

# Beanie babies phenomenon



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Beanie Baby phenomenon has really opened a lot of eyes in the toys industry, especially, because this phenomenon was sustained in an industry that is known to be very turbulent based on the fact that, there are a lot of substitutes that come into the industry everyday, moreover, the excitement that these toys create, only can last for a short period of time as buyers in this market (usually children) tend to have an inconsistent buying behaviour and unpredictable majority of the time. This was not the case for Beanie Babies. How did TY Warner achieve that? Production of the Beanie Babies have started with the original collection of nine Beanies (Spot (the dog), squealer (the pig), Patti (the platypus), Cubbies (the bear), Chocolate (the mouse), pinchers (the lobster), Splash (the killer whale), legs (the frog), flash (the dolphin) . Those Beanies had certain characteristics that were considered unique and different: Design, price and quality. Warner himself designs the product with great care that children and adults can identify with them and build strong attachment to those beanies.

The most risky but successful production tactic: Limited production . In other words, Warner chose to retire some Beanie Babies every year, so he will discontinue some designs and introduce some new designs to maintain the craze for them. This tactic led to the opening of the second market for Beanie Babies mainly for collectors. The more one design of Beanie babies is limited, the higher the demand, and the higher its price in the secondary market.

In terms of production locations, Warner started his production in the Us market serving mainly Chicago market and then expanded to include Us market as whole and finally expanded globally through FDI in China and

Korea by setting up manufacturing facilities to be able to serve the global market in attempt to keep his market share and maintain his competitive advantage. Following the life cycle of the beanie babies (using product life cycle theory) will show the different stages of growth and how is that translated into different manufacturing (production) strategies. Figure 1

NOTE: See hard copies for more details 1. INTRODUCTION STAGE: In 1994 when the Beanie Babies first hit the stores cost savings were achieved through changing design of the product or enhancing the looks of different Beanie Babies.

2. GROWTH STAGE: for example in 1996 Beanie Babies have generated sales, more development and marketing tactics are needed for Beanie Babies to saturate the market. Very important event to mention in August 1996, the official website was launched which really helped to boost the sales and strengthened the development and growth for secondary market for collectors. . MATURITY STAGE: For instance, Dec 1999 was a very important year in TY WARNER'S history, as Warner announced that he will retire the Beanie Babies line.

This was a clever move on his behalf, as he realized at that point that Beanie Babies have actually saturated the market and there was a drop in Sales. He was aggressive enough to initiate that move but that guaranteed him enough attention from both buyers and collectors to hunt even more for Beanie Babies. 4. DECLINE STAGE: Warner himself decided to enter luxury hotel market by buying the four season hotel in New York City in 1999.

TY WARNER had focused a lot on the Quality control as he viewed that as a tool to maintain high quality for Beanie Babies as that one of the most important attributes the customer identifies with and also it contributes to the image of Beanie Babies. Quality control measures were very strict to keep the quality of the material used up to its highest level. On the other hand, Quality Control was never applied on the production mistakes because that means that a rare Beanie was created which probably will hold a high trading value in the secondary market. MARKETING: Warner was a successful marketing icon that was able to build an empire without spending a fortune on advertising. His philosophy was very simple and clear: offering a plush toy that kids can buy with their pocket money with high quality and features to identify with when they play.

He used a very aggressive and a risky marketing tactic which is limited production of Beanie Babies and the annual retirement of certain babies, proved to be a successful tactic with high returns. That tactic created thirst amongst customers to hunt for the rare Beanie Babies from store to the other and opened the door for the collectors market to start, as the value of the retired Beanie Babies go up in the secondary market. Beanie Babies held human features to them like: names, poems and birthday dates that children can get attached to and will try to get the ones that represent their loved ones' or friends' birthday dates or the one that is closest to their pet. The design itself was very appealing to children as it is very simple and the toy comes under stuffed so the usage will be more interactive and fun for kids and adults equally.

The launching of the website in 1996 boosted the sales, as customers from all over the world were able to access it which got them more familiar with the product which as a result generated sales. Also it acted as a medium for interactions for collectors from all over the world. Beanie Babies were largely promoted through McDonald's Happy Meal campaign in 1997 and 1998 which brought even more attention to the craze of this phenomenon. Also the introduction of BBOC (Beanie Baby Official Club) through Cyrk Inc (promotion company) which helped to add to the value of the Beanie Babies as a product perceived as a package, like introducing Beanie Babies trading cards and more accessories.

TY Warner distributed Beanie Babies to specialized gift shops and avoided big chain stores like Wal-Mart or TOYS R US. By using that strategy, he was able to control his price and create even a higher demand for the Beanie Babies as customers and collectors hunted the stores to buy their favourite Beansies or hunt for new ones to add to their collection. FINANCE: Since TY WARNER has become a big company with a strong position in the market, leadership was inevitable to be gained. As a leader the main focus will be to sustain this position through cost saving advantage. Taking into consideration the market share and its competitive advantage in the market, made it easy for TY Warner to move towards mass production in developing countries. Mass production was a possibility since the company produces one kind of products (Beanie Babies), so standardization can be obtained, hence, producing on a large scale can be achieved.

