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TOYS “R” US: WHAT WENT WRONG?[[1]](#endnote-1)

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In September 2017, following continuous financial losses since 2014, America’s largest and iconic toy specialty retailer, Toys “R” Us (TRU), filed for bankruptcy and then in March 2018, declared its liquidation. According to Tim Barrett, a senior retail analyst with Euromonitor International, TRU’s demise in the United States happened because it failed to develop a digital platform at the right time and also failed to set competitive prices compared to other mass merchandisers such as Amazon Inc. (Amazon), Walmart Inc. (Walmart), and Target Corporation (Target).[[2]](#endnote-2) Although TRU pledged to continue operating its stores while filing for bankruptcy, its record low sales growth of 9 per cent during the 2017 U.S. holiday season (i.e., November and December), resulted in its liquidation in March 2018.[[3]](#endnote-3) Dave Sutton, president of TopRight Partners consulting firm, blamed the liquidation on the timing of the bankruptcy.[[4]](#endnote-4) According to him, filing for bankruptcy just before holiday season resulted in concerned consumers not wanting to buy from a brand with an uncertain future. Suppliers also demanded upfront payment for deliveries given the uncertain future of TRU.

In April 2018, Isaac Larian, the founder and chief executive officer (CEO) of MGA Entertainment, which manufactured Bratz dolls,[[5]](#endnote-5) attempted crowdfunding and offered to buy TRU’s U.S. and Canadian division for US$890[[6]](#endnote-6) million to prevent the liquidation of the company.[[7]](#endnote-7) TRU declined the offer, as it was less than the threshold liquidation value. Gerrick Johnson, an analyst with BMO Capital Markets, believed that TRU’s bankruptcy and liquidation were a setback to innovation in the toy industry because TRU was one of the largest specialty retailers.[[8]](#endnote-8) However, other industry experts believed that its exit could bolster small and local specialty toy-retailers. Regardless, the toy industry’s overall growth was already predicted to decline as kids started to play more games online (see Exhibit 1). Dave Brandon, the CEO of TRU wondered what led to the failure of TRU: heavy debt, poor e-retail strategy, or poor timing of its bankruptcy. Should he have accepted the bid from MGA entertainment? If Brandon had yet another opportunity to save TRU, should he focus on enhancing customers’ shopping experience or improving the brand’s digital strategy? If he finally liquidated TRU, would he create an adverse impact on the U.S. toy industry?

BACKGROUND

Charles Lazarus, the founder of TRU, opened a store in 1948 in Washington, D.C. called Children’s Bargain Town, which sold baby furniture. Lazarus gradually started selling toys at this store. In 1957, he opened the first TRU store in the suburbs of Maryland (see Exhibit 2). TRU became one of the largest toy retailers and a category killer, with 1,690 retail and 255 licensed stores worldwide. The store operated under two business segments—Toys “R” Us, Domestic and Toys “R” Us, International. In the 1990s, the company grew at a rate of 10 per cent per annum.[[9]](#endnote-9) In fact, in 1999 during the holiday season, TRU was flooded with so many orders online that it failed to ship and deliver to many consumers who ordered weeks ahead of the holiday season. As a result, TRU was fined $350,000 by the United States Federal Trade Commission.[[10]](#endnote-10)

In 2000, TRU quickly revamped its online presence through a long-term partnership with Amazon for 10 years; Amazon received the exclusive right to sell TRU products. A purchase attempt through the TRU website automatically redirected the customer to the Amazon website. According to the terms of the contract, Amazon was not allowed to sell toys from other merchants. In return, TRU paid $50 million every year for the deal, in addition to a percentage of online sales.[[11]](#endnote-11) Nevertheless, according to Mark Cohen, director of retail studies at Columbia University, this outsourcing of e-commerce was foolish. He specified, “They outsourced their e-commerce business to Amazon early on in an extraordinarily foolish deal that gave Amazon tremendous insight into customers and customer behaviour, and it gave [TRU] basically nothing.”[[12]](#endnote-12) The online sales of TRU increased and by 2002, TRU became the top website for children; however, TRU reported losses of $18 million from online sales of $376 million in 2003. TRU suspected some issues with its partnership with Amazon.[[13]](#endnote-13)

