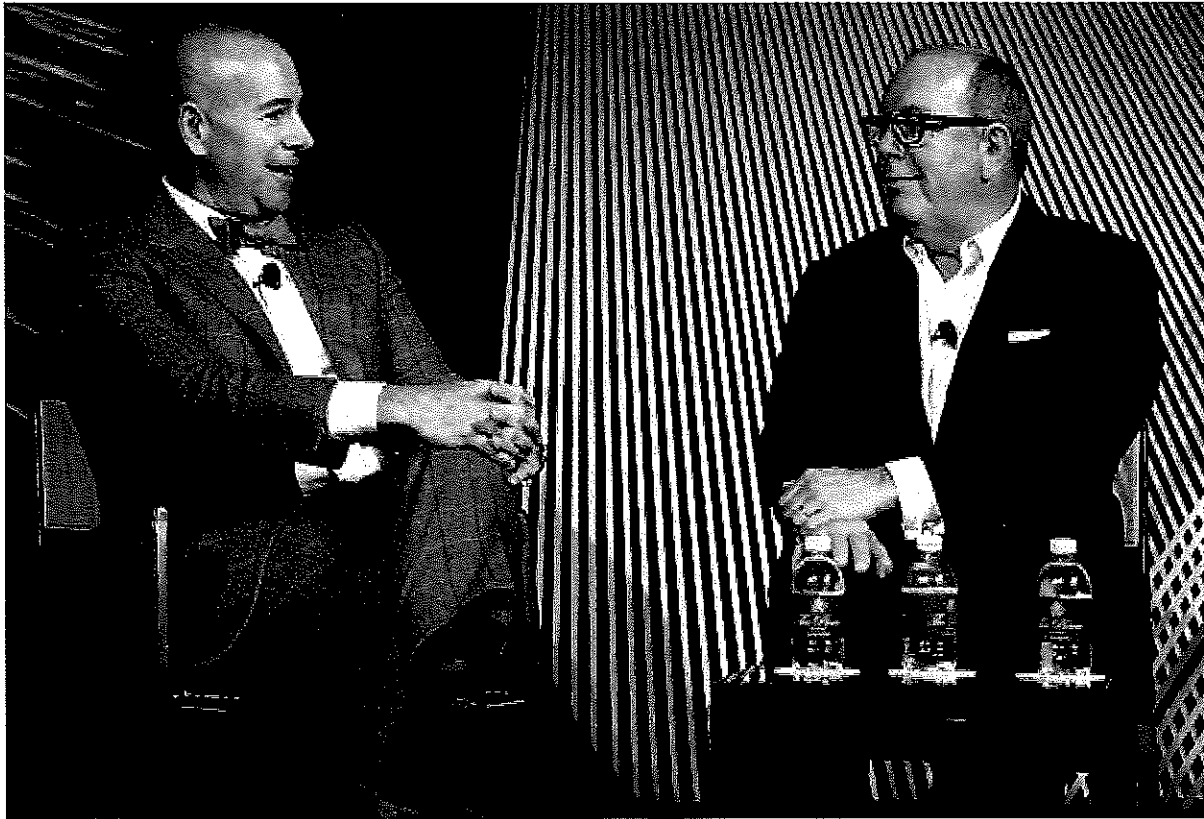


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## Front Row Partners' Glen Senk and Castanea Partners' Ron Frasch Talk Innovation

By VICKI M. YOUNG



Glen Senk and Ron Frasch

Photo By John Aquino

Innovative ideas that have traction and scaleability are what initially grabs the attention of investors.

But what constitutes innovation is where the decision-making process becomes an art form. Helping two private equity firms to identify those opportunities are Glen Senk, chairman and chief executive officer of Front Row Partners, which is partnering with Berkshire Partners, and Ron Frasch, operating partner at Castanea Partners. Both Senk and Frasch were participants in “Roundtable Discussion: Taking a Stake.” And both Senk and Frasch lend merchandising perspectives to private equity’s financial teams: Senk is the former chief executive officer of David Yurman and Urban Outfitters Inc., while Frasch was president and chief merchandising officer at Saks Fifth Avenue until its sale to Hudson’s Bay, as well as the former ceo and president at Bergdorf Goodman.

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According to Senk, “What I’m doing is an evolution. I really don’t see myself as a private equity guy. I see myself as a mentor and I’m working with a private equity guy. I’m working in partnership with them.”

He explained what he’s “trying to do is identify talent, which is really what I’ve been doing my whole entire career, and support them and help them.”

In identifying talent, Senk spoke about “people with amazing, compelling ideas,” where it doesn’t mean a product but “someone with tremendous vision, someone with something that’s going to transcend for several seasons, [as well as] a proven economic model [and great leaders who have] drive, curiosity, are forward-thinking, and lastly, people we have synergies with.”

Frasch says he’s looking for “creators and innovators. You can have great management, but what we need are great ideas people.” He’s looking in particular for “people who have broken through with a concept or idea and have a consumer base that has accepted it,” as well as a proven strategy and the type of management that allows for thinking into the future.

While neither one described in words what constitutes innovation specifically, both are equally adept at the visceral instinct of knowing what a compelling idea is when they see it. Senk described it as merchandising that evokes an emotional response, the kind that gets the heart beating and provides a feeling of energy in the air. He recalled a call he made to Berkshire a few years ago when he told them to take a look at Tory Burch before she even opened stores. “I think she’s the next Ralph [Lauren],” he said.

Frasch, after years of working in retail, said, “You develop a sixth sense over the years.” Seeing the product, reading the people and hearing their vision about their company is the “art side” that merchants bring to the table.

