

## CASE4.1

### Kazoo & Company: You Can Compete Against the Big Guys—If You Have the Right Plan

[www.kazootoys.com](http://www.kazootoys.com)

Bruce R. Barringer  
Oklahoma State University  
R. Duane Ireland  
Texas A & M University

#### Introduction

There is no denying it. It's tough for an independent toy store to compete against Wal-Mart, Target, Toys "R" Us, and other large retailers selling products that entertain children and adults alike.

So how is it that Kazoo Toys, an independent toy store in Denver, Colorado, is thriving? It's thriving because of two things—the firm has a doggedly determined entrepreneur at the helm and it has a good business plan. After you read about Kazoo Toys, you'll nod your head and think to yourself, yup—that's a good plan!

#### Diana Nelson

In the early 1990s, Diana Nelson left the corporate world with the intention of spending more time with her two young sons. In 1998, she decided to reenter the workforce, but this time as an entrepreneur. Rather than starting a company from scratch, she set out looking for a business to buy. After ruling out fast food and flower shops, she came across a toy store named Kazoo & Company. She saw untapped potential in the store and decided to buy it. It wasn't easy to get the money together to close the deal. To finance the purchase, she cashed out her retirement accounts, put \$25,000 on credit cards, borrowed money from her father, and set up a \$500,000 SBA-guaranteed bank loan. "I gambled everything to buy a toy store," she says. The actions Nelson took to finance her venture demonstrate the courage that characterizes virtually all entrepreneurs.

From the outset, Nelson had no illusions that owning a toy store would be easy. When she bought Kazoo, independent toy stores were being tattered to pieces by Wal-Mart, Toys "R" Us, and other large retailers. So, she knew that the only way to beat them was to outthink them. In this regard, Nelson saw her challenge as that of designing and then implementing a business plan that would make a small toy store competitive. Here's how she did it.

#### Kazoo's Business Plan

The essence of Kazoo's business plan was to not try to be like Wal-Mart or Toys "R" Us. Instead, Nelson set out to build a business that would offer unique products and services to its clientele. The mistake that many small businesses make, in Nelson's thinking, is that they set themselves up to compete against the chains (e.g., Toys "R" Us) or a supercenter (Wal-Mart) by trying to duplicate what they do. In these instances, the best an entrepreneurial venture can expect to do is to come close to being as effective at what the "big boys" are skilled at doing. Instead of falling into that trap, Nelson took Kazoo in a different direction. "We changed our whole merchandise mix to not carry the same product (as the nationwide chains did)," she recalls, "so price competition isn't an issue." As a result of this strategy, Kazoo doesn't carry Mattel, Crayola, or Fisher-Price. Instead, the store sells unique items like Gotz Dolls from Germany and a wide range of educational toys. The key to making this strategy work, Nelson found, is to build strong relationships with vendors. To help do this, Nelson invites many of Kazoo's vendors to demo and test new products in her store. Doing this gives Kazoo first crack at many of the new products that its vendors make. While they are in her store, the vendors also tip their hand from time to time regarding what the big retailers are buying. This gives Nelson and Kazoo a heads-up about what not to buy.

In 1999, Nelson opened a Yahoo! store online. The site sold the same type of toys being sold in the store. Over time, Nelson increased her Internet prowess and now her Kazoo & Company's Web site sells many of the same products that are sold in the store, along with additional products that are drop shipped by vendors. At one point in the early 2000s, Nelson considered franchising Kazoo but decided to pass on the idea. Instead, she felt it was better to preserve Kazoo's "destination" image and build the e-commerce site. Now, with 10 years of experience as Kazoo's owner under her belt,



Nelson has decided to pursue franchising, and Kazoo & Company will begin franchising in 2009.

### Points of Differentiation

Through all of this, Kazoo has established strong points of differentiation between itself and its much larger competitors, which has been the heart of Kazoo's business plan from the beginning. Along with carrying different products than its competitors, Kazoo is different from Wal-Mart, Toys "R" Us, and other large toy retailers in the following ways.