The main purpose of moving globally is to be able to serve the global market, sustain the competitive advantage, and reduce production cost

which will create a barrier to entry for potential new competitors. The later factor can be achieved through a demonstration for the experience curve. Figure 2 NOTE: See hard copy for more details This shows that there is a consistent tie between cumulative volume of produced units and the unit cost. The experience curve explains that with each doubling of the produced units, cost of production will go down by 20 to 30 %. With mass production that is accompanied by efficient management, skilled labour and genius marketing tactics, economies of scale can be achieved.

TY WARNER was able to gain cost advantage over its competitors through responding brilliantly to the global demand by embracing Foreign Direct Investment in China and Korea to sustain its position in the market as a leader. Through the cost savings that are achieved that means that the company has more profit margin and also more capital to reinvest globally and locally. TY WARNER adapted the decentralization of his operations abroad and that is due to the nature of the product (simple), value-weight is low so according to that production becomes standardized. STRATEGIC ADVANTAGE: TY WARNER is one of a kind company that does not disclose any information about it at all. The employees have to pledge that they are not going to disclose any information too. This whole mystery that the owner has built around his company raised even more interest in what he has to offer.

He built a culture of aggressiveness and risk in the way he tackles business. He created a barrier for any other competitors to enter the market as they will not be able to offer what he offers in terms of quality of the product, design or in terms of the same interaction intensity with the customers. He

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protected his product against counterfeits but in the same time he did not mind that other companies would sell Beanie Babies magazines and books which in his point of view increased their popularity . He was able to create a value for his customers and sustained it as well through careful management of the value chain for the company.

Figure 3 NOTE: See hard copy for more details. To better illustrate how TY Warner was able to achieve his strategic advantage in the global market, an effective tool to be used is the value chain analysis. By using this tool, the main activities that create the value chain within the firm will be identified and the linkages amongst those activities to create and sustain its leadership over its competitors in the market. Primary activities: •Marketing: 1.

Affordable price: When Warner designed his plush Beanie Babies, he had a clear vision in his mind which is offering an affordable toy for children with their allowance money.

. Website: In 1996 the website was launched which made it easy for the customers and collectors to access it from all over the world. 3. BBOC: Beanie Baby Official Club was introduced in 1999 with the introduction of Official Gold Membership Kits.

The buyers of those kits will receive future offers. 4. Limited supply: this tactic that was followed by TY Warner made the hunt for Beanie Babies grow a lot and built up the scarcity for them as well. 5. Retirement of certain babies: contributed to the fact that Beanie Babies became collectables.

6. Macdonald happy meal promotion: 1997 and 1998 TY Warner teamed up with Macdonald's and introduced Teenie Babies that raised up the craze

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amongst the fans. 7. Copy rights: Warner is known for strongly defending his product against counterfeits, which is a growing global problem. •Outbound logistics: 1. Avoid distribution to big chain names like Wal-Mart or Toy R US.

2. Distribute only to specialty gift shops. •Operations: 1. Limited production of Beanie Babies. 2.

Quality control for raw material. 3. Allowance for errors to happen through production which adds to the value of some Beanie Babies. .

Decentralized Manufacturing: TY Warner produces in both China and Korea.

•Service: 1. Offering a product that is up to the expectations (Image congruence). 2. Donations: like introducing some Beanie Babies for charitable purposes. For instance the introduction of ‘ Princess’ a commemorative bear in memory of princess Diana and all the profits went to the Diana, Princess of Wales Foundation.

Supporting activities: •Technology Development: 1. Introducing new Designs. 2. Development of existing designs. •Human resource management: 1.

Employing skilled labour. 2. Rewarding productive performance: For instance, in 1997 Warner gave his employees only ‘ 1997 Employee Bear’ .

•Firm’s infrastructure: 1. Leadership: through gaining market share over its competitors.

2. Culture: Warner built a very secretive environment around his company as he does not publish its phone number and he makes employees pledge that they would not mention anything about the company to the outside world. 3.

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Management: TY Warner was managed by Warner himself, he is the decision maker in terms of forming strategies and building plans to implement them. The value that was created for the customers came from the harmony and the cohesion between the supportive and primary activities.

This can be illustrated as follows: 1. The infrastructure of the firm affects every aspect of both primary and supportive activities. 2. Human resource management provides skilled labour for the primary functions especially production.

3. Technology development in terms of introducing new designs and developing the existing ones will affect the marketing activities, service and operations activities. SWOT analysis : Is used to analyze the firm's internal and external environment to identify the potential success the firm could gain and the potential challenges it could face internally and externally. To illustrate that in the case of TY WARNER case, the year 1993 and 2000 will be used to show the shift in its environment internally and externally. 1993: Strengths: 1.

Introduction of nine Beanie Babies. 2. Affordable and unique product. 3. High quality product.

