The University of Chicago
Graduate School of Business

Business 357-81 - Final Project:
Mr. Block Wooden Dinosaur Blocks

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Introduction - Statement of Consumer Behavior Being Studied

For the purpose of this assignment, our group decided to analyze the consumer behavior issues relating to the release of a new educational toy, Mr. Block Dinosaur Blocks, onto the market. Both primary and secondary research was conducted to acquaint ourselves with the toy industry and more specifically with factors relating to our chosen product and its sub-category within the toy market, i.e. expensive, interactive educational toys. The goal in our research was to identify a frame of reference and a point of difference for our target user group, and more specifically to come up with a marketing plan and effective positioning plan for this product in regards to all consumer behavior related issues. In other words, the primary consumer behavior issue being studied within the context of this project is what motivates consumers to purchase this particular type of product. Within this consumer motivation is how the price/value relationship is perceived, how children (and anyone else in contact with the product along the "purchasing chain") would interact with this product, where this target market shops for toys, etc.. From these insights we were able to determine who our target market is and how we would approach them.

For this purpose we conducted both primary and secondary research at every level of the production and sales chain. Finally we ran a "check" on our proposed marketing plan and some of its components to make sure that they are in line with some of the concepts discussed in the process of this course. Such analysis included an opportunity analysis (the three C's - consumers, company, competitors), a segmentation of our customers (according to VALS and a more detailed demographic breakdown with corresponding influences, e.g. gender, age, income and social class differences), targeting and positioning (including dealing with perceptions about the product and overcoming misconceptions, e.g. wrong product categorizations ("just another wooden block"), as well as issues relating to point-of-purchase decisions, attitudes, persuasion and social cultural influences) and lastly signaling of our brand positioning via the marketing mix.

Our product, Mr. Block Wooden Blocks are designed and manufactured by Mr. Block, Inc. The company was established in the fall of 1997 by Roxy Goebel, Brad Beatty, and Michael Tropea to design, manufacture and market wooden blocks to the toy and gift industries. The product discussed in this project, dinosaur blocks, is the first set of blocks to be produced by the company. Each set of our dinosaur blocks consists of nine 1-¾ inch wooden blocks. Every block features a different dinosaur including images and facts about the creature. The product contains colorful graphics, and all of the paints used are non-toxic and child-safe. The sets are packaged in an attractive cardboard box and then shrink-wrapped. In addition, the front of the box has a cut-out window to display different images from the set. Each set also includes a pamphlet containing additional information about the different dinosaurs, including the era in which they lived and their primary diet.

Description of Methodology used for the Research

Our research included a study of the toy industry as a whole, and more specifically of the market for educational toys. For this purpose we conducted primary and secondary research on the consumer, as well as the industry level. The industry research included a study of articles dealing with the toy industry, trade publications and magazines, library and world-wide web research. We complemented this industry research with a more detailed study of possible retail outlets, including catalogues, store visits and interviews with store managers. On the consumer level, we conducted a survey among potential members of the target audience to understand their toy purchasing behavior in general. Having identified a potential target user group (i.e. children of a certain age group), as well as a potential buyer group (adults meeting certain demographic criteria), we went on to analyze some of the demographic factors relating to our potential buyers. This research included both demographic factors in general, as well as a more detailed analysis of our product in particular. This in turn included factors relating to both likes and dislikes on the user and buyer ends, including a study of before- and after-purchase behavior, as well as factors relating to packaging, pricing and usage in general. It also included an analysis of potential retail outlets, shelf spacing, advertising and other issues relating to recommendations based on our findings.

More specifically, a survey was distributed to all Weekend GSB students of which 26 returned the questionnaire (response rate =8.7%). The survey[1] asked the respondents demographic questions (race, age, income level, number of kids), as well as psychographic / behavioral questions, such as "How much do you spend on toys?", or "What type of toys did you play with as a child?". We went on to observe children of varying ages unpacking and using the product, while also observing and questioning various adults about their impressions of the product, both before unpacking, during unpacking and while actually using the product. From this we gained a better understanding about current packaging, product perceptions, features, advantages and disadvantages, as well as many valuable suggestions for future marketing recommendations.

As far as a study of possible retail outlets is concerned, we did extensive world-wide-web research about educational toy and other wooden toy manufacturers. In addition, we conducted research at the retail level. We did this both in terms of actual in-store visits (to toy stores, bookstores, as well as specialty and/or gadget stores), as well as by interviewing the manager of a likely retail toy outlet, (The Store of Knowledge), about her impressions of our product and about where and how she might see it fitting in with the line of products sold in her store. As far as catalogues are concerned, primary research was conducted in the form of investigating current catalogues that might carry high-end toys and/or educational toys. Catalogues (paperback, as well as online web catalogues) that were investigated include Brookstone, Hammacher Schlemmer, High Street Emporium (United Airlines), Sky Mall (Delta Airlines), The Sharper Image, and Museum Tour.

[1] Appendix 7: Survey Questionnaire

In terms of secondary research, we obtained market profile information[2] on the Museum Tour mailing list, (from Informal Education Products). The Museum Tour is a consortium of national museums, which use direct mail catalogues to supplement their sales efforts. The mailing list represents a target market that would see our product in their Fall and Spring catalogues. In addition, we obtained lifestyle cluster data from Claritas' PRIZM system[3], which analyzes cohort information in terms of demographics and psychographics. (Claritas is a marketing firm that specializes in consumer demographic metrics.) Using the PRIZM data for specific clusters of households with kids and incomes greater than $50,000, we were able to identify certain higher-than-average likelihood demographic characteristics.

