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The New Toy Story

By David Finnigan

"Make sure you look after the little fella," Steven Spielberg had said. The words stuck with Warren Kornblum, chief marketing officer at Toys "R" Us, as he was wrapping up an exclusive promotions and licensing deal last year for the spring's 20th anniversary re-release of Spielberg's classic, E.T. the Extra Terrestrial. Spielberg might have gotten more shelf space or ad dollars from a larger mass retailer like Wal-Mart, but Kornblum made the push to get the new-and-improved TRU this sure thing. He showered the property with exclusives including action figures, apparel, branded bicycles, collectibles, limited-edition movie characters and ride-on wheelies tucked into dedicated shops. The minimum three-year E.T. product line, which won't be available elsewhere, will be supported by TV and radio spots, and a sweepstakes timed just prior to the movie's March 22 re-release, plus extensive store signage and FSIs.

"[The deal] builds an evergreen toy for us, as opposed to six weeks around the release," Kornblum said.

t was a crowning tie-in after a three-year effort to mold the languishing Toys "R" Us into an invigorated specialty chain, a cross between FAO Schwarz and Target. Amid an uncertain economy and a consolidating marketplace, it also represented a march-or-die effort for TRU to adapt to tougher, tighter competition that would include store closings and still more layoffs while raising staff consciousness and overall brand-building.

The new retail reality playing across the toy landscape has etched a collective, almost permanent, raised eyebrow into toy buyers' foreheads. With hit movies from Godzilla to Star Wars' The Phantom Menace unable to translate into toy store bounty, the balance of power in the industry has shifted into the tightfisted hands of fewer and fewer retailers, namely big guns like Kornblum and his counterparts at Wal-Mart, Target, and to a lesser extent, Kmart. Not only are they passing completely on unproven properties, but are carefully picking others, so that last year's Planet of the Apes saw toymaker Hasbro turn out a simple line of collectible action figures and little else. The sobering approach in forcing changes among toy manufacturers, Hollywood studios, the licensing community and inventors alike. "The general retailer is smarter today than they were five years ago," said Fisher-Price CEO Neil Friedman. "They have better information systems. They know faster how quickly things are selling; they can read the trends in the markets. You have to make sure that there's a clear reason that the retailer wants to buy your product."

Not Just Babes in Toyland Among the big boxes, Wal-Mart has become the world's largest retailer through low, low prices and decent selection spread throughout its empire. Toys are an especially robust category because the retailer offers extreme discounts. Target can come across like an old-fashioned department store, yet with lower prices, too. Its toy aisles are unpretentious, but $1 deals on Mattel's Matchbox collectibles or generic puzzles are clearly marked on end-aisle displays. Upscale moms shop there for their private school kids, jokingly putting a French spin on its name: Tarjet.

“To me, Target just seems like a lifestyle brand; for most of my friends, it would be hipper or cooler or something to show up there [than Wal-Mart],” said Kathy O’Donnell, who tracks consumer behavior as an associate professor of marketing at San Francisco State University. She added that Wal-Mart often locates stores, especially rural ones, “where people don’t have access to competitive stores, so in some cases that’s the only game in town.”

Wal-Mart controls about 18-19% of the traditional toy market, according to industry estimates, just slightly edging out one-time category killer Toys “R” Us, also with about 18%. Next comes Target at 6-7%, and Kmart at 5%, followed by KB Toys. TRU stores now average about 45,000 square feet, compared to mass market toy sections, which at best expand to 9,000 square feet during the heavy Christmas buying season.

All that real estate means stores are singularly focused on out muscling rivals and drawing more shoppers via solid exclusives, like E.T., and proprietary offerings like TRU’s $1,000 plush “Bull and Bear” line, a headliner at its refurbished emporium in New York’s Times Square. That’s not to say that hot-sellers, like last year’s Xbox gaming consoles and select items linked to Harry Potter and the Sorcerer’s Stone, can’t rise to the top. “Some people say retail is king. I say product is king,” noted licensing consultant Gary Caplan of Studio City, Calif. “Now somewhere in there, retailers determine the destiny of someone’s business. The retailer’s approach to licensing has definitely changed; their influence today is greater than ever before.”

This week’s Toy Fair, in New York greets a battered industry, which for the past two years, has seen growth stagnate at 2% annually, following 1999’s healthy rate of 9% growth. Not counting videogames, toys earned $25 billion last year, a mere 1.6% increase from $24.6 billion in 2000, per figures from the Toy Industry Association. Among the bright spots were action figures, posting the category’s largest increase at 36%, driven by demand for toys such as Hasbro’s GI Joe following the events of Sept. 11.

