

# Analysis of toys r us case in japan



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There are various fundamental basics that any organization large or small scale needs to follow when setting up a new company locally and also when they venture across borders in international entrepreneurship. Effective management is one important aspect that will ensure that the company successfully achieves its goals and objectives efficiently. Management consists of organizing, planning, and leading (Adler & Gundersen 2008). Many businesses today define management as simply the things that need to be done to keep the organization going.

However, for the business to penetrate the market, and experience continuous growth while maintaining healthy competition, it requires good leadership skills, effective communication, decision making skills and planning to maintain sustainability of the company in the local as well as international markets. Toys R Us is one company that has risen from one small store in the 1950's to a multinational company that has a number of chain stores operating in the United States as well as other states such as Europe, Hong Kong and Singapore.

This was achieved through effective leadership and management skills and good assessment of various markets. Lazarus, the founder of the company, observed the market in regards to customer spending and preferences. He build toy stores with self-service like in supermarkets and put discount prizes to undercut any threatening competition thus gaining competitive advantage capturing 20% of the toy market in the United States. By the 1980's the company was flourishing and was way ahead of its competitors.

As it expanded its wings internationally, the discount formula attracted many customers who rushed into Toys R Us supermarkets to purchase new toys. This move was not welcomed well by the locals in fear that the giant stores would drive them out of business. For instance, manufacturers in Germany refused to sell toys from R Us fearing that their existing relationship with the local retailers and wholesalers will be damaged. The same thing happened in the United Kingdom and retailers protested noticing the decline in the number of stores since the arrival of Toys R Us.

However, this did not hinder the company from wanting to expand further into other countries especially in the country that has the most lucrative toy business market, Japan. The company tried many times to crack the neatly joined Japanese market to no avail. They faced many challenges and any attempt to make it in the market was met with outright opposition from the local retailers and wholesalers. Apart from the retailers, the Japanese media denounced Toys R Us. The whole distribution system of Japanese toys conspired against the company hence thwarting the company's attempts and perpetuating further the high prices on Japanese products.

A number of issues have led to the unfruitful efforts of Toys R Us to penetrate the Japanese culture. First, the Japanese and the American markets function very differently. According to Adler and Gundersen (2008), conducting research on potential markets to venture new businesses is very important as it will enable an organization to gather crucial information on target markets and their needs, the current market trends, information on the competitors in the market and the satisfaction of customers with the goods and services available.

Adler and Gundersen (2008) also add that through this information, an organization will be able to know about the prices of commodities already in the market and the supply and demand rates currently in the market. Hence, with such information Toys R Us found that the Japanese market had grown tremendously and it would be a great country to conquer and add to the already existing chain supermarkets. Analysis of the Japanese toy market shows how neatly joint that their processes are and how they are meant to block out any new foreign investors as well as expansion by the locals themselves.

The Japanese toy market is the second largest in the world and in 1991 it was worth \$7.1 billion prompting new inventions to attract the children. In their analysis, Toys R Us thought this would be a good market to invest in but further research revealed that the retail industry would be hard to penetrate and with its plans of using the discount formula would be an uphill task in this market. Most of the toy stores were small domestically owned shops and displayed almost similar goods.

They bought their goods from wholesalers who deal directly with the manufacturers and the retailers sell their products at the manufacturers' suggested price. The business chain of manufacturers, wholesalers, distributors and retailers maintained their long term relationships on personal commitment rather than on competitive terms. Conversely, the American market system is very different from that of Japan. Businesses in America try at most to reduce the chances of intermediaries and aim at reaching the customer directly.

They find the Japanese system cumbersome and the burden of the long chain falls on the consumer. They cannot expand their businesses due to imposed regulations and seem to enjoy the benefits that are given by the manufactures while they can achieve more if they are allowed to expand and dictate their own prices. Toys R Us saw this as a great opportunity to break this tradition and introduce discount prices that would change the toy market for the better.