The partnership with Amazon was short-lived. To combat growing competition from eBay Inc. in the toy category, Amazon wanted to provide more toy varieties. Nevertheless, according to Amazon, TRU could not offer enough varieties to the satisfaction of Amazon; consequently, Amazon partnered with other toy retailers to enhance its selection of toys. As a result, legal battles emerged between the two companies for breach of agreement. TRU won the legal battle in 2009, and Amazon had to pay $51 million in compensation.[[14]](#endnote-14) Also, the contract between Amazon and TRU was terminated. However, after termination of the partnership, TRU never improved its online presence. At the same time, Walmart, using its low pricing strategy, was able to capture a significant share of the toy market in the United States. Consequently, TRU decided to sell the business to private investors.[[15]](#endnote-15) In 2005, private equity firms—namely Kohlberg, Kravis & Roberts, Bain Capital, and Vornado Realty Trust—acquired the publicly traded shares of TRU for $6.6 billion. The purchase was largely funded through debt, where the assets of TRU were used to raise the debt of $5.3 billion; the three venture capitalists invested the remaining $1.3 billion. Nevertheless, this added to the burden of paying $400 million in interest every year since the buyout. TRU executives assumed that by restructuring the company, they would lower cost of operations and increase cash flow to repay the large debt.[[16]](#endnote-16)

DOWNFALL OF TRU

After the leveraged buyout, TRU’s focus on online retailing was the least effective in the industry, with the smallest selection of toys available online. In 2013, the availability of the most popular toys on TRU’s website was only 50 per cent, while other retailers such as Walmart and Amazon had 75 per cent and 95 per cent of availability, respectively. Also, Amazon and Walmart priced toys approximately 10 per cent lower than TRU.[[17]](#endnote-17) Furthermore, the TRU website was difficult to navigate and required several clicks to reach the payment page and place an order.[[18]](#endnote-18)

Within TRU stores, sales staff were knowledgeable and helped customers find appropriate toys, which resulted in a unique shopping experience. However, over time the shopping experience deteriorated, and the company lost its customer service focus. TRU stores became poorly merchandised and cramped, and the shopping experience inside the stores declined.[[19]](#endnote-19) According to Cohen, consumers would have paid more for TRU products, compared to Walmart or Target products, if TRU had maintained an enjoyable shopping experience. He particularly emphasized,

Toys “R” Us never made a concerted effort to bring that experiential opportunity into the stores. I think once they went private, they could have cleaned up their act a little bit. But there was no consequential effort to re-imagine themselves, to present themselves in a more engaging and attractive way.[[20]](#endnote-20)

Consequently, from 2009 to 2014, revenues of TRU largely remained flat at $13 billion (see Exhibit 3). Moreover, mass merchandisers were gradually moving towards smaller formats, which were more appealing to consumers in general. TRU, which had large stores, did not adopt this trend.

In 2014, TRU finally announced a turnaround strategy. The company decided to realign its inventory, declutter its stores, develop clearer pricing and promotion strategies, and integrate physical stores with online stores.[[21]](#endnote-21) The company also invested in social media marketing to enhance customer engagement, and as a specialty store, decided to focus on the customer shopping experience and product variety, which Amazon and Walmart could not provide. In 2016, TRU further reinforced its customer convenience-oriented strategy by allowing customers to take advantage of various distribution channels, including the ability to shop online and select in-store pickup, ship-from-store, and ship-to-store options. In the same year, the company hired Lance Wills as its chief global technology officer. Wills decided to revamp the entire TRU website to enhance the customer shopping experience, improving the browsing and checkout interface. However, commenting on the work involved, Wills stated, “In a year to two years, we have to catch up on 10 years of innovation.”[[22]](#endnote-22)

TRU’s revenue did not improve between 2014 and 2017 (see Exhibit 3). Furthermore, due to TRU’s heavy debt interest payments, the company did not report any profits during this period (see Exhibit 3). The yearly debt payments meant that TRU’s cash declined to $301 million in the first quarter of 2017 from a high of $2.2 billion in 2004.[[23]](#endnote-23) According to Sutton, profits were not reported as TRU did not improve its logistics but rather relied on large, centralized warehouses instead of smaller, quicker response hubs. As a result, speed and flexibility in shipping suffered in comparison to other e-tailers, such as Amazon.[[24]](#endnote-24) Brandon also admitted, “our inability to provide expedited shipping options and our lack of a subscription-based delivery service”[[25]](#endnote-25) resulted in the company lagging behind competitors.