“Last year was pretty flat,” said Reyne Rice, marketing director at retailer tracker NPD’s toy unit. Two years of 2% growth were to be expected after a heavy, tech-fueled toy buying, she added, though the toy industry depends typically on 3% annual growth. Top-selling toys last year included old retail hands: Barbie, Pokemon, Power Rangers, Sesame Street and newcomer Potter, tied to the Warner Bros. movie of last fall which made a respectable bow in the tough economy.

Private Label on the Rise

Toymakers and licensees are staying afloat by trying new approaches: mixing up products for different retail venues and forging closer ties to retailers who do nibble, all to beat back the big boxes’ harder-than-ever push on price, price, price. As Rice noted, “You have less available shelf space for the mainline manufacturers’ goods. Where there is an increase in shelf space it is for private label goods." Toys "R" Us private label lines accounted for about 12% of the retailers sales last year, with a goal of hitting 20% of future revenue. The growth of all lower-priced private label merchandise is putting the sting on dependents.

"It's very tricky and it's getting more difficult," said toy inventor David Fuhrer, best known for creating the top-selling, aerodynamic Nerf Vortex Football. "Right now price is so important. There's less innovation because people can't afford to pay the royalties for outside inventors. Everybody's looking for innovation, but they want to pay less for it. The popular price points are the same as 10 years ago, and yet all expenses have gone up."

Plushmaker David Socha, president of Beverly Hills Teddy Bear welcomes private label successes like TRU's Animal Alley line, using an all-boats-rise rationale often employed in the toy industry, where failure or success by one big player – Mattel or Hasbro, Godzilla or Shrek – reflects on everyone. "The success of Animal Alley shows there is a very good strength in plush," he said.

Socha's uncle is fellow plushmaker Bob Solomon, CEO at Applause. "I'm the Armani of plush," Solomon said. And being such a high-end plushmaker means one cannot always accommodate the lowest price. If you're going to be Armani, then you don't find your stuff 50% off at Ross Dress for Less," he said. Wal-Mart may be the one exception. As the world's largest retailer, it is uniquely unavoidable in the minds of most toymakers and licensees. "Listen, I want to sell to Wal-Mart, but don't want to only sell to Wal-Mart." Solomon said. "When you've got the right product and the right brand, Wal-Mart comes to you."

But not all brands should be supported, he argued: "Nothing kills a category faster than overflooding the market. Ask the dot-comers." The high stakes, retail-is-king environment is also forcing inventors to ratchet up their ideas to create more franchise-worthy initiatives and alternative distribution in theme parks, drug chains and supermarkets. "We used to be more of an item business," said Fuhrer, who now also thinks like a marketer. "We're now really a brand business. We have to look at a product and determine whether it can be a whole line of products, a family of branded products." Jim McCafferty, president of marketing consulting JMP Creative, Santa Ana, Calif., said that until three to four years ago, "you would depend on the retailer to do the selling. But the reality is, now, you have to be a lot more supportive and interactive with the retailer to help create innovative strategies to promote the product as opposed to just giving them money."

Of course, expanding a retailer's interest helps. When DreamWorks' Shrek became a mega-hit last year, its master toy licensee, McFarlane Toys, found that its well-sculptured characters had impressed Wal-Mart, CEO Todd McFarlane is better known for his Spawn comic book series and other horror characters. But with an opening from Shrek, he was able to convince Wal-Mart to give space to his sports-related characters.

“With Shrek, those windows open and close and they’ve got to move onto the next line,” said McFarlane. “Now I get fixed space with sports. It’s not a bad segment of business, right? I look good in January and February.”

Unlike move studios, the World Wrestling Federation has a strong leverage with its talent partly because it owns some of the names the wrestlers use, such as Chyna and The Rock. That effectively gives the WWF the ability to have talent to do in-store appearances and highlight the three letter brand, especially an up-and-coming talent like Kurt Angle.

“I can’t put The Rock or Stone Cold Steve Austin in a retail setting because there will be a riot and they’ll never sell anything,” said John Sohigian, the WWF’s vp-retail development. Instead, emerging wrestlers Angle and Trish Stratus drew about 1,000 people to their Friday-Saturday store visits recently in New Castle, Pa. “Sales were tremendous,” Sohigian said.

