A Strategic Audit of Hasbro

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Abstract

This strategic audit dives into ten components of Hasbro's strategic management. The first component discusses Hasbro's history and current strategic leadership. This is followed by an analysis of the impacts of its external and internal environment. Next, the audit examines Hasbro's recent performance and competition it faces in the Toy Wholesaling industry. The sixth, seventh, and eighth components consider different levels of strategy that Hasbro pursues. Lastly, the strategic audit considers Hasbro's corporate governance and its organizational structure and controls.

Overall, we conclude that Hasbro is a mature company in a slow-growing industry. Its ability to translate its iconic and well-known brands from toys to online games and TV shows provides a source of competitive advantage that allows it to differentiate itself from competitors. However, Hasbro faces stiff competition from Mattel, which has seen higher profit margins and stronger financial results recently.

Key Words: Hasbro, Toy Wholesaling Industry, Strategic Management, Strategic Audit, Case Study

Strategic Audit

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Component 1 - Firm Selection and Strategic Leadership

Part I – Initial Industry and Firm Selection

Brief History of the Company

Hasbro was founded in Providence, Rhode Island, in 1923 by Herman, Hillel, and Henry Hassenfeld to sell textile remnants. By 1942, Hasbro was primarily a toy company, and in 1968 they sold a minor stake in the corporation, making the company public. In 1970 Hasbro decided to diversify by opening a chain of nursery schools franchised under the "Romper Room" name, but this turned out to be a short-lived venture. In the late 1980s, Alan Hassenfeld spearheaded an effort to increase Hasbro's international sales, primarily by taking toys that failed in the U.S. and remarketing them overseas. Five years later, in 1985, Hasbro united its four subsidiaries—Hasbro Toys, Milton Bradley, Playskool, and Playskool Baby—under the name Hasbro, Inc. In 1995, Mattel approached Hasbro about a merger of the two companies. Negotiations took place over the course of several months until the Hasbro board, early in 1996, unanimously turned down a $5.2 billion merger proposal. In the late 90s, Hasbro acquired the licensing rights to three new Star Wars prequels for almost $600 million and over 7% of Hasbro stock and popular games like Wizards of the Coast, makers of Pokemon, Magic: The Gathering, and Dungeons and Dragons game cards (*Hasbro History*, n.d.).

Principal Business Model of the Firm

Hasbro operates in a few market segments, all aimed at consumer and brand engagement. Hasbro primarily makes money by developing and producing games and toys, then wholesaling them to large retailers. This foundation has recently been evolving as they develop direct-to-consumer sales, their digital gaming segment, and begin producing TV shows and other entertainment

(*2021 Hasbro Annual Report*, p. 22). This vertically integrated, multifaceted strategy engages consumers and capitalizes on the power of their brand portfolio.

Part II – Mission, Goals, and the Strategic Leadership

Top Management Team

CEO - Chris Cocks: Before becoming Hasbro's CEO in 2022, Chris was the President of Hasbro's Wizards of the Coast (Wizards) business for six years. During that time, Chris oversaw Wizards' revenue double to greater than $1 billion, investing in new capabilities, building an industry-leading team, and setting the stage for continued growth in tabletop and digital gaming.

CFO and Executive Vice President - Deborah M. Thomas: After joining Hasbro in 1998, Deborah has played a vital role in Hasbro's expansion across media and markets worldwide and has helped manage nearly every major acquisition Hasbro has made over the past two decades. Before becoming Hasbro's CFO in 2009, Deborah served as Hasbro's Corporate Comptroller and Head of Corporate Finance. Before Hasbro, she held assurance positions at KPMG Peat Marwick, LLP in the U.S. and the U.K.

COO - Eric Nyman: Before being named COO, Eric was Chief Operating Officer of Hasbro's Consumer Products segment and Chief Consumer Officer. He was responsible for driving innovation across global design, development, and marketing and oversaw the commercial operations and partner relationships for the company's extensive brand portfolio. He now leads all of Hasbro's licensed consumer products business and Hasbro Pulse, the company's direct-to-consumer platform (*About the Company*, n.d.).

