer can buy a title that came out six months ago and it's now \$5.99, you're training a customer to only want to pay \$5.99 for a DVD.” — Franks

continued from page 21

STOREROTICA: *Do you think many operators in the erotic retail industry fall victim to bad habits, such as allowing their inventories to stagnate?*

FRANKS: I think a lot of people have been asleep at the wheel. Remember, the Internet was not really a force at all going back into the '80s and '90s and even early 2000s, so consequently, if you had product in an adult location—given the zoning difficulties—the consumers didn't have a lot of brick-and-mortar choices. So they'd come in and buy what was there and paid the price if you had it.

But the business was not really treated as a retail business by most of the retailers. Most of them were operating booths, peeps and arcades, and the business is much more prolific now. If you're running a peep show operation, you are not going to get a lot of the customers in your store that I get into a Castle. (Peep shows) are not a female-friendly environment.

STOREROTICA: *You already said your DVD sales are still strong. Do you think retailers are giving up too easily on DVD, and are we perhaps sounding the death knell on DVD sales too soon?*

FRANKS: First of all, let me say this: there's too much production in the DVD market. A lot of those companies simply aren't going to make it. But the better producers, the lines that people refer to as "premium lines," those lines are still selling, and I think the reason that they're selling is they make a product that customers want to buy. I think the biggest problem has been that there was a time when you could make anything, throw it in a box and there was somebody to buy it. But the market has just been oversaturated for so many years now that, along with the Internet and a more sophisticated customer, that approach is no longer working.

A lot of people now are buying a lot of catalog titles and they're not buying new releases. I think that's a serious mistake for a retailer. I think that the retailer needs to continue to support new releases because new releases have been your best sellers. The catalog titles are titles that did not cut it; otherwise, they wouldn't be in catalog. What happens is when you put all that junk in your store, you are cannibalizing your other DVD business. If a customer can buy a title that came out six months ago and it's now \$5.99, you're training a customer to only want to pay \$5.99 for a DVD.

We have always maintained a very large new release presence in the market and we carry, in an average Castle store, more than 15,000 DVDs. If you're just looking for a girl-girl title, I have a girl-girl section that'll have the 40 best-selling titles, so anything you pick out of that rack will be quality. We give the customer a reason to buy or rent product, because we wade through all the garbage and we get the stuff in there that matters.

STOREROTICA: *This last decade has largely been defined by an opening up of the erotic retail industry, with friendlier stores and a blossoming female customer base. What do you see as the next big thing for the industry as we enter a new decade?*

FRANKS: I can only talk about what Castle does and some of the other, better retail chains that have really been on the ball. These are the companies that have made a significant investment in lingerie, shoes and what I would call more female-oriented products. I think those companies will have continued success. I think that a lot of people that haven't embraced those areas until very recently are going to have a more difficult time. For instance, if you put packaged lingerie in a book store, you're still a book store. You have to create an environment to attract a certain customer, and you can't do it half-assed. You have to be committed and you have to be a believer.

I do see the business becoming more mainstream. The adult-oriented business is much more prolific due to the Internet, due to changing morality; there's a lot more T-and-A in regular movies than there used to be. I just think that the world has moved into a more sex-friendly mode.

There are also some very good, small, boutique toy manufacturers emerging right now. They have industrial engineering backgrounds and they're coming out with some very, very interesting products that are getting a lot of attention and making a lot of sales. Those people are actually creating better materials that the market seems to want. I see a lot of evolving or emerging technology and materials coming into the market, which I think are going to be very good for the market. And as we get better products on the market, we're going to attract a better customer.

A lot of people are not getting the customers and the dollars that they want now because they are lousy operators. They don't invest in their business, they don't put the best products in their business and they don't market correctly to their customers.

STOREROTICA: *What has this down economy meant for Castle Megastores?*

FRANKS: We have market areas that are up and we have some areas that are down, but overall, we're doing well. I just think people buy based upon how they feel. If you feel good, you'll spend money. If you don't feel good, it's tough for you to go out and spend money. And the television is a big negative. Every time you turn the television on, it's something bad.

