

Jeff Rubin of It'Sugar Seeks Sweet Success Where Many Specialty Retailers Have Failed

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Jeff Rubin grew up traveling to New York from Michigan with his father, who had a chain of toy stores, for the annual Toy Fair, but his favorite part of those trips had little to do with the industry trade show. Instead, the highlight was a visit to FAO Schwarz's iconic former Fifth Avenue toy emporium.

“FAO Schwarz was my favorite store in the world growing up,” Rubin recalled.

He eventually found himself working for the retailer before going on to found a specialty candy store called It'Sugar. He's been sprinkling it with FAO Schwarz magic ever since. Last week, he literally led a reincarnation of the concept when It'Sugar opened a 20,335-square-foot flagship in Times Square.

“I wanted to be the FAO toy soldier when I was little. ... [FAO Schwarz had] the best merchandising. I owe everything to FAO,” Rubin said in an interview.

The 58-year-old Rubin said his passion of selling candy began as far back as age 5 or 6 peddling sugary treats at the end of his family's driveway when the other kids were selling lemonade.

As he went on to build his business, he understood the importance of merchandising and sought to replicate the toy department store concept. Even though Rubin founded It'Sugar in 2006, that dream didn't come alive until 2019 when the company opened its first "candy department store" and largest location to date, spanning 22,000 square feet in New Jersey's American Dream megamall.

"I marveled at FAO Schwarz's approach," Rubin told CoStar News. "Instead of Barbie, I would offer a Skittles shop. Instead of action figures, I'd offer cereal. ... The idea for It'Sugar department stores has been in my head since 1999. And 20 years later, it came to life at American Dream."



Jeff Rubin, founder and CEO of It'Sugar, started selling candy as a child. (Andria Cheng/CoStar)

He has been working hard at manifesting his vision and opening more giant-size candy stores. The road hasn't always been easy; the company filed for bankruptcy protection after pandemic precautions forced many stores to close temporarily.

Billed as the largest specialty candy retailer in the United States, Fort Lauderdale, Florida-based It'Sugar now has about 100 stores. In the first half of the year, it debuted an 11,400-square-foot flagship on Chicago's Michigan Avenue next to a Rolex luxury watch shop in a location that formerly housed a Disney store, with a lease lasting a year and a half. In San Francisco's Union Square, the company has a 10,600-square-foot store, replacing a former Forever 21 flagship. Those moves followed the December opening of an 18,000-square-foot location at Brookfield Properties' Ala Moana Center in Honolulu.

It'Sugar last week opened in New York's tourist-and-entertainment mecca Times Square a two-story location at 234 W. 42nd St., formerly home to sporting goods chain Modell's, which liquidated during the pandemic. The size of the space, taken with a three-year agreement, marks one of the largest retail leases in New York this year, according to CoStar data.

Is Bigger Better?

As many toy, office supply, and other niche sellers have gone out of business or shrunk their footprint, falling victim to e-commerce giant Amazon and one-stop shops such as Walmart and Target, It'Sugar's strategy to embrace larger flagships is an anomaly.

"They are bucking the general trend," Ken Fenyo, president of research and advisory at Coresight Research, a global firm specializing in the retail and technology sectors, said in an interview. He described It'Sugar as a company that can "emphasize a whimsical and fun shopping experience [that's] harder to translate online."

He pointed out flagships in tourist hubs such as Times Square can draw foot traffic and be part of a marketing strategy, but he questioned operating a fleet of them. "Those flagships can make some sense ... to build your brand. ... It's a model that can work, but I don't know if it's a model that can work in every market."

While candy is an affordable luxury during tough economic times, according to Kenyo, selling it is not the most defensible business.

"While it's fun, it's not a must have," he told CoStar News. "It's a very competitive space."

To be successful, It'Sugar needs to make sure it constantly stays ahead of the curve and carries exclusive merchandise, Kenyo said. He advised signing new brand partnerships to differentiate itself from grocery and convenience stores including Walmart and 7-Eleven.

It'Sugar is seeking to do exactly that with its brick-and-mortar strategy. In addition to its current locations, the company plans to open in December a 17,000-square-foot flagship in Miami, followed by next year's planned opening of its largest store to date, spanning 28,700 square feet, in San Francisco's Fisherman's Wharf just as the Union Square lease is expiring, as well as the planned opening of a flagship in Boston's Faneuil Hall next year, Rubin told CoStar News.

While Rubin sees potential for about two dozen large stores that can help It'Sugar build its brand, he's also betting on what he called "endless" opportunities to open smaller locations spanning from 3,000 to 5,000 square feet.

Declining to specify, Rubin said It'Sugar is profitable and its stores, including the large flagships, generate enough business to offset the rent cost.



The candy retailer It'Sugar is known for its "politically incorrect" marketing messages, according to CEO Jeff Rubin. (Andria Cheng/CoStar)

Setting Itself Apart

The new Times Square location is a telling example of how It'Sugar is attempting to set itself

apart from the mass candy sellers and other specialty retailers including See's Candies and Kilwins. Not only does the store have New York-themed and other merchandise exclusive to the location, it offers many opportunities for Instagram-worthy moments such as a giant apple made of jelly beans and life-size branded characters including Tony the Tiger of Kellogg's Frosted Flakes fame and comic strip bubble gum mascot Bazooka Joe. Over 35 branded candy departments and stations showcase well-known treats including Sour Patch Kids, Oreo, Nerds, Starburst, Skittles, Pez and Tootsie Roll with many of them offering exclusive flavors and individually colored candy that brands make just for It'Sugar that allow customers to personalize their choices, Rubin said.

