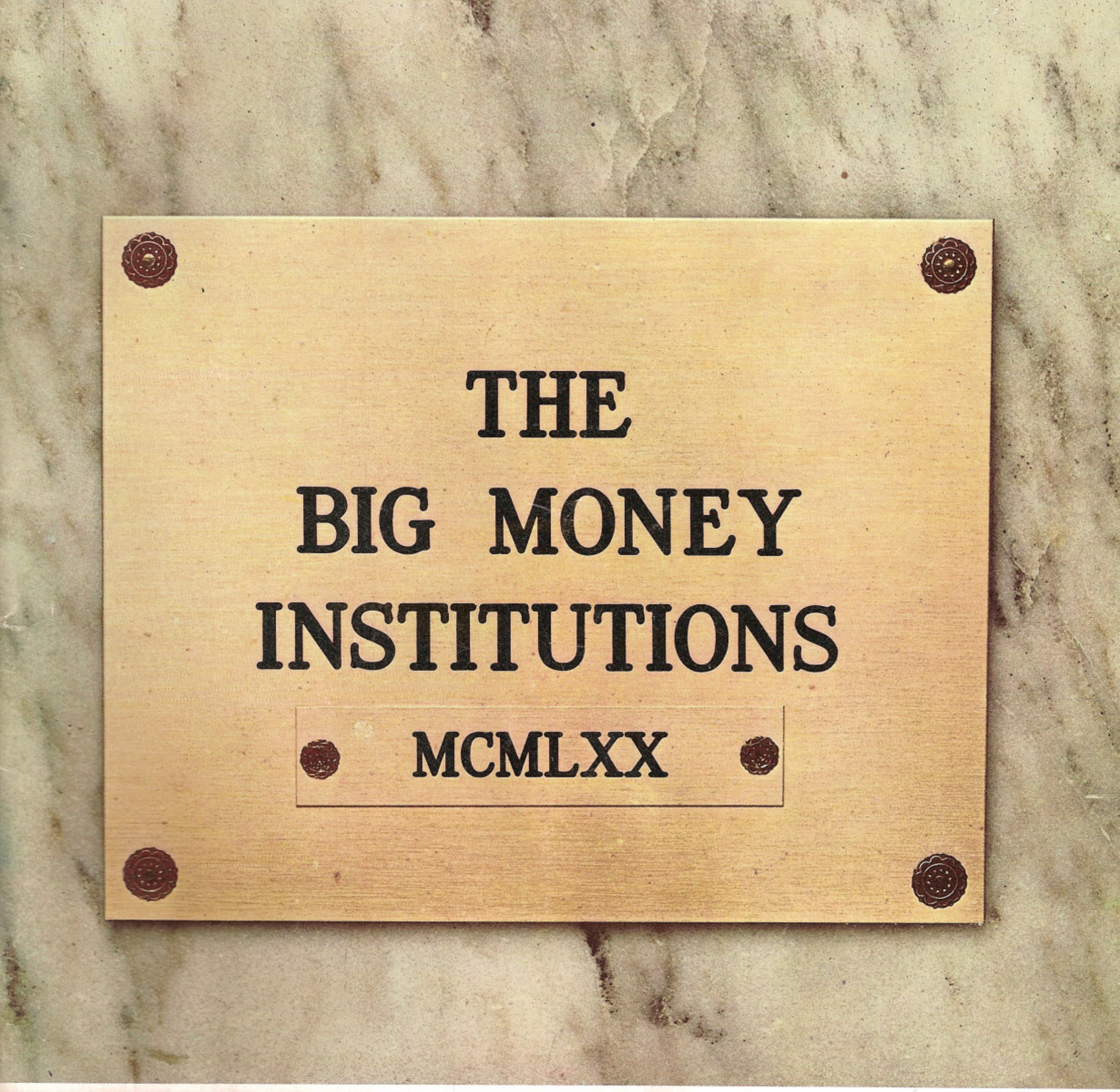
Business Week



Special report:

Why the big traders worry industry

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July 25, 1970
One dollar
A McGraw-Hill publication

Mattel's co-founders, Elliot and Ruth Handler, dominate the U. S. toy market.

COMPANIES

Diversification is Mattel's game

The world's biggest toy maker has interests in hobby supplies and films

By almost every measure, Mattel, Inc., ought to be content to stick to the toy business. By regularly conjuring up fresh ideas through a massive R&D effort, following up with the industry's heaviest advertising barrage, and buttressing demand with a touch of planned obsolescence and an endless array of accessories, the Hawthorne (Calif.) company has become the world's biggest toy maker.

