PERSONAL insight

INTERVIEW WITH ANTONIO URCELAY, TOYS "R" US

BY PHILIP MOSCOSO

Photos by JAVIER ARIAS

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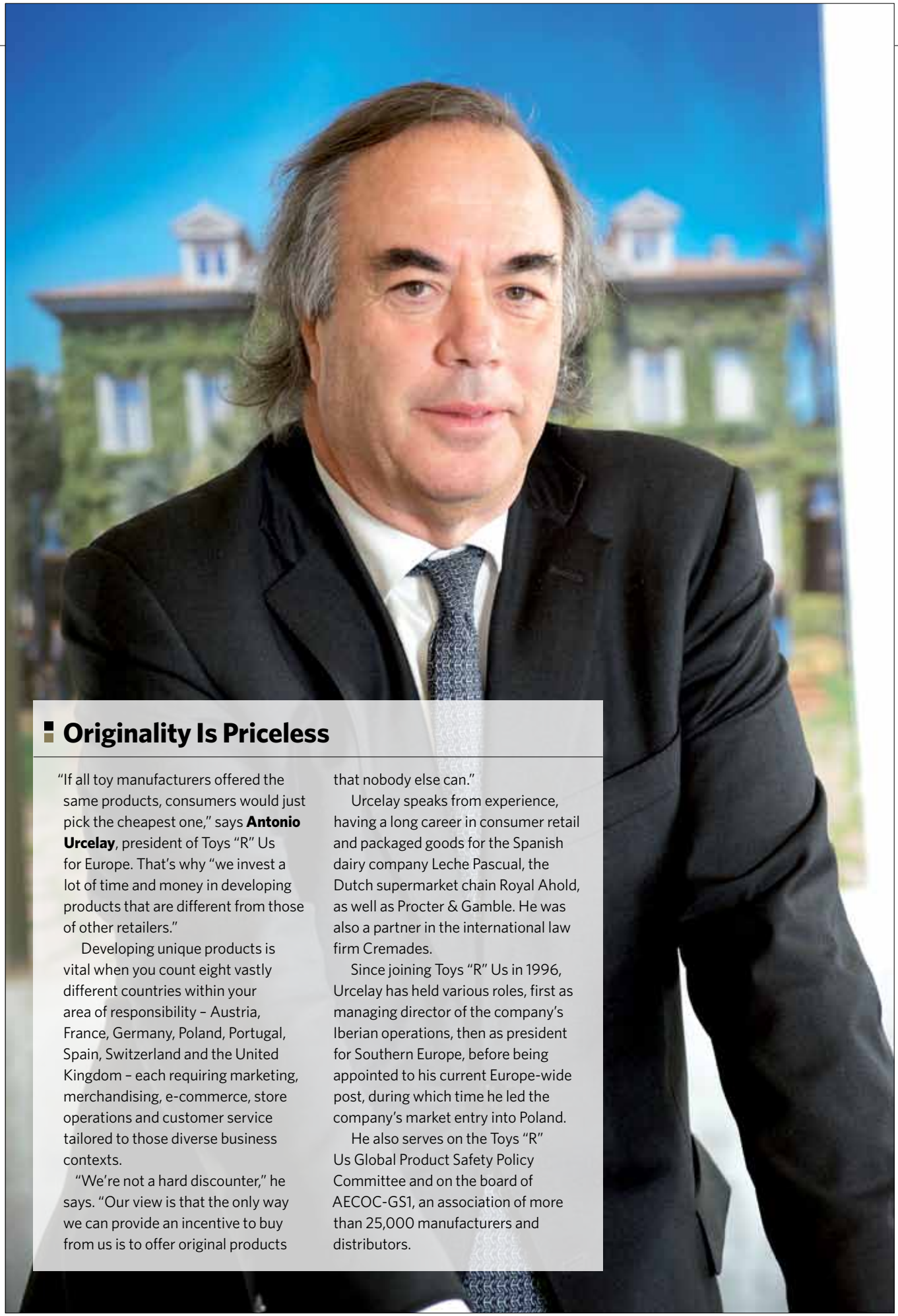

Originality Is Priceless

"If all toy manufacturers offered the same products, consumers would just pick the cheapest one," says **Antonio Urcelay**, president of Toys "R" Us for Europe. That's why "we invest a lot of time and money in developing products that are different from those of other retailers."

Developing unique products is vital when you count eight vastly different countries within your area of responsibility – Austria, France, Germany, Poland, Portugal, Spain, Switzerland and the United Kingdom – each requiring marketing, merchandising, e-commerce, store operations and customer service tailored to those diverse business contexts.

"We're not a hard discounter," he says. "Our view is that the only way we can provide an incentive to buy from us is to offer original products that nobody else can."

