

How to be a gamechanger: The story of how Monika Merz turned around the AsiaPac business of Toys “R” Us



Monika Merz

“Children’s Supermarket” was started in 1948 in the USA in response to the post-war baby boom. Through acquisitions and new stores, the company grew aggressively and rebranded to Toys R Us in 1957. Growth was such that, with their large format stores throughout the USA, they became the category killer in the market.

In 1984 Toys R Us looked towards global expansion and opening their first international stores in Canada. Further expansion would follow through a combination of partnerships and license agreements giving them a footprint in 35 countries with the Asia/Oceania region soon becoming their second largest market.

Today the company is listed by Forbes as the 24th largest private American company, realizing over \$12 Billion in sales, with 1,500+ stores with over 60,000 employees. Growth of other mass merchants and on-line retailers selling the same goods began to erode Toys R Us’ market share. However, they remain the largest freestanding chain of toy and children’s products in the world.

A different approach in Canada

With an impressive background in both merchandising and operations gained at department stores, specialty fashion chains, catalogue stores and big box retailers, Monika Merz joined Toys R Us in 1996 as VP, General Merchandise Manager in Canada. Her success in this role led to her being appointed to President of Toys R Us Canada, becoming the first female President in the global company.

This role was not without its challenges as peers who felt they should have gotten the job wanted to see her fail. “I quickly came to understand the importance of having a team that was aligned. I learned that just because you are President and wanted something done, it

didn't necessarily get done. It was a tumultuous time but, within 6 months, we had a great team that could move the business forward" Monika said. And move it forward they did.

The US parent company had split their business into two formats – Toys R Us and Babies R Us. Monika felt this was the wrong strategy in Canada and an integrated approach would work better. She was able to sell US management and her local team on testing this idea and despite some skepticism, launched their first integrated store. However, the sales increases of this first test store led to integrating all Canadian stores and realizing 12-13% increases for several years running, along with a much improved bottom line – particularly impressive as these were mature stores. This concept was subsequently adopted in the USA and elsewhere with similar success leading to Monika's new challenge and a move to Japan to turn around this underperforming business.



Toys R Us Store exterior, Japan

“My approach” she said, “is to go in and say – this is who I am. I will build a team and we will find a way of working together.”

- Monika Merz

A challenging mandate & unfamiliar country

Despite never having been to the country, not knowing the language and having concerns about gaining acceptance as a woman leader in a patriarchal society like Japan, Monika was never one to shy away from a challenge that would take her out of her comfort zone – so she accepted the role of President, CEO and Representative Director Toys R Us Japan.

The company was a joint venture, publicly traded in Japan and had struggled with a revolving door of

CEO's and declining sales. The US company acquired a larger stake, now owning 90% (up from 49%), and needed a strong leader in place to turn the business around. “A previous CEO decided that because moms shopped in the stores, they should carry housewares, so the Toys R Us concept had become diluted” Monika further commented that “Toys R Us Japan relied heavily on the video hardware and software business, a declining business for us. More retailers were carrying these products, making it competitive and eroding margins.” As well, “there was a real profit issue as SG&A expenses were out of control. Their new prototype store of the future had lost \$1 Million dollars in 10 months - this gives you an idea of how strategies were really going very wrong” she said.

In taking on her new challenge, Monika didn't dwell on the unfamiliarity of her new country and took a decidedly pragmatic approach. "My approach" she said, "is to go in and say – this is who I am. I will build a team and we will find a way of working together." The first order of business was to assess the team to determine capabilities and to learn the style in which they worked. "Toys R Us Japan was really a Japanese company. In Japanese companies, people are promoted on a seniority basis and tenure. Underperformers were moved rather than terminated. This thinking is deeply ingrained" she said. Although an unpopular decision, Monika said "I changed that because I had to have a viable team" Hiring locally in some areas like marketing and merchandising was difficult as the talent pool was thin so, where necessary, Monika brought in expats. There were areas where the existing team was very strong. "The store operations, finance and real estate teams, and others were excellent and were supportive" she said.

Foreigners are interchangeable

With the team in place there were cultural differences to work through as well. Monika commented that initially she felt she needed to temper her management style "I'm very direct and although I tried to change, it wasn't working – so I came back to who I was. It turned out not to be an issue."

