

Strategic Causes of the Decline and Bankruptcy of Toys R Us

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Collapse of the Toys R Us Retail Empire

Recently, one of the largest toy emporiums, which was created by Charles P. Lazarus, has gradually been reduced to dusty floors and empty shelves. A lot has been said about this toy empire, Toys R Us, as it continues to liquidate most of its properties globally. Due to uncertainties, fingers have been pointing at corporate raiders, big-box stores, and Amazon as the main cause of this tragedy. However, the collapse of Toys R Us is mainly due to loyalty. During its early days, the store was able to foster devotion from both its clients and toymakers, but today, it has unfortunately lost both. Some have argued that the core reason behind the fall of the toy empire is that the empire never bothered investing in its store, and once new competition moved in, it was left vulnerable. (Porter, 1985)

Founding Vision and Early Success

The toy empire began with Lazarus, a visionary, a childlike scrawl who wanted the “R” written backward. Despite all this, Lazarus’ vision to create a toy store resulted in him being regarded as one of the biggest merchants of his time as he was able to expand his baby furniture store into the largest store in the country. By 1978, Lazarus had already developed a toy superstore that was large enough to become a public enterprise. Back in the 80s and 90s, Toys R Us had become the most crucial toy state in the nation, if not in the world. Its wings continued to spread once its competitors, such as Kiddie City, stepped down. As its wings spread, so did its popularity as children across the globe began declaring themselves “Toys R Us kids. Parents ended up spending their morning weekends in the store and planners stocking up as they prepared for birthday parties. In 1994, Lazarus stepped down and handed over power to Michael Goldstein, who was known for his passion for toys. Goldstein was ambitious and innovative, which resulted in the addition of more stores and an increase in popularity. However, Goldstein stepped down in 1998, and this was when problems began for the store, which ended up in its current situation.

Neglect of Stores and Strategic Expansion Errors

For starters, as the company continued to grow and open new stores, it forgot about the store base and never took care of it. They neither pruned stores that were not bringing in profits nor put more resources into those stores that brought more profit. Additionally, it overlooked opportunities to make its store much nicer and cleaner as well as a destination for occasions. Toys R Us’ inability to translate

the joy in the toys into something tangible was one of the biggest mistakes they made. It went the extra mile and began losing touch with the parents who were buying toys in the stores. The connection that the store had with the parents and kids, which made it grow and surpass its competitors, was gradually being lost.

Commoditisation and Loss of Differentiation

Another mistake that the store made that resulted in its downfall was allowing the toys it sold to become a commodity. By the time potent competitors they had began moving in, the store was already vulnerable. For instance, the EToys and dot-com bubble, which were formed after Toys R Us, became public and gained a market capitalization that exceeded Toys R Us. Feeling desperate, Toys R Us ended up signing an expensive partnership with Amazon. With this deal, Amazon was given exclusive rights to put Toys R Us products on the market. They did this using their website, and each year, Toys R Us was to pay roughly fifty million dollars. Toys R Us was paying for exclusivity, something they never got as Amazon started selling other toy brands on their website. Toys R Us decided to sue Amazon, an act that left Toys R Us financially unstable, and by the time the suit was over, the damage had already been done.

Price Competition From Major Retailers

Then, the discount chains came, and other shopping stores, such as Target and Walmart, began chasing after Toys R Us clients by slashing their toy prices. Bigger retailers had begun taking advantage of what had made Toys R Us exist for all that while. These bigger retailers aimed at increasing their margin products as they acquired more customers. This made Toys Us crumble terribly, bringing about losses and losing investors. As time went by, Toys R Us became a perfect private equity prey. By the mid-2000s, private equity funds were being lured in, and by 2006, private equity organizations were spending more than thirty million dollars on controlled buyouts of retailers. In 2005, Toys R Us decided to take money from three investors, namely Bain, KKR, and Vornado. This money resulted in Toys R Us' indented a debt to these investors that largely affected them. By the moment the organization had reached bankruptcy in 2017,. It still had nearly five billion dollars in liabilities. The debt load that Toys R Us was incurring was too much to bear, and this played a role in its downfall. (Toys "R" Us, Inc., 2017)

Conclusion on Long-Term Strategic Failure

In summation, it is correct to say that Toys R Us' problems began long ago. What has resulted in the company's downfall began long ago, and if the organization had not been ignorant, it would have solved these issues. Ignorance, loyalty, and desperation are what motivated the organization to fail, as it ignored its stores, lost loyalty from its clients, and was desperate enough to make a deal with the

devil (Amazon). Every move the company made took the company to where it is now, bankrupt.

References

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