1. The company welcomes professionals, like speech therapists, to bring their patients into the store, to play with them and identify specific toys that might help them progress in their treatments. Observing professionals work with their patients (i.e., young children that have some type of disability) also helps Kazoo's staff know what to recommend when a parent comes in looking for a similar solution.
2. Kazoo's store design is unique. While the store itself is still fairly small, it is further broken down into smaller, more intimate departments. "When a particular consumer goes into a Toys "R" Us it has departments, but it's like a big warehouse," Nelson explains. "Here, it's very small. It's intimate, but it's also departmentalized, so you actually have a Playmobil department, and you have a Thomas the Tank Engine department."
3. The company focuses intently on customer service, from free gift wrapping to free parking. So whether it's a baby crying or a customer who can't find an item in the store, the company works hard to accommodate its customers in every way possible.
4. The company's specialty is selling educational, nonviolent toys, for birth to 12-year-old children. In fact, Kazoo's focus on selling toys that meet this criterion has won it a loyal clientele.
5. The inventory in the store is freshened up frequently, so regular customers see different toys each time they come into the store. "If you think about your regular customer, they don't want to see the same stuff on the shelf all the time, so we're always changing our inventory and our mix of what we do," Nelson said.

Kazoo's business plan and its sharp execution have paid off. Business is growing, and the company was selected as one of the Top 5 Specialty Retail Toy Stores in North America by the Toy Industry Association in 2003, 2004, 2005, and 2006. Its Internet site was voted the number one toy Internet site in 2006 and 2007 by *Playthings* magazine.

### Challenges Ahead

Although Kazoo & Company has done well, there are many challenges that lie ahead. For one, a lot of the manufacturers of specialty toys, which have been Kazoo's bread-and-butter since Nelson bought the firm in 1998, are now selling into broader channels. Thus, the toys that at one time only Kazoo and other specialty toy stores could get their hands on will be popping up in other types of stores. Economic pressures also tend to hit specialty retailers particularly hard. Tough economic times drive more people to Wal-Mart and Target, as opposed to specialty stores.

As far as Diana Nelson is concerned, she is very content with her decision to become an entrepreneur and the lifestyle that accompanies that decision as the owner of Kazoo & Company. Commenting on how her young sons fared over the years with her decision to buy a toy store, she said, "Their friends think—how cool are they that their mom has a toy store and a toy business." How cool indeed!

### Discussion Questions

1. To what extent do you sense that Diana Nelson got up to speed quickly on the dynamics of the toy industry when she took over Kazoo & Company in 1998? What impact would it have had on the ultimate success of Kazoo if Nelson had spent more time initially focused on the specifics of her business (i.e., store layout, hiring personnel, placing ads in local newspapers, writing press releases, setting up the accounting system, and so on) rather than gaining a complete understanding of the toy industry as part of her work to carefully develop a business plan?
2. When she first bought the store, do you think that Nelson could have convinced an investor that Kazoo & Company could successfully compete against the likes of giants such as Wal-Mart, Target, and Toys "R" Us? If not, who needed to believe that the business plan would work? How does an entrepreneur's level of belief in his or her own business plan affect how successful the business is, particularly in the early years?
3. Based on the information contained in the case, write the one-page executive summary of Kazoo's original business plan.
4. What is drop shipping? What are the advantages and the risks for a company like Kazoo & Company to engage in drop-shipping arrangements with its vendors?

### Application Questions

1. If you had taken over Kazoo & Company in 1998 instead of Diana Nelson, would you have thought

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of all the things that Nelson did? Would you have been able to write Kazoo's original business plan? If your answer is *no* to these questions, what steps can you take now to better prepare yourself for the day that you might become an entrepreneur? Make your answer as specific as possible.

2. If you decided to buy a specialty store that competes against Wal-Mart, Target, or another

big-box retailer, what type of store would you like to own? How would you differentiate your store from your larger competitors?

*Sources:* Kazoo & Company homepage, [www.kazootoys.com](http://www.kazootoys.com) (accessed November 15, 2008); B. Ruggiero, "Kazoo & Company Reaches Top 5 . . . Again," *TD Monthly*, June 2005; J. M. Webb, "When the Tools of the Trade Are Toys," *TD Monthly*, March 2006.