"The Japanese language can be very vague, you have to read between the lines." Wanting to build a collaborative team where people offered opinions and brought ideas to the table proved to be challenging initially. "I had been told that the Japanese were reluctant to speak up. When I asked people directly what they thought, they did speak up. Once the people realized they had permission to give their opinion without repercussions, I ended up with a pretty engaged team." Likely one of the most eye opening examples of presuming to know something about a culture came early on when the team was not yet performing at the level that Monika needed. As there had been talk of selling the Japanese business if it was not turned around, Monika shared her frustration at not getting change to happen quickly enough with the CFO, a Japanese national. Knowing that historic relationships between the Japanese and Chinese were strained, she commented "don't these people know that if we don't make these changes, they could be sold to a Chinese company! Well, I was really very wrong. He said Monika – Chinese or Americans, it doesn't matter to us. When he saw the horrified look on my face he said – oh, but you know – Canadians are different. I started to laugh because it was a great lesson that in Japan you are always a foreigner and pretty interchangeable."

“Once the people realized they had permission to give their opinion without repercussions, I ended up with a pretty engaged team.”

- Monika Merz

Cultural differences also impacted on how business was done. Suppliers to Toys R Us in Japan had been allowed a free hand. As a result, the merchandising was inconsistent and standards had deteriorated, requiring taking back control of their stores and setting new standards - which was a shock to the vendors. However, better standards resulted in improved sales and the vendors came to embrace the change. Due to the hierarchical structure of business in Japan, it's not as easy to get things done. "For instance," Monika

said “in North America, if I needed a meeting with a supplier, I’d pick up the phone and call the CEO to set it up. In Japan, if you wanted a meeting with the CEO of a company like Nintendo it was like getting an audience with the Pope. You could not call directly, you had to go up through the hierarchy. The heads of companies don’t want to say NO to you directly so you have to work with them differently.”

Dealing with disasters

During her time in Japan, Monika lived through several catastrophic events including several earthquakes, a tsunami and the nuclear meltdown at Fukushima. While many expats left the country during these disasters, Monika stayed to support her team and business. This was primarily because of concern for the safety of staff and their families but also, because she knew that the Japanese would never respect her if she left. It was the right decision on both fronts.

36 Toys R Us stores were damaged, many severely, and 130 others still needed to be serviced during a time when the country had been brought to a standstill with power outages, fuel shortages and loss of other essential services. The US head office was incredibly supportive, offering any help as well as donating \$250K for employee aid. With the additional funds Monika and her team collected locally, they ultimately helped close to 300 people.

In spite of these disasters, the business turnaround continued. The keys to improving were in getting a better understanding of their customers and providing better service. Building up a very strong loyalty program provided access to rich customer data that allowed for more informed decisions. “I had been told that the Japanese would pay more for things. That’s not true. The Japanese aren’t any different from anybody else in the world. They want value for their money. I think that we had lost sight of our customer.” She went on to say that “we also had to look at how the digital world was impacting our business. We needed to look at what kind of shopping experience would bring them back into the stores versus buying on-line. “The changing consumer landscape is a big shift for any company” Monika commented “it was a very big shift for the team in Japan in challenging them to change the way that they thought, and realizing what may have been successful last year, might not be the same this year. We replaced much of our traditional advertising with digital and social media programs

and introduced more theatre and interactivity in the stores, making it fun for families.”



Two children play with an interactive display in a Toys R Us store, Japan

“The keys to improving were in getting a better understanding of their customers and providing better service.”

“With the new customer focused strategy in place, I had to look at the team to ensure that we had the right skills to execute against the strategy,” Monika said. “I introduced a better evaluation process and promotions were now based on performance. The people that were strong and accountable embraced the changes and understood that it was good for business and them. With those incapable of adapting to change, you have to make some tough and strategic decisions for the good of the whole team.”

The success realized in Japan led to an even larger mandate

China, Malaysia, Taiwan, Singapore, Philippines, Thailand and Australia were added to Monika’s responsibilities – with each marketplace representing different challenges. “China and South East Asia had previously been operated as a franchise and Toys “R” Us bought back 70% of the franchise with the franchisee retaining 30%. These markets were easier transitions as we had a strong franchise partner in Li & Fung with local teams that were culturally savvy” she said “Because they knew their markets, we gave them the ability to influence the merchandise assortment to align it with local demand. However, there was aggressive retail penetration by foreigners, and significant growth of Chinese retailers, making it highly competitive. Hiring locally was critical and you had to make sure you kept your strong staff”.