Primary Research Findings

Our primary research generally indicated that this is a niche product within the interactive, educational toy industry. In terms of the frame of reference, we found that the product is expensive and should be categorized as an interactive educational toy for users aged one to eight. Its point of difference is nostalgia, a wide age target, wide user target and the fact that it can change into the next "trend" very quickly. Also important are its educational impact and its natural/earth-tone color (versus primary colors), which is important for targeting, since it clearly shows parents as the consumers, i.e. not the end users (children). Other points of difference include its low tech aspect and the fact that part of the profit goes to fund (charity) projects within the city. In terms of this project, key for us was to identify the "right" market segment (including possible competitors and reasons why or why not we considered them to be such), and to better understand this segment in terms of our intended frame of reference and point of difference.

Consumer - Demographic Analysis[4]

A survey was constructed to simulate a mini-laddering study. The purpose of the survey was to link product attributes with consumer values of the target market. For this purpose we chose to query Weekend MBA students, who likely met the criteria of being married with children and being in a higher income range, about their toy purchasing behavior. From our survey responses we observed the following as "typical" profile information:

- Two-thirds of the respondents were male
- Eighty-eight percent [88%] of the respondents were white
- Eighty-eight percent [88%] of the respondents were married
- The average respondent's age was 31
- Eighty-eight percent [88%] have children [their own or nephews/nieces] for which they buy toys
- Sixty-two percent [62%] of the respondents have at least one child
- Two-thirds of the respondents with children have children of each sex
- As expected, the incomes of respondents skewed towards higher ranges →, ninety-three percent [93%] had an income of $55K or more

[2] Appendix 10: Museum Tour Demographic Data
[3] Appendix 11: Claritas Cluster Information

Consumer - Psychographic Analysis[5]

Most of the respondents spend either the same or more time with their children relative to the respondents' time with their parents. Regarding store size preference it is notable that none of the respondents preferred to shop only at small specialty stores. One half chose to shop primarily at larger stores, such as Toys R Us, while the other half are indifferent between larger stores and specialty stores. In observing the store size preference with the respondent's income level we notice that as the income level increases, the respondent is likely to be more indifferent to the size of the store. As we deploy distribution channels for our product, we are cognizant that larger store placements would help increase our sales penetration. In addition, when shopping for a toy, respondents were asked to select their top three reasons for selecting a toy store. The top three reasons are convenience, selection and price. Other aspects of consumer behavior show a positive marketing mix between our product and consumer preference for toys aimed at children 5 and under. For example, most respondents gave a high appeal rating to a toy that is simple but has a modern educational aspect. Fifty-eight percent [58%] felt that toys should have an educational element, while only thirty-six percent [36%] thought that toys should be electronic or computer-based. In addition all respondents replied that they enjoyed at least one of the following toys: trucks, dolls, board games, blocks, Etch-A-Sketch and Lite-Brite; most respondents played with board games. Of these toy types, we asked what toy would appeal more if a modern, educational aspect were added; multiple answers were allowed in the questionnaire. The findings help support the educational functionality of our product as a significant number of respondents chose 'Blocks':

Trucks (percent selected)	Dolls	Board Games	**Blocks**	Etch-A-Sketch	Lite-Brite
35%	15%	62%	**46%**	31%	31%

Recommendations based on survey results - Consumer and Price

Based on primary and secondary research we recommend that the targeted buyer for this product makes $55,000 or more and is college-educated. This consumer is most likely an "Achiever" or a "Striver", who is heavily involved in their children's development. The consumer will look for our product in a conveniently located store with a wide selection of products. The survey results suggest that we price the product between $20 and $30, since this appeared to be a preferred price range.

Toy Catalogues - Findings

While all of the prices in the catalogues we looked at tended to be quite high with quality being high as well, the fit with our frame of reference was questionable. While most of the products could be deemed expensive and interactive, few of the catalogues, other than Museum Tour really fit with the educational aspect of our product. Many of the retail stores of the

[4] Appendix 8: Survey Demographic Data
[5] Appendix 9: Survey Psychographic Data

companies we looked at do carry educational toys, but interestingly this was not reflected the products displayed in the catalogues we looked at. (More details about our store experiences follow in a later section.) The Museum Tour catalogue is very similar to the Store of Knowledge in that it lays out its products grouped by subject. The catalogue then has many different items to address the need to satisfy a wide range of customers and age groups interested in those particular subjects. This fits very nicely with our point of difference strategy, of being a low tech, nostalgic toy within the expensive, educational, interactive toy frame of reference. As is stated in the Museum Tour's information, the catalogue buyers "enrich their lives with cultural events and artifacts, museum visits and hands-on experiences that pique curiosity. They purchase unique gift items, meaningful objects to enjoy at home, learning tools that are part of daily life and skill-building tools for the future"[6]. This is a very nice fit with Mr. Block. (As far as placement within the catalogue is concerned we came to the conclusion that placement within the dinosaur section would be sought after, and not placement in the same section as ABC blocks, (i.e. an inferior product) for example.)

Different Store Visit Findings[7]

Having identified that our product really is a niche product within the toy market, we decided to visit a number of different stores to qualify or disqualify them and to gain a better understanding of how and where our product fit in. (Please see Appendix 5 for detailed analysis of various stores we visited, as well as Exhibit 2 for in-store photographs of some of the stores we visited, typical shelving and possible product categorizations). In addition we interviewed[8] the store manager of a prospect store to get a better understanding of her insights regarding our product. Based on our preceding research we found that there were few really competing products. Our product is very different to the other typical wooden blocks, such as the ABC blocks. At the same time its price, product features and even packing disqualify it from certain stores.