Urcelay speaks from experience, having a long career in consumer retail and packaged goods for the Spanish dairy company Leche Pascual, the Dutch supermarket chain Royal Ahold, as well as Procter & Gamble. He was also a partner in the international law firm Cremades.

Since joining Toys "R" Us in 1996, Urcelay has held various roles, first as managing director of the company's Iberian operations, then as president for Southern Europe, before being appointed to his current Europe-wide post, during which time he led the company's market entry into Poland.

He also serves on the Toys "R" Us Global Product Safety Policy Committee and on the board of AECOC-GS1, an association of more than 25,000 manufacturers and distributors.

Toying With the Future

Working in the toy industry is not child's play. As president in charge of Toys "R" Us and Babies "R" Us stores across Europe, Antonio Urcelay takes one thing very seriously: child safety.

In recent years, several costly recalls of products manufactured in China have highlighted the growing tension facing all manufacturers in general and the toy industry in particular: How to guarantee that supply-chain partners don't cut corners while cutting costs, so that rigorous safety standards are maintained? For Urcelay, this is a key question confronting managers today.

Of course, he wants to sell at the best possible price, but not at any price. "Our products must be safe. We cannot be a reputable retailer if we cannot guarantee that what consumers buy from us is safe. So, safety is always first in our decisions."

Besides safety, another issue is the growing impact of technology on the sector. "Computers, tablets and mobiles are not alien to children; they are part of their lives," he says. This shakes up how products are developed and designed, with chips that allow for greater functionality and connectivity than ever before.

Yet just because technology enables a business to do something doesn't necessarily mean it's worth doing. "When we went into video games, for example, we would never sell games – even if they were best sellers – that we believed were not appropriate for children." For this reason, he adds, "We give a lot of relevance to ethics in our business."

So, the goal of "selling" becomes subservient to "not doing anything that could become a danger to or damage children. Children are fragile, and we would never want to take advantage of that fragility to impact them negatively."

Above all, "We do not want to forget the educational role of toys. Play is an important part of child development. The way they develop – not just their physical skills but also their relational abilities – is very much affected by the way they play. This is always in the forefront of anything we do."

Urcelay expands on these and other issues in this interview conducted by IESE Prof. Philip Moscoso at the 9th Retail Industry Meeting held at IESE Madrid.

PHILIP MOSCOSO- **Given our increasingly globalized environment, to what extent are the needs and preferences of children the same the world over, and how much needs to be localized when entering a new market such as Poland? What advice would you give to professionals in terms of succeeding internationally?**

ANTONIO URCELAY- Every day the world is becoming more globalized. I would say that, in about 70 percent of the world, children play in much the same way. If you look at the best-selling toys in Poland in 2011, 7 out of 10 were the same as in Germany, Italy or Spain. Whenever we want to anticipate new trends, we just look at what's happening in Japan or in the United States, and we can usually predict what's going to happen in Europe.

I don't know whether the world becoming increasingly globalized is a good thing or a bad thing, but it's a fact. Children are becoming more alike wherever you go. The television programs are the same, the movies are the same, and consequently the toys are very similar. The only big difference is the purchasing power of the children and their parents in different countries.

In terms of being a manager in this context, the first thing you have to do is forget about nationalities. When you want to work in an international environment, you have to forget whether you are Spanish or Greek or Chinese – it doesn't matter. Nobody cares where you come from. You need to forget your local paradigms, and you need to accept that what is normal in your country – the business practices or even the cultural practices – may be different in other countries.

Having said that, you cannot pretend that everybody is the same. Sometimes the differences are quite remarkable: Spanish culture is different from German culture, which is different from U.S. culture. So, first you have to accept that your origin should not determine the way you manage, and then you have to be much more flexible and thoughtful about how you manage.

When you go to Poland, for example, you have to understand how they are. This does not mean just reading a nice book about Poland. It requires listening to people, spending a lot of time visiting their stores and observing their consumer habits.

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Once you have taken some time to learn, then you have to make decisions. You cannot just be confused by the differences; you cannot just stay watching and waiting. You need to move; you have to take action.

PM- How have you seen the European markets evolve within this globalized context?

AU- First, I would make a distinction between Eastern and Western Europe.

Western Europe is a mature market. It may be possible to open more stores there, but the market doesn't tend to grow much. Once you have a certain market share, it's very hard to grow, because the market doesn't support further development.

Conversely, in Eastern Europe, there is still a lot of growth left in the toy industry. A developing country with an emerging middle class presents good opportunities for growth, usually double-digit growth, unlike Western European markets, where growth is slight or stagnant.

