

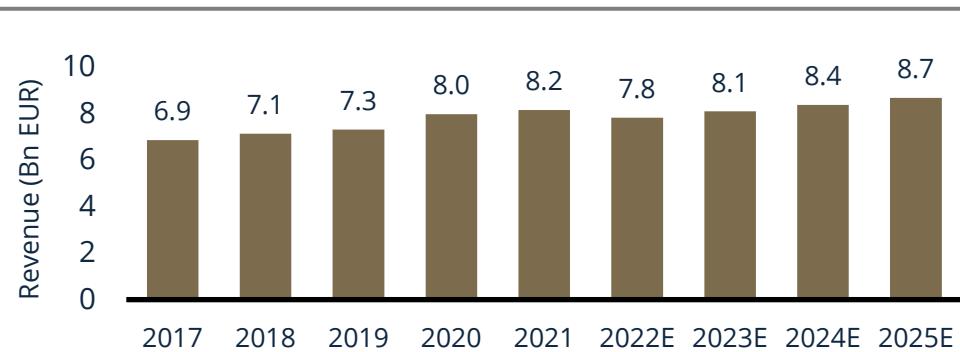
TOY BOX: **Unlocking New Potential**



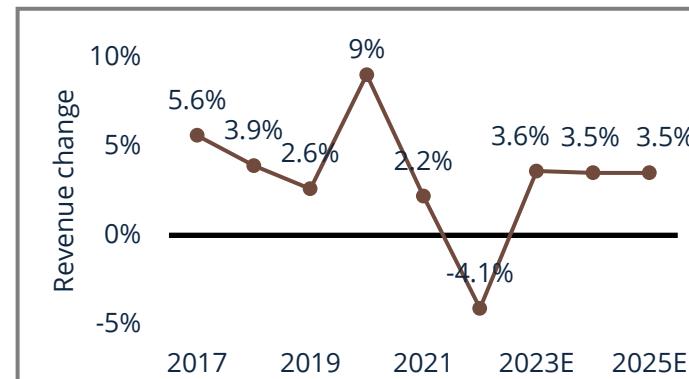
**Team Star Struck
IIM Bangalore**

Toys & Games in UK is a ~€8Bn market with a ~3.5% expected growth; showing characteristics of a mature market

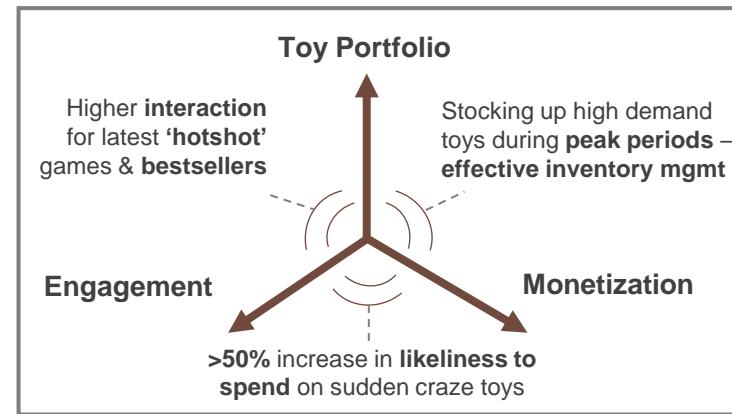
Toys & Games market in the UK over time (Revenue)