We generally found that due to the price and educational nature of the product, that it did not fit into typical toy stores, such as Toys R US, or other chain toy stores, selling general toy merchandise. Many of these stores only carry products of a lower price range (at least for similar products) and are often geared towards children, more so than adults. At the same time, our product research identified that this was not typically a product that children would be attracted to in a store. Instead it is a product geared more towards parents, or grandparents looking for educational features and/or valuable gifts. Specialty toy stores, such as the Store of Knowledge seem an ideal place for our Dinosaur Blocks, both in terms of price and products[9] sold. As far as stores like FAO Schwartz are concerned, which also sell more expensive toys, there are problems with both product categorizations, as well as a lack of educational content in most of the children's toys.

[6] Exhibit 4: Museum Tour Catalogue, Fall/Winter 1997
[7] Appendix 5: Findings from in-store visits
[8] Appendix 6: Interview with Store Manager
[9] Exhibit 1: Printout from Store of Knowledge web-site with product category listing

Specialty stores, on the other hand, including gadget stores, do seem reasonable. Although there was no fit with the Sharper Image, for example, due to the fact that it really only sells “toys” geared towards adults, there was a good fit at Brookstone, which has a separate educational toy section. In addition, people shopping at these stores typically expect to make a higher price type of purchase and are looking for “extraordinary”, hard-to-find items, thus perfectly fitting in with our frame of reference. Their inventory pricing was also similar to our potential product price range. Lastly we also took a look at some other general stores, as well as bookstores, selling merchandise geared towards children. Though joint ventures with stores, such as Gap for Kids seem unlikely, due to the fact that they are too specialized, we found that many bookstores sell products aiming at our target audience. Though there may be some difficulty with shelf spacing and user attention, it seems very worthwhile for us to consider bookstores with larger kids sections as potential sales outlets.

End-user Interactive Observation Findings

The end-user interactive observations with the Mr. Block product basically consisted of observing how children react to products in specialty toy stores and how they play with the product (see appendices 3 and 4). The key insights that can be brought out of these observations are that children are not going to respond to this product at the point of sale and that this product definitely has appeal for children of a wide range of ages. This first finding reinforces our proposal that the target consumer should be the parent or person buying the product as a gift. The second major insight confirms one of the aspects of our point of difference within the expensive, interactive educational toy frame of reference.

Secondary Research Findings

The Toy Market[10]

In 1996, the toy industry achieved approximately $66 billion in worldwide sales. The United States remains the largest toy market in the world and is the focus of Mr. Block's initial efforts. The major demographic trend in the U.S. affecting the toy industry is the "baby boomlet". From the mid-1970's through 1990, birth rates increased steadily, primarily driven by the women of the Baby Boom entering their childbearing years. Consequently, there will be record numbers of children in the U.S. Because the parents of these children are older than the parents of past generations, they are in the midst of their prime spending years and are spending more money per child on toys. This population shift will continue to drive increased demand for toys in the near future. There are also two major sociological trends, which positively impact the demand for toys. First, due to an increasing divorce rate, more children are part of multiple families. This increases both the number of people and the financial resources available to purchase toys for a child. Second, the aging adult population in the U.S. is growing significantly as average life expectancy increases. The estimated 15 percent of toys purchased today by

[10] Appendix 1: The Toy Market

grandparents and older adults will continue to grow as Baby Boomers age. Both of these trends result in a larger pool of potential consumers for the toy market. Additionally, growth in demand for products such as blocks, marbles, dolls, yo-yo's, wooden trains (Brio, Thomas the Tank Engine) and plush toys (Beanie Babies) has been significant in the last few years. The purchasers of these toys, mainly Baby Boomer parents, are leading a trend toward nostalgic purchases. They are attempting to buy more basic toys that have a strong educational content, but are also more in character with the toys of their own youth. Mr. Block intends to capitalize on these trends.

The Gift Market[11]

In the 1990's, retail gift sales in the U.S. have grown dramatically. The growth in the gift industry is due, in large part, to a very strong U.S. economy. However, this growth has also been driven by strong demographics. As discussed above, there are an increasing number of older people in this country, led by the aging Baby Boomers. Since these older people are the largest purchasers of gifts, the potential pool of consumers who are buying gifts is increasing steadily as a result of this population shift. There are two main sociological factors, which also contribute to the growth in the gift market. First, the aging population of the U.S. is leading a trend called "cocooning". People are spending more of their leisure time at home and, consequently, are spending more money on home furnishings, including gifts. Second, collecting is on the rise, with an estimated 31.3 million Americans actively being involved in collecting as a hobby. There is a renewed interest in collectible dolls, plates, and other home gift categories driven by the Baby Boomer generation reaching their prime collecting years (around age 45-50) and due to the strong nostalgic sentiment within that generation.

Secondary Research Findings - Consumer

Having conducted our primary research, we looked for additional secondary information sources to confirm our initial research findings. For this purpose we looked at the Museum Tour target audience demographics. Some of the factors we identified include:

- Museum Tour Catalogue Audience: 600,000 households; 82% are homeowners and 70% are married
- Age: 47% - 35-49 years, 24% - 65 and over; Sex of buyers: 74% female, 26% male
- Majority of catalogue receiving households have income of $75,000 or more & a home value of $150,000 or more
- Majority of catalogue receiving households have a man or woman in a professional career
- Majority of catalogue receiving households have a luxury car, minivan, station wagon or sports utility vehicle

Furthermore, we looked at demographic and lifestyle information from Claritas. The Claritas lifestyle cluster characteristics for households where there are kids <u>and</u> the household's income is greater than $50,000 include:

- Has a post-college degree
- Household has 2 cars and the Home value is $150,000 or more & participate in one or more frequent flyer programs
- Three or more domestic/business trips taken within the year
- Belongs to a health club and Used an online service in the last month

Recommendations for Marketing Actions

Target consumer: Based on the findings of the above research, the target consumer can be identified as persons looking for gifts, higher income parents, and grandparents. These people are largely point of sale gift buyers with the following demographics: Incomes greater than $55K; College education or greater; a Home value of $150K or more; at least 2 cars; 75% female, and in terms of age 25% older than 65, and 50% between ages 35-49. In terms of VALS we are targeting Achievers or Strivers, heavily involved in their children's development, male business owners, or executive career track households. Our user target is in the age group 1-8, (based on interaction research and one-on-one interviews).

