Causes of bankruptcy at toys r us

Finance, Banks

Abstract

With declining sales and the rise of online retail, Toys R Us is one of many companies that have filed for bankruptcy. Toys R Us has also pulled its IPO offering. In the world of Amazon and Walmart, Toys R Us was unable to keep up. This paper will provide a comprehensive look at the underlying issues due to which Toys R Us was unable to thrive. With so many options in the market, Toys R Us needs to create a draw for its customers to remaincompetitive. The company's strengths, weaknesses, opportunities, and threats will be analyzed to determine the best course of action supported by research. With research, financial analysis, and dynamic operations, it was concluded thatToys R Usneeds to become relevant again and create a business out of what they offer similar to what American Girl has done.

Executive Summary

Toys R Us was founded byCharles P. Lazarus in 1948 and initially began as a furniture store, which thenshifted its focus entirely to toys. The company has 866 stores in the UnitedStates and more than 750 international locations. The company's strength liesin its volume of stores that it operates, many of them in emerging economiesthat could prove to be an investment. It recently filed for bankruptcy in theUnited States and Canada. At first glance, the company is suffering from lowsales, not enough foot traffic, and toys that do not appeal to children of thedigital age. However, at looking closer, the underlying issue seems to be ToysR Us's reluctance to re-engineer its business.

Toys R Us was losingsales due to big retailers like Amazon, Target, and Walmart. Amazon offers theconvenience of online shopping with very fast shipping that eliminates the waittime associated with shopping online. Target and Walmart offer one stop shoppingthat allows an individual to get all of their shopping done without having tomake multiple stops. Toys R Us only offers one genre of products, which aretoys.

When compared to asimilar rival within the same industry such as American Girl Doll, it is clearthat it is possible to be successful while offering an exclusive product. Theappeal of American Girl Doll is that it creates a unique, interactiveexperience for its customers. One of Toys R Us’ weaknesses is that is does nothave a competitive edge. Toys R Us could do the same by providing unique, interactive, experience geared displays for children in their stores similar tothat of Build-A-Bear, which is a competitor in the same market. They can also managea turn around by focusing on lower prices, better customer experience, revamping stores to include the interactive portion, hire engaging employeeswho cater to children, offer other services such as toy repairs or setupassistance.

Toys R Us is a retail company that is exclusively a toy retailer that has 866 stores in the United States and more than 750 international locations. It had consistent success since it was founded in 1948 because it provided the most popular, up to date, and largest variety of toys with the most locations as well (Thomison, 2016). Toys R Us was known as a category killer, which meant that the company sold a product from only one category. With this strategy, the company was able to build a large volume that other retail chains could not match due to Toys R Us' inventory and price. Then, Walmart launched a price war that was matched by Target and sold more toys than Toys R Us by 2005 (Hartung, 2017). KKR, Bain, and Vornado acquired Toys R Us in 2005 for $6. 6 billion. The retailer has $4. 9 billion in debt of which $400 million is due in 2018 and $1. 7 billion due in 2019.

Toys R Us has filed forbankruptcy in the United States and Canada, which will help relieve it fromthis debt (Hirsch, 2017). This can be attributed to the rise of e-commerce, where people buy online on sites such as Amazon and eBay. Toys R Us did launchits own website in 1998 and it became one of the fastest growing sites in thetoy category. As Toys R Us tried to improve its business strategy, so did itscompetitors. Walmart and Target also sell toys but also offer the convenienceof one stop shopping for its customers whereas Toys R Us is unable to do so. Inthe age of technology, many children prefer I-Pads and I-Phones to traditionaltoys further dwindling sales of Toys R Us. In 2011, Toys R Us' domestic U. S. sales were worse than that of 2008, which was one of the worst holiday seasonsfor retailers. The president of the company resigned after only 10 monthsdespite signing a one-year contract. In 2012, the department heads foradministration and merchandising also resigned from their positions. Theexecutives at Toys R Us have been experiencing high turnover within the pastseven years (Clifford & Lattman, 2012). The company is grappling with howto grow the business with all of the competition.

Sales are dwindling and competition is thriving but what caused these issues to arise for a company that seemed to doing very well? According to Hartung

(2017), KKR and Bain Capital acquired Toys R Us in 2005 for $6. 6 billion plus $1 billion of debt at a total valuation of $7. 6 billion. KKR and Bain Capital put in $1. 3 billion and used the company’s assets to raise the remaining amount bringing the debt from $1 billion to $6. 2 billion, which was 82. 7% of total capital. The interest rate on this debt was around 7. 25% that created payments of $450 million per year on interest alone. The plan was to cut company costs, improve cash flow, and pay off the debt. The rise of e-commerce, at the time, was not anticipated. Amazon was only an $8. 5 billion company in 2005 as opposed to the $100 billion dollar giant it is today. The executives set the company up for failure right from the acquisition.

