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The Real Toy Story

By Dan Hanover, Managing Editor

Warren Kornblum is the founder and Chairman of Shadow Entertainment Group. The company is involved in the development and production of entertainment properties for film, television and live theatre. Through its wholly owned division, Shadow Branding, Warren and his team also work with leading global brands and intellectual property holders/creators toward maximizing the potential of their properties. On both the entertainment and branding side of Shadow's activities, Warren believes the company's success will be based upon the relationships and trust it builds in tandem with a keen understanding of what the consumer wants gleaned from many years of marketing to them.

The toy business isn't always fun and games.

For Toys "R" Us, in fact, it's been quite awhile since the \$22.97 billion toy industry has been fun at all.

The 1990's were tough for the Paramus, NJ-based chain. Forty years after a young Charles Lazarus founded the company in 1948 (thereby inventing the category-killer retail concept) and built it into a retail powerhouse, Toys "R" Us watched as the industry it commanded got sliced and up served to other retailers like cake at a birthday party. Sam Walton expanded toy departments in his Wal-Mart Supercenters at light speed. Dayton Hudson began moving its Target concept out of the Midwest. Kmart emerged from corporate turmoil with a new Big K format that shelved piles of toys. And KB Toys used an army of tiny shops to divert billions of dollars in revenues into American malls.

A shell-shocked Toys "R" Us reacted to the new competition with merchandise tweaks and modified store layouts, but to no avail. Between 1990 and 1997, the chain's market share fell from 25 percent to 18 percent, according to Port Washington, NY-based NPD Group. One year later, share shrank to 16.8 percent and Wal-Mart officially became the nation's No.1 toy retailer. (NPD's figures for 1999 are due later this month.)

Embattled but still confident, ridiculed but still respected, off-track but now seemingly on the right path, Toys "R" Us presses on. After a 10-year downward spiral, the company has emerged with a new corporate strategy and a marketing plan with a foundation largely anchored by its first serious jump into promotion marketing.

The chain first dipped its toe into the promotional waters in 1999. This year it's doing a full gainer, backing its promotions budget with a war chest of marketing dollars raided from other corporate spending areas. The retailer is hoping the new promotional emphasis will bring the smile back to mascot Geoffrey the Giraffe's face.

Getting it Together

In January of 1999, Toys “R” Us brought former ad agency bigwig Warren Kornblum on board as senior vp and chief marketing officer to replace Ernie Speranza who was moved into the company’s international group. A former management partner with Bozell Worldwide in New York City, Kornblum wasted no time overhauling the marketing operation. He quickly hired Simon Marketing in Los Angeles to explore promotional possibilities, and put his company’s \$70 million ad account up for review. A few months later, Toys “R” Us cut Madison Avenue creative shop the Kapland Thaler Group and media buyer Quantum Media International, replacing them with Chicago’s Leo Burnett and its Starcom Worldwide media-buying arm.

Kornblum brought Kids “R” Us vp-advertising David Walker over to his team as vp-marketing and advertising for U.S. Toys “R” Us stores. He also added promotions to director of licensing and advertising Michael Tabakin’s responsibilities.

While the Burnett team developed new advertising (the first efforts broke last summer with the tagline, “It’s All For Them”) Kornblum began developing the promotional end of his new marketing blueprint.

In the past, Toys “R” Us had joined in small vendor promotions and managed scattered marketing efforts. “When I came on board, there was a dramatic shift in our thought process,” he says. “We decided to do fewer – but bigger – promotions.”

The Kornblum camp began building up its promotional muscles last spring. In April, the team signed on as a sponsor of Major League Baseball’s diamond Skills program, a national youth-skills competition. Stores promoted the program with sign-up stations and a sweeps offering such prizes as a chance to throw out the first pitch at the World Series, trips to the All-Star Game, a day as a bat boy or bat girl, and tickets to games.

Kornblum watched as the Toys “R” Us brand garnered more attention and notice. Shortly after the MLB program ran its course, he hooked up with New York City-based sports-marketing outfit SFX entertainment, which was tapping into the white-hot, post-World Cup women’s soccer fervor by sending the victorious U.S. Women’s Soccer Team on a 12-city exhibition tour. A few weeks after it was first announced, the tour was rechristened the Toys “R” Us Victory Tour. At each event, fans got a chance to meet the athletes face-to-face and to score against the players on the field. Toys “R” Us inserted a cause component with player visits and toy donations to local hospitals. The tour ran from October through December.