Figure 1: Hasbro's Executive Management Team (from 2021 Hasbro Annual Report p. 11)

Mission, Purpose, and Values

Hasbro's mission is simple: create the world's best play and entertainment experiences. They have done so in a variety of ways and continue to evolve to engage their audiences the best. Their purpose is to make the world a better place for all children, fans, and families. They couldn't do any of this without sticking to their core values as a company: safety, quality products, environmentally friendly, ethics, and inclusion (*Corporate Social Responsibility*, n.d.). These values have shone through their commitments to various organizations, environmental action, and many company ESG awards. Their mission, purpose and values align with a focused, future-oriented business.

Major Goals of the Company

Hasbro has laid out an industry-leading Brand Blueprint aimed at incorporating all aspects of their diversified business model into their brand strategy. The Blueprint seeks to integrate their entertainment and digital gaming segments with their traditional toys and games (*2021 Hasbro Annual Report*, p. 21). They scale fewer, more monumental opportunities while strategically reinvesting into their current successes to drive growth (*Hasbro Files Investor*, 2022). Alongside this, they have set significant environmental and diversity goals. They recently signed the Science Based Targets initiative, aiming to eliminate single-use plastic in all new toy and game packaging by the end of 2022. By 2025, they aim to increase female representation in leadership to 50% across the globe and raise racial/ethnic diversity to 25% of the US workforce (*2021 Hasbro Annual Report*, p. 9). These long-term goals look to push Hasbro further in the right direction for their financial and ESG results.

Component 2 - External Analysis

PESTEL Analysis

There are multiple significant general environmental trends currently occurring in the industry. First, there is a rise in tech usage in younger and younger children. Growing up in a digital age, they are shifting away from traditional toys and are opting for iPads. Age compression moves children's desires towards the wants of those older than them, changing the demographic of the target market. This sociocultural/technological trend means that traditional toy companies that have historically relied on tactile product sales will have to adjust their product mix into a more digitized version to continue to capture market share. This presents an opportunity for the already digitized Hasbro, as they have made significant investments in their entertainment offerings by acquiring eOne in 2021 and growing their video games segment to 20% of their annual revenue (*2021 Hasbro Annual Report*, p. 67). Fully intertwining these business segments through cross-selling and digital companions for their tactile toys will serve Hasbro well during this transition.

An economic trend that threatens Hasbro is the rising cost of critical inputs to their business. Included in this is the risk of the volatile supply chain. Ocean shipping costs quadrupled within the summer of 2021 (Lopez, 2021). Along with the price rising dramatically, severe disruptions pushed back inventory shipments for months. This impacted many industries, but Hasbro was particularly affected. Hasbro logged $100 million worth of unfilled orders during Q3 of 2021, putting severe pressure on their crucial holiday quarter sales (Unglesbee, 2021). Combine this with inflation, rising oil, tech parts, and labor prices, a shrinking bottom line becomes prevalent. This is a considerable threat to the industry and Hasbro specifically. In 2022, Hasbro invested millions into stocking up inventory well before the holiday season and will absorb the holding cost of the inventory to ensure their shelves are stocked. Another reassurance is that the issue stems from the supply side, not the more critical demand side.

Lastly, the Toy & Craft Supplies Wholesaling industry is highly dependent on key brand intellectual property, patents, and trademarks to develop toys that kids want. Toy companies own many patents themselves and fight expensive legal battles for successful brands they own or lease. These legal protections allow them to capitalize on their brand developments and represent valuable assets to a company. Hasbro owns over 800 patents and trademarks, some more valuable than others, but all play a crucial role in providing engaging, customer-satisfying brands and products (*Hasbro Trademarks*, 2022). This array of legal claims is an opportunity for Hasbro, as they can defend against the threat of knock-offs and further capitalize on their current portfolio.

Value Potential of the Industry

According to the IBIS World Report, the Toy & Craft Supplies Wholesaling industry is a $45.7B industry with 3.2% revenue growth over the past five years. Currently, this industry appears to be slowing and is in the decline stage of its lifecycle. The projected revenue growth falls from

2.74% to 0.19% between 2022 and 2027, and there are a few key factors negatively affecting the industry; falling demand from traditional department stores, high competition, and rampant inflation all put negative pressure on Hasbro's bottom line (Lang, 2022).