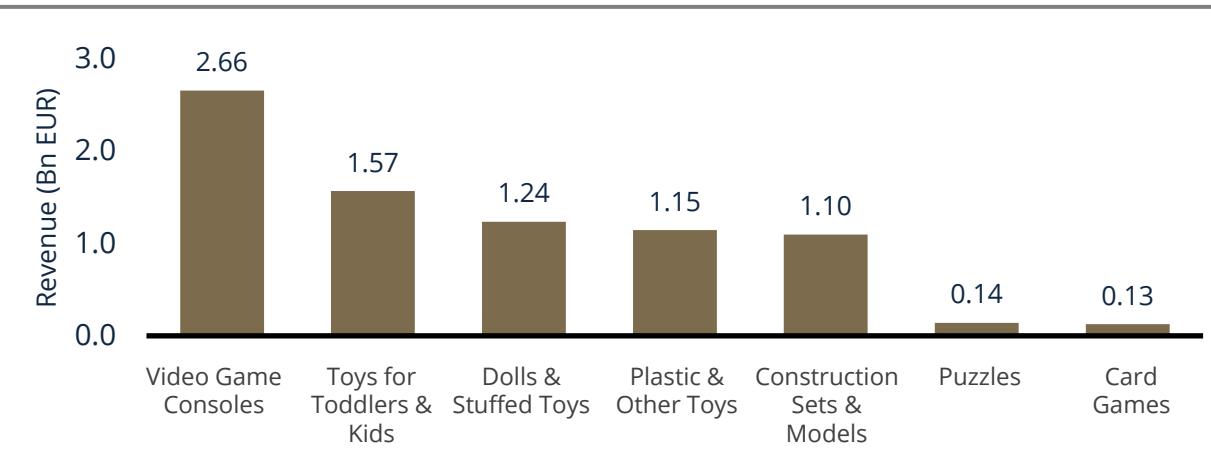
Broad trend towards maturing market



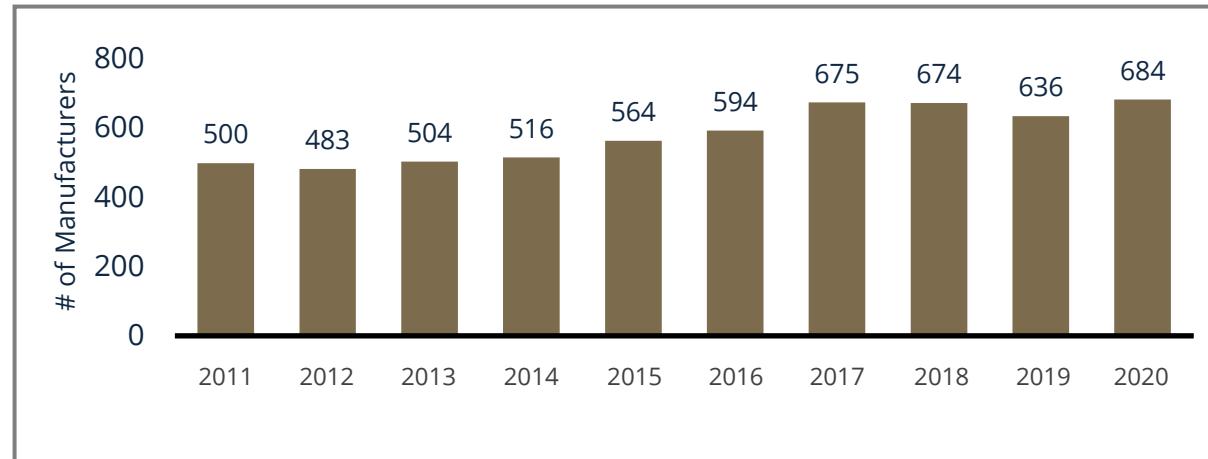
3D Consideration for Success



Segmentation of UK Toys & Games Market by category (2020)



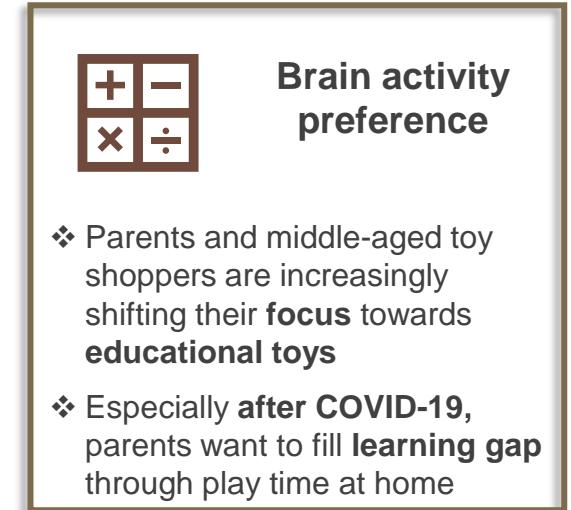
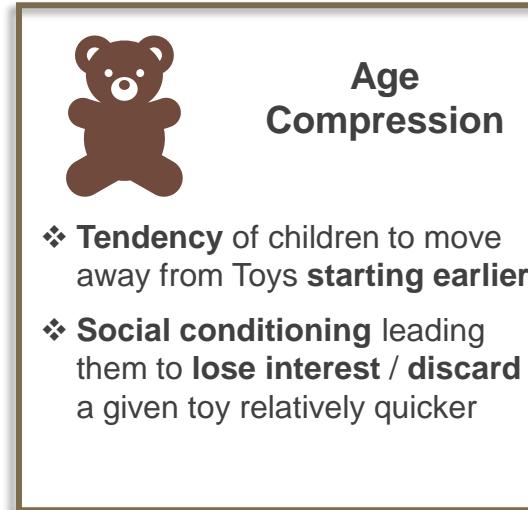
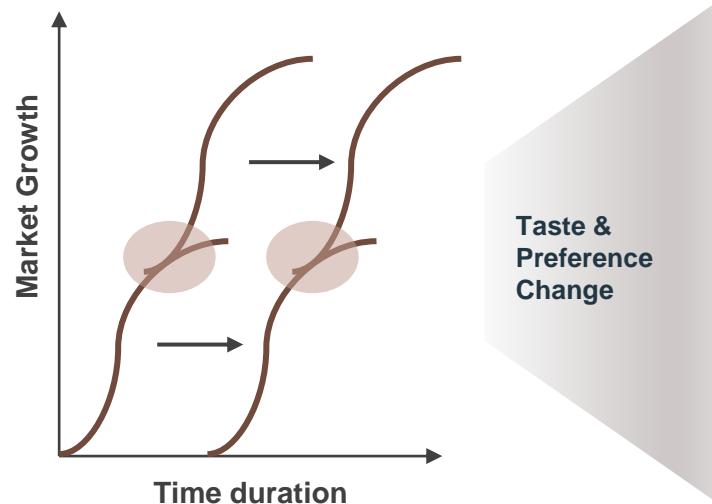
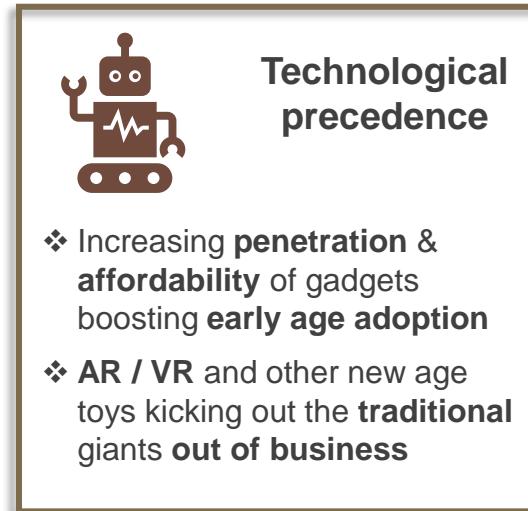
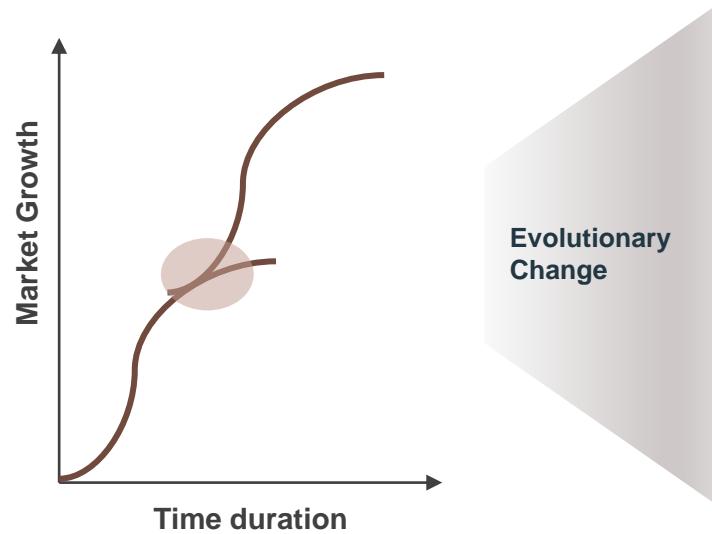
Number of manufacturers in UK Toys & Games over time



