

Assignment Number 1-4

Internal Analysis

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This internal analysis will be performed on Hasbro Inc. whose industry innovations and strategic acquisition of key licenses has placed them as the number two toymaker and game manufacturer in the world.

Hasbro Inc. manufactures games and toys for leisure time activities. It has strategic partnerships with EA Games to create video games and Universal Studios to create movies based on its properties and plans on launching a new TV network called The HUB as a joint venture with Discovery Channel.

Strengths

Brands: Hasbro owns the licenses to several brand names that have fiercely loyal fans. Transformers, NERF, Tonka, Super Soaker, G.I. Joe, Marvel Super-Heroes (Spider-Man, Iron Man, X-Men), Milton Bradley, Parker Brothers, Cranium, Star Wars, Strawberry Shortcake, My Little Pony and Wizards of the Coast (makers of the role-playing game Dungeons and Dragons and the collectable-card game Magic: The Gathering) among others.

Variety of Products: Hasbro has a wide and diverse portfolio of toys and game offerings. Their game lines include traditional board, card, electronic, and DVD games. These numerous offerings diversify Hasbro's revenue streams and make the company flexible enough to put out more product in areas that are doing well to make up for the areas that are soft.

Employee Efficiency: In 2008, the Hong Kong Trade Development Council awarded Hasbro's Far East division with the Service and Technology Innovation Award for their e-Connect application as part of the Hong Kong Logistics awards (Snell, 2008). Hasbro Far East employs 800 people that manage 8,000 stock-keeping units, made by over 100 factories in China. 45,000 containers are sent to 46 different countries. The e-Connect system replaced a team of people who would receive fax orders then prepare them for manufacturing. The old

process meant that product turnaround could take up to two weeks. With the e-Connect system, that process now takes around 1-2 days. Also, they also have English as a second language program instituted in their Longmeadow, Massachusetts manufacturing plant (Working for America Institute, 2010). It's estimated that this plant has up to 35% of employees with moderate to severe problems with English. By working with the AFL-CIO union, Hasbro created a program that teaches useful on-the-job English. After the training, 49 of 50 employees tested at "Advanced English" levels according to the Massachusetts Department of Education's Basic English Skills Test (BEST.) Also, 27 of the 50 employees went on to pass the more advanced Bennett Mechanical Comprehension Test, which is required by Hasbro for promotions to higher paying jobs.

Financial Performance: Hasbro's stock has gone from \$17 a share in 2007 to \$45 in 2010 (Yahoo Finance, 2010). Investors have been impressed with CEO Brian Goldner's strategy of promoting Hasbro's properties through many media channels boosting sales.

Developing Managers: Hasbro felt that their family environment kept executives loyal to the company, but some of their skills would slip the longer they were away from school. In 2003 Hasbro partnered with Tuck School of Business at Dartmouth College to rebuild their senior management team (Pomeroy, 2005). Tuck created a customized program that filled Hasbro's "skill gaps" featuring the following modules: global strategy & competitive advantage; personal leadership; brand building; emerging markets; and ethics. All of their senior management is required to attend the week-long set of classes and managers who don't take it seriously are sent through again.

Market Segment leader: No one sells more board games in North America than Hasbro (Muller, 2009). Almost everyone owns one of the many special edition Monopoly versions

(Simpsons, Star Wars, Boston Red Sox, Etc.) They lead the boys toys market with their Transformers, G.I. Joe, and Star Wars lines. Nerf and Super Soaker are the premier foam dart and squirt-gun products. Their Fisher-Price toys remain very popular baby toys. Hasbro's girl toys line, including Littlest Pet Shop and My Little Pony take a back seat to the juggernaut that is Mattel's Barbie line.