Demand for goods through traditional department stores has taken a significant hit in recent years with the rise of online retailers. This decline, in combination with steep competition, lays out a challenging marketplace for Hasbro to operate. Despite being one of the two most prominent players in this space, Hasbro controls only about 7.4% of the industry (Lang, 2022). Hasbro also is seeing pressure from the general economic environment with recent inflation and trade issues. Also, as digital products become more popular and cost-effective, it becomes more difficult for traditional toy and game wholesalers to drive continued positive profits when they are not specialized in tech.

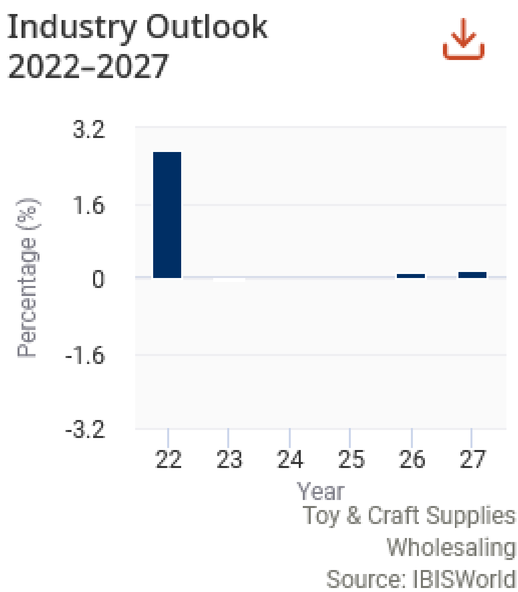

Figure 2: Hasbro's Projected Revenue Growth

Right now, the profit margin for this industry is about 4.7%. However, this number may shrink in the coming years with the upcoming recession, expanding competition, and specialization in tech-based products (Lang, 2022).

Five Forces Model

The intensity of competitive rivalry in the toy and craft industry poses a significant threat to a firm's profitability. Market concentration in this industry is low, offering retailers a variety of alternative distributors, causing the firms in this industry to compete fiercely over product range and price. Retailers have put increasing price pressure on wholesalers to maximize their profit, which creates price competition amongst wholesalers, ultimately diminishing their profits. Additionally, many toy manufacturers are working to integrate their supply chain to eliminate the need for toy wholesalers and capture some of the toy wholesaling market, further reducing the potential revenue for wholesalers.

The threat of new entries in the toy wholesaling industry is relatively low compared to other forces in the Five Forces Model. No licensing requirements or government regulations prevent companies from entering this market, but significant capital investments must be made to develop a warehouse and distribution system. The last few years have shown positive revenue trends in the toy industry, making the market appealing to potential entrants. The number of companies in the space rose to 9,962 in 2022, demonstrating that many firms are capitalizing on this revenue potential (Lang, 2022). While the number of new entrants is not the most significant threat in this industry, an increased number of firms decreases the profitability potential of a single firm in this space.

The threat of substitutes has increased in the toy and craft industry. The rise of online gaming provides a cost-effective way to add new games to a tablet or computer without purchasing additional items. For teens and adults, streaming platforms such as Netflix and Hulu constitute entertainment substitutes for craft activities or board games. Additionally, imitated toy and craft products are a threatening substitute to this industry because many firms rely on brand loyalty and recognition for specific toys or games. These substitutes threaten the profitability of the toy industry. If firms imitate products for a lower price, many customers will capitalize on that lower price, taking revenue away from this industry. Additionally, as online gaming and streaming capture more individuals' free time, the profitability of toys, games, and crafts could be in jeopardy.

The suppliers in the toy industry are mainly paper and plastics. These are not differentiated products amongst suppliers, so suppliers have low power in this industry (Lang, 2022). Additionally, larger toy manufacturing firms purchase inputs in large volumes due to their brand portfolios and worldwide presence, causing the firms to have more negotiation power for better prices. The power of suppliers does not significantly impact profitability because the non-differentiated inputs of toys and the number of suppliers able to produce these products keep costs relatively stable.