Note: Conversion rate used is 1GBP = 1.14EUR

Source: Case data; Statista reports; Team analysis

Underlying behavioral shift driving long term market changes; emerging trends present attractive growth opportunity

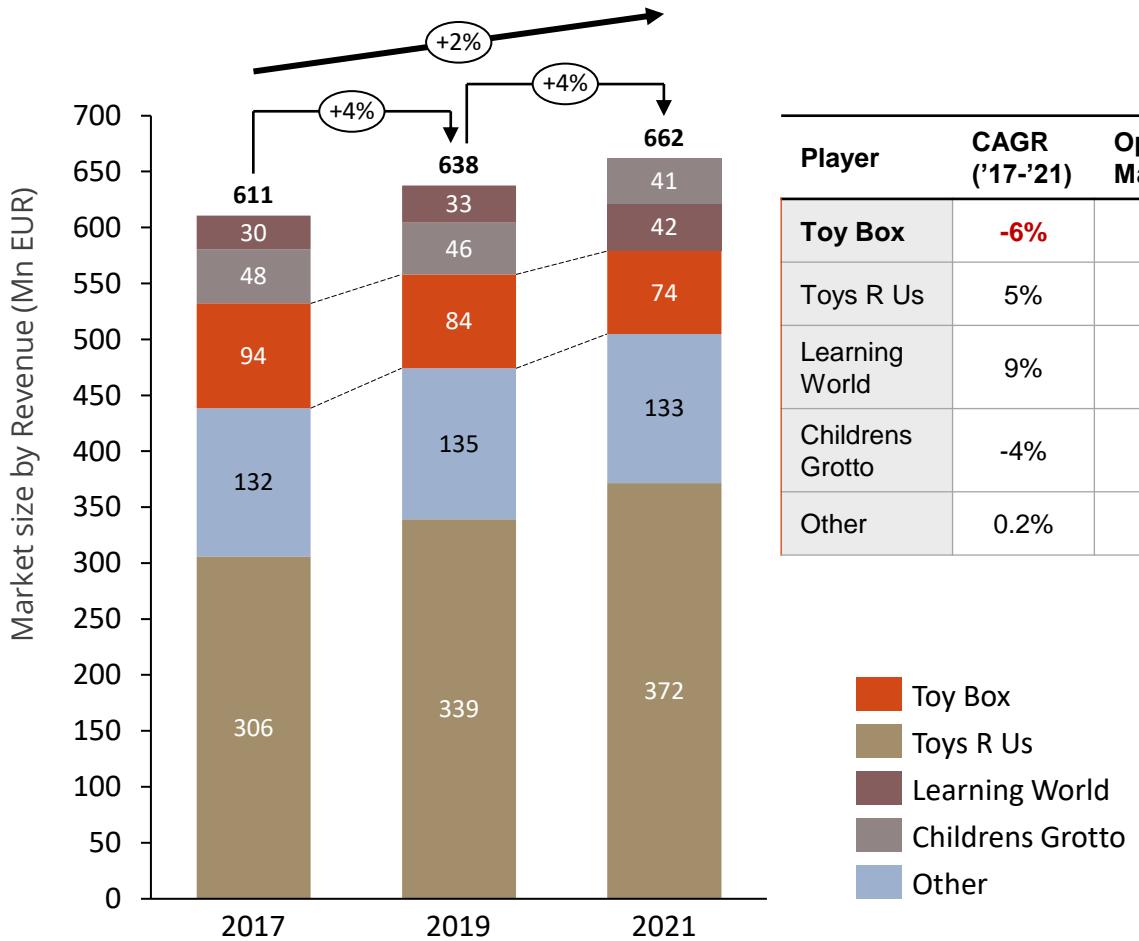


Note: List of trends not exhaustive

Source: Case data; Team analysis

Toys R Us is consolidating a flat growth market; Correlation between portfolio, scale & profitability gives useful insights

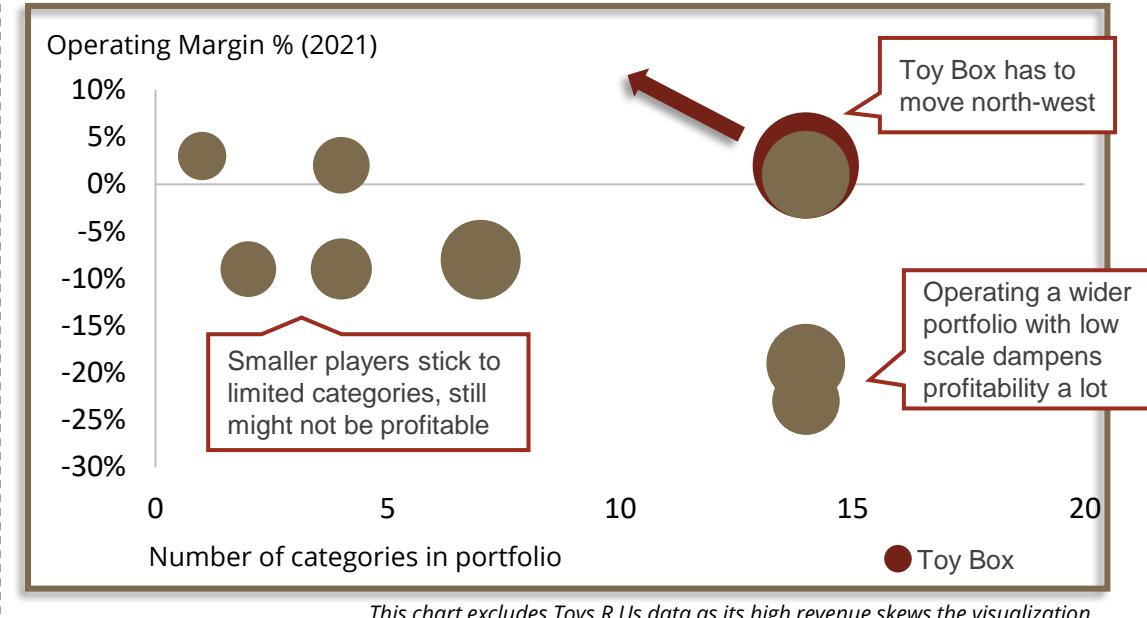
Evolution of the competitive landscape in UK Toys market