Mattel has nearly 12% of the $2-billion U. S. toy market (vs. 5% for General Mills, Inc., 4% for Milton Bradley Co., and 3% each for Ideal Toy Corp. and Topper Corp.). It has a dazzling annual growth rate of about 40% in earnings and more than 20% in sales over the past five years. And its return on investment is a nifty 16%.

But the company has caught the diversification bug. In the past two years, as a hedge against toy fads that come and go, Mattel acquired Monogram Models, Inc., the fifth largest hobby-kit company; Metaframe Corp., an aquarium and pet supply outfit; and Turco Mfg. Co., a playground equipment maker. In May of this year, the company formed a joint venture with Hollywood producer Robert Radnitz to film family oriented movies. Last month, it strengthened its connection with the entertainment industry by agreeing to buy Audio-Magnetics Corp., a $10-million recording tape and cassette manufacturer.

Direction. Elliot and Ruth Handler, the husband-and-wife founders of 25-year-old Mattel (he's chairman, she's president) intend to meet Walt Disney Productions head-on with their own brand of theatrical and home entertainment. With a catalogue bulging with almost 500 toy and hobby items, a foothold in movies and the recording business, and possible forays into publishing and mail-order sales, their company now has a chance to outflank its competitors in the kiddie marketplace.

Radnitz/Mattel Productions plans three films a year on budgets of about $1-million each. The subsidiary eventually will go the Disney route, handling its own distribution and bypassing affiliation with a major studio.

"We've been looking at the motion picture industry for a long time," says Ruth Handler. Last January, after Radnitz became disgruntled over the indifferent attitudes of established Hollywood studios (after 10 years of filming such critically acclaimed children's stories as *Island of the Blue Dolphins* and *My Side of the Mountain*), he approached Mattel as a potential bankroller. "We jumped at the opportunity," Ruth says. Radnitz' first movie for Mattel, *Will the Lilies Bloom?* is slated for a mid-1971 release date.

The Handlers are also likely to branch into television production. They will have ready access to a voracious tape market when acquisition of Audio-Magnetics is completed. Moreover, they will be in position to record as well as merchandise albums and to

'Until a few years ago, Mattel was just a mom-and-pop operation'

feed future home video-tape audiences with Mattel shows.

As an aggressive TV sponsor, Mattel has a strong feel for programming. The company spends more TV ad dollars ($12-million in 1969) than any other toy company. The habit dates back to 1955, when it tripled its ad budget in a single jump by cosponsoring the *Mickey Mouse Club* to boost toy gun sales.

Spreading risk. Mattel's long-range goals are as closely guarded as its top-secret R&D department where future toy products are cloaked in black cheesecloth. But the company clearly is easing its dependence on what Ruth Handler calls "hot flash" toys—fads that normally come and go in a single season. Experience has been the best teacher. In the early 1960s, Mattel was perking merrily along with a product mix consisting largely of dolls, musical toys, and toy guns. Sales had blossomed from $25-million in 1960 to nearly $100-million in 1964.

Then trouble began. An early fling at diversification met disaster in 1964 with a line of bicycles and girl's clothing that Mattel farmed out to licensees. With little control over manufacture—most of the company's toys were then made in Japan—Mattel got a black eye from goods that fell short of specifications. Its bicycles, for instance, landed in dealers' shops with shoddy seats and handlebars. In addition, doll sales leveled off and the toy industry was wracked by disastrous price cutting. Profits fell and many small companies were forced to the wall.

"Our sales continued to grow," Elliot Handler recalls. "But that was the problem. We grew too fast and there were few internal controls to cope with growth. We were vulnerable because we were dependent on Barbie and other talking dolls," a line that accounted for most of Mattel's earnings.

Pretax profit margin plunged from 16.4% to 4.7% in this period. Dependent on a thin line of toys and stumbling along with seat-of-the-pants business savvy, the company needed to restructure and create a product planning and domestic manufacturing capability. The Handlers hired management consultants Booz, Allen & Hamilton, Inc., for guidelines.

Spreading out. The first move was an expensive investment in research and development and tighter controls over suppliers and distributors. Next, the Handlers recruited a cadre of professional administrators to bolster management. The Handlers telegraphed their diversification bent in 1967 when they hired Seymour Rosenberg, Litton Industries' long-range planning manager, to head finance, administration, and corporate development. He became part of a new executive troika that includes Arthur Spear, executive vice-president for operations, brought in from Revlon, Inc., and old Mattel marketing hand Herbert Holland.

Says Rosenberg: "Until a few years ago, Mattel was a mom-and-pop operation. Ruth Handler headed the business side and Elliot was the creative genius. They were involved in all business decisions." The company's success was based largely on an instinctive feeling for the toy market.

