

TOY WARS: THE EPIC STRUGGLE BETWEEN GI JOE, BARBIE, AND THE COMPANIES THAT MAKE THEM

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One day in 1951, a man carrying a box paid a visit to Merrill. George Lerner was a toy inventor from Brooklyn. His box contained plastic noses, ears, eyes, eyeglasses, mustaches, hats, a pipe, and hair. You stuck these into vegetables and fruits to create amusing characters, Lerner explained. Any fruit would do, although potatoes seemed best. Mr. Potato Head had been packaged briefly as a premium for a cereal company, but when that ended, Lerner had been unable to interest anyone else. What a waste of food! the toy honchos told him. And what about when Junior loses the darn thing behind the couch? The whole house would stink! Lerner moved down his list to Hassenfeld Bros., a bit player in toys.

Merrill was interested—Lerner's little novelty *was* amusing, for reasons difficult to articulate. He recognized the peril, but what was the worst that could happen? Mr. Potato Head would bomb, then disappear quietly. Toys did that all the time. And Hassenfeld Bros. could afford a loser. Stationery and pencils remained moneymakers, and the Hassenfelds' slowly expanding toy line was profitable, sufficiently so that they were inching into the high-risk business of licensed promotional items, with Donald Duck doctor kits, Mickey Mouse pencils, and Roy Rogers pistol pencil cases. Mr. Potato Head might even be a good candidate for television advertising, a new medium no toy company, big or small, had yet tried. Given his sorry history of rejection, how much could Lerner want for his odd little creation anyway?

Lerner settled for a \$500 advance against a 5 percent royalty. The following year, backed by newspaper ads and a TV commercial in a handful of local markets, Mr. Potato Head debuted. The 1952 catalog for Hasbro, as Hassenfeld Bros. was now calling itself, had renderings of the toy as an orange, apple, cucumber, banana, pepper, pear, and potato. "The most novel toy in years," the copy proclaimed. "The ideal item for gift, party favor, or the young invalid." And only a dollar.

Whatever Potato Head's secret—whether its sheer silliness or something more profoundly comic in the marriage of humanity to food—the toy struck a chord, with adults as well as children. Mr. Potato Head wound up on TV with Jackie Gleason and in newspaper stories nationwide. West Coast distributors paid exorbitant air freight to keep shelves stocked, and the Hassenfelds hired additional workers to meet demand. Merrill had been optimistic, but he'd never dreamed of moving a million

units the first year. He knew what to do with his good fortune. The next year Mrs. Potato Head debuted with a son, Spud, and daughter, Yam. Hasbro was still primarily a pencil and school supplies firm, but Merrill had tasted a success that would draw him ever more deeply into toys.

II

LARRY REINER, A YOUNG games designer of minor distinction, was attending a meeting at Ideal Toy Co., his employer, when his thoughts began to stray. It was shortly before Toy Fair 1963, and Ideal, an industry leader, had brought together its creative talents to explore ways to expand its popular Tammy doll line. Someone suggested knocking off a competitor that marketed uncle dolls, aunt dolls, and other doll relatives in a line called Little Chaps. Someone else suggested making Tammy's father a fireman and her uncle a cop. Reiner was drifting off.

Why not a soldier doll? he wondered. He did not have in mind another small, immovable plastic or metal soldier, steady sellers for decades. He envisioned a roughly ten-inch, flexible figure that could hold toy weapons, strike realistic poses, and fit into tanks and other toy combat vehicles. After the meeting, Reiner disclosed his concept to his boss. His boss told him he was crazy. "Boys will never play with dolls," he declared. Reiner was free to take his idea elsewhere, but good luck. No company could be so colossally stupid.