Player	CAGR ('17-'21)	Operating Margin ('21)
Toy Box	-6%	2%
Toys R Us	5%	3%
Learning World	9%	-8%
Childrens Grotto	-4%	-19%
Other	0.2%	NA

- Toy Box
- Toys R Us
- Learning World
- Childrens Grotto
- Other

Understanding the relation between portfolio, size & margins



Toys R Us leveraging Scale Economies to dominate categories

- + Diversification **hedges risk** against **variability of demand** in a particular category or segment
- + Bigger inventory management reduces **stock out possibility** and minimizes **lost sales** opportunity
- Higher operating cost of large stores **limits expansion capacity**
- Larger scale limits **customer interaction** & understanding, hence increases **response time to market**

Note: Smaller players have been clubbed under 'Other'

Source: Case data; Team analysis

Implications for Toy Box: Critical juncture in business lifecycle; New approach with sharper focus & responsiveness required



Concerns facing Toy Box?

- Sales decline** - Continuous decline in sales volume & pricing power (2017-21: ~21% sales decline)
- Increasing competition** - Toys R Us continues to expand footprint impacting Toy Box customer base
- Deep pocketed competitors** – Toys R Us is consolidating (5x Toy Box revenue) and is supported with deep pockets
- Blurring of the “Toy” categorization** - New entertainment substitutes taking up the mind space and time share of children: Video games, Music, Sports, Media merchandise



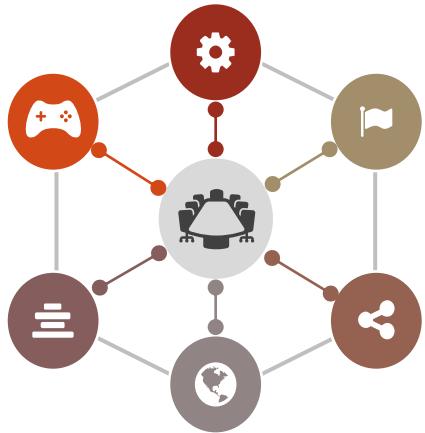
What should Toy Box do?

- Specialize** – Identify attractive subsegments in toys & capitalize on opportunities in niche segments
 - Higher margin emerging segments with high expected demand due to underlying market changes
- Efficient Operations** – Focus on margin & cash flow maximization; Minimize expenses
- Enhance customer engagement & stickiness** - Exploit brand equity of “Toy Box” & top it up with superior customer experience & engagement
- Align org. structure & incentives** with new corporate strategy
- Expand presence to newer markets (geographies)**

Success factors in UK Toy industry

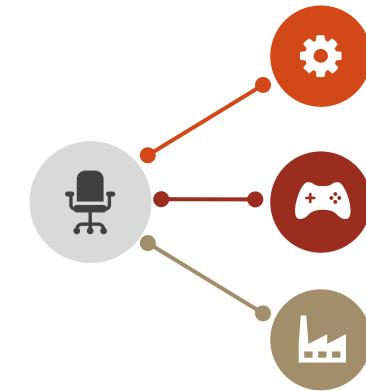


Need to realize placement in market; Video / Computer games and Educational Toys top contenders for concentrated efforts



Large MNC players

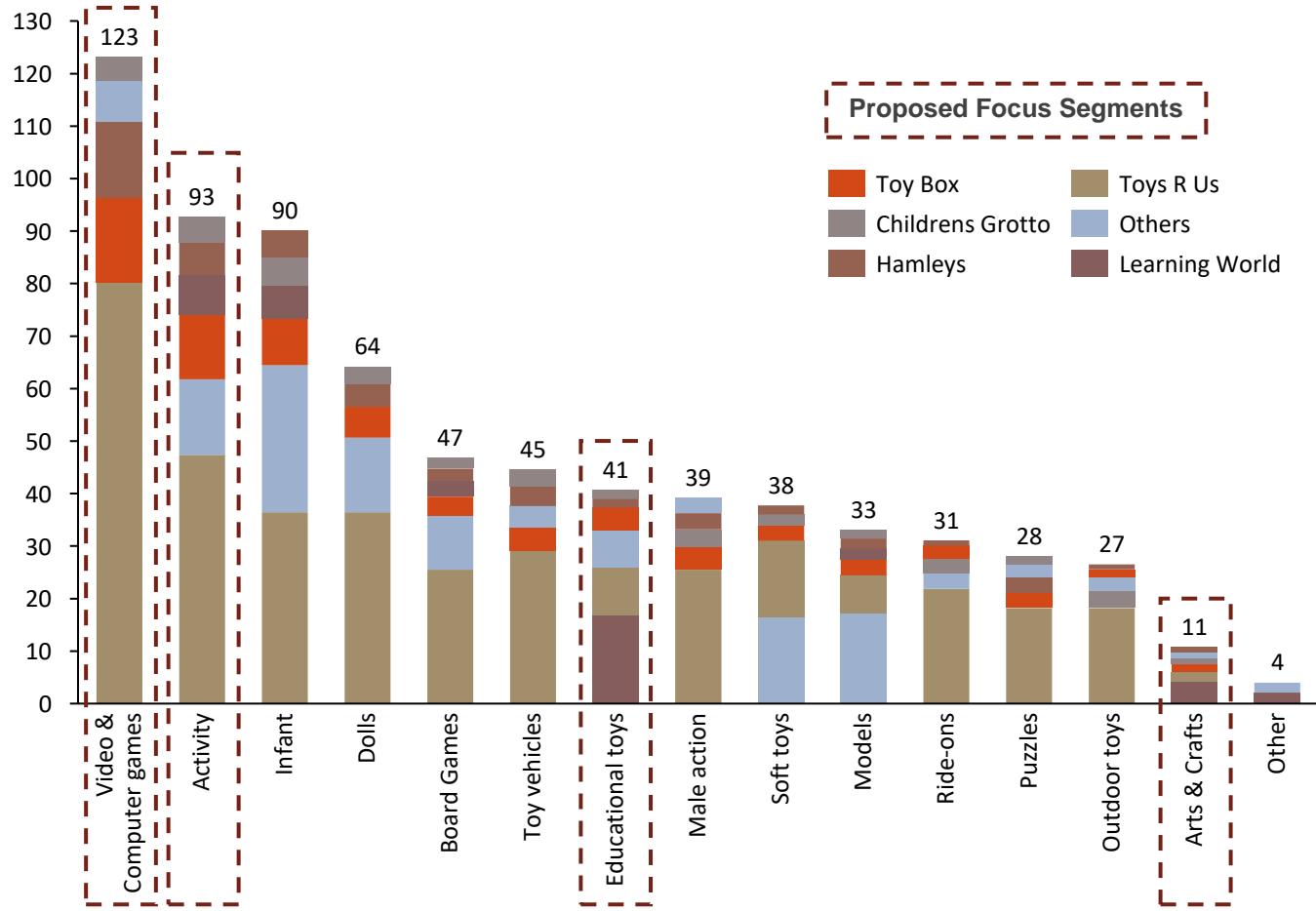
- ▶ Flat industry growth making them pursue aggressive routes
- ▶ Deep Pockets allow MNCs to fuel inorganic growth via acquisitions
- ▶ Can afford to be present across segments with leading share
- ▶ Victims of increasing competition & price wars with larger players
- ▶ Consolidation in market forces them towards narrowing focus
- ▶ Need to minimize damage by specializing in 1-2 categories