“Australia, also a very competitive market, has its own issues - primarily real estate related. The focus there was on getting out of legacy leases and into more viable locations. Australia was historically a tough market for us because of real estate and the high wage cost - that needed to be very closely managed.” Monika went on to say that “marketing was different in each market requiring more direct marketing and social media in some, like Hong Kong, where there was more on-line buying than in North America at the time. You really had to have a deep understanding of your customers in each market.”



A balloon display adorns the entry of a Toys R Us store, Japan

Monika commented “The biggest challenge was that, because many of these markets had been left on their own a bit too long, you were not sure what was going on internally from a management point of view. In several markets, she had to take decisive action to correct poor management practices. She commented that “culturally, Japan was the toughest as it was the most different of all of the markets under my direction. Singapore was a smooth transition because of the global mindset, Thailand had unique local laws and regulations to be aware of. The Chinese were very different, entrepreneurial and aggressive - so things happen quickly there. However, I think the challenge was more in figuring out customers

and what would sell well in each market as opposed to cultural differences in the way that you do business.” She went on to say “People in these markets are very respectful and accepted me as their leader. It was most important that synergy and respect was built with the management teams. It was always a conversation and give and take, listening to their issues and barriers, how we could support them to do a better job. I did not find that I really had to change my management style overall. There was always a time period when everyone needs to get to know each other and build respect both ways.”

Under Monika’s leadership the region realized significant growth. Some markets grew through aggressive expansion like in China, others through relocating and refurbishing stores to drive sales and profitability. In all cases, the merchandise mix was changed to meet individual market needs and digital technology was introduced to the stores to create “theatre” and drive traffic.

Mature markets, that were experiencing a declining customer base, realized single digit increases and significantly improved profitability while growth markets were realizing double digit increases and very healthy profits.

Career capsule

In her almost 20 years with Toys “R” Us, Monika was recognized for building strong teams, introducing innovative ideas to store formats, merchandising and marketing as well as tight financial management of the business. As President in AsiaPacific, she was responsible for growth and profitability of the business in seven countries in the region, representing approximately 300 stores, 10,000 staff and \$2Bn in revenue. Although Toys “R” Us recently filed for Chapter 11 to address the company’s legacy debt burden stemming from its 2005 leveraged buyout, the AsiaPac region is not included in the bankruptcy proceeding.



Monika Merz speaks at the ACCJ Chubu Diversity Summit in Nagoya, Japan, 2014

Advice for anyone taking on a turn-around role in a foreign market

Monika said “I took cultural training and that did nothing but make me think – oh my God – I’m not allowed to say anything! I think that immobilized me for a couple of weeks because there are all these rules – but – eventually you realize that you have to be who you are. She went on to suggest that “establishing a network is really important, join

Chambers of Commerce and other business networking groups. Equally important is getting out into each marketplace, talking to people, and getting a pulse on what the consumer is doing. Otherwise you are relying on staff that is feeding you what they think will advance

their own point of view. Also, keeping on top of what is happening in your industry globally is really important because innovation has no borders.”

Monika said of her experience that “The greatest learning that I came away with is that people are all the same, wanting the same things out of life. Employees want to be valued and be part of the company. Consumers want to know that they are getting value for their money. In those things people are very much the same worldwide.” She went on to say that she hopes that her legacy there was “that people learned how to challenge effectively, how to look outside of their own world and how to always challenge themselves, as well as how to anticipate and be prepared for the head winds... because they always come. When I retired, I told my team that they should never accept the status quo and should not go on and do something because that was the way I would have done it. Retail changes constantly and I encouraged them to stay relevant. That is how I would like to be remembered.”

EXECUTIVE SUMMARY

- Know your customer: Start by focusing on the local consumer. Gain insight into what motivates them. Design a strategy to meet their needs and align the team around that strategy.
- Engage your audience: Create an alluring experience for consumers rather than relying on products alone to drive sales.
- Be yourself: Stay true to your tried and tested management style, while being flexible. Find ways to effectively adapt to new cultures rather than attempting to adopt them.
- Build the right team for the job: Shake up the dynamics to meet your needs, even if it requires making hard decisions or affecting the existing power structure.
- Think outside the box: Challenge the status quo to find solutions that work, despite what may have worked in the past and the established conventions.
- Stay relevant: Innovation has no borders; anticipate the impact of consumer and market trends. Keep tabs on what’s happening in your industry globally.
- Nurture loyalty: Use data, technology and experiences to ensure repeat business.
- Cut the fat: Put a stop to unnecessary and misguided expenditures.

Written by Sylvia MacArthur
President

M A D I S O N
M A C A R T H U R