Movie and Video Game Licenses: Hasbro has been very strategic about getting its licenses into the hands of people who can make entertaining media. Their big Hollywood movies have been a hit. In domestic ticket sales, 2007's Transformers grossed \$319 million, 2009's Transformers: Revenge of the Fallen grossed \$402 million and G.I. Joe: The Rise of Cobra grossed \$150 million (Scanlon, 2009). These movies generated a lot of interest in the movie-tie in toys and the retro-themed classics lines. Video games based on the properties had decent sales. For example, Transformers: War for Cybertron sold 290,000 copies in its first ten weeks (Video Game Chartz). Unfortunately, they were universally panned by critics. Hasbro's cell phone games based on their board games have also sold well in the emerging smart phone market. Hasbro hopes to recapture the movie success with another Transformers movie and two more G.I. Joe movies, followed by movies based on the board games Battleship, Candyland and Monopoly.

TV Channel: In 2010 Hasbro and Discovery Communications launched a joint venture cable network called The Hub (Scanlon, 2009). This channel caters to children 11 and younger. Many of the shows will feature Hasbro brands like Transformers and G.I. Joe. A mix of new and classic shows will reinvigorate the brands and introduce them to a new generation of fans.

Adult Fans: BotCon, the official Transformers convention, has been held annually since the first one in 1994. Fans of all ages descend on BotCon to buy/sell/trade Transformers, meet

voice actors from the show, learn how to draw their favorite characters, talk to Hasbro employees and maybe get an exclusive Transformer action figure. BotCon 2009 attracted a record 7,000 fans. G.I. JoeCon is also attended by thousands of fans with a similar purpose as BotCon but themed around the G.I. Joe products. Thousands of websites have been uploaded by fans that feature pictures, fan-fiction, discussion boards, costumes and tattoos.

Internet presence: In addition to thousands of fan-made websites, Hasbro leverages many official websites for their toy and game lines. The Hub's website has games, videos, profiles and contests. Each toy and game line is featured its own page with pictures of current products and a link to customer service for information on recalls, missing parts and product safety.

Green initiatives: According to the U.S. government's EPA website, Hasbro has been a member of various green-house gas (GHG) reduction programs since 1997 (Environmental Protection Agency, 2010). Their Pawtucket, Rhode Island, headquarters exceeded their goal to reduce GHG's of 30% from 2000 to 2007 by reducing use by 43%. They beat their goal by implementing many energy saving measures such as Installing occupancy sensor lighting, replacing inefficient air conditioning units, replacing roofing materials with higher insulation values, installing high efficiency motors in manufacturing machinery, installing dual fuel boilers and installing automated Energy Management Systems in their two largest U.S. facilities. Their next goal is to reduce GHG use another 10% by 2012.

Advertising/Cross-promotion: Hasbro does a great job cross promoting its product lines with other popular products. First are the previously mentioned movies and video games. Every year McDonalds has a promotion where customers collect Monopoly board pieces for prizes like free food to new cars and vacations. Around Christmas time popular Kellogg's children's cereal, like Rice Krispies, Frosted Flakes and Froot Loops, offer coupons for Hasbro board games.

Hasbro also partnered with YouTube to host an online Trivial Pursuit tournament where contestants played the board game against internet celebrities “Numa Numa Guy” Gary Brolsma, Michael Buckley, Tay Zonday and the “Charlie Bit My Finger” brothers.

History: Mr. Potato Head, G.I. Joe, Clue, Monopoly, and many other Hasbro properties are part of American and pop-culture history. Many people are very nostalgic about the games and toys they had when they were children. This nostalgia turns into sales when these customers become parents and want to recreate the experiences they had with their own children. It’s a powerful commodity to be able to sell consumers their childhood.

Weaknesses

Customer Concentration: Hasbro’s three largest customers Wal-Mart, Target and Toys ‘R’ Us account for around 50% of their net revenues (HASBRO INC - FORM 10-K, 2010). If you look at the regional segments, outlets the US and Canada make up 70% of Hasbro’s net revenue. This concentration puts Hasbro in a very weak bargaining position and leaves them open to issues caused by mismanagement and problems at these companies.

Declining Margins: Toys and games that require ever increasing technological advances in manufacturing and materials shave away from their profit margin.

Recalls: Large recalls can cause many problems including lawsuits, loss of consumer confidence, pulling unsellable product from shelves, etc. Because most of Hasbro’s manufacturing is done in factories that they don’t own, they are beholden to the safety and inspection processes that those factories deem sufficient.