Legacy local retailers

Focus on being leader of some rather than being a laggard of all

Player Shares by Market Segments (Mn EUR)



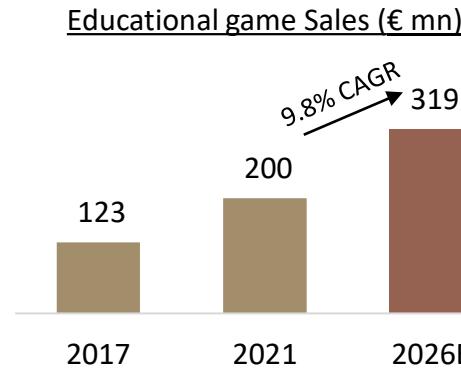
Note: The categories of Activity, Educational Toys and Arts & Crafts have hereafter been clubbed under one umbrella category named 'Educational Toys'

Source: Case data; Team analysis

Positioning Toy Box for leadership in the UK toys market



Where To Play?



Margins

50-60%

45-50%

	Target group (% of population)	Segment stability	Remarks
Educational Toys	35+ age (40%)	High	High margin; Strong traction in elders
Video games	15-44 age (34%)	High	High margin & high growth
Sporting merch.	All age groups	High	High margin but Toy Box lacks capabilities in the segment
Media merch.	Young Kids	Low	High risk – High reward; Uncertainty of scoring a “HIT Toy” is high

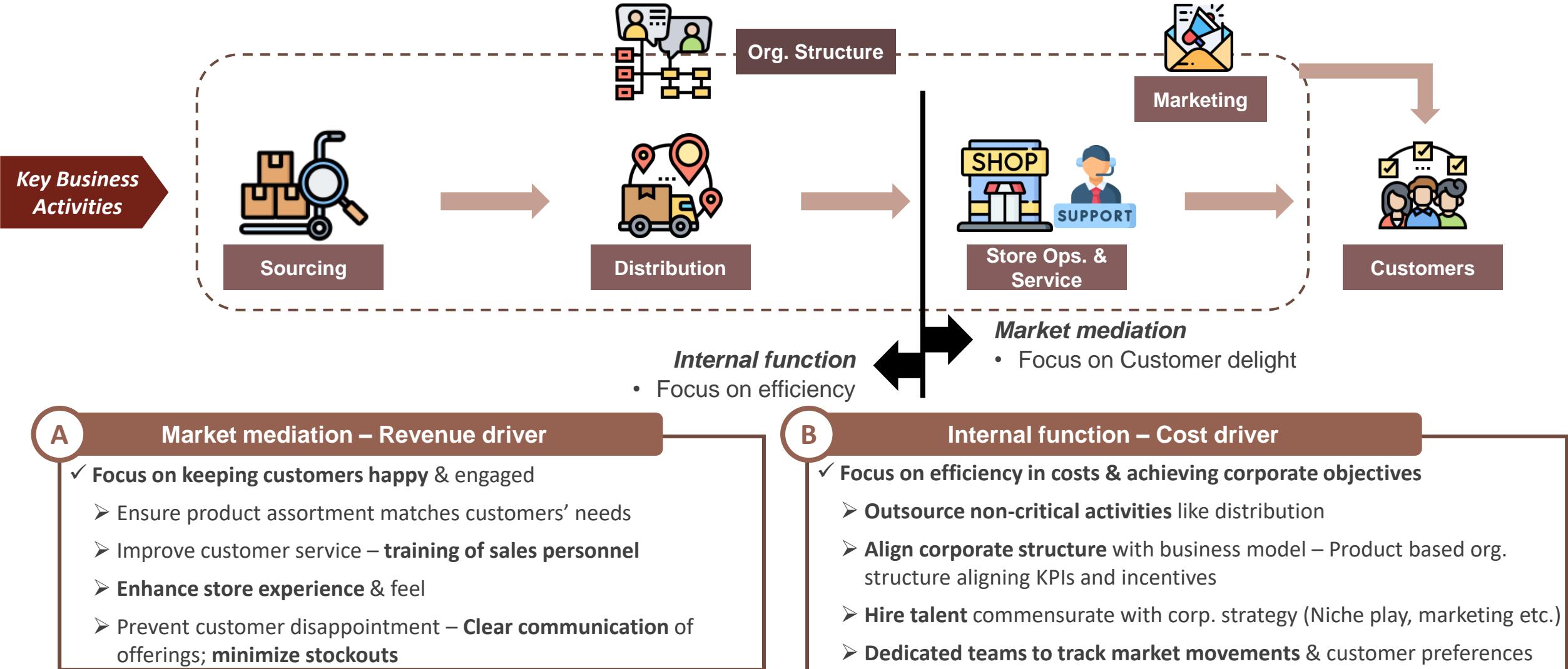


How To Win?

