Toy r us analysis: five forces essay sample

Economics, Trade

When people here the name Toys “ R” Us, they think back to when they were kids of going into a store made with bricks and mortar and leaving with mom in one hand and the latest toy in other and a great big smile from cheek to cheek. As time passed the pressure for companies to enter the “ clicks” of e-commerce became strong. In 1998 Toysrus. com, a subsidiary of Toys “ R” Us opened in attempts to “ be wherever our customers are, and that includes the Internet.” Having a strong brand recognition, there were no doubts that Toy “ R” Us could continue their successful tradition by holding on to their vision, which is to “ put joy in kids’ hearts and a smile on parents’ faces”, even on the on the Internet.

Being in the specialty online retail industry of toys and hobbies, firms within this industry must analyze various parameters that could influence their attractiveness in the market. Once a firm understands their own specific industries environment, they can make strategies that will ultimately provide them with a competitive advantage to outperform their rivals. In order to understand the online toy retail industry, John Barbour, the CEO of Toyrus. com must look at the various factors that could influence the online toy store “ titian”.

The degree of competition within the industries looks at the external environment and the number of firms, size of firms and concentration in the industry. Some of Toysrus. com’s competition within its industry of online toy retail includes Etoys. com, and Toysmart. com. When looking at some of the competition it’s as though Toyrus. com is all alone. Toysmart. com despite being part of Disney Empire closed down after being in service for only one year. Etoys. com, which had snuk up on Toyrus. com became their main rival, but they suffered a large stock price plunge from $86 to $7 during an eight-month period. These competitors are much smaller in size compared to Toysrus. com, who is not under any pressure to turn a profit rapidly since they have such a tremendous brand backing their success.

On the other hand, these smaller online toy retail companies are under a lot of pressure to make profits. In response to the demands from online consumers on the online toy industry, Toysrus. com is doubling its web-based workforce to 600 full-time and 800 seasonal employees by this Christmas season. In regards to concentration, the intensity of competition is close to none because the online toy industry is fairly new and there are not very many companies to compete with. In this case, the competitors that are present do not have as wide a variety of products to offer the consumers compared to Toysrus. com who affiliates directly with the toy retail giant Toys “ R” Us. The intensity of marketing competition among the few firms who are present within this industry is high because the online toy retail industry is an emerging industry.

Smaller online toy firms, such as Etoys. com have to spend a lot more money on advertising to get the publics awareness of the new company. Toyrus. com has a competitive advantage in this area because they already have the parent name backing them and the convenience of land-based stores that offer the ability to return an online purchase at the store instead of having to go to the post office to return purchases. This past year Toysrus. com spent . 18 cents per dollar of revenue, whereas Etoys. com spent . 37 cents per dollar on marketing. Looking at the degree of competition within an industry's environment is simply the beginning to analyzing industries attractiveness.

The CEO can next look at the life cycle of the industry in respect to the environment. The online toy industry is in an emerging market, leaning towards growth. Most of the players in this industry were recently introduced to the market within the past two years. Before they emerged, the retail industry did not include toy web sites. Most of the online retail industry included apparel, computer software and entertainment products. Since firms in the retail toy industry are only in an emerging stage it is important that they focus on setting the base for their growth opposed to reinventing new ideas early on. It becomes too risky to reinvent new ideas before the company has reached its growth stage of the Life Cycle. The normal process is to reach maturity and then develop new ideas. Toyrus. com is staying within scope of the Life cycle; although they have the toy business mastered they are still trying to master the art of websites.

Social relevance is another factor that one can use to help analyze the attractiveness of the industry. Overall, any form of business done over the Internet is socially accepted because the Internet offers convenience as well as a time saver. The number one demographic group that frequents on-line toy stores is mothers of children. They know that when it comes Christmas time, what better way to save shopping time than to order the toys that kids want on the Internet. It is this mentality that raises the relevance and necessity for such a website. Society already gives acceptance to the

Internet and to Toy " R" Us Inc., therefore Toyrus. com is also known to nearly all people within its industry on the Internet.

The degree of globalization is another factor that influences attractiveness. If a company entering an industry can also enter a global market, then it is attractive. Toysrus. com has businesses in other counties such as the United Kingdom, Germany and France. Etoys. com, their main rival, is not as globally present around the world, they only have a presence in the UK. Having a global distribution also reduces cost.