By 1968, earnings started to hum again, bouncing from $2.7-million on sales of $120-million two years before to $5.2-million on $180-million sales. In the year ending Jan. 30, Mattel netted $12.1-million on sales of $288.6-million.

To insure low-cost manufacture of dolls and toy components, Mattel muscled into the supply pipeline, acquiring a doll-accessories vendor, majority interest in a Taiwan subcontractor, and a Hong Kong toy maker. Mattel started looking for international marketing clout in 1966 when the company bought a West German toy and doll company and then Rosebud Dolls, Ltd., of England. Last year, two Italian companies and a Brussels-based toy distributor, were acquired. About 15% of Mattel's sales are now overseas.

Mattel is loath to own its own plastics and metal fabricating plants for fear of getting stuck with a short-lived toy process. Even so, the company owns a Los Angeles die-cast metals plant and an injection molded plastics company, for what Spear calls "sourcing flexibility and as a means of keeping tabs on vendor pricing."

For future growth in toys, Mattel looks largely to internal expansion. There are few small U.S. toy companies left for acquisition. Most have been taken over by large companies seeking diversification, just as Kenner Products and Fisher-Price were gobbled up not long ago by General Mills and Quaker Oats.

"Perhaps," says Elliot Handler, "we should go into the cereal business." ■

A salmon packer hits golden run

In Alaska, 1970 may go down in history as the Year of the Salmon. From the clear, cold waters off the coast, fishing vessels are chugging into port to unload the Northern Pacific's richest catch in 30 years. The huge haul is expected to hit about $198-million in value for Alaska alone, and about $10-million over-all in Washington, Oregon, and California.

One reason for the bonanza is that this year the five-year migratory cycle of red salmon and the two-year cycle of pink salmon overlap. This allows fishermen to harvest simultaneously the two species that bring the highest price per case and are caught in the largest numbers of the five species of salmon fished in Alaska. Even more important, fishery conservation measures clamped on in recent years to build up the salmon runs are starting to show impressive results.

Record sales. For Seattle-based Whitney-Fidalgo Seafoods, Inc., the only independent, publicly owned company among the major salmon packers, the big salmon catch will mean record sales and earnings for the fiscal year ending next Mar. 31. Last year, the company earned $651,279 on $18.4-million sales. Whitney-Fidalgo's chairman and president, Sam Rubinstein, estimates that sales will exceed $30-million this year. This assumes that 70% of the 1970 pack will be sold this year and that 30% will be carried over to supplement the 1971 pack, which is certain to be smaller without the cycle runs of reds and pinks.

Sam Rubinstein inspects Alaska salmon at Seattle processing and packing plant.

The carryover of a substantial part of the salmon pack, has become possible only as packing has been transformed from an industry of many tiny independent plants to a smaller number of bigger and stronger operators. Whitney-Fidalgo, the fifth-largest Alaskan seafood producer (privately held New England Fish Co. and Bumble Bee Seafoods, a division of Castle & Cooke, Inc., are No. 1 and No. 2), is one of the industry's new leaders.

It grew out of a salmon-brokerage firm, Whitney & Co., founded by Rubinstein's father Carl and two partners in 1933. In those days, it was common for small independent packers to finance operations through banks in the spring, then sell their output through brokers before they had to finance the next year's pack.

Expansion. But industry patterns began to change. In the late 1940s, the small independent operations began to disappear and the floating or pile trap was banned. "With the outlawing of this way to catch fish," says Rubinstein, "the need to own boats and control the resultant fish production became apparent."

Whitney expanded from brokerage activities into ownership and operation of boats. But, Rubinstein says, "The squeeze continued, and we had to invest in canneries to service our expanding fleet." Four years ago, Whitney acquired Fidalgo Island Packing Co., which gave it fishing, packing, and marketing facilities.

Whitney-Fidalgo has since acquired 11 additional companies and now operates 10 canneries and processing plants and three freezing and cold storage plants (a fourth is under construction) from Bristol Bay on the Bering Sea to the Puget Sound. It also runs what Rubinstein calls one of the largest fishing fleets in Alaskan waters. The fleet consists of more than 500 vessels, of which 100 are company-owned.

Like other large operators, Whitney-Fidalgo has diversified from canned salmon into other seafood products. Last year, salmon accounted for 62% of volume; canned tuna and petfood, 15%: fresh and frozen seafood, 13%; salted salmon roe (sold in Japan, a recently opened, multimillion-dollar market for a byproduct once thrown away in Alaska), 6%; and canned crab, shrimp, and oysters, 4%.

The company went public in 1969, when Rubinstein, then the sole owner, sold 200,000 shares to reduce his holdings to 64.7%, and the company sold $2-million in convertible debentures. Conversion of the debentures would further reduce Rubinstein's share to 54%. ■