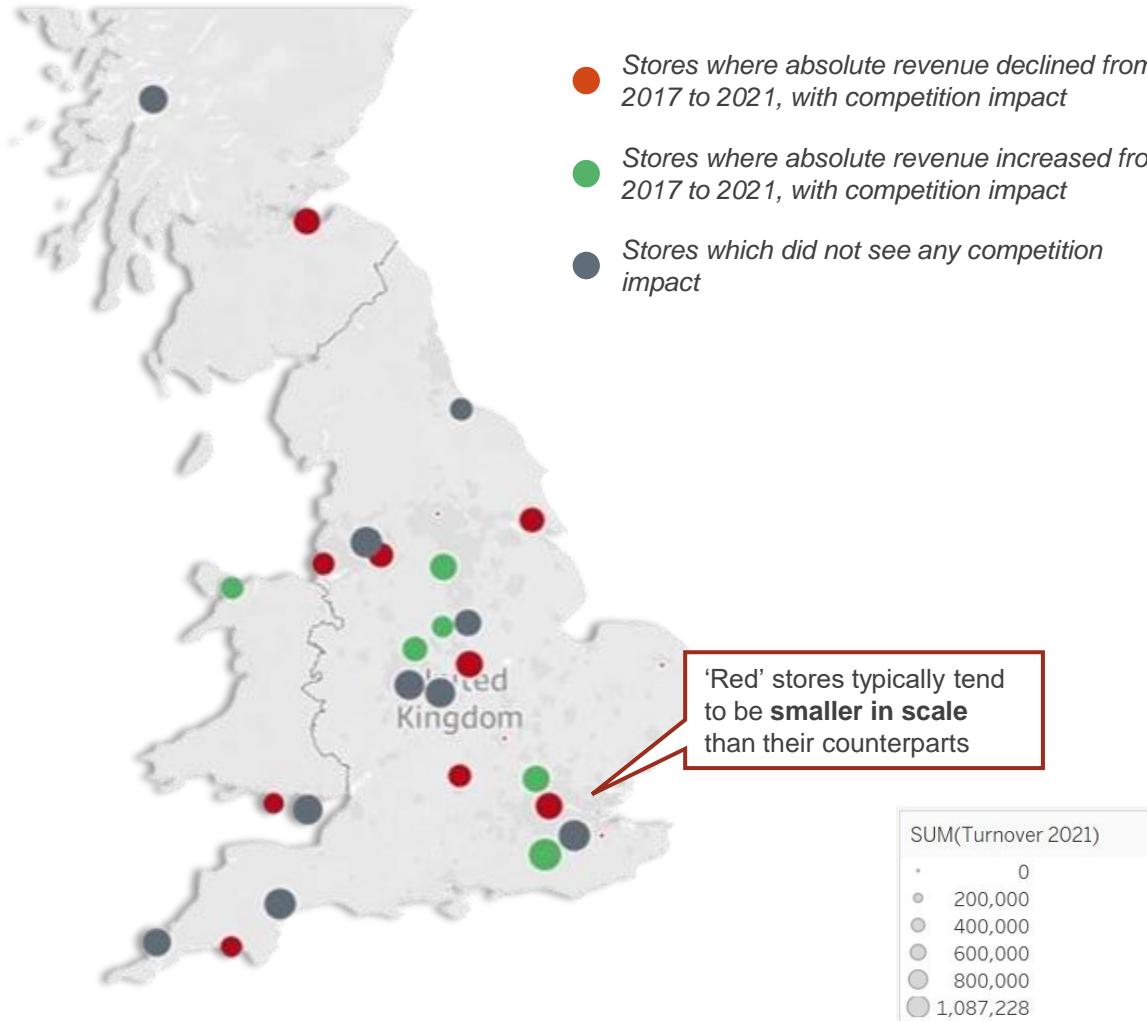
- ✓ Identify & target attractive customer segments & markets
- ✓ Position Toy Box value proposition prominently and effectively – **Enhance marketing & communication**
- ✓ **Lean operations** – Focus on core business activities (Buying & Selling, Customer service, Marketing)
- ✓ **Sharpen focus** of business – Narrow the portfolio
 - Employ a **divisional structure** (product line based) higher accountability, faster response to changes in market
 - Helps align & track performance effectively
 - **Hire appropriate talent** per business requirement
- ✓ Stay abreast of and **responsive to market developments**



Achieving operational excellence at Toy Box



Geographical analysis: Utilizing Toy Box's geographic presence to optimize response towards threat from Toys R Us stores



Created on Tableau

Note: The analysis is based on the sample data set of 31 stores and doesn't take into account the full population of 100 stores; 'Competition impact' refers to presence to Toys R Us store in the same location

Source: Case data; Tableau, Team analysis

Hypothesis: Toy Box is more or less **able to deal** with the competitive threat of Toys R Us over a longer period of time. Though it remains to be severely impacted in the initial years (potentially due to customer acquisition tactics by TRU)

Scenario	TRU present in 2017	TRU present in 2021	Total Stores	Green %	Red %
"Short Run"	🚫	✓	13	8%	92%
"Long Run"	✓	✓	7	71%	29%

Expand to Out Of Town Stores

- ❖ Current focus on High Street locations only caters to **half of the total market opportunity**
- ❖ **57%** of Out-of-Town shoppers are of age **35+**, which are more likely to buy **Educational Toys**
- ❖ **Threat of competition** from TRU is **much lesser** for such locations as there is limited revenue potential