Many toy and craft options, low switching costs, and competitive prices cause the buyers in this industry to possess a large amount of power. Specifically in the toy and craft industry, many consumers are looking for the next new item and can easily change their preferences based on what is unique and most intriguing. Additionally, there are low switching costs from one game or toy to another, allowing customers to seamlessly switch from one firm's product to a competitor's. When buyers possess significant power in an industry, they drive prices down and increase competition amongst firms, diminishing profitability.

The intensity of competitive rivalry, the threat of substitutes, and the power of buyers pose the biggest threats to toy and craft wholesaling profitability. The internal competition between wholesalers forces price competition among firms. Many manufacturers are integrating their distribution network to reduce costs and lower the need for toy wholesalers. Substitutes for entertainment, such as online gaming and streaming services and consumers constantly wanting new products, will continue to take away from toy and craft products. Each of these factors threatens the profitability of the toy and craft wholesaling industry. The future profit potential for the toy industry looks unfavorable due to entertainment substitutes and significant price competition eliminating margins.

There are several limitations to Porter's Five Forces Model when analyzing the toy industry. First, this model is structured so that each company is only placed in one industry when many large companies have business efforts in several industries. Additionally, there are no quantitative metrics when evaluating these external factors, making it difficult to distinguish the most significant threats due to the relatively subjective nature. It is also critical to understand that these forces are not static; therefore, companies must reevaluate these forces regularly so their actions strategically align. These limitations could impact strategic recommendations because while analyzing these factors allows firms to understand what future growth may look like, digitalization and globalization allows businesses to change strategies faster than ever before, potentially shifting the forces of the industry and invalidating a prior recommendation.

Component 3 - Internal Analysis

Internal Viewpoint of General and Industry Environment

Evidence of the interpretation of the general and industry environment can be found in the 2021 Annual Report. The section of the Annual Report titled “Risk Factors Summary” provides a detailed and extensive list of how the strategic leaders of Hasbro view threats within the industry and general environment.

In terms of risks, this report outlines the strategic risks, operational risks, global and economic risks, financial risks, and governmental, regulatory and legal risks. Some of these strategic risks are directly related to the entertainment industry. Hasbro recognizes that the play and entertainment industry is highly competitive and has low barriers to entry. They also recognize that changes in viewing behaviors within the industry may negatively affect the business.

Leadership within Hasbro recognizes that their consumer interests are rapidly changing. This serves as both an opportunity and a risk, as Hasbro will need to ensure their experiences and products are aligned with interests. The largest opportunities are noted as direct to consumer and gaming, specifically face-to-face and tabletop. Chris Cooks, Hasbro's CEO, also notes that "multigenerational fan engagement" serves as another opportunity for growth (*2021 Hasbro Annual Report*, p. 3).

Hasbro Customers

Hasbro leadership recognizes that children and families are the main consumers of their products. This is noted in the language throughout their 2021 Annual Report. The company actively recognizes that children have greater access to technology-driven products and digital offerings. This shift in innovation has resulted in Hasbro investment in designing and marketing digital games and products. These products incorporate more technology, and they aim to capitalize on the increased consumption of digital and social media.

Hasbro also considers large chain stores to be a part of its customers, recognizing that "the majority of their product sales are to large chain stores, distributors, e-retailers and wholesalers" (*2021 Hasbro Annual Report*, p. 18). In 2021, net revenues from Hasbro's five largest retail customers accounted for 36% of their consolidated global revenues (*2021 Hasbro Annual Report*, p. 18). These customers include Walmart Stores, Inc., Target Corporation, and Amazon.com (*2021 Hasbro Annual Report*, p. 18).

Hasbro advertises many of their products and brands through both digital marketing and television. Their advertisements are strategically cross-promoted to highlight products alongside related offerings that promote the sale of that specific item and complimentary products.