To be sure, there are also other factors that can impact the decision to invest. While size matters, that too can depend on how fast and how far a brand can grow.

“Size does matter,” said Frascch, who noted that Castanea just closed on a \$600 million to \$700 million fund, and that the mathematics of the business requires the private equity firm to give back \$1.2 billion (for the return on the investment). “We can’t tie ourselves up with a lot of small businesses, but that doesn’t mean Castanea should ignore the small, talented firms that have the ability to grow into bigger businesses tomorrow,” he explained.

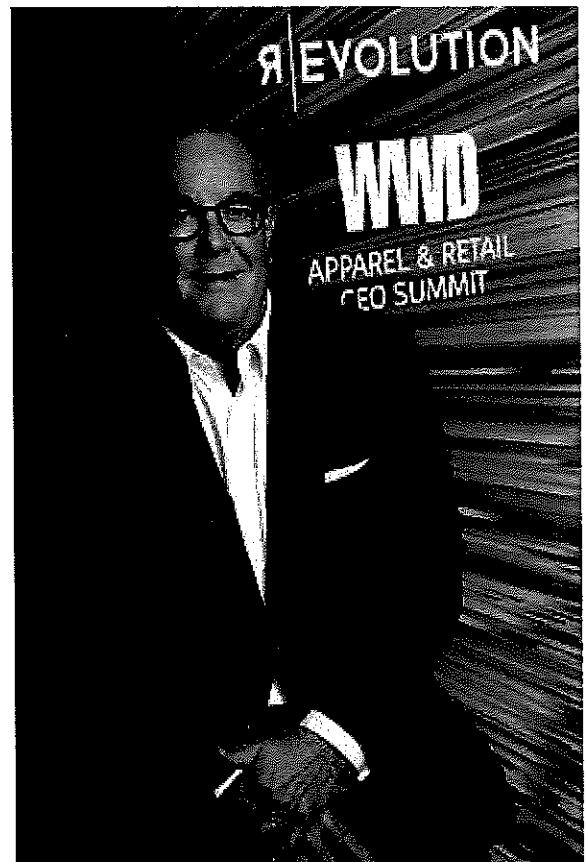
For Senk, the minimum investment is \$25 million, although that can hit as high at \$500 million or more.

Senk has a reason for specifically focusing on people and their ideas. “It is a time of tremendous change, but with change comes opportunity....[I want to] identify the people who recognize this and to support them and help them achieve their vision....I don’t think the economy is so tough. I think the trouble that we’re having in the industry is self-inflicted. Many of us are not keeping up with the customer. The newbies are...”

Frasch noted that it’s difficult for a big, public retailer to try to right a multibillion dollar company, something a private company such as Castanea doesn’t have to worry about. “But I think there’s a need on the private equity side to provide great mentoring and great knowledge to the young, developing firms,” Frascch said.

While both are looking in the same places for opportunity here and overseas, they each bring something different to the table for companies looking for an investment partner where negotiations over a deal can be as short as six weeks or far longer, whether a courting period is required or an opportunity that’s for further down the road.

Castanea once owned Neiman Marcus Group for 18 years before selling the business to private equity firms. According to Frascch, that ownership means the founders of the firm realize that retail is a capital-intensive



Ron Frascch  
Photo By George Chinsee

business. "We're engaged. We're not just people who write a check and stop by every three months," he said, adding that Castanea is looking for opportunities in the aspirational fashion space.

Senk touted Berkshire's \$11 billion of currently committed capital or employed capital, and how since the fund's inception in 1986, the average annualized return is just less than 30 percent. "It's not about them, but about the companies they invest in," he explained, noting that an investment could be a minority or majority position, with no definitive time frame for holding the investment. "Their investment is tailored to what the company wants, not what [Berkshire] wants," Senk said. Front Row, which is targeting consumer goods firms, brings to the table Berkshire's financial investment, and Senk's "been there, done that background [who] knows what an organization that does \$25 million or \$50 million should look like, and then what a \$100 million business should look like."

Both seem to be enjoying their roles as they evolve their careers.

"I honestly haven't had any bad days," Frasch said, noting "so this is like heaven." He said what makes it great is that every day he's meeting people with "tremendous vision and goals," although he's told some that their business is too small for Castanea and even suggested to a few that maybe they should look for some other direction for their business.

Senk said, "I haven't had more fun in my life." While the first few months of the launch of Front Row meant longer hours than he expected, Senk said, "I'm having a blast."

According to Senk, the takeaway regarding the one thing a company seeking private investment should know is to have a "defensible idea. Don't go seeking an investment based on a product, but have a compelling vision, something that truly connects with the customer. Something that's unique, scaleable and that can be profitable. Button it up and do your best to sell it."

For Frasch, companies "have to get to a certain size. At least get to level one of your business, whatever that might be. Have a vision for what is going to take you to level two and maybe have a little proof of that....Everyone in ready-to-wear thinks the future is handbags and shoes and direct to consumer....Just because you can design ready-to-wear doesn't mean the consumer will give you permission to design other categories." Frasch emphasized that "great brands, as they think about their future, need to think about tailoring to what they're great at, to what their passion is."

As for what to be alert to, Senk cautioned that a big surprise for him is how many people stall at a certain level and how they need to stand out instead. "Stop benchmarking yourself to mediocrity. Don't use someone else's playbook. Use your own playbook," Senk said. For Frasch, he compared joining forces with private equity as "getting married. You have a partner you're going to be living with every day. You better like that partner. You better trust the partner, but most importantly, you better like the person....We work with people we want to work with [and that] we like working with. We're not going to make a selection of an investment of a firm where we don't like the people. It's just not going to happen."