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New management team works to rebuild Wireless Toyz

BY CHAD HALCOM
CRAIN'S DETROIT BUSINESS

Wireless Toyz Inc., the embattled Southfield cellular and wireless multi-carrier store chain, has a new management team and strategy to rebuild after a pasting from the national economy and franchisee disputes.



Barbat

The company, which founder and Chairman Joe Barbat once hoped would reach 1,000 retail outlets by next year, now reports 95 stores in 15 states, including more than 20 in Southeast Michigan.

That's comparable to its total footprint in 2005.

Wireless Toyz had 198 stores in nearly 20 states in early 2008, Barbat said. He blames the downsizing on the economy and changing customer habits, as businesses and families fled traditional group call plans for phones with prepaid minutes or other cheaper options after credit markets tightened.

Late last year, Barbat bought back the company he had sold in 2007 to a private equity firm and hired franchisee Nate Hamama as president.

Hamama continues to own and manage four franchise stores in Southgate and Taylor in addition to his new corporate role.

Barbat also hired Christopher Pulice, a former local sales manager for **Sprint Nextel Corp.**, as vice president. Former consultant Bernie O'Meara became the company's controller starting in January.

Barbat remains chairman of the company. He would not divulge which private equity had owned Wireless Toyz.

Since the new management came aboard, the company also is branching out from its traditional multi-carrier superstore model — in which customers can choose from among seven wireless service carriers and devices that carry them — to single-service retailers that traditionally have been their competition.

"It's just a decision from an observation of what's happening within the industry," Barbat said.

"We try to align ourselves with our carriers and what they need for retailers in a market. If we try a location at 14 Mile and Orchard Lake, for example, and find that **Sprint** and **Metro PCS** want more of a market there ... but **T-Mobile** or **AT&T** might have saturated that market, we can be adaptive."

The company recently converted a Livonia location into a dedi-

cated **Verizon Communications Inc.** **Verizon** Wireless retailer and opened a new store in Redford Township as a dedicated **Metro PCS** retailer.

Others may follow soon, depending on the performance of those stores, Barbat and Hamama said.

Ken Dalto, president of turnaround firm **Kenneth J. Dalto Associates Inc.**, who has represented franchisees of **Burger King**, **Dunkin Donuts** and other retailers, said he has studied Wireless Toyz's performance and the economy is not enough to account for losing half or more of its locations in just two years.

The move to single-service retailers might be a "desperation tactic" to prevent further erosion, and Dalto notes the company has also faced at least six recent lawsuits from franchisees that cite fraud and company business practices, not the economy, as reasons their franchises failed.

"Franchisers often hold out these very strict rules over the performance of franchises, such as

how much of its revenue can go to rent or overhead. But the Wireless Toyz franchisees have made out very specific allegations about business practices, and the economy can't be a defense to what hap-

pened to them," he said. "I'd say the economy accounts for a third of it."

The rest of the downsizing, Dalto estimates, is about an even mix of "internal problems" including the franchisee lawsuits, and the rise of smart mobile devices like the **Apple Inc.** **iPhone**, which

have limited retail outlets and create new customer markets that Wireless Toyz can't penetrate.

One of three pending franchisee lawsuits culminated last month in a \$200,000 jury verdict against Wireless Toyz and Richard Simtob, its finance director and vice president of franchise development.

A second lawsuit by former franchisee Raad Kello of **75th/Grand Inc.** of suburban Chicago awaits a trial date in September, and a third by Lubbock, Texas, franchisee Susanne Moore of **Pita Enterprises L.L.C.** recently

moved from Oakland County to **U.S. District Court** in Detroit.

Barbat would not comment on the franchisee lawsuits, except to say the company is "continuing to work our way through those cases," and he was confident of prevailing in the cases that are still pending.

At least two franchisee cases went to arbitration last year, and a third was dismissed by the plaintiff during trial.

Hamama said he expects to travel extensively to meet with franchisees, and the company will be heavily focused on organic growth through new service plan sales and upgrades at individual stores.

"Our main focus is to continue helping the franchisees find stability and adapt with the market and to help grow the existing network of franchise stores," Hamama said. "I would estimate only 10 or 15 percent of our time or energy is being spent on new approaches, like the single-carrier (stores)."

Barbat would not give an estimate of company revenue for 2009 or how much the downsizing has affected the company bottom line.

The company had previously reported to *Crain's* that in 2005 it had 92 stores in 15 states, and the preceding year's revenue was around \$80 million.

Chad Halcom: (313) 446-6796, chhalcom@crain.com

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Nate Hamama,
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