Place: Based on our primary and secondary research, we have determined four main segments of outlets in which to sell our product. These include boutique toy stores ("mom and pop" stores, as well as chains such as Store of Knowledge), specialty gift stores, specialty toy and gift catalogues (Museum Tour, The Land of Nod) and upper scale bookstores (e.g. Barnes and Noble, Borders, etc.). We have chosen these outlets because they carry products that have similar attributes to Dinosaur Blocks and are priced comparable to our recommended price of $24.95**.** We have determined that Dinosaur Blocks would not sell in big discount toy chains, such as Toys R Us and Walmart, because our price point is higher than other products in these stores. Also, the consumers who shop in these stores do not meet our target market credentials and the educational focus of our product does not fit in well with other products in these stores either. Another valuable lesson we learned about stores from our research is that all stores are different. Even if a stores is part of a large chain, might be geared more for adults, while others geared more for children**.** When we market our product to stores, we need to be cognizant of these potential differences and adjust our position accordingly.

Position: Our product will be positioned differently depending on the type of store. For example, in a general toy store Dinosaur Blocks would be physically located with other block products; however, in a specialty store such as the Store of Knowledge, this product would likely be located with other dinosaur-theme products, such as dinosaur books, dolls, etc. Our research discovered that the toy industry placement is handled by a small concentration of representatives, each of which handles a specific line of products. We need to be cognizant of establishing a strong relationship with the appropriate representative for our type of toy. Furthermore, our product is a high-quality product, which looks educational; this appearance plays into the frame of reference of building blocks being a learning tool. This positioning can be extended into multiple product lines where the 'content' of the blocks could be changed from dinosaurs to content which would appeal to different target markets – Art blocks with images/facts of select art works/artists, Golf blocks with images/facts of golf figures, etc. Moreover, the content of images and text on the blocks can be more simplified or more complex to adjust to the different age groups targeted in future extensions. (In terms of competition, it should be noted that we do not see

[11] Appendix 2: The Gift Market

other blocks as competition because their products do not have the same educational value and serve a different purpose, are mostly even geared at a younger audience and are in a different price category, too.)

Pricing Suggestions: The survey results from our primary research indicate that a price in the range of $20 to $30 should be considered for a product targeting the toy or single gift purchase market. Several interviews with toy buyers and toy store managers suggest that this may be a good starting point as well. The Museum Tour toy catalogue suggests that "most companies set an aggressive retail price and do extremely well by working in this manner". Based on this information, we recommend that an initial retail price of $24.95 be set. At the same time, this will set us apart from other, inferior wooden block manufacturers, such as the ABC blocks, and will help us better attract our target audience.

Packaging: Our product is shrink-wrapped in clear plastic and packaged inside a cardboard box displaying the blocks. The box 'inflates' the size of the product to give the consumer the impression that this is a larger sized product. We favor this idea of a "cheater pack", giving the impression that you get more for your money, particularly since people giving a gift want to give a bigger gift. By exposing the blocks the consumer can easily view the product and see the potential benefits. Based on our research, a mesh bag would additionally be placed inside the box for future storage, to prevent them from being scattered around the house. Instead of the current cardboard insert in the bottom of the box, we would place a laminated 'dino-fact' card inside the package as a value-added benefit, (while also making it more difficult to overlook the insert, as was frequently the case in the past). Furthermore, we would add bold bullet point text on the front of the package (utilizing some of the currently empty space), regarding the product's benefits and usage (e.g., toxic-free, multiple use listing, expert endorsements from Dr. Toy, 2% of profits going to charity, hand-made, designed by well-known artist, etc.). A listing of this type may help make the buyers better understand the multiple features of the Blocks and help them in better categorizing the product (while also outlining what is being paid for). The bullet points may be helpful for both males looking to understand the product quickly, (and who typically do not turn the product over to read the back of the box), as well as the females, (who in our research have shown to enjoy reading the story text on the back of the box and are generally more inquisitive about product features). In addition we are looking to place a photograph of the product being used on the front of the packaging, thus further helping our male audience in their quick understanding of our product. Furthermore, we are in favor of continuing to use the distinctive Mr. Block logo on the packaging, possibly even placing a Mr. Block sticker in the box as another value-added benefit, while also increasing company and logo awareness and recognition. Lastly, we would make a point of printing our web-site address on the packaging and every piece of literature, thus adding additional value for our target audience, who according to Claritas tend to be members of online services.