Licensing agent Stan Weston, whom Reiner met that February at Toy Fair, didn't think the idea was so crazy. Weston was an up-and-coming presence in the still embryonic business of toy licensing, having sold the rights to such properties as MGM's popular Dr. Kildare and Universal's Frankenstein and Mummy. Weston outlined Reiner's concept to Don Levine, Merrill Hassenfeld's marketing/research director. Working with Weston, Levine had developed monster games and Dr. Kildare doctor kits for Hasbro and was under orders from Merrill to broaden Hasbro's anemic boy's line. He was considering the toy rights to *The Lieutenant*, a TV military drama Weston was representing, but Reiner's concept intrigued him more. Trade skepticism would be a formidable obstacle, but the play potential was enormous and Levine's gut told him boys and their dads would buy in, provided the pitch was right. He left New York with a promise to get back to Weston.

Merrill was with Sylvia on another of their philanthropic missions to Israel when Levine assigned his tiny research and development staff the job of refining the concept. The earliest prototypes were crude: store-bought poseable wooden artists' mannequins, about a foot tall, dressed in hand-sewn army, navy, marine, and air force uniforms. The figures were equipped with weapons and accessories cobbled together from retail items and materials the designers had on hand. The toy still did not have a name.

Merrill returned from Israel knowing nothing of Reiner's concept. Levine showed him the latest models and drawings of faces and heads, which he proposed be sculpted and manufactured in extraordinarily meticulous detail. Levine suggested molding the arms, legs, and bodies in Rhode Island and assembling and packaging the toys there as well. He recommended molding and hand painting the heads—because of the detail, a labor-intensive process—in Japan, where labor was still considerably cheaper than in America. Hasbro had never made anything overseas, nor had it ever sold a doll of any kind, for boy or girl. Both considerations troubled Merrill.

But he was enamored of the merchandising potential: the fact that the figures would be sold with a wide selection of uniform sets, equipment packs, and, eventually, vehicles. Levine called his marketing plan the "razor/razor blade" principle: Sell a razor, and you'd sold ongoing demand for blades. His inspiration was Mattel, which had proved the concept with America's best-selling doll. Hardly any little girl got a Barbie without at least one of her accessories or outfits, each sold separately.

And like Levine, Merrill instinctively believed boys could be persuaded to play with dolls, given the right approach—an approach that began with the solemn vow never to use the word "doll," not even internally.

"This is exciting," Merrill said, "but I'm concerned." He could already hear the buyers.

"Merrill, I have such a feeling about this," Levine said. "I think this can be it."

Merrill desperately needed a hit in the spring of 1963. Alone atop the toy division since the death of his father (and mother) in 1960, he was a seasoned toy man now—a cigar-smoking raconteur who drove a hard bar-

gain but was blessed with warm charm. Hasbro's revenues had grown steadily throughout the fifties and sixties, but the success of Mr. Potato Head and several later toys had been accompanied by a harsh lesson of the fashion business: What goes up comes down. Tempted by the greater revenue potential of higher-priced items, Merrill had gone beyond traditional toys to mechanization. Only one item in the 1961 line had a motor, but five toys the next year did, including an automatic bowling alley, a cotton-candy maker, and an electric car. All were more expensive and difficult to manufacture than toys that emerged fully formed from a molding machine. All failed at market, contributing to the division's unprecedented loss of \$2.7 million on sales of only \$15 million. Down in Tennessee, brother Harold, chairman of the board, was grumbling.

Merrill was banking on Flubber, a puttylike compound based on the magic material in *Son of Flubber*, sequel to *The Absent Minded Professor*, a blockbuster movie. "From Disney to Hasbro to you—the new kid craze," the catalog copy proclaimed. "Flubber is a new parent-approved material that is non-toxic and will not stain. . . . Flubber acts amazing. It bounces so high. It floats like a boat. It flows and moves." The material was cheap to produce, but based on the popularity of the film, Merrill figured, correctly, that he could move large volumes at high margin. Hasbro's compound was backed by TV commercials, Sunday comics, and a comic book, heady stuff in an era before multimillion-dollar campaigns involving restaurants, retailers, and saturation advertising keyed to movie openings and videotape releases.