However, it proved to be a hard task for the company to break into the market due to the culture of the Japanese men and women in conducting their businesses. Montana and Charnov (2008) define culture as the shared beliefs, values, attitudes, and practices that govern a certain group of people or an organization. Therefore, in international business, having insight of a country's cultural dynamics will go a long way in helping an organization to understand why people in that particular country do things in a particular manner and the appropriate way of handling them while in that country.

While expanding the business internationally, it is important for an organization to try to understand the cultural practices of the new country and try not to impose their own as this would lead to misunderstandings and in the end, the business would become a failure. Hofstede (2003) concurs with this sentiment pointing out that organizations working in international business may tend to act according to human instincts that although cultural differences exist, deep down human beings are all the same. In reality, this is not the case.

Hofstede (2003) states that if an organization ventures internationally into a new market, and makes decisions according to how they operate in their own country, then chances are high that the organization will make some very bad decisions. Toys R Us had started operating a long time ago on discount strategy of selling their goods and engaged customers in self-service. Additionally, they also invested in large scale shops with one central point of observation in finding out which goods need to be added when they reach a certain limit.

The company has applied this culture in all the other countries that they have ventured in. However, not all countries are the same and in a country like Japan, they value their cultural practices in the business world and are rigid to change. Toys R Us contemplated of venturing into Japan with the same business mind of putting up large-scale toy shops and offer discount prices on their goods to consumers which would undercut any competition against them. Nevertheless, as Hofstede has argued, venturing into another country based on decisions earlier made in other countries is a bad decision by the organization.

This is one of the reasons that made Toys R Us to head off at a slow start when making their efforts to start their large-scale toy supermarkets in Japan. According to House (2004), the starting of international business is guided by becoming aware of the differences that exist between one's own culture and that of another country. People from different cultures have different ways of doing things, expressing things and even in talking and mannerisms. Hofstede (2003) gives an elucidation on cultural differences in a number of dimensions.

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He explains that individualism focuses on the extent that the society is either individual in nature or collective in nature. A society, which practices high individualism, tends to focus on individual relationships. I. e. they like to do things alone rather than including other people. Therefore, they maintain more loose relationships. On the other hand, societies that have low individualism are the collectivists. In this kind of society people tend to involve others and they unite to achieve a common goal that will benefit all of them.

These cultures support collectiveness and extended families where everyone takes responsibility of other members in their group. Therefore, culture does play a very important role in individuals as well as in a country. This is illustrated in various aspects such as values and its effects on work habits, norms and attitudes, cultural differences in work motivation, orientation, managerial styles, management and supervision, the distribution of control and authority in a company, cognition and reception.

The strategies that Toys R Us was using to venture into Japan seemed to not work. This is for the reason that the Japanese valued small shops since it was what made them flourish since time in memorial and their system of distribution was guaranteed on availability of products while the wholesalers and retailers felt that they were protected from any economic impacts and fluctuations in demand. These small shops brought them together as a neighborhood and they served as a valuable social purpose.

The reflected the Japanese way of style, which assured the retired shop owners income security since their pension compensations, were small. They

like to shop for small quantities of things rather than buying in large quantities and then store them and in addition, the Japanese consumers value high-personalized services that they are ready to pay for from the overpriced products. However, times were changing and the regulations that Japan's Ministry of International Trade and Industry had imposed on retailers prohibiting them to expand their stores to large-scale businesses were loosened.

With the reforms in the international trade sector Toys R Us saw this as an opportune moment to start up one of its stores in the Japanese market. They sought an alliance with a strong local partner. However, when they started the negotiations they realized that the two companies had very different approaches to doing business. The local company still wanted to follow the traditional way of using intermediaries which was contrary to the business principals of Toys R Us. This served as the first turn around for the company in its first efforts to try to start a large-scale toy supermarket in Japan.