Promotion: Due to the "non-event" association with our toy product (e.g. no movie or television show association), and its limited target audience, combined with its limited distribution via specialty stores, catalogues and the Internet, media advertising is deemed to be a waste of capital. From interviews with store managers, it should be noted that purchases of toys like ours are typically point-of-purchase decisions. Whether it be boutique toy stores or catalogues, typically someone would be looking for a unique educational toy and make the decision because they were either looking for something on a general subject, or that the product was particularly compelling at the time of purchase. It is also clear from looking at stores, such as the Store of Knowledge, and catalogues, such as Museum Tour, that there is definitely a market for the high-end/high-price toy, such as Mr. Block. Some of the key issues for promoting the Mr. Block product will be to keep in mind that even though the target customer is searching for an educational toy, most people tend to be cognitive misers – they favor heuristic processing rather than analytically evaluating a product's value / price relationship. Since this is the case, it will be important to capitalize on a couple of things in particular with this product and its placement. The first is that in the 90's, value contains more than simply the "quality / price" relationship. In the 90's, psychic benefit plays a major role and the nostalgia aspect of our product addresses this issue. The second major item to capitalize on is the fact that 75% of the shoppers for products such as these are women. Therefore, Mr. Block will not get away with simply packaging the blocks as is. The blocks must contain information and a story that is compelling to the female shopper at the point of purchase. An example of promotional material that could be used to sell this product is as follows based on the "Simplicity, Surprise, and a Smile" principle of the DDB Needham company:

> "Blocks in the 90's??? You bet! They were good enough for you, they're even better now for your children!
> NOTICE: Batteries not included, powered by the imagination."

If we were to do any advertising, it would likely be in collector, specialty, or airline catalogues. We would also seek free press from association with Service Projects, Toy Reviews, contacts (Chicago Magazine), as well as targeted web banner ads to attract people to our web site, (where in future they would be able to place online orders).

Conclusion

Overall, we feel that we have addressed positioning of the Blocks within the expensive, interactive educational frame of reference with a clear point of difference (nostalgia, wide age/use target, the fact that it can change into the next "trend" very quickly, etc.). "Persuading" target adult purchasers will include a mix of strong imagery and bullet points for men, as well as some "storytelling" for women. Aesthetics and imagery at the point of purchase will be critical in selling the Blocks. From our mini-laddering study, we feel that we have successfully linked product attributes (education, aesthetic appeal, nostalgia, basic functionality, etc.) with the values of the end consumer (spending time with their children, deeply interested in providing educational stimuli for their children, wanting their children to grow up in a better way than they did, etc.). The Mr. Block product takes the basic wooden block we are all familiar with and enhances it to a point where it still retains its "identity" but offers parents the opportunity of feeling like they are giving their kids a little more. This psychic benefit is a major value factor for consumers in the 90's. Our advertising statement, stated above, perfectly captures this.

APPENDIX 1

The Toy Market

In 1996, the toy industry achieved approximately $66 billion in worldwide sales. While there are significant growth opportunities for the toy industry internationally due to demographic trends and developing economies, the United States remains the largest toy market in the world by a substantial margin. For that reason, the U.S. market is the focus of Mr. Block's initial efforts. U.S. retail toy sales in the 1990's have grown steadily although at moderate rates in the 1990's. In 1996, retail toy sales grew 3.5% over 1995 levels to $20.7 billion while manufacturer's shipments were estimated to be $13.9 billion. From 1992 to 1996, retail toys sales grew at a 5.0% compound annual growth rate. The growth in the market for pre-school blocks over the last two years has exceeded the growth in the toy market in general. In 1996, manufacturers shipped an estimated $30 million worth of blocks to retailers, an 11% increase over 1995 levels, (though it must be pointed out that this is not a perfect indication for Mr. Block Dinosaur Blocks, since these are far more niche focused than the standard wooden blocks talked about in these statistics).

Major Trends: The outlook for the growth of the toy industry is very positive given the underlying demographic and sociological trends. The major demographic trend in the U.S. affecting the toy industry is the "baby boomlet". From the mid-1970's through 1990, birth rates increased steadily, primarily driven by the women of the Baby Boom entering their childbearing years. Consequently, there will be record numbers of children in the U.S. as elementary school enrollments are expected to reach an all-time high in the early years of the next century. Because the parents of these children are older than the parents of past generations, they are in the midst of their prime spending years and are spending more money per child on toys. This population shift will continue to drive increased demand for toys in the near future. There are also two major sociological trends, which positively impact the demand for toys. First, due to an increasing divorce rate, more children are part of multiple families. This increases both the number of people and the financial resources available to purchase toys for a child. Second, the aging adult population in the U.S. is growing significantly as average life expectancy increases. The estimated 15 percent of toys purchased today by grandparents and older adults will continue to grow as Baby Boomers age. Both of these trends result in a larger pool of potential consumers for the toy market.

Toy Industry Developments: The toy industry itself is currently undergoing an internal shift. While electronic toys and licensed toys, primarily products with feature film and television program relationships, remain the largest sellers in the toy market, there is a strong trend back toward basic toys. Growth in demand for products such as blocks, marbles, dolls, yo-yo's, wooden trains (*Brio, Thomas the Tank Engine*) and plush toys (*Beanie Babies*) has been significant in the last few years. This increased demand has been driven by two factors. First, the purchasers of these toys, mainly Baby Boomer parents, are leading a trend toward nostalgic purchases. They are attempting to buy more basic toys that have a strong educational content, but are also more in character with the toys of their own youth. Adding to this customer-driven interest in more basic toys are the economic interests of toy manufacturers and retailers. The licensed-toy business is heavily dependent upon the hit-driven feature film industry. While hit films have resulted in corresponding merchandising success within the toy industry (*Star Wars*, *The Lion King*), other less successful films have created problems for toy retailers and manufacturers. A good example of this was Disney's *The Hunchback of Notre Dame*. After Disney's recent string of hit animated films, toy manufacturers and retailers built up inventory of *Hunchback*-related products. When the film was a disappointment at the box office, the toys were an even larger disappointment as it was estimated that over one-third of the merchandise was sold at a discount. Because of the high-risk nature of licensed toys, toy manufacturers and retailers have begun to look for more stable, basic toys to balance out the fluctuations in the demand for licensed products. Consequently, the market is witnessing the introduction of updated versions of traditional products such as new versions of Mattel's *Barbie*, *Hot Wheels* cars, and Parker Brothers' venerable *Monopoly* game.