This has a number of implications: We can only grow in European markets where our market share is not close to the limit. Our limit is probably around 20 percent. Beyond that, it is hard to grow in mature markets. So, we are looking to markets that offer opportunities for growth. Like human beings, a company needs to grow: We cannot just stay where we are; we need to develop further. And it is much easier to achieve growth in emerging markets than in mature ones.

PM- As is common with many multinationals, manufacturing has been outsourced to China. What can European manufacturers do to compete against low-cost Chinese producers?

AU- Any product – not just toys – consists of two crucial elements. One is the design component, and the other is the supply chain.

I would say that some Spanish toy manufacturers have very good design capabilities: They are able to design quality toys and develop new products. However, their supply-chain skills are not so good. If the lead time, from the moment you order to the moment you receive the goods, is almost the same when you order in Spain as when you order in China, and the Chinese product is cheaper, then there is no way you are going to order in Spain. Now, many Spanish toy manufacturers have factories in China simply because they believe this is the only way they can be competitive.

The only ones who can change this situation are the manufacturers themselves. But they give up. Instead, they move more of their factories to China, believing it is more important to produce cheaper than to make their own supply chains more efficient. In effect, they are giving up the very thing they want, rather than trying to do it better themselves.

PM- E-commerce is another trend giving rise to new forms of competition with new players, such as Amazon. How do you think the battlefield will evolve over the next five years?

AU- E-commerce is growing steadily. In the United States, our e-commerce business has grown 55 percent. In Europe, online sales are growing at 30 percent to 40 percent in many countries. But competing against an Internet player like Amazon is not the same as competing against a Walmart, Argos, Tesco or Carrefour.

First, you have to identify the strengths and weaknesses of each channel. Second, you have to compete with them according to *your* strengths, not according to *their* strengths. For example, it would be difficult for us to become more efficient in online logistics than Amazon. Instead, we must use different resources to convince customers why they should choose us over Amazon.

So, we use differentiation, selling products that you cannot buy through Amazon. This reinforces our view that we must sell original products. The other resource we have – which some see as negative, but we think is positive – is that we have physical stores, and they don't. We can integrate the e-commerce business with our brick-and-mortar business in a way that Amazon can't.

We feel we should reach our customers with an "omnichannel strategy." This means the customer can buy anywhere: online, on their tablets, through their computers, in kiosks or they can come into our stores. We can deliver to them from anywhere, both from our distribution center and from our stores. The stock, the availability of products and the efficiency in logistics are all much greater when

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you can also send the merchandise from your own store network.

Having such a network enables you to have a relationship with your retailer, even if it is an e-retailer. You have a place where you can return your products, ask for more information and improve your understanding of the product. There are competitive advantages to having an integrated business model like this, instead of being a purely online player.

PM- Apart from changes to your business model, how have you seen your own role evolving? Do you find yourself spending more time managing people and creating a culture, or is your time more dedicated to analyzing the numbers and making decisions?

AU- It's a combination of both. But the central element of my job is people: They are what produce the greatest number of issues, concerns, problems – and the greatest amount of satisfaction. As such, I should and I do dedicate most of my time to people.

Being president is not just about promoting a culture and educating people on what our company represents. It's also about listening to people's concerns, advice and opinions, and creating a common culture and making shared decisions.

This is not to say that the only way to make a decision is by consensus. I do not believe in democracy, or "one man, one vote," in companies. By this I mean I do not believe appointing a committee that will come up with a recommendation is the best way to solve an issue.

Instead, each of us must assume his or her responsibilities. If we are paid better than others, it is because we have to make the decisions, not just give opinions. Anyone can get opinions. The key issue is that, a lot of the time, you have to make decisions with incomplete information and an element of risk present. As managers, that's our job.

Personally what I try to do is listen to everyone, but after that, there's no voting. There's no "five in favor and four against, so the five win." I listen, then I do what I think is right for the business. If I'm right, then I made the right decision, and if I'm wrong, then I'll try to do better next time.

You can't always manage by consensus, because nobody ever wants to say "yes" or "no." Everybody wants to be with the majority, because that way you can hide: You're not the one who said "yes," nor the one who said "no."

I think this is one of the challenges that management should confront today. We're not paid to vote. We're paid to make decisions. □

Antonio Urcelay was interviewed by Philip Moscoso

Philip Moscoso is a professor in the Department of Operations & Technology Management at IESE and a member of the *IESE Insight* Editorial Board. His primary area of interest is the management of service operations. Central in this work is developing strategies and systems that help firms achieve excellence, and ultimately profitable growth. Prior to IESE, he worked at the management consultancy Bain & Company. He has completed management programs at Harvard Business School and IESE, and earned his M.Sc. and Doctorate from the Swiss Federal Institute of Technology (ETH) in Zurich. Moscoso last interviewed Charles Petruccelli, president of Global Business Travel at American Express, in *IESE Insight* Issue 8.