Flubber seemed to be answering Merrill's prayers—millions of units had sold since its introduction in September 1962—when the federal Food and Drug Administration began investigating reports that the compound, a mix of synthetic rubber and mineral oil, gave some children sore throats and caused others to break out in full-body rashes.

"Ridiculous," Merrill said in a statement on March 15, 1963. "Tests have been conducted by the laboratories of several leading medical schools and universities as well as by one of the outstanding private research laboratories in the country—and the results of every single test have indicated that the product is absolutely safe." Some of the subjects, Merrill failed to mention, were inmates at Alcatraz—a questionable, if controlled, protocol for a product designed for kids.

A week later a Kansas housewife filed a \$104,000 lawsuit, an intimidating sum at the time, claiming Flubber had caused rashes so severe on

her and her three-year-old son that both had required hospital treatment. After 1,600 reports of such reactions to Flubber and similar products from other firms, Hasbro in May recalled its compound and stopped all production. Allegedly unable to dispose of it at sea (Flubber floated) or burn it at the city dump (it produced noxious black smoke while failing to combust completely, the story goes), Merrill buried his inventory—several tons' worth—behind a new warehouse and paved it over for a parking lot. Company legend three decades later still held that on the hottest summer days, Flubber oozed through cracks in the pavement—a primordial reminder of the vagaries of the toy business. Profitable only two years before, Merrill's toy division lost nearly \$5 million, conceivably a lethal amount, in 1963.

Certainly the time seemed right for the unabashed patriotism of G.I. Joe, the name Levine gave his line of dolls after watching a World War II movie. The cold war was testing a nation's belief in invincibility, but in 1963 the belief still held; a combat hero was in the White House, and the largest class of veterans in American history was raising the largest generation of children, the baby boom. Toys derived from characters in westerns, where the good guys always won, were big sellers from the 1950s into the 1960s, and many companies' lines reflected the era's fascination with the marvels of modern technology. With considerable pride, Merrill brought forth such toys as Art Linkletter's Magic Moon Rocks, Space Doctor Survival Kits ("as imaginative and exciting as the space age in which we live"), and the Think-A-Tron, a toy computer. Toys enriched children and delighted their parents, or so it was assumed. Merrill put a drawing of a mother, father, daughter, and son on the cover of his 1962 catalog with the wholesome slogan "A Hasbro Toy Is a Family Joy."

"Let's test it," Merrill instructed Levine.

No toy company did much in the way of market research then—Merrill's test consisted of bringing in a handful of buyers for a cigar, a dinner, and a private peek at G.I. Joe. They liked what they saw, provided Merrill launched the line with uncompromisingly masculine fanfare. "Do it," Merrill told Levine. What with Flubber and last year's losses, Hasbro would have to borrow some \$15 million to ramp up production.

After putting him off for months, Merrill finally met with Stan Weston on the eve of Toy Fair 1964, when G.I. Joe was to be unveiled. Mer-

rill offered him a 1 percent royalty on all future sales. One percent, take it or leave it. Weston was incredulous—5 percent was the standard of the time—but given that Hasbro had put so much already into development, he would settle for 3 percent. Merrill counteroffered with a flat \$75,000, to be paid over five years, for perpetual rights to Joe. Weston asked for \$100,000, to be split with Reiner. Merrill shook hands on the deal. Reiner was not pleased, but what could he do? Twenty-nine years old, he did not have the savvy that came later in a successful career as an inventor of toys, including Hasbro's Talking Barney. "If I had it all to do over, I'd get a royalty," Reiner would lament. "I get it from a lot of people that I was a schmuck!"

Buyers visiting the Hasbro showroom were not allowed to see the toys until after viewing a promotional film Hasbro's advertising agency had prepared. "Since the beginning of time," the voice-over said as the camera panned a boy who bore a resemblance to Timmy from TV's *Lassie*, "children have always played soldier—with wooden swords, broomstick rifles, with cast-lead soldiers, with plastic miniatures . . . but none of these gave a boy the feeling he was playing real soldier."