APPENDIX 2

The Gift Market

In the 1990's, retail gift sales in the U.S. have grown dramatically. In 1991, retail gift sales were $21.5 billion, and by 1996, they had reached $35.97 billion, growing at a compound annual rate of almost 10.8%.

Major Trends: This overall growth in the gift industry is due, in large part, to a very strong U.S. economy. However, this growth has also been driven by strong demographics. As discussed above, there are an increasing number of older people in this country, led by the aging Baby Boomers. Since these older people are the largest purchasers of gifts, the potential pool of consumers who are buying gifts is increasing steadily as a result of this population shift. There are two main sociological factors, which also contribute to the growth in the gift market. First, the aging population of the U.S. is leading a trend called "cocooning". People are spending more of their leisure time at home and, consequently, are spending more money on home furnishings, including gifts. Second, collecting is on the rise, with an estimated 31.3 million Americans actively being involved in collecting as a hobby. There is a renewed interest in collectible dolls, plates, and other home gift categories driven by the Baby Boomer generation reaching their prime collecting years (around age 45-50) and due to the strong nostalgic sentiment within that generation.

Gift Industry Developments: Along with this overall growth in the gift industry has come an increasing degree of fragmentation and competition. There has been a large increase in the number of gift-oriented retail stores in recent years and a large decline in the level of per-store sales. In 1993, there were 34.1 million retail gift outlets, and that number more than doubled to 69 million outlets in 1996. This is being driven primarily by the opening of new gift stores in alternative locations. For example, restaurants such as *Planet Hollywood* and *Hard Rock Cafe* have opened extensive chains which include new retail gift outlets which can account for as much as 40% of their annual revenues. This cross-merchandising trend has led to a proliferation in the number of gift-oriented retail outlets.

To address this competitive development, retail gift stores are increasing their hours and days of operation, providing additional services to their customers, and expanding the geographical area they serve. Most importantly, however, retail gift stores are attempting to sell a wider assortment of products and more product lines then ever before in order to differentiate themselves from their competition. From 1991 to 1996, the total number of product lines carried by the typical gift retailer increased by 40%. This trend will most likely continue. When surveyed this year, gift retailers listed locating new products, along with attracting new customers, as the two largest factors in driving their sales growth.

APPENDIX 3

Primary Research - Consumer - How the product was used:

- ***User = Age Group 1-8. Boys targeted more than girls*** **(based on interaction research)**
  - 1.5 year old girl (Kelsey) played with the blocks simply as blocks. She let my 4.5 year old and 6 year old stack them up for her so she could knock them down and later she stacked them up on her own and knocked them down. She had a lot of fun doing both giggling and screeching each time she knocked them down. This is the normal way that a child her age plays with any blocks.
  - 4.5 year old girl (Kayla) enjoyed stacking them up for the 1.5 year old to knock down. She enjoyed looking at the dinosaur pictures briefly but she cannot read yet so the words meant little.
  - 6 year old boy (Christopher) enjoyed stacking them up for the 1.5 year old to knock down. When asked what the coolest feature of the blocks was he responded that it was what was on them. The second coolest feature of the blocks was their ability to stack so they could be knocked down. Of what was on the blocks he felt that the best sides were those with dinosaur facts on them. He loved to read a fact and then tell my wife and I what he had learned. The sides with dinosaur pictures on them were the next best sides. He liked to stack them and sort them according to what was printed on each side.
  - The 6 year old may have been the best target. He liked to play with them but he loved what was printed on them. Children up to at least 8 (especially boys) will still love what is printed on them if we keep the theme centered on something hot with this age range such as dinosaurs even if stacking them and playing with them as blocks becomes unappealing with age.
  - The 4.5 year old girl enjoyed them but her play with them led me to believe that our target market is a mostly boy. She was interested in the pictures but only briefly. Dinosaurs, Bugs, and Solar Systems are going to appeal much more to boys.

- ***Chris's insight on his children's interaction with the toys***
  - much of the insight is listed above
  - the kids tended to dump the blocks out and toss the box without reading it or looking inside it or picking out the dinosaur facts sheet (6 year old would have loved it but he never saw it after playing with the blocks at least 4 times)
  - 6 year old put them back into the box - did so very meticulously - DINOSAURS across the top - picture of T-Rex in the middle right - dino facts on the face of the other five

APPENDIX 4

Primary Research - Store - How the product was purchased:

Knowledge store or toy stores in general - where does it fit and where does it not fit?
Chris with his children:

- **Walden Kids (kids bookstore within Walden Books) - Orland Square Mall**
  - 95% children's books with most of them for smaller kids
  - toys available were stuffed animals, books with a toy kit, talking books, and stickers
  - there was one Pooh Bear book with 5 character blocks
  - no educational toys at all
  - possibility for a dinosaur or solar system or bug book with blocks??????????
  - still believe that bookstores are a secondary target due to the fact that consumers enter a book store to buy books and a purchase of our product would require a shift of thought process or an additional need that was already there - however, the target market shops upscale bookstores and there appears to be an opportunity based on this and the items currently in distribution