Due to its debt, Toys RUs was unable to venture into the online market as aggressively as they shouldhave to counter Amazon. The company also could not keep up with Walmart’s lowprices. Walmart would take a loss by pricing toys and other popular items atsteeply low prices to get customers into their stores so they could spend onother big-ticket items. Customer service and shopping experience at Toys R Uswere sub par at best and not inviting to customers. American Girl Doll, whichis also an exclusive toy retailer, has seen tremendous, continuous success dueto its interactive geared shopping experience for customers. American Girl Dollonly sells doll, which one would assume could be its detriment as was with ToysR Us. The same factors that plague Toys R Us are the same factors that AmericanGirl Doll must deal with. American Girl Doll is able to thrive and beprofitable because of the unique experience they provide. Each toy comes with ahistorical background, a story, and accessories, which sell even at their highprice point. Bhattarai (2017) states, that smaller neighborhood toy stores arethriving and increasing sales every year while Toys R Us, a retail giant isfailing. What sets these smaller stores apart is the customer service ofhelpful employees, the carefully curated selection, gift-wrapping services, andlego building events. These stores are providing a unique shopping experiencethat Toys R Us is lacking. " Kids these days are restless – they're lookingfor an interactive experience," said Susan Lee, a partner at marketingfirm Simon Kucher & Partners. " It isn't enough to just have stacks oftoys on a shelf" (Bhattarai, 2017). Customer service plays a large part inthe success of these smaller stores as well. Bhattarai (2017) lists a varietyof different experiences shoppers reiterated at a store called Child's Playfrom employees going out of their way to open newly packaged games so childrencan decide if it is the right one, tracking down obscure toys that somechildren request, and even taking the time out to play with some of the kids inthe store.

Toys R Us' strengths liein its numbers as the retail giant has so many locations within the U. S. andworldwide. The company also has a large inventory with a diverse range of toysthat is difficult to come by in another store. Toys R Us has been around foralmost 70 years and for many people creates a sense of nostalgia that can beused to its advantage. It has developed its website and utilize it to furtherappeal to its customer base. The company currently employs over 70, 000 employeesand still managed to pull in annual revenue of $13. 646 billion (Satell, 2017).

The weaknesses of the organization include a lack ofcompetitive advantage when compared to other retailers. The toys sold at Toys RUs stores are not unique and can be found and other retailers and sometimes fora better price. Toys R Us also depends on its holiday season sales to make themost profit and that is not enough anymore to help the company thrive. Theorganization also wants to pay its executives $16 million in bonuses that theyargue are necessary for the executives to perform well. Normally, executive payis fairly higher compared to the average worker due to the required experience, risk, educational background, work schedule, etc. (Martocchio, 2017). This isnot necessary for a bankrupt organization to do especially since these are thesame executives that have allowed the company to fail for so long instead ofimplementing new business strategies. This would be understandable if theorganization were trying to bring aboard new executives that have a proventrack record of bringing companies back to life after suffering such losses.

Opportunities for Toys R Us came in the form of its alliancewith Amazon provided both companies the opportunity to excel. It allowed Amazonto partner with other retailers instead of trying to sell everything itself. Toys R Us was able to pick the hot items and have them features and was alsoresponsible for keeping them in physical stock. This deal however did sour dueto both companies filing lawsuits against each other. Toys R Us claimed Amazonwas allowing other retailers to sell on their website while Amazon claimed thiswas due to Toys R Us not being able to keep items in stock. The lawsuit hasbeen settled with Amazon agreeing to pay Toys R Us a settlement of $51 million(Martinez, 2009). Toys R Us can learn from this alliance and partner with othercompanies to further its selling power. Toys R Us also has many internationallocations that if situated in the right emerging markets can create theopportunity to enhance international revenue.

The threats that Toys R Us faces are retail giants likeAmazon, Walmart, and Target. Even some of the smaller neighborhood toy storesare doing a better job in providing what customers are looking for. Walmart, Target, and Amazon may offer the same products as Toys R Us but many timesoffer it in a package exclusive to the retailer that entices customers. Layoffsfrom multiple store closings have made the company unreliable as well as thecurrent filing of bankruptcy over the debt the company was left with. Thecompany is now in a negative light creating a negative image of the brand asmuch of its financial woes have been highlighted by the media (Marketing Mixx, 2017).

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