Licenses they do not own: Star Wars and Marvel are good examples of popular licenses Hasbro doesn’t own. Hasbro’s license for Star Wars expires in 2018, and their license for Marvel expires in 2017. Disney’s purchase of Marvel Comics almost guarantees that Hasbro will lose

the Marvel license to Mattel, who does most of Disney's toy and games manufacturing, once their current agreement expires.

Dependence on China: For many years, toy companies have used Chinese factories to manufacture their products. The combination of cheap labor and undervalued currency has been a very attractive recipe for keeping production costs as low as possible. Although as this arrangement as been profitable, it has also made toy companies very susceptible to problems within China itself.

Value Chain Strengths

Hasbro's principal properties Transformers and G.I. Joe have ongoing storylines that run through movies, comic books, novels and children's books among many others. Under Hasbro's previous licensing methods, publishers would come to Hasbro with a storyline idea then Hasbro would approve or deny the idea. This method would cause continuity issues and characters acting in contrary ways. Now Hasbro has authored an overarching story that publishers can attach their storylines to. According to Michael Kelly, senior global publishing manager in Hasbro's entertainment and licensing division "But now, we're taking the lead by controlling the story line and the continuity, so no character does anything out of context. A character who's in Paris in May couldn't also be on Jupiter in May." (Raugust, 2009)

Hasbro holds regularly scheduled get-togethers called martini meetings. No alcohol is served at these meetings; they are named after the martini glass shape. Researchers begin at the "rim" of the glass by scoping out emergent technology. Then once the technologies are vetted their possible application to toys and games is assessed. "FurReal Friends, a line of soft animal toys with robotic innards, came out of the martini process" (Scanlon, Hasbro: Where Toys Are Still Serious Business - BusinessWeek, 2009). They're now sold in over 60 countries.

Hasbro maintains a strong presence in the North American market. According to Datamonitor, a leading business information company specializing in industry analysis: “Using the existing sales and distribution structure, [Hasbro] sells its products directly to retailers in all key North American markets. The company's strong distribution and retail channel network along with its ability to grow its existing and new brands in the North American market has enabled Hasbro to generate higher revenues and reach new customers.” (Datamonitor, 2009).

Hasbro’s TeamWorks/e-Connect software system makes communication between vendors and producers a cinch. Anne Chen, senior writer at eWeek describes the process like this: “TeamWorks ... automatically sends all customer inquiries to a Hasbro employee for review. If the inquiry is not reviewed within a specific period of time, as designated by Hasbro’s business rules, the system automatically sends the inquiry to the product vendor to avoid bottlenecks. Once the vendor receives the inquiry electronically, the vendor responds via the portal and that order is automatically updated in Hasbro’s SAP system.” (Chen, 2004).

Value Chain Weaknesses

Hasbro has had trouble gaining market share in the girls toy segment. This is a weakness that Hasbro is constantly trying to address. For example their Littlest Pet Shop (LPS) line was canceled once due to lack of ongoing customers. Once the line was returned, Hasbro wanted to ensure girls would continue to buy more than one toy. Hasbro hired Little and King Company, LLC who introduced a new strategy to hook customers (Little & King Company, LLC.). Recognizing that young girls spend a lot of playtime together, Little and King added a social element to the LPS line. Each figure included a sticker that, once all six were collected, could be redeemed for a special edition figurine. The stickers needed to be collected in a special LPS book

that included activities and games centered on the LPS figures. Girls would get together and check each others progress and play the games until they collected all the stickers.

In anticipation of Christmas, their busiest season, Hasbro front-loads their orders far in advance. The idea is to get the product onto a retailer's shelves before shipping capacity from China becomes tight. David Hargreaves, Hasbro's chief operating officer said, "We are (going to) the retailers to say, 'You need to not leave it to the last minute - and maybe put a little bit more ahead than you otherwise would have.'" (Journal of Commerce, 2010). This strategy lets Hasbro get more products on the shelf, but it also places them in the uncomfortable role of soothsayer by making them predict what will be popular for the holiday season.