- **WTTW Store of Knowledge - Orland Square Mall**
  - Christopher walked straight to the Thomas the Tank Engine display in the back of the store
  - The Thomas display has a huge Thomas on the top of the wall hanging over a 12 foot display of Thomas toys
  - there is also a train setup in front for kids to play with - it is always filled with small kids jockeying for space to play
  - Christopher was only interested in the small toys displayed up and down the middle aisle that could be picked up and played with or any interactive toys that were out of the box and on display to be played with - he did not even look and any toys on shelves as we walked through the store
  - I walked Christopher over to the dinosaur section - again he only wanted to look at and play with the dinosaurs displayed in front of the section - he did not care about all of the books and puzzles on the shelves
  - This experience cemented in my mind that we are targeting adults as the consumer and buyer although obviously not the end user

APPENDIX 5

Findings from In-Store Visits

The Knowledge Store typically sells more expensive toys and toys with educational features. The store is arranged according to various subject headings (see Exhibit 1 for printout from Store of Knowledge web-site with product category listing). As illustrated in the exhibit containing the in-store photographs, there really are various sections where we would fit in. Ideal sections seem the pre-historic (Dinosaur) section, as well as the puzzlement section. Problem with the latter section is that many of the toys seem geared towards younger children. Our interview with the store manager revealed that they do cross merchandize, though, which would work in our favor here. (Given the different display setting, i.e. either fairly low, such as the pre-historic display, or fairly high, such as some of the wall shelving, we might want to make a point of recommending that the product be placed somewhere at least waist high, and not above eye level to achieve maximum sales successes.)

FAO Schwartz was another store we looked at. Though FAO does sell more expensive toys, it does not really have a separate educational toy section. Its shelf categories are not as clearly defined and may even be arranged according to manufacturers. Though it does have an area in which wooden blocks are sold, this area mostly contains toys for younger children. The same section also does not contain too many other products of the same educational standard as our Blocks. Its educational toy and other block game area, on the other hand, is geared mostly towards adults, unfortunately. Science kits and exploratory games were decommissioned at the time of our visit. They had been placed in an inner-part of the store, not on a shelf, but merely stacked up on the floor. We did not obviously fit into any of these sections.

Specialty stores we looked at included both gadget stores, as well as stores selling more expensive toys or educational products. Among other things we considered stores like **Chiasso** (in Watertower Place), which sells general merchandise, as well as having a toy section. We would fit in perfectly with their current product (and pricing) inventory. We also looked at other **gadget oriented stores**. Although there was no fit with the **Sharper Image**, for example, due to the fact that it really only sells “toys” geared towards adults, there was a good fit at **Brookstone**, which has a separate educational toy section. They had both adult, as well as children toys, all with some educational content and some even made of wood. (Their packaging, by the way, is also mostly “natural” and in earth-tones). In addition the people shopping at these stores typically expect to make a higher price type of purchase and are looking for “extraordinary”, hard-to-find items, thus perfectly fitting in with our frame of reference. Their inventory pricing was also similar to our potential product pricing range.

Lastly we also took a look at some other **general stores**, as well as **bookstores**, selling merchandise geared towards children. On the one hand we considered possibilities of joint ventures with stores, such as **Gap for Kids**, but came to the conclusion that these stores are really not selling any other similar products. They are geared towards one specialty, e.g. clothes only and though our target audience might shop at these stores, the likelihood of us being able to get the attention and shelf space needed to make this product a success is not given. In bookstores, on the other hand, we found that there already are many products geared towards our target audience. Though the **Borders Bookstore** we visited contained a separate children’s section, and even similar priced toys, games and other merchandise, the difficulty apparent here would be shelf spacing and user attention. The store is colorful and overloaded with information, books and other merchandise. It definitely seems worthwhile for us to consider bookstores with larger kids sections as potential sales outlets, though.

APPENDIX 6

Primary Research: Store

Store of Knowledge- Interview with manager, Jackie Secor

We spoke with the manager of the Watertower Place Store of Knowledge, Jackie Secor. Following is a list of our key findings:

- 40% of the store's business is done between Thanksgiving and Christmas
- The Watertower store is mostly an adult store- the manager used to work at the store in Woodfield where there was more children/parent traffic
- The average purchase in this store is higher than others- perhaps due to a large percentage of foreign shoppers, tourists, etc.
- The store is purposely laid-out in a maze-like design so the consumer has to weave through the store and view more merchandise
- All stores use step-up shelf placement- items further away from the front door are placed higher up
- The corporate office dictates where most of the merchandise is place within the store but the store manager has final say
- They cross merchandise within store- the dino blocks would be place with the dinosaurs as well as with other block-like gifts and puzzles
- Ms. Secor notices that parents encourage kids to read at a very early age and this is shown by the merchandise in the store
- She confirmed the trend that there is greater parental involvement and that parents play and work with toys with their children

APPENDIX 7

QUESTIONNAIRE DISTRIBUTED TO WEEKEND MBA STUDENTS (PROBABLE TARGET USER GROUP)

Please help!!!! If you can answer yes to the first question please take a couple of minutes to help out 5 fellow GSBer's on their final B357 project by filling out this survey. Do not give us your name as we want this to be completely confidential. Please return them to the mailfolder of Erik Triplett. ***Thank you in advance.***

Do you have children or nieces and nephews that you buy toys for?

What is your sex and age?

Are you married?

How many children do you have?

What are their sexes and ages?

Circle your yearly income level.
<30K 30K-42K 42K-55K 55K-75K 75K>

Circle your race/ethnic origin
Black White Hispanic Asian Other

Do you buy toys at large toy stores such as Toys R Us or smaller specialty stores such as The Store of Knowledge?