The degree of vertical integration also influences the attractiveness of a company. Vertical Integration refers to a strategy of acquiring control over additional links in producing and delivering products. Since Toyrus. com officials determined that online demand was outrunning the unit's existing space, they announced plans to triple its fulfillment capacity by opening new distribution centers in California and Pennsylvania. They will also be spending 1. 2 million dollars to upgrade its front-end and back-end systems in order to avoid site problems that they had fulfilling orders last holiday season. Toysrus. com is very vertically integrated, in other words it does not make, produce and sell their products, instead they buy everything from other vendors at discounts. Then mark up the prices on the Internet, ultimately raising the bottom line.

The extent of government control also has an influence on the attractiveness of the industry. Government control is minimal in the online toy industry, but the FTC Better Business Bureau is involved in all business relationships with customers. If there are any complaints with the way in which a company handles business, people can complain to the FTC and they attempt to fine or penalize the company for their actions. This past Christmas, the new web site, Toysrus. com, promised to deliver goods to consumer by December 25th. Once a number of complaints came in about the site not living up to its delivery promises the FTC Better Business Bureau fined Toysrus. com with $350, 000. Toyrus. com also gave irate customers $100 gift certificates. Some even went outside the online-toy retail industry to Walmart to purchase gifts after Toysrus. com failed to deliver on time.

The Five Forces Model can also be used to evaluate the attractiveness of an industry. This model suggests that the structure of an industry will have an impact on the conduct or competitive behavior of the firms in that industry. Industries that have a small number of firms tend to be less competitive than industries that are populated with more firms, as is the case with Toysrus. com. As we have seen, their only competitors are Etoys. com. Since there are not many firms who perform similar services, they can charge higher prices than they would be able to in more competitive industries, thus price competition is low. In a low competitive industry as such, the companies within can enjoy higher performance.

The threat of new entry affects the firms within an industry, if new rivals can easily get in, then it will be more competitive, thus firms must put up barriers to stop others from entering. Toysrus. com has put up a barrier through brand identification. Many firms trying to enter the industry will know that Toy “ R” Us Inc., the parent company to Toysrus. com, has been around since 1948 and knows the toy industry very well. New entrants know that they will have to try to take satisfied brand loyal customers away from the “ almighty” Toys “ R” Us.

The threat of substitute products also comes into play concerning industries. If substitute products are readily available, then the firms are likely to suffer lower profitability. In the toy industry substitutions do not come into play! When a certain toy is the “ hot” item, the kids are not happy with any other substitute. The bottom line is that parents try to get the one toy that will make their child happy, settling for nothing less. So if the competition or new entrants carries the substitute and not that one ” hot” toy, they are not likely to make the sale, unless the price-value ratio is weighed heavily on the price side.

The power of suppliers is important to look at concerning the attractiveness of an industry because if the suppliers to one certain industry have enough power, they may be able to extract higher prices for critical components, thus reducing average industry profitability. Since there are a lot of different suppliers in the toy industry, those suppliers have less bargaining power, because the buyers can go to another supplier. In the toy industry not one supplier holds a critical component for the toy retailers.

The power of buyers should also be taken into consideration when analyzing the attractiveness of an industry, because powerful buyers extract price concessions for products, thus reducing industry profitability. Since only a few buyers in the online toy industry exist, they will have greater bargaining power. Toysrus. com has huge buying leverage because “ At the end of the day Toys “ R” Us and Toysrus. com can put their buying power together to get units, and they'll have more than any other dotcom". Since they will be buying in such bulk, it leads to great price discounts and if a price war were to break out the dotcoms will be at a disadvantage because they will be buying from suppliers at such higher prices. New entrants have to look at the powerful buyers in deciding whether or not to enter the industry.

Finally, the fifth of the five forces has to do with the extent of rivalry among existing firms within the industry. Greater rivalry reduces profitability because rivalry will either drive down prices or increase the cost of doing business. Generally the more firms in an industry will increase rivalry. Since there are only a few firms in the online toy buiness increased rivalry is not a concern. Actually since this is an emerging industry, firms are working together to gain consumer acceptance and establish distribution channels. As we have seen Toysrus. com is still working on their distribution channels and trying to keep consumer acceptance for this upcoming season by not replicating what they did last year.

In conclusion, in deciding upon entering a certain industry we can see that there are various factors one should look at before choosing particular industries. The Five Forces Model helps to summarize broadly what to look at in industries. Through evaluation of Toysrus. com's industry we have been able to see the advantages they have over other competitors as well as new entrants, thus concluding that being backed by Toys " R" Us Inc. with such high brand loyalty, puts them in a good position! Toyrsus. com will continue to " put happiness in children's hearts and smiles on parent's faces" even through the Internet medium