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Santa should stop thinking of himself as a victim of demand uncertainty. He needs to stop reacting to fads and start creating them. That's just the way it works in the toy business. Yes, toy makers do market research, but focus groups for kids produce notoriously inaccurate results. A child might honestly like a toy when he's alone in a room, and he might even ask for it in his letter to Santa, but his wishes will morph instantly when he sees what other kids think is cool. Even the best technologies for capturing early demand indicators don't always work for toys.

Instead, Santa needs to invest more in helping the children understand what's cool, making his products cool, and creating an agile supply chain that can deliver what's cool. Old-fashioned advertising works well. Even better are tie-ins to other fads. The elves should visit playgrounds to see what kids are talking about and research potential hit movies scheduled for release during the holiday season. All the better if they can make the toy tradable and collectible, like Yu-Gi-Oh! cards. Linking a toy with a pop culture icon is a good strategy, too—though it can be risky, as North Pole Workshops learned. Movie tie-ins aren't risk-free either. *A Bug's Life* sold some toys; *Antz*, not so many.

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Another tool that toy companies use all the time to build demand is controlled scarcity. In other industries, a shortage is a bad thing. In the toy industry, you might find executives giving each other high fives over a shortage. It creates buzz. The trick is to start a fad and allow some shortage, while avoiding so much scarcity that you disappoint a lot of people. One way to do that is to ship a limited quantity of the product to stores in the fall, making it tough to find, and quickly catch up around Thanksgiving.

Better yet, combine scarcity with variety. Look at Beanie Babies. You can get a Beanie

Baby anytime, but you can't necessarily get, say, the white cat. Many of the really hot toys like Pokémon cards and Furbys have benefited from this approach. Every year, the media feed the impression of an overall shortage for a product, when in fact only one version is hard to get. Part of this trick, of course, is to get parents and children to substitute within the category and still be happy.

Mattel has pursued a variety strategy—a form also called a rolling mix—for its Hot Wheels line for some time. This month you might have the green Ferrari. It stays in the collection for a short time and then disappears. You don't promise retailers any particular version. Instead, you ship a "basic assortment," a box of cars or action figures, and you change the mix every week. Kids love rooting through the boxes to see what they can find. The strategy drives traffic and awareness, and it creates collectors. Variety strategies require a supply chain that thrives on change, but surprisingly, such strategies don't force retailers to manage an endless number of SKUs. A car, any version, can be a unit.

Some high-tech companies have begun to use a kind of rolling mix strategy, and Zara, the Spanish retailer, does it all the time. It makes a small weekly shipment to each store,

and when the clothes are gone, they're gone. Zara has trained consumers to come back every week to see what's new—and created urgency to buy while the item is available.

One more thing: The elves are understandably resistant to Elf Pepperflepper's idea of outsourcing, but it is the norm in the toy industry. Toy makers have outsourced production nearly completely. Well before China was cool, Mattel was sourcing from China. The industry is on the leading edge of low-cost sourcing. And toy companies source from many different countries to protect against currency risk and political risk.