Getting it Right at TRU

The loving care heaped on E.T. by Toys “R” Us is one way the revamped retailer is fighting against the struggling Kmart, solid Target and behemoth Wal-Mart. An enhanced in-store experience is a dominant theme, instead of mass merchants’ stack-it-deep/sell-it-cheap approach. Under CEO John Eyler, who transformed FAO Schwarz and now is being closely watched by Wall Street to work more magic, the company also is paying clear attention to improving margins: Toys “R” Us last month began laying off 1,900 employees and shuttering 64 underperforming stores.

The chain’s revamped “Mission Possible” store design heavily emphasizes how mothers interact with products. The historic TRU racetrack floor plan now is surrounded by adjacent, targeted “worlds”: stuff for boys, then girls, games, etc. The challenge, in Kornblum’s words, was “opening the store up, lowering the vistas so that you can see the expanse of the store.”

Demo stations have eager employees opening products to road test toys for curious customers. “If you walk into a Toys “R” Us, we believe there should be a substantial, perceivable difference,” Kornblum said. “We’re not the discounter. It’s not a warehouse.”

Unlike no-frills, warehouse retailers such as Costco and Sam’s Club, Toys “R” Us three years ago decided it could not compete on price and was starved for renovation. “Mothers, fathers, everyone hated going to Toys “R” Us,” said Adam Klein, former Hasbro evp, now in the media and entertainment practice at consultancy Booz Allen & Hamilton. “The aisles were a mess, the staff was indifferent, if not rude. Eyler’s taking this head-on.”

Nowhere is that more evident than the vaunted three-story location in Times Square, where the store experience is as much about entertainment as it is about shopping. Parents and kids are greeted by characters like Merlin the Magician, while speakers play a symphonic rendition of the once famous jingle, “I want to be a Toys “R” Us Kid.” Toys are arranged in branded or themed areas such as “American Classics,” “Imaginarium,” and “Candyland,” with large movable end-caps displaying multiples of product. In amusement park fashion, sections of the store are devoted to experiencing Jurassic Park, with a huge animitronic dinosaur, and a two-story Barbie dollhouse. In the middle of it stands a huge Ferris wheel with branded cars from the likes of M&M’s, Pokemon, Monopoly, Nickelodeon and Mr. Potato Head. Kornblum said that if TRU can’t hold customers’ interest in a 45,000-vs.9,000 square-foot competition and treat people, “in a fun, attention-getting compelling way…then shame on us.”

“If all toy buying was about, was getting the hot toy at the hot price,” he said, “then you know what? Wal-Mart is a great alternative. We spent the last two years building a company that does nothing but showcase brands. We spent over $600 million in our stores in the U.S. Our business with 19 of our 20 vendors was up last year.”

Eyes and Ears on Disney

Those looking for a toy industry bellwether in 2002 may point to a potential Disney revival. Despite coming off a dismal year, with poor performances at theme parks and further closings or slashed prices at its retail stores, the entertainment giant will introduce new packaging at Toy Fair, and expand into the large fragmented activity toys category. Jakks Pacific’s Flying Colors unit is the licensee. Disney also has a new license with Hasbro for a line of “Disney Wild Racers” race cars. New Disney-branded interactive toys are coming too.

“It’s a much clearer message across all our categories,” said Tim Kilpin, Disney Consumer Products svp-global toys/marketing/creative arts. “It’s not because we’re not being partners with Mattel and Hasbro, but Disney is part of what’s going to get the consumer into the aisle and to pick up the package.”

Disney’s freestanding toys could create stronger year-round revenue not dependent on the box office. Such universal branding is also a proven way to fight retailer control over products: Instead of a Disney videogame in the electronics department and toys in the toy aisles, the repackaging unites all licensees and puts a plethora of disparate products under one umbrella – making them eligible for breakout, dedicated store space. Like the E.T. sections in Toys “R” Us, Disney looks to gain a foothold at mass by playing off brand identity rather than stocking product in separate, isolated category aisles.

Disney’s expanded internal toy strategy seems to deflate earlier speculation that its larger aim has been to buy either Mattel or Hasbro. Wall Street also may not have noticed its hiring of Kilpin and several other mid-level executives last year from Mattel, a core team of new thinkers now pushing the Disney brand to retailers more aggressively.

Disney Consumer Products last year organized a small meeting of toy inventors, for example, encouraging them to give Disney a shot at their ideas instead of going straight to Mattel or Hasbro.

“Our goal was to become more proactive rather than sign royalty licensing checks,” said Kilpin. “The intent is to improve that relationship with retailers, and also think and act like a toy company.”