Establish Product Niche

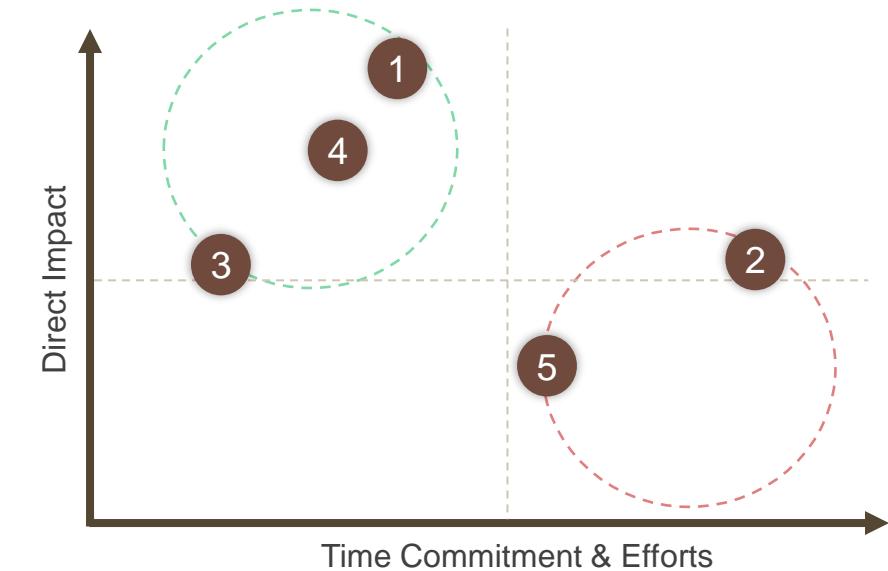
- ❖ To counter competition coming in on existing turf, more **responsiveness to customer demand** is required
- ❖ Specializing on some categories & **spotting early trends** can go long in building **first mover advantage**
- ❖ In selected categories, a **wider assortment** of products can be introduced to **sub-urban public**

Summary recommendations & Action plan: Prioritization framework, timelines & expected challenges

Action plan for moving towards a sustainable profit model

Recommendation	Operational Ease	Financial Commitment	Time for execution
1 Narrow down Product portfolio to focus on 2 main segments: Video & Computer Games; Educational Toys	↓	★★★	Short – Medium Term
2 Expand store presence to Out Of Town areas This presents 50% of untapped market opportunity with lower threat from competition	↔	★★★★	Medium - Long Term
3 Outsource distribution to third party vendors Optimize cost using pooling economies by specialized logistics players	↔	★	Short Term
4 Re-position itself as a specialized & focused brand Communication to the market to install interest in the new marketing message	→	★★	Short – Medium Term
5 Rejig the Organizational Structure to divisional Clearly identify the 2 divisions & establish boundary spanning teams to maintain agility	↑	★	Medium Term

Impact evaluation & Prioritization framework



Headwinds expected to be encountered



Resistance to change within the organization: Need to tackle this with explanation & help to all employees highlighting tangible & intangible changes



Confusing brand positioning among customers: Need to roll out a proper communication campaign to establish credibility with respect to the changed organizational mission & stance in the industry

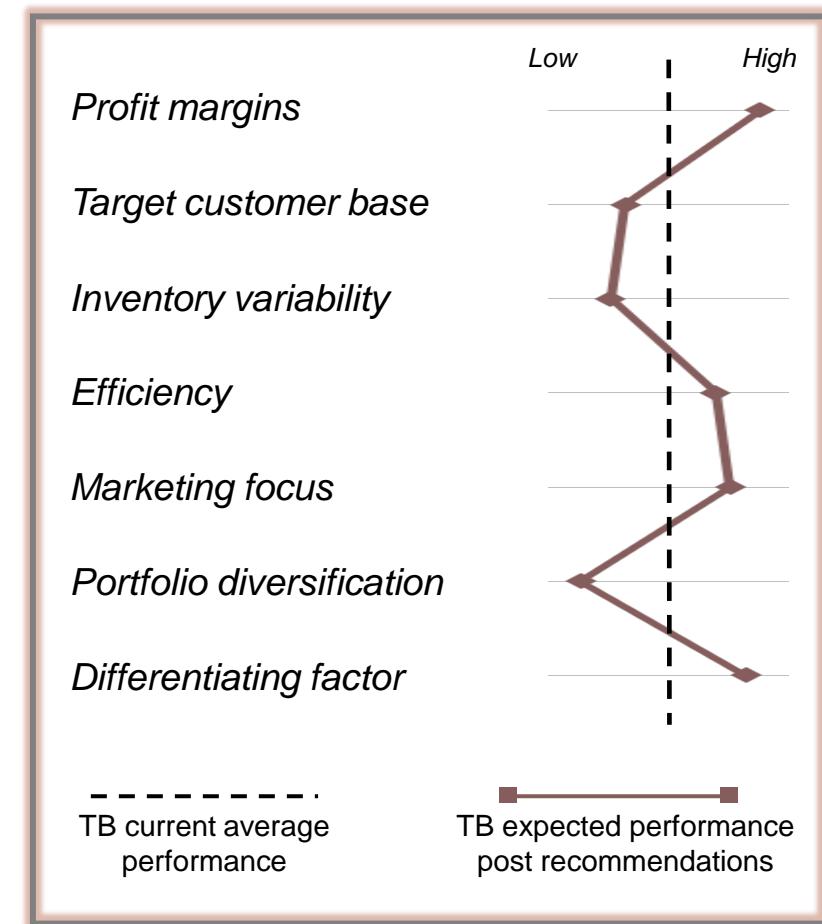
Financial implications & Expected impact on Toy Box