"I spend so much time in these candy stores, and I see the feeling and the emotional attachment that you can get from a favorite treat of yours when you were a child," Rubin said. "It's a happy place. ... Nobody on their deathbed ever asked for a kale salad."

According to the 2022 "State of Treating" report published by the National Confectioners Association, chocolate and candy sales rose 11% in 2021 from 2020 and up 15.4% from the pre-pandemic level in 2019. The study found consumers value their emotional well-being, which they consider connected to their physical health, and that can mean indulging in candy.

The study also said candy remains an affordable treat even in the face of inflationary pressures. The group forecast total U.S. confectionery category sales to reach \$44.9 billion by 2026 from \$36.9 billion in 2021. Meanwhile, the study found online is not where most consumers shop for candy. More than 70% of consumers buy their everyday confectionery from a grocery store, according to the report.

In total, some 92% of U.S. candy is sold through the candy aisle of mass merchandisers and other grocery and convenience stores, with 6% sold at specialty candy stores led by It'Sugar, Rubin said, adding only 2% of sales occur online. Validating that point, Rubin said a small part of It'Sugar's sales come from e-commerce.



It'Sugar differs from other mass merchandisers by carrying exclusive items such as individually colored Pez that allow customers to personalize their selections. (Andria Cheng/CoStar)

A Life of Treats

Rubin has honed his skills working at his family's candy business in his 20s when his father sold the toy business and started what Rubin said was the first chain of bulk candy stores in the United States.

But his big break came in 1995, when he approached FAO Schwarz and helped create the FAO Schweetz in-store candy leased concession shop inside the FAO Schwarz on Fifth Avenue. That business got so successful that FAO bought the business from him and he ended up working for the company. He then went on to co-found Dylan's Candy Bar with fashion designer Ralph Lauren's daughter and also helped Hershey open and operate its Times Square flagship in the early 2000s.

His list of candy credentials also includes creating the Candy Land attraction for the shuttered Toys R Us megastore in Times Square. Besides its namesake locations, It'Sugar now operates the FAO Schweetz in-store shop inside FAO Schwarz's new location at Rockefeller Center and licensed shops such as Sour Patch Kids and Oreo Cafe.

“So many people try to get into the candy business,” said Rubin, who’s a Candy Hall of Fame inductee. “I’ve been watching people’s faces in our stores. ... And that’s all I need to give me the confidence to take on these large real estate moves and not listen to what I read in the paper. ... [Candy companies] trust giving me their brands and bringing [them] to life.”

The big flagships typically begin with shorter lease terms of between 13 to 36 months, which Rubin said allows It’Sugar to test demand before committing to a long-term lease and is an increasingly popular arrangement.

“It gives the retailer a chance to see how you do before you lock into a long-term lease and gives the landlord flexibility for higher future rents,” Rubin said. “It’s really a win-win type of partnership.”

With retail real estate still trying to recover from the fallout of the pandemic, It’Sugar is welcomed by landlords. A case in point: When the American Dream store exceeded projections before the pandemic forced it to shut down for a few months, Brookfield approached Rubin about opening the Ala Moana Center location in Hawaii, Rubin told CoStar News.



It’Sugar sells unique licensed merchandise such as Froot Loops gummy candy. (Andria Cheng/CoStar)

Times Square and Beyond

“The phone doesn’t stop ringing for landlords who want It’Sugar,” said Lon Rubackin, a CBRE senior vice president of advisory and transaction services who represented It’Sugar in the Times Square transaction. “It’s something that landlords are looking for.”

Rubackin said there also may be potential for another large It’Sugar department store in the so-called Bow Tie of Times Square, similar to how McDonald’s or Sephora also have more than one location there with the amount of foot traffic the tourist hub generates daily.

It’Sugar’s flagship strategy is dependent on a high number of neighborhood visitors. Times Square’s pedestrian traffic averaged 367,947 people per day in July, up 74% from a year earlier, according to the business improvement group Times Square Alliance. The average daily foot traffic last month was just 8.9% below the pre-pandemic level of July 2019.

There’s a risk of a recurrence of events such as the coronavirus outbreak that turned tourist magnets such as Times Square into ghost towns and forced It’Sugar in 2020 to temporarily shutter its stores. It’Sugar had to file for Chapter 11 bankruptcy protection because of the closings at the time, but Rubin said it came out of the reorganization with 96 stores versus 83 previously because it was able to negotiate “very favorable partnerships with landlords,” who Rubin said wanted It’s Sugar as a tenant and extending terms.

“We were decimated,” Rubin said. “We closed all our stores for four months. It was brutal.” It’Sugar has restructured its financial rent obligations to a point where it would be able to weather another event like COVID, he said.

Rubin, who sold It’Sugar to Florida-based BBX Capital in 2017 but remains its chief executive, also is thinking outside the U.S. market.

The chain is expanding in Canada and looking for sites overseas to make its entry into Europe.