G.I. Joe, America's Movable Fighting Man, did. Every weapon, the film explained, was modeled after the regulation item; every uniform, canteen, and tent a miniature of the real thing. Nearly a foot tall (Barbie's height, a fact left unsaid), G.I. Joe had an astounding twenty-one movable parts, which enabled him to carry a flamethrower, toss a grenade, or storm a beach. The sound track was stirring military music, and actual combat footage was shown, but the strongest patriotic sentiments involved Joe's face: "Not just an artist's fancy," the voice-over claimed, "this is the face of G.I. Joe, carefully designed from composite photographs of twenty Medal of Honor winners." In truth, the model was a Hasbro artist's colleague, a good-looking but otherwise ordinary guy.

Buyers gave Joe mixed reviews. Orders were written, but not in the volume Merrill needed to cover his investment. His answer was to spend more, and advertisements were prepared for TV and print. The toy was in only a small number of stores when, that summer, Hasbro began running a commercial a day on a New York television station. Within a week G.I. Joe had sold out in New York, a market retailers watched closely. Advertising on the NBC network spread the craze coast to coast. Joe sold \$5.3 million in 1964, returning Hasbro's toy division from its nearly \$5 million loss to a profit of \$895,000. Merrill expanded the line for 1965

and put another \$2 million in advertising behind the toy. He was rewarded with sales of \$23 million and a divisional profit of nearly \$6 million, a record—and a number the likes of which neither the corporation nor the division would see again for many years, something that would obsess Merrill's new assistant, his oldest son, Steve.

III

UNLIKE ALAN, WHO NEVER was too wild about Daddy's factory, Stephen Hassenfeld was enthralled from the age of four or five. Weekends, vacations, summers—whenever opportunity beckoned, Stephen wanted to be in Central Falls. Everything interested him: the injection molders, the sewing machines, the assembly lines, and the executive suite, such as it was in that towering redbrick building with the creaky old elevators and grease-stained floors where Mr. Potato Head sprang to life. Years later, when Stephen was CEO, factory workers would marvel at the memory of the young lad sticking his nose everywhere, asking polite questions, and making cheerful small talk as if he were one of them and not the boss's son.

Stephen attended Providence's Moses Brown School, a private academy founded by Quakers in 1784. Flirting with the idea of becoming a diplomat, he majored in political science at Johns Hopkins University, where he joined a fraternity and was the only student among his peers to have a credit card. Stephen struck his classmates as unusually mature—a young man of quiet confidence who enjoyed a moment of fun but seemed to know exactly where he was heading, which, despite his major, was not the State Department. Early in his senior year, in the fall of 1962, Stephen left Hopkins, never to return. "I could not see spending another eight months reading English literature and political science when business had a greater appeal to me," he told an interviewer a few years later. Stephen wanted to work for Merrill, but Merrill insisted he try something else first to confirm Hasbro was where his heart was. Stephen took a job at a Providence advertising firm. In 1964 Merrill relented. He hired Stephen, twenty-two, as his assistant.

The young man moved deliberately and fast, as if all those childhood visits had been not merely to watch, but to devise a future plan. Hasbro's sales and production departments had been swamped by G.I. Joe's

overnight success, and Stephen went right to work on the problem, introducing tighter controls and an information system that helped restore order. Within two years he had restructured Hasbro's national sales force, replaced outside manufacturers' representatives with Hasbro personnel, and improved the company's distribution network. Marketing held the greatest appeal, and he dove into packaging, advertising, and promotion with infectious enthusiasm. "At first meeting, you cannot avoid coming under Steve's spell," observed a writer for *Toy & Hobby World* in 1966, when Merrill had promoted his son to vice president of marketing. "We observed him for two solid days conduct a marketing seminar in Cranston, Rhode Island. Never once was he not in total control of the situation, and as fast as complex questions were thrown at him, he responded with the answers." Insiders appreciated his touch, too. "This is a young man who was born with a silver spoon in his mouth and has never felt it," an executive told the magazine.