STOREROTICA: *Do you think too many retailers have been willing to accept the "it's the economy" reason for slow business? Or are they right to be cautious?*

FRANKS: If you're in the retail business, you can't sell



"If you put packaged lingerie in a book store, you're still a book store. You have to create an environment to attract a certain customer, and you can't do it half-assed. You have to be committed and you have to be a believer." — Franks

“If you’re in the retail business, you can’t sell from empty shelves. You have to have the products you need in order to drive your business forward. It’s kind of a Catch-22. You have to keep going for it, but you need to do it carefully, which you should be doing all the time anyway.”
— Franks

continued from page 22

from empty shelves. You have to have the products you need in order to drive your business forward. It’s kind of a Catch-22. You have to keep going for it, but you need to do it carefully, which you should be doing all the time anyway. We worked through a bankruptcy at this company, so when I took over, this company had no money. I was always forced to do be clever, or at least try to be clever, in order to do business and get product in here so I had something to sell. So this company has been lean and was rebuilt as a lean company. I think that’s how people have to operate.

Retail, in general, in the last decade was great; credit was easy, people’s home values were going up like crazy. Now, a lot of the cash that people had available to them in the last decade, which really drove retail, is gone. People now have to spend what they can afford to spend, so whether it’s on the Internet or brick and mortar, retail is going to be generally affected by the fact that people just don’t have the available credit or money that they used to have, and aren’t going to have, probably ever again.

STOREROTICA: *Signing events at Castle Megastores, featuring well know porn stars, seem to be a major part of the Castle experience. Has this been a successful business tactic for Castle?*

FRANKS: It’s changed. When I first came in here, I’d do 10 or 12 signings in a month, just because I wanted to get people back into the stores as I was rebuilding the company. Now, we are only doing signings with A-level girls. The girls really have to be strong to attract a decent crowd, and we do heavy promotion on our signings. We regard the signings as kind of a gift back to our customers. The fact that we bring in some of these big stars and make these signings into events is something that they’re not getting from our competition, for the most part.

STOREROTICA: *Halloween only passed a few short months ago, and already the industry is gearing up for Halloween conventions and new lines are debuting. How big is Halloween for Castle?*

FRANKS: Our Halloween business this year was up 20 percent. In 2009, if you were up on anything, that’s good business. We were up, but we did Halloween events and had television commercials specifically for the sale of costumes. We are working hard at our (Halloween) business. We’re bringing in a deep, deep, deep selection of costumes from a variety of manufacturers, and we have it in stock.

STOREROTICA: *Has Castle always carried Halloween costumes and other soft goods, or is this a more recent development?*

FRANKS: When I first took over back in ‘03, this company was selling virtually no lingerie. They had some lingerie, but they had no stock and the stuff they did have was just awful. I did a scored earth policy and we started buying

lingerie carefully, not deeply, and trying to develop a customer and figure out what it was that our customer wanted to buy. We’ve been developing our costume business, our lingerie business, over a period of years, and bringing that customer along.

When I first started out, I was selling really cheap lingerie, because I didn’t have a customer to buy the better stuff. Now, I have that customer. I still have customers buying that cheap stuff, and I have customers buying expensive stuff—I’ve got all those customers now. I built that business. You can’t just say, “I hear Halloween is good business, I’m going to be in the Halloween business.” Well, good for you—but how are you going to get the customers?

STOREROTICA: *Tell us about the workshop Castle recently hosted this past December at your annual managers’ meeting in Arizona.*

FRANKS: We had a really great workshop. Some of the most successful people in the business from Doc Johnson, Cal Exotics, Wicked Pictures, Zero Tolerance, Dreamgirl and Digital Sin were there. It was pretty much a rock star panel in terms of the industry, and I think, with the exception of a couple people, all the people there were the CEOs of their companies. These are people with vast experience and some of the most successful in their respective areas of business.

All the vendors that were on the panel were talking about the things you and I have been talking about today: having the right inventory, the customer experience, knowing about the products that you’re selling, dealing with the right vendors. Everybody that was on that panel had a high degree of confidence about the business, and I think everybody also felt that the female influence on the business was going to continue to be a growth area.

STOREROTICA: *As one decade has come to a close, where to you see the erotic retail industry headed in the next decade?*

FRANKS: I think the industry is alive and well. I think that the strong will survive and the weak won’t. We go through these cyclical economies and other challenges from time to time.

The better companies are going to continue probably growing and getting better; they’re employing their business skills and their wit to developing a better company. The weak companies will go away or will be absorbed or whatever by the stronger companies. I think this is going to continue to be a very good industry.

For many years, I’ve been bringing mainstream people into Castle that, years ago, you would never think you could hire to work in an adult business, but we’ve done it very successfully. I think that, in itself, tells you a lot of where the world is going. **E**

For more information on the Castle Megastore chain, please visit www.CastleMegastore.com.