The turnaround may have occurred due to failure in effective cross-cultural communication. House (2004) points out that, international businesses today face very many new challenges in their structures of communication due to the global changes that are brought about by joint ventures, internationalization, new acquisitions, and mergers. According to Everett, William and Yoshitaka, (2002), the Japanese people are usually more introverts than adventurous in their ways of doing business. They are not usually welcoming to outsiders into their markets.



Hence, when conducting international businesses in Japan, it is important to be aware of the fact that their loyalty and relationships is to their group and this may be critical to the success of the new business. Therefore, they say yes to a number of things but this does not mean that they agree to whatever you are proposing. Toys R Us tried to find another local company that would concur with their business strategies and join them in implementing these strategies to raise a successful business.

They sought the help of the president of McDonalds in Japan, Den Fujita. Although Fujita was Japanese, he had great influence in the business world and he was more of a risk taker in business than his counterparts. Fujita understood the business principles of the American culture and he was ready to help Toys R Us to break into the market. However, with the announcement of the plans the company got another turnaround of events in their efforts to start up a toy supermarket.

They received a lot of criticism and opposition from the small-scale retail owners in fear that they would be ran out of business. They joined from different towns and formed an umbrella body to frustrate any attempts made by the Toys R Us to open up new supermarkets. To add to their obstacles finding appropriate real estate was an uphill task and their schedule for opening new stores started slipping steadily. Given the opportunity, I would have conducted the new venture differently.

It is not easy to go against all the retailers in all the towns. This would be going against their culture and what they believe in. This would also ruin future relationship with the country if the company may try to venture into

other businesses. Therefore, since it proved to be impossible to start supermarkets in the closely guarded market it would be prudent to first agree with the locals and then after penetrating the market, the company can slowly start to implement their own principles and finally expand their business.

This would avoid losses and slow sales in the commodities. In ensuring the success of international business, good leadership skills are also essential. According to Montana and Charnov (2008), leadership is the process where a person can procure the support of other people in completing a particular task. Therefore, even though Toys R Us is a multinational company and has done well in many other countries including their own but this case seemed to be different.

The leader of this particular business venture should have engaged his company in making sound decisions in accommodating change and make ethical investments instead of being rigid. Adler and Gundersen (2008) explain that ethical investment is a valuable in view of the fact that large-scale investments are subject to market forces. In addition, as a result this is mirrored by public opinion. Therefore, in considering ethical investments, it may prove to be a good move in dealing with the society and large numbers of people rather than the expert views of public figures or leaders.

Hence Toys R Us should have sought to bring on board the local retailers and manufactures first rather than consulting Fujita. Montana and Charnov (2008) add that ethical investments are concerned with how the profits of the company are made as well as the amount of profit that the company

rakes in. In conclusion, the intentions of the American toy company to penetrate the most lucrative toy business market in the world proved to be an uphill task and their efforts produced very little results.

The company has been steady in other markets for decades and hence had envisioned to open six stores by the end of the year 1991. However, they managed to open only one store in December 1991. Their subsequent efforts were futile in the following years as they saw a very small percentage increase in sales. Their total assets and liabilities were also lower than those of previous years. Their efforts of making it in the Japanese market were futile as a result of various challenges and obstacles that they faced.

The company found it hard to start due to the many regulations that were imposed by the Ministry of International Trade and Industry. To put up a large-scale business one had to get approval of the local retailers who frustrated the process for fear that they would be driven out business, which is their livelihood. The land prices and ready labor was expensive and hard to get. The company also faced issues of cultural diversity since the way that the company conducts its business is very different from what the Japanese people do.

The Japanese value their small shops and simply argue that it is their way of doing things and it is what they believe in. Additionally, the Japanese also value the principle of collectivism where extensive relationships are preferred hence explaining the coming together of all the retailers to help fight the enemy out of their market. Hence, without the support of the local

manufacturers, distributors, retailers and the government, it would be impossible for Toys R Us to conquer the Japanese market.