Furthermore, TRU could not enhance even its in-house shopping experience. For instance, during the 2015 holiday season, only 65 per cent of the bestselling toys were available on its shelves, whereas the recommended level of availability during the peak season was 95 per cent.[[26]](#endnote-26) Customers commented that “the shelves were very empty and it felt like we were shopping leftovers.”[[27]](#endnote-27) In fact, Greg Portell, lead partner in the consulting firm A.T. Kearney, stated, “If you’re going to have that breadth of inventory, you need someone in the store to help you find it, help you experience it,” elaborating that “It’s hard to sell toys in a cold, warehouse environment.”[[28]](#endnote-28) Brandon himself mentioned that TRU failed to maintain good store conditions. He specifically noted that with regard to competition, the company was lacking on various fronts, including general upkeep and the condition of the stores.[[29]](#endnote-29) Consequently, TRU’s market share compared to its competitors declined, so that TRU held a market share of 13.6 per cent in the traditional toys and games industry, whereas Walmart and Amazon held a market share of 29.4 per cent and 16.3 per cent, respectively.[[30]](#endnote-30)

In May 2017, TRU again decided to revamp its e-commerce platform as a part of its $100 million restructuring program.[[31]](#endnote-31) Experts commented that this e-commerce restructuring effort was “too late and too little.”[[32]](#endnote-32) TRU already had a long-term debt of $5.2 billion in 2017, with $400 million of debt due in 2018, another $2.6 billion due in 2019, and $1.36 billion due in 2020.[[33]](#endnote-33) Its quarterly sales in September 2017 also declined by 4.8 per cent year-on-year, and its net losses increased to $164 million. The toy industry at the same time reported a growth of 5 per cent.[[34]](#endnote-34) TRU did not earn enough profit to repay its debts and needed to restructure the debt. The company finally chose to file for bankruptcy.

FILING FOR BANKRUPTCY

TRU filed for bankruptcy protection in September 2017 with the intention of making its business model leaner, with manageable debt. To achieve this objective, a new $3.1 billion loan was issued to TRU to keep the business operational during turnaround efforts.[[35]](#endnote-35) The loan was issued according to debtor-in-possession financing, intended for financially distressed and bankrupt firms in the United States and Canada under Chapter 11 of the United States Bankruptcy Code. The loan was to be used by TRU to make investments to improve store layout and lighting, the shopping experience, e-commerce sites, promotion of highest selling toys, and delivery capabilities.[[36]](#endnote-36)

In October 2017, a month after filing for bankruptcy, TRU released its first augmented reality application (app), Play Chaser. Those who downloaded the app could scan special signs in stores; the app’s interactive features allowed children to earn in-app currency by completing quests and games. Though implemented on a limited scale by the end of October, the app was expected to eventually become available at all TRU stores.[[37]](#endnote-37) However, features of the app were limited in scope. Consumers were still more likely to purchase toys from Amazon due to lower prices.[[38]](#endnote-38) During the 2017 holiday season, TRU also released a nostalgic advertisement, a remix of the store’s famous “I Don’t Wanna Grow Up” jingle.[[39]](#endnote-39) Its aim was to refresh the memories of parents of their own childhood days, where they used to visit TRU stores to buy their favourite toys.

Over the years, TRU earned approximately 40 per cent of its revenues during the U.S. holiday season, making it vital for the company to have toys available at this time of year.[[40]](#endnote-40) However, after TRU filed for bankruptcy, vendors decided to curtail shipments, which proved to be detrimental for the company. Furthermore, during the holiday season, major retailers, such as Walmart, Target, and Amazon, drastically slashed their toy prices. For them, toys were a means of attracting customers to buy additional items with higher profit margins.[[41]](#endnote-41) Although TRU had pledged to keep stores open while filing for bankruptcy, consumers became skeptical of shopping at TRU stores during the holiday season. Meanwhile, competitors such as Walmart tripled their toy merchandise and improved the shopping experience offered at their retail outlets. Retail experts commented that TRU could not do well during the holiday period, as it did not offer a competitive or convenient shopping experience.[[42]](#endnote-42) As a consequence, TRU reported a 9 per cent decline in sales during the holiday period, a record low for the company.[[43]](#endnote-43) According to Jay Saklo, an attorney at Bilzin Sumberg specializing in restructuring, the management of TRU filed for bankruptcy before the U.S. holiday season in order to manage the company’s inventory and maintain its supply chain—filing for bankruptcy was necessary given that suppliers demanded upfront payment.[[44]](#endnote-44) TRU had more than 100,000 creditors, including toymakers Mattel, Inc. and Hasbro Inc. (Hasbro), to which TRU owed $136 million and $59 million, respectively.[[45]](#endnote-45)