Financial implications & projections of proposed recommendations

(€ in 000s)	2021	2022E	2023E	2024E	2025E	2026E
Revenue/Sqft	247	350	361	371	382	394
Total sqft	300	300	300	300	300	300
# Shops	102	102	102	102	102	102
Revenue	74,320	1,05,140	1,08,294	1,11,543	1,14,889	1,18,336
Bought in costs	32,772	39,953	41,152	42,386	43,658	44,968
Gross profit	41,548	65,187	67,142	69,157	71,231	73,368
Gross margin%	56%	62%	62%	62%	62%	62%
Store Costs	13,249	15,118	15,151	15,184	15,218	15,251
Distribution Costs	6,524	7,360	7,581	7,808	8,042	8,284
Overheads	3,942	4,001	4,061	4,122	4,184	4,246
Marketing Costs	6,237	6,299	6,362	6,426	6,490	6,555
Store Labour Costs	10,212	16,631	16,880	17,134	17,391	17,651
Total operating costs	40,164	49,409	50,035	50,674	51,324	51,987
Total costs	72,936	89,362	91,187	93,060	94,982	96,955
Total operating profit	1,384	15,778	17,107	18,483	19,907	21,381
Operating margin%	2%	15%	16%	17%	17%	18%

Note: Excludes store network expansion into out-of-town locations

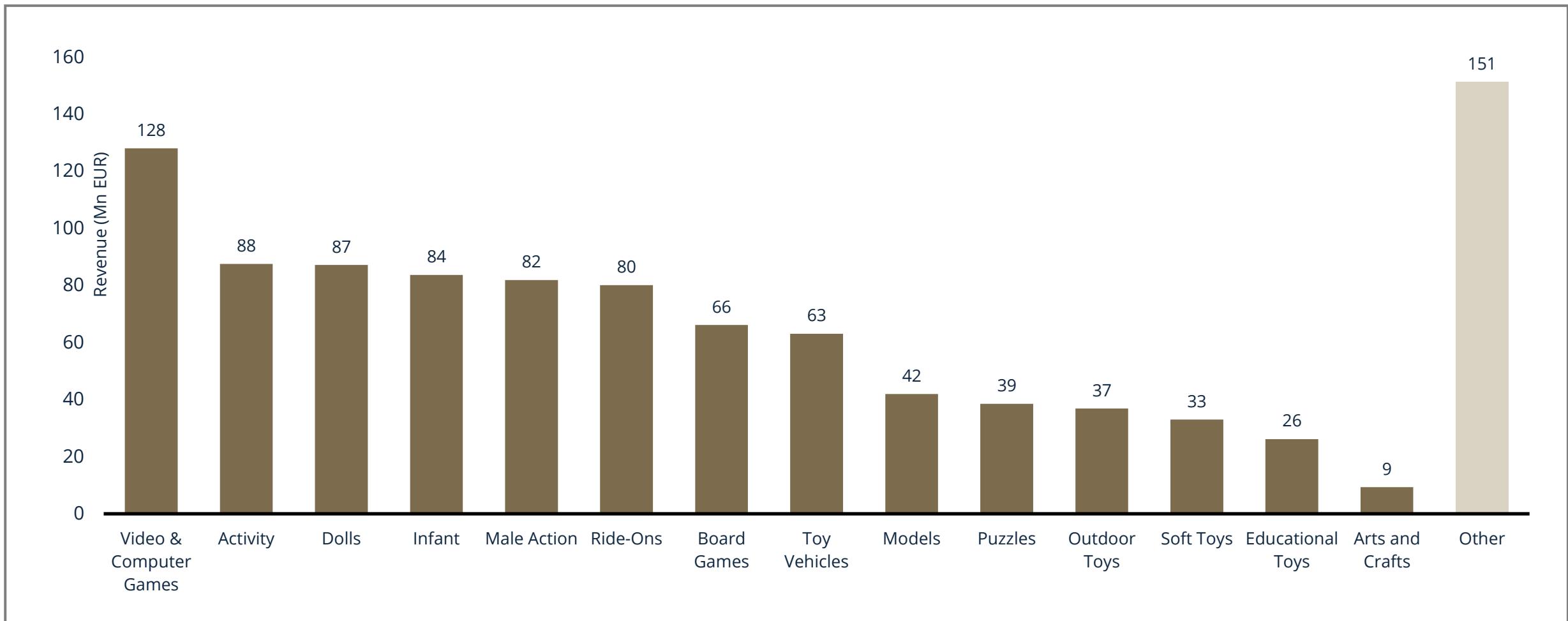
Impact on Toy Box business



Note: Preliminary projections: Revenue growth assumed at 3% p.a. – Conservative estimate vs 9-10% CAGR for video games & educational toys since Capex capability & store expansion data is not available for Toy Box

Source: Case data; Team analysis

Appendix – UK Toys market segmentation by Category (2017)



Appendix – Financial implications of Status-quo

(€ in 000s)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Revenue/Sq.ft					247	238	230	221	213	205
Sq.Ft					300	300	300	300	300	300
#Shops					102	102	102	102	102	102
Revenue	93,932	88,278	83,832	78,713	74,320	71,595	68,971	66,442	64,006	61,660
Bought in costs	34,017	33,798	34,007	33,295	32,772	31,571	30,413	29,298	28,224	27,189
Gross profit	59,914	54,480	49,825	45,418	41,548	40,025	38,557	37,144	35,782	34,470
Gross margin	64%	62%	59%	58%	56%	56%	56%	56%	56%	56%
Store Costs	11,824	12,206	12,552	12,904	13,249	13,282	13,315	13,348	13,382	13,415
Distribution Costs	7,010	6,943	6,800	6,668	6,524	6,426	6,330	6,235	6,141	6,049
Overheads	3,520	3,620	3,782	3,895	3,942	4,001	4,061	4,122	4,184	4,246
Marketing Costs	6,492	6,419	6,322	6,339	6,237	6,299	6,362	6,426	6,490	6,555
Store Labour Costs	9,834	9,968	10,035	10,138	10,212	10,365	10,521	10,679	10,839	11,001
Total operating costs	38,680	39,155	39,491	39,945	40,164	40,374	40,589	40,810	41,036	41,267
Total costs	72,697	72,954	73,498	73,240	72,936	71,945	71,002	70,108	69,260	68,456
Total operating profit	21,235	15,324	10,334	5,473	1,384	-349	-2,032	-3,666	-5,253	-6,796
Operating margin%	23%	17%	12%	7%	2%	0%	-3%	-6%	-8%	-11%