Goodbye One-Hit Wonders?

Filmmaker Rob Minkoff’s Stuart Little 2 is due this summer from Sony Pictures, eight years after his 1994 Disney ultra-hit, The Lion King. Retailers remain skeptical about movie tie-ins since the underperformance of 1998’s Godzilla toys and wild overestimates of 1999’s Star Wars grab bag. “What you’re dealing with in the toy market is a demographic that may be different from the film,” said Minkoff. “You expect to reach everybody in the movie theater but you don’t expect everybody to buy a toy.”

Nonetheless, the onus is increasingly on studios to help retailers push product. “The studios know that they must be the driving force in terms of selling the excitement of the movie, as opposed to relying on individual licensees,” said DreamWorks Consumer Products head Brad Globe.

Globe worked closely with Wal-Mart on Shrek promotions, including a commercial with the film’s ogre star walking through Wal-Mart aisles. The TV product integration was groundbreaking for Wal-Mart, and DreamWorks brought extra muscle – and literally more ears – to its follow-up fall promotions for the Shrek video-DVD release. The low-priced DVD has become the format’s top seller to date.

DreamWorks had to keep Wal-Mart pumping as strongly for the November home entertainment push as it did for the May theatrical release. Sources said that last August, studio executives – including Globe, his wife and consumer products marketing head Anne Globe, and home entertainment unit boss Ann Daly – flew to the retailers Bentonville, Ark., global headquarters. There they donned green Shrek ears.

Such efforts to build and maintain retail interest might have been inconceivable alongside the popular vision of Hollywood as aloof, endlessly wealthy and in control. But, no longer.

“It’s not enough just to show up and say, ‘Here’s all the merchandise. Buy my stuff,’” Globe acknowledged. “We have to bring them new things to help their business.” The same is true in television. Holly Stein, svp-consumer products at Hit Entertainment, has enjoyed success with Nickelodeon’s Bob the Builder. Stein has seen retailers control more of the toy and licensing market by demanding a better mix of what she calls “the type of ingredients that they’re looking for.” “It’s not enough just to have a movie or TV show with big stars and big budget,” Stein said. “It has to be other things that go along with that: video release, TV, sequels. It is really important for a retailer to know everything about Bob the Builder.”

Stein called the modern Hollywood-retail courtship “the intangible sale,” adding: “Retailers are faced with so much stuff. It is really how to carve out a niche with them as a licensor, get in there and understand the profile of the consumer.”

What's Next?
The importance of Toy Fair itself has spawned a separate debate. Mattel will feature a token floor presence this year, shifting focus to customized multi-day presentations to retailers flown to Tucson, Ariz. Also, pre-Toy Fair events – notably January's Hong Kong, Dallas, and London toy shows plus Nuremburg's international show earlier this month – indicate that buyers have formed their own ideas about the content of their shelves.

"Sales for next year are pretty much put to bed now. It's mostly a social event," said Jeff Bialosky, svp at plushmaker Commonwealth Toy & Novelty, NY. "It's the industry's Super Bowl, but from a mass-market buying perspective, it's not very important anymore," said Fuhrer.

To the slew of challenges in today's toy industry – a tougher sell-in, private label, exclusivity demands, lacking Hollywood as a cure-all – add one more: simply getting all the right people in the same room to agree to one plan.

"The hardest thing to do is pull together a meeting at a corporate headquarters with buyers from different categories," said WWF's Sohigian. "It's your responsibility to take it to the marketing director. Let's say the toy buyer wants to do this, this and this. Does that go along with the overall corporate objectives?" Amidst all the retail battering, there remain small victories: McFarlane's expanded sports line, Harry Potter's good Mattel numbers, Kornblum's aisles of affection for E.T.

Family-run Wisconsin gamemaker Patch will break away from its more obscure game titles this summer with a People magazine titled celebrity trivia board game. "It could be a 5 or 10 year run for us," said company president Bryce Patch. "All the retailers are being very very aggressive in the numbers. The managers over the product, the sales on a weekly basis, they're looking at it on an almost everyday situation. That part of the business is getting dialed tighter and tighter all the time."

Patch employees recently got a small pat on the back from almighty Wal-Mart, enough to stir the conversation at the company's holiday party. Last fall, the gamemaker started shipping a new line of Wal-Mart coloring books for the chain's impulse buy category. In that category, Patch said, "We were named vendor of the quarter." The retailer sent Patch a certificate. It is framed. "You bet it is," he said.