4. Word of mouth marketing strategy. 5. No advertising or marketing expenditure. Weaknesses: 1. The company offers only one product, Beanie Babies, which could lead to the slow movement towards diversity into other sectors if they need to in the future.

2. The company only covers Chicago area. 3. Lack of enough variety to compete with existing competitors like Dakin.

4. Warner is the only decision maker and strategy builder in the company, which could lead to future problems as there is no one else in the management structure to take over his position. Opportunities: 1. Lack of under-stuffed affordable plush toys like Beanie Babies. 2. The business could be developed to cover national and international market.

3. Innovation could develop new variety that could stand out in the market and be able to compete for a market share. Threats: 1. The toy industry is a very turbulent industry that has a lot of competition and changing trends in buying.

2. Established competitors like Dakin. 3. Probable rise in raw material prices which will affect production cost. 4. Threat of counterfeits.

2000: Strengths: 1. TY Warner has a bigger variety which made Beanie Babies turn into a full package product with all its accessories that were provided by other companies. 2. Genius marketing strategy that made TY Warner the leader in the market with no advertising or promotional expenditure. 3.

Website was launched in 1996 which was considered the only type of advertising TY Warner has utilised. 4. Innovation came in to play clearly in terms of introducing new designs and developing the old ones. 5. Beanie Babies turn from regular plush toys into collectibles with big value in the secondary market. .

Low cost skilled labour added to the value of the Beanie Babies to the end customer through lowering the cost of production which led to lowering the cost structure for the company. 7. TY Warner got really famous for its charitable work. Weakness: 1.

TY Warner continues to offer one product which the Beanie Babies. 2. Being the leader in the market makes the company a target even more for competition. Opportunities: 1. Increase of developing countries' personal income which means more potential customers in those countries. 2.

Being the leader in the market has created entry barriers for the competitors as they were not able to reach up for the level for TY Warner in terms of having a product that creates a full package for the customer. 3. Being the leader in the market gave TY Warner a competitive market share that could be utilised to build upon for future success. 4. Moving towards the luxury hotel business which has already started by buying the four seasons hotel in New York.

Threats: 1. Children population decline in the developed countries which will adversely affect the potential sale of Beanie Babies. 2. Decline in Sales for plush toys. 3.

Shifting towards video games. 4. Toy industry is a very turbulent industry. Porter's Five Forces model: is a simple tool by yet very powerful in analyzing and determining the strength of the competitive position for a company using five forces that interact to form the challenge for it.

Figure 4 This tool will be used to assess the competitive position of TY Warner and the potential challenges that could affect its market share.

- Threat of new entrants: As TY Warner was a leader in the market when it came to plush toys, it created barriers for entry for potential competitors through: 1. Economies of scale: it has achieved profits through low cost structure in terms of cost savings in production. 2.

Any potential entrants will have to invest so much and will have high fixed costs to meet to get to the level of TY Warner. 3. TY Warner has protected Beanie Babies through international copy rights. 4. Customers are very loyal to TY Warner unique product.

5. Marketing unique and powerful strategies can not be easily duplicated by any potential entrants. 6. TY Warner has access and control over raw materials of high quality due its strong market share and leadership position. TY Warner buys the raw materials from Mexico. 7.

TY Warner controlled distribution channels for specialty gift shops and collector shops he supplies. •Bargaining power of suppliers: Due to the powerful position for TY Warner in the market as a leader, it has the power to have control over its suppliers due to big bulk purchasing to support its big production operations which means it can control the amount of business those suppliers can provide to other customers or make those suppliers provide raw materials only to TY Warner. Threat of substitute products: Beanie Babies toy is a very simple product yet it is very difficult to introduce a similar product in the market by any potential competitors as they offer a full package in terms of having complementary products that add value to

Beanie Babies. •Bargaining power of buyers: this one of the most challenging powers in terms of keeping customers interested in the product for along period of time, TY Warner was successful in achieving that through his clever marketing philosophy especially in a very competitive industry like toys. The challenge is to keep those customers' interest sustained over time which is not a very easy thing to bargain on, especially, as customers' trends of buying change all the time. •Rivalry among existing competitors: TY Warner is the leader in the market in terms of his unique product and in terms of his cost structure.

TY Warner proved to be the biggest and the most successful toy producer in the world as he announced \$700 million in sales in 1998 which is more than \$538 million dollars in combined sales for Mattel and Hasbro for the same year . All that previous analysis proved how that marketing icon Warner was able to build a fortune since his innovative entrepreneurship move back in 1985 in Oakbrook, IL. He led his company to be the largest toy manufacturer in the world. His extraordinary risky marketing ability had proven to be fruitful in one of the most turbulent industries.

He was able to sustain his competitive advantage in the market and build long-term relationships with his customers. The toy industry will not experience such a huge success for a plush toy based on word of mouth marketing. That all will lead to the conclusion that Beanie Babies phenomenon is a one time phenomenon, which has absolutely built history around it and will be an inspiring example for any Toy manufacturer around the world. Bibliography: About beanies. Original nine. Retrieved March 15th 2008 from <http://www.>

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