FILING FOR LIQUIDATION

In March 2018, Brandon stated that due to the disappointing holiday season, the company needed to file for liquidation. While announcing the liquidation of TRU, he told employees, “I am devastated that we have reached this point.” He added, “We have vendors and suppliers out there who are also going to experience disruption and, in some cases, the same risks of insolvency based on the level of penetration they have with our company.”[[46]](#endnote-46) Many of TRU’s international stores, in addition to those in the United States, were liquidated. However, stores in Asia and central Europe remained open.

Reacting to the news of liquidation of the company, Larian noted that TRU’s demise could have a devastating effect on the toys industry, leading to the loss of about 130,000 U.S. jobs. He further mentioned that toy manufacturers such as Hasbro noted a 16 per cent drop in their sales due to the closure of TRU outlets.[[47]](#endnote-47) Larian sold approximately 20 per cent of his company’s toys through TRU. Furthermore, emphasizing the role of specialty retailers like TRU, Larian stated, “People do not realize the hole that can’t be filled by other retailers.”[[48]](#endnote-48) He characterized TRU as an essential “American icon,” stating, “I used to take my kids there instead of Disneyland. This needs to be saved for the next generation.”[[49]](#endnote-49)

In his zeal to prevent the failure of TRU, Larian along with two unnamed investors pledged $200 million to save 400 high performing TRU stores in the United States out of a total of 750 stores. To raise additional funds, Larian started a GoFundMe campaign. His objective was to raise $800 million through crowdfunding and make a $1 billion offer to purchase the bankrupt TRU. To entice investment, Larian offered complementary toys as a gift, with the nature of the gift varying with the level of investment.[[50]](#endnote-50) However, he was able to raise only $58,998 from public contributions. Larian explained that he intended his crowdfunding attempt to raise public awareness about efforts to save TRU. He finally made an offer of $890 million for TRU, with $675 million allocated to 400 stores in the United States and $215 million allocated to Canadian stores.[[51]](#endnote-51) However, this offer was turned down by TRU because it was less than the threshold liquidation value that the company was expecting. Moreover, TRU did not directly inform Larian of this decision; after learning that his offer was rejected, he responded, “If that’s the case, it’s really a shame that they’re going to let this company go into liquidation instead of at least responding and saying we need more or we need this.”[[52]](#endnote-52)

TRU was successful in saving some of its international stores from liquidation. For instance, TRU was able to find a buyer in Fairfax Financial Holdings Ltd. for the Canadian business unit. In fact, Larian was just 10 per cent below the bid price at which the Canadian stores were sold. This gave him hope and he continued to bid for the American stores. Commenting on his efforts to save the American stores, he affirmed,

I’m an optimist. I think things are going to work out. The people handling the sale, I think they’re genuinely trying to save the stores here in the U.S. It’s going to be awkward if Toys “R” Us Canada is saved, if it is saved in central Europe and Asia, and but [sic] the market where it started goes into liquidation.[[53]](#endnote-53)

CONSUMER RESPONSE

News of TRU store closures evoked an emotional response among consumers, who were upset to see a childhood store cease to exist and blamed Amazon for the demise of the company. One consumer tweeted, “The sad truth is we are all to blame. Amazon and online shopping is killing stores that have deep cultural significance in this country. Every time we buy something online, we drive a nail into the coffin of these historic stores. I can’t imagine an America without Toys “R” Us.”[[54]](#endnote-54) Another consumer commented, “We’re Amazon shoppers for better or worse. I guess we’re part of the problem.”[[55]](#endnote-55) Consumers also became nostalgic and remembered the retailer’s jingle over social media, which featured the lyrics “I’m a Toys “R” Us kid.”[[56]](#endnote-56) Some parents tweeted that their kids were asking for the next best place to go shopping for toys, while others shared their childhood memories associated with TRU.