The retailer also sponsored the Fox Kids World tour, a traveling interactive “theme park” that showcased Fox Kids Network television properties. Merchandise related to Fox shows was set up in separate displays at Toys “R” Us stores, and shoppers received in-store offers for World Tour ticket discounts. Event signage directed consumers back to Toys “R” Us outlets for the merchandise. The tour hit 50 markets in 1999 and will reportedly continue this fall after a summer hiatus.

The three sponsorships proved a healthy warm-up for what would be Toys “R” Us’s promotional coming-out party: a holiday 1999 tie-in with Walt Disney Co.’s Toy Story 2. “We knew [that movie] was the horse to bet on,” says Kornblum. “We wanted to be seen as a player. And for the first time ever, we decided to put all our weight behind a promotion.”

Looking to create a ton of buzz for Buzz (Lightyear that is), Toys “R” Us last summer put Simon Marketing to work on an in-store scratch-and-win gamecard promotion. But early into development, the retailer and promo shop changed directions. The Toys “R” Us information systems department was brought in to rig the chain’s pricing scanners for promotional use. (The scanners, found through Toys “R” Us stores, are used by consumers to check merchandise prices. Shoppers hold merchandise UPC codes up to the scanner and an LED screen displays the price.)

A “scan-and-win” promotion was born. About 250 million unique UPC gamepieces were distributed via newspaper circulars in November, hyping the Buzz and Woody’s \$1,000,000 Toy Round-Up sweeps and inviting consumers to drop by stores and scan in. Shoppers held the UPC gamepieces up to scanners to find out if they’d won. Stores were outfitted with Toy Story 2 boutiques and related signage. In addition to the \$1 million giveaway, the prize pool included a \$25,000 Visa card, trips to Walt Disney World, Chevrolet Astro vans, and \$1,000 Toys “R” Us shopping sprees.

Result: More than one million consumers scanned in. The Toy Story 2 promotion took Toys “R” Us into a whole new realm of promotion marketing. “It was backed by media like they never did before,” says Paul Marcus, Simon Marketing’s executive vp. “It was a statement.”

Give Me a Sign

Store traffic increased. The mountains of sweepstakes entries and packed venues worked – a little too well, in fact. Many shoppers left stores empty-handed as the company ended up short on many hot products in the all-important holiday period – a problem that hit toysrus.com especially hard. The inventory bungle was a big reason why fourth-quarter 1999 sales stayed flat at \$5 billion. Same-store sales (revenues from stores open at least one year) dropped two percent. Overall, however, sales for fiscal 1999, ended Jan. 29, rose six percent to \$11.9 billion from \$11.2 billion a year earlier. Same-store sales for U.S. toy stores increased three percent for the year.

Despite the fourth-quarter setback, Toys “R” Us saw signs in the latter half of 1999 that a turbocharged push into promotion could aid its corporate survival.

Result: the company, which operates 710 toy stores in the U.S., is upping the ante and planning “big things” in 2000 and 2001, says Kornblum. To fund those big things, Toys “R” Us has sifted through its corporate financial structure and reduced expenses in other areas to beef up the marketing budget.

“We haven’t reduced expenses to bring savings to our bottom line,” explains John Eyler, the former FAO Schwarz ceo Toys “R” Us hired as president and ceo in February (the company had been sans ceo since Robert Naakasone left last August). The retailer has slashed expenses across the board, Eyler says, to

fund two initiatives: First, to provide better customer service, increase the number of employees in stores, and expand operating hours. "The second thing is to provide incremental marketing dollars," he says. "Notice I say marketing, not advertising."

With Eyer's vote of confidence, Team Kornblum has been busy traveling the nation talking with potential promo partners. The chain will continue to pursue entertainment and sports marketing combinations, both of which "get us close to families, and that's where we want to be," says Kornblum, who was promoted to executive vp of worldwide marketing and branding management last month.