List the top 3 reasons you shop where you do.

Circle the average dollar amount you spend on single toy
<$10 $10-$20 $20-$30 $30-$40 $40>

Do you spend more, the same, or less time playing and interacting with your children than your parents did with you?

What percentage of toys for children 5 or under should have an educational aspect to them?

Of these toys for children 5 and under that have an educational aspect, what percentage of them should be electronic or computer based?

Circle the any types of toys you enjoyed playing with as a child?
Trucks Dolls (incl. GI Joe) Board Games Blocks Etch A Sketch Lite Brite

On a scale of 1 to 10, how appealing to you would versions of these toys be that kept them simple but added a modern educational aspect to them
1 2 3 4 5 6 7 8 9 10

Which of these types of toys are appealing if a modern education aspect were added to them?
Trucks Dolls (incl. GI Joe) Board Games Blocks Etch A Sketch Lite Brite

APPENDIX 8

Survey Demographic Data

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
AGE	24	42	0	42	31.21	7.63	58.172
NUM_CHIL	26	3	0	3	1.46	1.27	1.618
INCOME	26	3	2	5	4.46	.86	.738
Valid N (listwise)	24						

MARRIED

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	23	88.5	88.5	88.5
	No	3	11.5	11.5	100.0
	Total	26	100.0	100.0	
Total		26	100.0		

RACE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	White	23	88.5	88.5	88.5
	Asian	2	7.7	7.7	96.2
	Other	1	3.8	3.8	100.0
	Total	26	100.0	100.0	
Total		26	100.0		

Respondent's Sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	16	61.5	66.7	66.7
	Female	8	30.8	33.3	100.0
	Total	24	92.3	100.0	
Missing	System Missing	2	7.7		
	Total	2	7.7		
Total		26	100.0		

Do you have kids?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	23	88.5	88.5	88.5
	No	3	11.5	11.5	100.0
	Total	26	100.0	100.0	
Total		26	100.0		

Sex of children(s)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	11	42.3	42.3	42.3
	Male	3	11.5	11.5	53.8
	Female	2	7.7	7.7	61.5
	Both	10	38.5	38.5	100.0
	Total	26	100.0	100.0	
Total		26	100.0		

INCOME

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	$30K-42K	2	7.7	7.7	7.7
	$55K-75K	8	30.8	30.8	38.5
	>$75K	16	61.5	61.5	100.0
	Total	26	100.0	100.0	
Total		26	100.0		

APPENDIX 9

Survey Psychographic Data

INCOME * SPEND Crosstabulation

			SPEND					
			<$10	$10-19.99	$20-29.99	$30-40	>$40	Total
INCOME	$30K-42K	Count		1	1			2
		% within INCOME		50.0%	50.0%			100.0%
		% within SPEND		11.1%	9.1%			7.7%
		% of Total		3.8%	3.8%			7.7%
	$55K-75K	Count	1	3	3	1		8
		% within INCOME	12.5%	37.5%	37.5%	12.5%		100.0%
		% within SPEND	50.0%	33.3%	27.3%	33.3%		30.8%
		% of Total	3.8%	11.5%	11.5%	3.8%		30.8%
	>$75K	Count	1	5	7	2	1	16
		% within INCOME	6.3%	31.3%	43.8%	12.5%	6.3%	100.0%
		% within SPEND	50.0%	55.6%	63.6%	66.7%	100.0%	61.5%
		% of Total	3.8%	19.2%	26.9%	7.7%	3.8%	61.5%
Total		Count	2	9	11	3	1	26
		% within INCOME	7.7%	34.6%	42.3%	11.5%	3.8%	100.0%
		% within SPEND	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	7.7%	34.6%	42.3%	11.5%	3.8%	100.0%

INCOME * SIZE Crosstabulation

			SIZE		
			Large	Both	Total
INCOME	$30K-42K	Count	1	1	2
		% within INCOME	50.0%	50.0%	100.0%
		% within SIZE	8.3%	7.7%	8.0%
		% of Total	4.0%	4.0%	8.0%
	$55K-75K	Count	5	2	7
		% within INCOME	71.4%	28.6%	100.0%
		% within SIZE	41.7%	15.4%	28.0%
		% of Total	20.0%	8.0%	28.0%
	>$75K	Count	6	10	16
		% within INCOME	37.5%	62.5%	100.0%
		% within SIZE	50.0%	76.9%	64.0%
		% of Total	24.0%	40.0%	64.0%
Total		Count	12	13	25
		% within INCOME	48.0%	52.0%	100.0%
		% within SIZE	100.0%	100.0%	100.0%
		% of Total	48.0%	52.0%	100.0%

APPEAL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10	2	7.7	8.0	8.0
	9	5	19.2	20.0	28.0
	8	3	11.5	12.0	40.0
	7	4	15.4	16.0	56.0
	6	4	15.4	16.0	72.0
	5	2	7.7	8.0	80.0
	4	1	3.8	4.0	84.0
	3	2	7.7	8.0	92.0
	2	1	3.8	4.0	96.0
	1	1	3.8	4.0	100.0
	Total	25	96.2	100.0	
Missing	System Missing	1	3.8		
	Total	1	3.8		
Total		26	100.0		

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Percentage of toys that s/b electronic or computer-based	26	100	0	100	35.73	24.59	604.845
Percentage of toys that should have educational aspect	26	90	10	100	57.85	24.88	619.015
Valid N (listwise)	26						

Toys Played With As A Child

Trucks (percent selected)	Dolls	Board Games	Blocks	Etch-A-Sketch	Lite-Brite
65%	42%	88%	65%	62%	50%