Merrill named Stephen executive vice president in 1968, the year Hasbro went public, and president in 1974, when toy sales were \$65 million (Merrill became vice chairman of the board). The presidency was the fulfillment of a boyhood dream, but it came at a time when Hasbro was struggling to survive. Merrill had essentially run the business as every old-fashioned promotional toy man did, according to the philosophy that great product drives great sales, and other details resolve themselves. Cash flow, inventory, receivables, working capital, bank credit—the other details—had suffered, putting Hasbro on precarious financial ground. The situation was so dire in early 1974 that Merrill and Harold had been forced to put up their personal property as collateral for loans at exorbitant rates, all they could get to carry the company through the post-holiday period, when sales ebbed but manufacturing for next Christmas was already tooling up.

Whether Merrill had contributed to the situation or not was immaterial to Stephen: he resented the hold the banks had and vowed to break it. He saw the solution in discipline and in Al Verrecchia, promoted to treasurer in 1974 and now Hasbro's highest financial officer. Stephen had worked eighteen-hour days, often seven days a week, since starting at Hasbro. He applied this energy to his new preoccupation, the numbers, drawing on Verrecchia's knowledge from a decade in the trenches. With the exception of one disastrous year when Hasbro bet heavily on several new products and lost, the company's balance sheet improved steadily

during the last half of the seventies. With better forecasting and controls on production and distribution, inventory as a percentage of sales declined; with less money tied up in unsold goods, Hasbro built its cash reserves. And with a better cash position, Stephen could begin weaning the company off short-term debt, which in 1973 had reached \$16 million, an alarming 21 percent of toy sales. He could also afford to invest more heavily in advertising and research and development.

Stephen did not tackle the balance sheet in isolation. The toy company of tomorrow—his, at least—must have balance and diversity and be first or second in sales in all major categories. Stephen set about building a preschool line, an outdoor line, and fashion doll and promotional doll businesses. He endeavored, for years in vain, to establish Hasbro as a force in games. He examined Hasbro's staples through the cold lens of profitability, weeding out items that didn't perform. Those that made money—Mr. Potato Head, Lite-Brite, doctor and nurse kits—got new looks and new advertising. Stephen insisted on approving every detail: every color choice, every package, every catalog page, every merchandising plan, every ad.

By the mid-seventies he was convinced Hasbro could be a player on Wall Street, even though Hasbro's stock had never been on any broker's list of smart buys. In his presidential letter in Hasbro's 1976 annual report, Stephen spelled out his financial objectives: revenue increases of 15 percent a year with earnings gains of 11 to 13 percent. "Is it to swim upstream to believe that a moderate-sized company like ours can build strong investor credibility and confidence?" he wrote. "We believe not."

Merrill was working in his office, next to Stephen's, when he suffered a heart attack one day in March 1979. He died a short while later at Providence's Miriam Hospital. He was sixty-one.

A man with a weakness for fatty foods, Merrill had struggled for years with his weight and high blood pressure. His death was nonetheless a stunning blow. Stephen effectively had been running Hasbro's toy division for years, but the wisdom Merrill had gained over four decades in the business still served his precocious son well. As vice chairman, Merrill was the one who took the heat from brother Harold when things went wrong up in Rhode Island. And wrong they'd gone, with such ill-fated ventures as *Romper Room* nursery schools and day-care centers

(closed after three straight years of losses) and *Galloping Gourmet* housewares (whose demise was hastened when termites ate warehoused wooden salad bowls). "He allowed us to get into things over our heads, allowed us to make mistakes, and when we made them, never came down hard on us," Stephen told a reporter interviewing him and Alan after their father's death. "We always sat and talked through those things."

