

# TOYS 'R' US BANKRUPTCY COMMENTARY

FALL 2017

When news of the Toys 'R' Us bankruptcy hit the press on Monday, September 18, critics were quick to blame online channels for the company's failure. Noteworthy headlines included "5 Billion Reasons Toys 'R' Us Struggles as Amazon Soars," from the Wall Street Journal, and "Toys 'R' Us Bankruptcy Filing a Reminder That Amazon Is Crushing Everyone," by The Street.<sup>1,2</sup> As the story goes, competition from Amazon combined with an unsustainable capital structure brought about by a highly leveraged 2005 buyout by KKR, Bain Capital, and Vornado Realty Trust, translated to a loss of value for the once-dominant toy retailer. If the hypothesis is true, then this example fits the trend of prominent US retailers closing their doors due to e-commerce pressures.

## DISTRIBUTION OF TOY PURCHASES (BY RETAIL CHANNEL)

Channel	Market Share (%)
1 Mass Merchant / Discount Store (i.e. Wal-Mart, Target)	55%
2 Toy Stores (i.e. Toys "R" Us, independent toy stores)	17%
3 Online (i.e. Amazon)	7%
4 Food and Drug Stores	4%
5 Department / Major Chains	4%
6 Other	11%

*\*Source: Retail Business Market Research Handbook 2017-2018.*

The data, however, points to another set of culprits: Wal-Mart, Target, Costco, Dollar General, and other discount retailers. Over half of all toys today are sold through these channels as opposed to traditional toy stores, accounting for 55% of all toy purchases versus 7% for online toy sales.<sup>3,4</sup> While many

independent toy stores have folded under pressure from discount retailers, others are remaining competitive by applying Harvard Business School professor Ryan Raffaelli's 3Cs framework of "Community, Curation, and Convening," outlined in the Spring 2017 Longpoint Review on independent booksellers. As noted in the Review, many independent toy shops have successfully matched the efforts of independent bookstores to cultivate an appealing in-store atmosphere along with unique offerings, products, and services.<sup>5</sup> The Wall Street Journal also reported on this trend in a 2014 article entitled "Small Toy Shops Play Up the Perks," writing that the independent toy sellers of that era had begun bolstering service offerings such as gift wrapping and early morning home delivery (to keep the Santa's gifts a secret), as well as in-store experiences like large Christmas parties and readings by children's book authors.<sup>6</sup>

Today's most successful independent toy stores have mastered this focus on service, both inside the store and in the surrounding community. The American Specialty Toy Retailing Association notes that indie toy stores differentiate themselves by "...[specializing] in customer service and [having] staff members who are highly knowledgeable about toys and play."<sup>7</sup> In addition, small business owners like Jessica Persons, who runs a small toy store in the Twin Cities in Minnesota, report making significant efforts to stay involved in their local communities by supporting various organizations such as local sports teams, churches, and charities. Ms. Persons has found success with this model and has plans to upgrade to a larger 3,000 square foot location.<sup>8</sup> While large retailers like Wal-Mart will continue to draw customers by competing on price, smaller independent toy shop owners will find success by incorporating terrific customer service, community engagement and relevant curation of physical space. ■

1. Gottfried, Miriam. "5 Billion Reasons Toys 'R' Us Struggles as Amazon Soars." *The Wall Street Journal*. July 18, 2017. Accessed: <https://www.wsj.com/articles/5-billion-reasons-toys-r-us-struggles-as-amazon-soars-1500283802>. September 20, 2017.
2. Sozzi, Brian. "Toys 'R' Us Bankruptcy Filing a Reminder That Amazon Is Crushing Everyone." *The Street*. September 19, 2017. Accessed: <https://www.thestreet.com/story/14310647/1/amazon.html>. September 20, 2017.
3. Miller, Richard K. "Retail Business Market Research Handbook 2017-2018." 17th Edition. Loganville, GA: Richard K. Miller and Associates, 2017. Page 140.
4. Another popular hypothesis - that computer games and video games are taking market share away from physical toys - does not appear to be correct either, given that toy sales have grown consistently in past years, including 5.0% growth in 2016 and anticipated 4.5% growth in 2017. While online sales continue to gain prevalence, Walmart and similar discount chains have become by far the preferred toy retailers for US consumers.
5. Angelini, D.A., Herter, A.B., Stipanov, T.K. "Know Thy Community: Lessons from the Curious Case of Independent Bookstores." *Longpoint Realty Partners. Longpoint Review. Volume 1. Spring 2017. Page 5.*
6. Janofsky, Adam. "Small Toy Shops Play Up the Perks: Unable to Compete with Big Retailers on Price, Little Stores Focus on Events, Service." *The Wall Street Journal*. December 3, 2014. Accessed: <https://www.wsj.com/articles/small-toy-shops-compete-on-perks-not-price-1417650481?mobile=y>. September 21, 2017.
7. "Specialty Toy Industry Fact Sheet." *American Specialty Toy Retailing Association*. 2017. Accessed: <https://www.astratoy.org/newsroom/specialty-toy-industry-fact-sheet/>. September 21, 2017.
8. Ewoldt, John. "Indie Toy Store Owner Finds Her Place Among Big Box Stores." *The Star Tribune*. November 25, 2016. Accessed: <http://www.startribune.com/indie-toy-store-owner-finds-her-place-among-big-box-stores/403043476/>. September 21, 2017. Page 5.



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