Nevertheless, certain consumers expressed that toys were much more expensive at TRU than at Amazon or Walmart. One consumer stated, “Just across the way, the same products are 10, 15, and 20 per cent cheaper. It’s hard to give them dollars just because of nostalgia.”[[57]](#endnote-57) Across the United States, approximately 175 TRU stores had a Target, Walmart, or Kmart Corporation within a half-mile to one-mile distance.[[58]](#endnote-58) In early 2018, a consumer survey by *Supply Chain Dive*, an online supply chain magazine, indicated that the majority of TRU consumers who participated in the survey considered TRU responsible for its own failure.[[59]](#endnote-59)

THE U.S. TOY INDUSTRY

The toys and games industry in the United States grew by only 1 per cent in 2017, and growth was predicted to remain in the range of only 0.89 per cent to 1.44 per cent in the coming years (see Exhibit 1). While the traditional toys and games sector accounted for 44 per cent of the global toys market in 2017, the mobile gaming sector was quickly catching up, with almost 20 per cent of the market share.[[60]](#endnote-60) According to research firm Global Industry Analysts Inc., children in 2016 played equally with traditional and technology-based toys.[[61]](#endnote-61) The toy industry globally was likely to be driven by smart toys, video games, and educational games (see Exhibit 4).

As TRU failed to boost sales, top toymakers like Hasbro, LEGO, and Mattel, Inc. experienced a slump in their 2017 holiday season sales. In contrast, video game consoles such as Sony’s PlayStation, Microsoft’s Xbox, and Nintendo’s Wii were more successful. According to industry reports, children were no longer interested in movie-linked toys, such as Hasbro’s Star Wars-linked toys and LEGO’S Batman-linked products. Also, large toymakers like Mattel and LEGO were not major players in online gaming. Furthermore, demand for toys in the less-than-$10 category, in which profit margins were low, was outpacing the demand for toys in any other category.[[62]](#endnote-62) Lutz Muller, the president of Klosters Trading Corp., a toy consultancy firm, stated, “Kids are wedded to their smartphones, wedded to social media, and the savvy marketers are using this to promote their products.”[[63]](#endnote-63)

CONSEQUENCES OF Toys “R” US’S EXIT

According to industry experts, the exit of a dedicated toy retailer such as TRU was likely to negatively impact innovation in the industry because toymakers would have less opportunity to promote their new products throughout the year. When consumers visited Amazon’s website, they typically already knew what they wanted to buy; however, they often visited TRU when they intended to explore new toys.[[64]](#endnote-64) In fact, after testing toys at TRU, toymakers would then stock the bestselling toys with different mass merchandisers.[[65]](#endnote-65) Johnson commented, “At Toys “R” Us, there is a lot of browsing, impulse purchasing, and idea generation,” further noting, “It’s going to be harder for new items to break out.” In addition, Johnson has asserted, “Without a dedicated toy retailer—365 days a year—you will see growth in the industry slow [because] Toys “R” Us is where new products can be discovered and blossom.”[[66]](#endnote-66) Hasbro, for instance, displayed around 60 brands at TRU. Consequently, after the news of TRU’s liquidation news, Hasbro’s share prices decreased by 3.8 per cent and Mattel, Inc.’s share prices fell by 10 per cent.[[67]](#endnote-67) At the same time, smaller toy companies like Fantasma, Alex Toys, and others received exposure. Small toymakers sold 40 per cent of their products through TRU and were less likely to obtain shelf space at mass merchandisers like Walmart or Target. According to media reports, they were likely to either exit the toy industry or be acquired by larger toymakers.[[68]](#endnote-68)