The Hassenfelds had much to discuss among themselves after Merrill was gone. Although the balance sheet was not mortally wounded, 1978 had been a disaster, the first loss year since Hasbro had gone public: the villain, once again, was toys. Stephen had kept G.I. Joe on the market despite five straight years of declining sales, and his last effort to save the line, an abomination called Super Joe, had been a catastrophe at retail. Charlie's Angels, Stephen's latest challenge to Barbie, was in its second (and final) year and had lost all momentum. Total toy losses were \$5.2 million, more than any year in company history. Meanwhile, pencils had turned in a tidy \$2 million profit, best ever. With Merrill gone, the long-simmering dispute between Tennessee and Rhode Island boiled over.

If Stephen (still only thirty-seven) was such a boy wonder, how come he was taking Hasbro into the tank? Could such a man be counted on for the capital investments Empire Pencil needed to maintain its steady, if unspectacular, growth? Chairman Harold's answer was no.

On September 28, 1980, the firm founded by two immigrant brothers was cleft in two. Harold stayed in Tennessee. Stephen became chairman of the toy half, which kept the Hasbro name.

A dark omen to his uncle, Super Joe had pushed Stephen to a rare sophistication in marketing. Henceforth, strategy would drive development; by themselves, love or sentiment would not be enough for a toy. Stephen rededicated himself to pruning or killing existing lines—"categories important to us in the past which have lived on largely because of the emotion of what they had meant to us," he wrote in his 1980 report. The most difficult casualty had been G.I. Joe, which Stephen killed altogether. This was sacrilege, but Stephen had a higher calling now.

The new Hasbro made \$5 million in 1980, the most since the height of Joe's popularity in 1964. The firm ended the year with a record \$16 million in cash and one of its most favorable inventory levels ever. All short-term debt had been liquidated, and long-term debt was dropping

rapidly. Alan, with the company since 1970, had negotiated the largest licensing deal in Hasbro history: \$2 million for foreign rights to G.I. Joe (who would be known overseas as Action Man), an unprecedented cash windfall that could not have come at a more opportune moment. The rest of Stephen's team was in place: Al Verrecchia and the Three Musketeers (Larry Bernstein, Steve Schwartz, and George Dunsay).

Still, as the company entered the Reagan era, no one was picking it for greatness; greatness was a word associated with number one Mattel, eight times larger than Hasbro and closing in on \$1 billion a year in sales. If anything, what Stephen had accomplished in Rhode Island had been lost in the hoopla over a breathtaking new category of toy that was taking the nation's young by storm. Everyone knew video games were the wave of the future. Where, then, was Hasbro? Stephen had come to Toy Fair with nothing but more of his cute molded plastic, an appallingly deficient vision for which Hasbro was widely ridiculed as "Has-been."

No one, not even Stephen, could have predicted how this seeming misfortune would turn out to be such luck, so often the silent partner in fabulous business success.

3

REAL AMERICAN HEROES

I

Stephen Hassenfeld was not expecting to change his mind when the lights went down in Hasbro's presentation theater that day in 1981. There was a good chance he'd pitch a fit. For months the Three Musketeers had been clamoring for permission to bring G.I. Joe back. It was the hardest sell Bernstein, Schwartz, and Dunsay had ever had.

Explosive the first year, Joe sales had hit a phenomenal \$23 million in 1965, dipped as opposition to the Vietnam War heightened, then inched back up as the war wound down and Stephen moved deliberately away from the line's hard-edged militarism. G.I. Joe Adventure Teams, launched in 1969, bore little resemblance to America's Movable Fighting Man, Merrill's flame-throwing, M-60-toting toy warrior. Adventure Team members had beards, wore dog tags that suspiciously resembled peace symbols, carried few weapons, and embarked not on combat missions but on quests, such as Mission to Spy Island. His tag line even changed, to America's Movable Adventure Man. Joe's biggest year was 1973, with \$26 million in sales.

Adventure Teams had succeeded as a short-term gimmick, but something vital had been lost in Joe's pacifist makeover, and as sales declined

THE HISTORY OF THE G.I. JOE TOY LINE