Greatest Strengths

Brands: Hasbro's many brands have been created or collected over many years and are the envy of the toy and game industry. The brands are very valuable, and any rights that expire will try to be picked up by many competitors. At any given time, there's only one company making Star Wars figures, so it is a rare and coveted thing to have the rights to manufacture them. Robots that change into cars and 3 ¾" army men are very easy to produce, and many competitors do. For example, the line of G.I. Joe imitators known as "The Corps" by Lanard toys. Unfortunately for Hasbro many toys and games can substitute for imagination play.

Employee Efficiency: Efficiency is the goal of all large manufacturing business. Every duplicated task eliminated and every minute shaved off order processing adds to the bottom line. It's very valuable to Hasbro's customers to be able to turn around orders accurately in 1-2 days. Efficiency on the scale that Hasbro has achieved is very rare. The manufacturing industry has recognized Hasbro many times for the scale of efficiency they have attained. Efficiency is imitable with enough investment and commitment. It is also substitutable. Ultimately cost could

be brought down by cheaper materials, paying less for labor, cutting corners on quality and at many other points of the supply chain that could equal the savings from efficiency.

Adult Fans: Every fan who grew up with Transformers, G.I. Joe, Monopoly, My Little Pony or any other of the hundreds of Hasbro properties is an activist and an advocate for their childhood love. Each fan acts as a free advertising campaign. Each website a fan puts up about their favorite character is an online promotion at no cost to Hasbro. It's valuable to their customers because there is a built-in audience for new products. It is rare because not every toy property has adult fans. So far, no one is organizing a Go-Bot convention. It's inimitable because it takes years to foster the community. Adult fans are non-substitutable because their combination of nostalgia, income and enthusiasm has led to converting their children to fans and into steady sales for years.

	Valuable	Rare	Inimitable	Non-Substitutable	So what?
<i>Physical Brands</i>	X	X			
<i>Reputational Adult Fans</i>	X	X	X	X	
<i>Organizational Employee Efficiency</i>	X	X			
<i>Financial</i>					
<i>Intellectual</i>					
<i>Technological</i>					

Greatest Weaknesses

Customer Concentration: Hasbro needs to be in charge of its own destiny. Having so many customers concentrated in so few outlets means many of its decisions are made for them. For example: In July 2010 Target stores had a boycott directed at them after they donated \$150,000 to a group running ads backing conservative Republican gubernatorial candidate Tom

Emmer, who opposes same-sex marriage (Montopoli, 2010). Through no fault of their own Hasbro could suffer a decline in sales if other similar events took place at their other retailers.

Dependence on China: In another case of decisions being made for Hasbro without its input, many consequences stem from doing most of its manufacturing in China. China's rising inflation will have an impact on all low-cost producers as the U.S. dollar's buying power in China diminishes.

Innovation Competence

Hasbro is very competent at innovation. They need to constantly rise "above the noise" to keep customers buying. Every year Hasbro comes out with new products and updates to old ones. For its 75th anniversary, they updated the classic board game Monopoly with several technological improvements. The board is now circular, features an electronic "banker" that keeps track of money transactions and music that plays when players are sent to jail. Twister was updated to include music and dance moves which appealed to girls who enjoyed that style of play and to parents who are concerned that too many children's activities are sedentary. With its acquisition of new licenses Hasbro combines them with existing lines for interesting products. Obviously they made Star Wars and Transformers versions of Monopoly and Risk, but they also combined Star Wars and Transformers to create toys like Darth Vader that turns into a Tie Fighter. Because of their lack of knowledge in aerodynamics, Hasbro has partnered with NASA to create flying foam glider. In 2004, Hasbro created the VideoNow Color, a portable video player that played episodes of popular TV shows like Spongebob Squarepants. At the time, it was a huge innovation and was very popular for a short time.

Conclusion

Hasbro's strengths have seen them through many years of prosperity. Their ability to innovate, re-invent and introduce products serves them well in their race against other toy makers. Some of Hasbro's weaknesses stem from problems that are out of their control, but that doesn't stop them from trying to address them with vigor and enthusiasm.

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