Moreover, TRU accounted for 15 per cent of incidental toys sales in the U.S. toys industry, which might not be transferred to other channels.[[69]](#endnote-69) Stephanie Wissink, an analyst with Jefferies, estimated that the industry could lose 15–20 per cent of toy sales because of TRU’s exit.[[70]](#endnote-70) For TRU’s suppliers, its liquidation was also a big blow. According to Gary Atkinson, CEO of the Singing Machine Company, “Toys “R” Us was our second biggest customer after Walmart.”[[71]](#endnote-71) Singing Machine conducted $10 million worth of business with TRU in 2017, which the company projected would be lost after liquidation. Also, suppliers were worried that TRU’s liquidation implied that they would lose worldwide distribution through its stores. As the company proceeded toward liquidation, toys were greatly discounted for clearance sales. This created difficulties for competitors, whose sales slowed during this period.[[72]](#endnote-72)

CONCLUSION

According to Cohen, bankruptcy could not have saved TRU due to drastic changes in consumer preferences.[[73]](#endnote-73) Purchasing toys was no longer a hedonic experience; consumers wanted stores where they could buy other items alongside toys. Furthermore, children became more interested in buying online games rather than toys.[[74]](#endnote-74) While some industry experts claimed that TRU did not adapt itself to the changing e-tailing environment and consumer behaviour, others believed that it never had the required finances to invest in major infrastructure restructuring. As Cohen explained, “Toys “R” Us has never been able to wrap their arms around the changes necessary, and this is the inevitable outcome.”[[75]](#endnote-75) Charles O’Shea, an analyst with Moody’s, stated, “With these debt levels, how much actual flexibility do you have in this environment?” He elaborated, “You have to invest online—because your principal competitors there are really good—and you’ve got to deal with the debt load and your maturities on top of that. The pie is only so big.”[[76]](#endnote-76) Nevertheless, according to some industry analysts, TRU’s major concern was lack of innovation in the toy industry and the threat from online gaming, smartphones, and mobile devices.[[77]](#endnote-77)

According to media reports, if TRU succeeded with liquidation, it was likely to be the largest liquidation in the retail history of the United States.[[78]](#endnote-78) As TRU struggled for survival, experts such as Jeffrey Gleit, a partner at Sullivan & Worcester law firm, asserted that TRU needed to scale down its stores. He specifically mentioned “You cannot have a 30,000- or 40,000-square-foot store that just sells toys.”[[79]](#endnote-79) Eric Schiffer, CEO of a private equity firm, also mentioned that TRU needed to focus on a physically leaner and digitally strong business model as the proportion of Internet sales was growing over toy stores (see Exhibit 5). Should Brandon reconsider the bid from Larian? What strategy does Brandon need to adopt to improve the market position of TRU? If Brandon does not succeed in preventing the complete liquidation of TRU, will this have an adverse impact on the entire U.S. toy industry especially with respect to innovation?

EXHIBIT 1: EXPECTED GROWTH IN MARKET SIZE OF TRADITIONAL TOYS AND GAMES (TT&G) AND VIDEO GAMES (VG) in other countries (%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Country** | **2018** | **2019** | **2020** | **2021** | **Average (2018**–**2021)** |
| United States (TT&G) | 1.44 | 1.38 | 0.89 | 1.35 | 1.26 |
| United States (VG) | 2.46 | 1.60 | 1.57 | 1.25 | 1.72 |
| China (TT&G) | 5.93 | 6.03 | 6.02 | 5.94 | 5.98 |
| China (VG) | 16.05 | 12.32 | 10.01 | 7.02 | 11.35 |
| Japan (TT&G) | –0.44 | –0.39 | –0.39 | –0.32 | –0.38 |
| Japan (VG) | –0.88 | –0.65 | –0.55 | –0.85 | –0.73 |
| United Kingdom (TT&G) | 3.43 | 2.64 | 2.35 | 1.90 | 2.58 |
| United Kingdom (VG) | 2.64 | 1.99 | 8.23 | 8.52 | 5.35 |

Source: Developed by the authors based on information available at “Euromonitor International: Toys and Game Industry,” Euromonitor, accessed April 29, 2018, https://www.euromonitor.com/sign-in.

