Over-Adapting to the Environment?

In this mini case study, you are required to assess whether this toy manufacturer was too flexible and too willing to adapt to its changing macro-environment. Set back in time, this case is based on a real firm that implemented a number of changes in order to stay current. But were they guilty of over-reacting and, as a result, losing their competitive advantage in the marketplace?

Quantum Toys' Changing Environment

Since the 1940's, this toy manufacturer (Quantum Toys) had built a reputation for high quality toys. Mainly they produced train sets, chemistry sets, and construction sets. Their customers saw their brand as providing great long-term value. While they were very expensive toys, consumers knew that they would last a long time.

The toy manufacturer was a family-owned business, with the son of the founder taking over in the early 1960's. This was a difficult time for the toy business, as society was going through significant changes - in particular, there was a shift in lifestyle (from the 'conservative 50's' to the 'swinging 60's').

This lifestyle change was reflected in the preference for toys. For instance, Barbie and Action Man were launched, as well as racing car sets becoming available for the first time. Advertising for toys also became more aggressive and more directly targeted at children (with TV viewing dramatically increasing over the previous decade).

And there was also a shift in the retailing of toys - away from small independent toy stores and towards large (and lower-priced) discount stores. (Note: These stores were primarily interested in toys with a fast turnover.) As a consequence, at Christmas, instead of parents buying their children ONE special present, they started buying them lots of lower-priced presents.

Therefore, it should have been no surprise when Quantum Toy's sales revenue started to fall during this time (as their toys were primarily higher-priced toys). As a result, the new manager/owner decided that some urgent action was required and bought in a new management team. A new strategy to turnaround the firm's performance was developed.

It was built on heavy TV advertising and a much broader product range (which they increased by 50 to over 300 different toys). The extra products expanded the firm's brand into "girl toys" for the first time. However, their range of dolls (in which they had no experience) was poorly received by consumers.

Their lower sales, combined with the extra costs of advertising and significant product development costs meant that the firm was now making significant losses. As a reaction to this, the manager/owner sacked the new management team, and brought in another new team and introduced even further changes. These included:

- Firing the established sales team and pushing the products through independent wholesalers and agents. However, this lost their direct relationships with many retailers
- Quickly introducing more new products (again of poor quality because they were rushed out) that also did not sell well
- Downsizing employees to cut costs, however this dramatically reduced the in-house expertise of the firm
- Substantially reducing the quality (and the cost) of their traditional toy range (thereby damaging their brand and losing the loyalty of longstanding customers and retailers)

However, the combination of these actions proved disastrous, and by 1970 the firm was out of business.

Student Discussion Questions

1. What were Quantum Toys' competitive advantages (initially) in the marketplace (that is, what were they good at)?
2. What were the main macro-environmental issues that they faced in the case? How would you classify these issues into the standard macro-environment categories (that is, PEST or some other model)?
3. Which of their various changes do you consider to be appropriate? Which ones were not suitable for the firm?
4. Do you think that the firm effectively leveraged its market strengths or simply lost its way?
5. What internal factors made the firm so willing to frequently change its operation?
6. How can firms determine to what extent to adapt to the changing environment?