The first new sports deal, to be announced this month, involves a multi-year partnership with Major League Baseball as title sponsor of Diamond Skills. (Trading card maker Fleer Corp. Had the top bill the last two years.) Promotional sweepstakes and cause-marketing components will tie in. The partners will use the program to broaden their consumer basis. "Diamond Skills targets youths ages seven to 14," says Kathy Francis, Major League Baseball's vp-marketing. "Toys "R" Us skews even younger, which is a great way for us to extend our program."

The retailer is also putting together another Victory Tour to take place after this summer's Olympics in Australia. Before that, it will join with Bandai America on a string of promotions set to culminate during the back-to-school season. The partnership launched April 1 with a co-branded newspaper insert promoting Bandai's Digimon toy line. Later this month, the chain will host a Bandai weekend, giving away exclusive Toys "R" Us-branded Digibattle cards with every \$9.99 a child spends on Digimon merchandise. From May 2 through July 1, a 20-foot Bandai section will be set up inside Toys "R" Us stores.

Toys "R" Us next ties into the late summer/early fall release of Bandai's first Digimon movie (the Pokemon-esque property is a successful TV series on Fox Kids Network) with a second scan-and-win sweeps. Kids buying tickets at movie theaters will receive bags filled with such goodies as a Digimon character card and a UPC-coded gamepiece they bring to Toys "R" Us stores to see if they've won. Three million gamepieces will be distributed, and "we'll support the contest with one million prizes," says Shin Ueno, Bandai's vp-marketing. The prize pool includes trips, full Digimon product lines, and card games.

Kornblum says he's still "in the throes" of signing theatrical partners for the holiday selling season. (Toys "R" Us was rumored to be getting quite cozy with the teams behind Disney's 102 Dalmations and Universal's Dr. Seuss's How the Grinch Stole Christmas at February's International Toy Fair in New York City. Details are expected shortly.)

Future promotions will be tied to toysrus.com, which has been overhauled in the months following its holiday fiasco. Couponing will continue – the retailer tied in with McDonald's last fall in an effort that served \$3 coupons with Chicken McNuggets – as will smaller-scale promotions where appropriate. For example, the chain will reportedly continue to partner each Christmas with Nickelodeon on the Super Toy Run Sweepstakes, which last year bestowed a grand-prize trip to Hawaii for a five-minute shopping spree in a Toys "R" Us store. The chain and New York City-based cable TV network Nickelodeon

partnered on media support. "Several hundred thousand entries came in," says Nickelodeon vp-marketing Pam Kaufman.

Toys "R" Us will team with videogame maker Activision to promote the launch of Tony Hawk's Pro Skater later this month. Activision kicks in a reported \$2.3 million in media support. Toys "R" Us will set up P-O-P and give away a mini skateboard toy with video purchase.

All of the marketing activities will seek to drive traffic into the chain's new store concept, the 46,000 square-foot C-3 (for "customer driver, cost-effective concept"). The easier-to-shop format allows for 18 percent more selling space, houses wide aisles, and will be adapted by 75 percent of stores by the end of 2000.

Eyler says he will encourage exclusive merchandise deals to differentiate the chain from the competition. Toys "R" Us and New York City-based Discovery Communications are co-developing an exclusive line of Animal Planet-branded toys to be sold on in Toys "R" Us stores. The 100 toys will debut this fall at price points ranging from \$2.99 to \$40. The collection will be housed in a branded store-within-a-store section inside new Imaginarium areas (Toys "R" Us brought the 41-store, Saddle River, NJ-based Imaginarium chain last year). Robin Sayetta, Discovery's vp-merchandise and promotion licensing, says marketing to back the merchandise is being developed.

Exclusive merchandise currently accounts for about five percent of inventory, a number of Eyler would like to push to 20 percent over the next few years. (The New York City-based FAO Schwarz operation from where he came was 70 percent SKU-exclusive.)

Toys "R" Us is betting its marketing formula will provide the weapon needed to take market share back from Wal-Mart, Kmart, Target, and KB. Kornblum says he'll continue forming promotional partnerships that will help his company "weave itself into the fabric of American families."

With competitor growth plans on track and Internet toy retailing on the rise, Toys "R" Us is well aware that time is running out for it to regain category-killer status. A revitalization of its corporate compound needs to happen now, or the retailer is at risk of slipping even farther down the totem pole of top toy retailers.

And that wouldn't be any fun at all.