EXHIBIT 2: TOYS “R” US TIMELINE

|  |  |
| --- | --- |
| **Year** | **Event** |
| 1948 | Charles Lazarus opens a baby furniture store in Washington D. C. under the name of Children’s Bargain Town. Over time, the store also starts selling toys from this store. |
| 1957 | The first Toys “R” Us store opens in the suburbs of Maryland, United States. |
| 1966 | Interstate Sales buys Toys “R” Us and Lazarus becomes the head of toy division. |
| 1969 | Toys “R” Us gets its mascot: Geoffrey the giraffe. |
| 1974 | The courts appoint Lazarus as the chief executive officer (CEO) after Interstate Sales files for bankruptcy. |
| 1978 | Toys “R” Us becomes a public company. |
| 1983 | A children’s clothing store, under the brand Kids “R” Us, opens. |
| 1994 | Lazarus resigns as CEO after leading the company for 20 years. |
| 1996 | Babies “R” Us stores open, selling baby products including diapers and baby powder. |
| 2005 | Toys “R” Us enters a leverage buyout deal with Bain Capital, Kohlberg Kravis Roberts, and Vornado Realty Trust. |
| 2013 | Toys “R” Us withdraws its initial public offering registration, which the company had filed in 2010. |
| 2017 | In September, Toys “R” Us files for bankruptcy under Chapter 11 of the United States Bankruptcy Code. |
| 2018 | In March, Toys “R” Us announces liquidation. |

Source: Developed by the authors based on information available at Joan Verdon, “Toys “R” Us Timeline: History of the Nation's Top Toy Chain,” *USA Today*, March 15, 2018, accessed April 30, 2018, <https://www.usatoday.com/story/money/business/2018/03/09/toys-r-us-timeline-history-nations-top-toy-chain/409230002/>; Anne D’Innocenzio, “From Geoffrey to Kids "R" Us: Toys "R" Us through the Years,” abc: Action News, March 30, 2018, accessed May 1, 2018, <http://6abc.com/business/timeline-toys-r-us-through-the-years/3219710/>.

EXHIBIT 3: FINANCIAL PERFORMANCE OF TOYS “R” Us (2009–2017)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Revenue**  **(US$ million)** | **Net Income (US$ million)** | **Operating Income (US$ million)** | **Interest Expense**  **(US$ million)** | **Operating Margin (%)** |
| 2009 | 13,724 | 218 | 493 | 419 | 3.6 |
| 2010 | 13,568 | 312 | 784 | 447 | 5.8 |
| 2011 | 13,864 | 168 | 646 | 521 | 4.7 |
| 2012 | 13,909 | 149 | 582 | 442 | 4.2 |
| 2013 | 13,543 | 39 | 556 | 480 | 4.1 |
| 2014 | 12,543 | –1,039 | –350 | 524 | –2.8 |
| 2015 | 12,361 | –292 | 191 | 451 | 1.5 |
| 2016 | 11,802 | –130 | 378 | 429 | 3.2 |
| 2017 | 11,540 | –36 | 460 | 457 | 4.0 |

Source: Developed by the authors based on information available at Tara Lachapelle, “Lessons Learned from the Downfall of Toys “R” Us,” Bloomberg, March 9, 2018, accessed April 26, 2018, <https://www.bloomberg.com/news/articles/2018-03-09/toys-r-us-downfall-is-ominous-reminder-about-debt-laden-deals>; “Toys “R” Us, Inc.: Financial Statements,” D&B Hoovers, accessed May 1, 2018, www.hoovers.com/company-information/cs/company-profile.toys\_r\_us\_inc.492ce56b8e60565

b.html#financials-anchor.

EXHIBIT 4A: TRADITIONAL TOYS AND GAMES MARKET SIZE (2013–2017) in other COUNTRies (US$ BILLION)

Source: Developed by the authors based on information available at “Euromonitor International: Toys and Game Industry,” Euromonitor, accessed April 29, 2018, https://www.euromonitor.com/sign-in.

EXHIBIT 4B: COUNTRY-WISE VIDEO GAMES MARKET SIZE (2013–2017) (US$ BILLION)

Source: Developed by the authors based on information available at “Euromonitor International: Video Games Industry,” Euromonitor, accessed April 29, 2018, https://www.euromonitor.com/sign-in.

EXHIBIT 5: DIStRRIBUTION OUTLETS FOR TRADITIONAL TOYS AND GAMES IN THE United States (2013–2016) (%)

Source: Developed by the authors based on information available at “Euromonitor International: Toys and Game Industry,” Euromonitor, accessed April 29, 2018, https://www.euromonitor.com/sign-in.

ENDNOTES

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