Resources & Capabilities

Hasbro has a mix of tangible resources and intangible resources. Some critical resources include their physical locations where they design products, the employees that work in each step of the value chain, and the recording studios where they shoot the entertainment films they produce. Key intangible resources include the brand equity they have created with different lines of toys, the copyrights to those brands, and their relationships with retailers and suppliers. Another intangible resource is Hasbro's proprietary consumer insights. Hasbro also has a couple important capabilities that should be noted. One capability is the ability to develop, acquire, and produce content and toys that engages consumers and helps them connect with others. Another capability is the ability to translate their brands across mediums. This means that they can take an iconic line of toys and build digital games and films about it (*2021 Hasbro Annual Report*, p. 21).

Competitive Position

Through consumer insights, Hasbro has learned that "consumers will travel with a brand that they love across multiple forms and formats (*2021 Hasbro Annual Report*, p. 21)." It is on this insight that Hasbro has staked their competitive position. This position allows them to leverage their historical strengths and translate them into a new era of play. Over the course of their history, Hasbro has found success in developing iconic brands of toys and games. But as play moves increasingly online, the strategy of brand migration allows Hasbro to adapt to changing consumer preferences. They are moving toy brands online through digital games, TV shows, and movies. Therefore, they retain their current, but increasingly digitally-focused, customers and open themselves up to gaining new customers that will be engaged through the new format of Hasbro's iconic brands.

This capability of translating toy brands to digital spaces has been a source of competitive advantage and has been a driver of accelerated growth. For instance, Hasbro's digital gaming business grew 36% in 2021 (*2021 Hasbro Annual Report*, p. 5). The reason that this capability has been so successful for Hasbro is because it fits into the VRIO framework.

If consumers follow brands across mediums, then Hasbro's capability can increase the number of ways they capture value from customers. Instead of just creating and capturing value through physical play, they can add digital play on top. They can also increase the number of consumers from which they capture value. If Hasbro's customers follow their brands across formats, as they claim, then they can retain these customers while adding those that consume exclusively in the new format.

The capability to translate iconic brands to new mediums is rare. According to the 2021 Annual Report, “The ability to build a brand in any of our segments and leverage in-house capabilities to create multiple categories of engagement with consumers and fans is unique to Hasbro” (*2021 Hasbro Annual Report*, p. 21). The only other firm in the industry that has a comparable portfolio of loved brands is Mattel. But Mattel has been too busy trying to rebuild customer perception of their iconic brands to focus on translating their brands online. Outside of Mattel, most other iconic brands in the toy and game industry are owned by much smaller companies that lack the resources to pursue the same strategy. As a result, there is no company in the industry that has been in a position to imitate Hasbro’s strategy of brand migration.

Finally, Hasbro has worked to capitalize on this source of competitive advantage. The current CEO, Chris Cocks, has invested in digital games and films as the future of the company’s growth. The entertainment segment experienced strong growth, supported by releases such as My Little Pony: A New Generation (*2021 Hasbro Annual Report*, p. 7). Through this Netflix show, Hasbro has translated an iconic brand to the screen, and in the process, revitalized the demand for the physical toy. Other projects to translate a brand to a new medium include a Dungeons & Dragons live-action film and a Transformers video game (*2021 Hasbro Annual Report*, p. 7 & 8). Clearly, Hasbro has identified this competitive advantage and is organizing itself to leverage it.

Core Competency

The core competency at the heart of this previously mentioned competitive advantage is the capability to create brands that leverage the “transformative power of great storytelling and the human energy and connection generated from play” (*2021 Hasbro Annual Report*, p. 4). To put it more simply, Hasbro's core competency is creating toys and games that help people use play and storytelling to connect with each other and the world around them.

Hasbro's leadership has identified this as the blueprint to unlocking timeless consumer motivations and supercharging the business (*2021 Hasbro Annual Report*, p. 4). With this belief in mind, Hasbro is using this core competency as the foundation on which to build its competitive advantage. The companies strategy to pursue competitive advantage is to translate their classic brands to new formats. As mentioned earlier, the basis of this strategy is a portfolio of iconic brands created by Hasbro's core competency. This strategy simply allows consumers to use Hasbro's iconic brands to form connections in new ways.

Value Chain Analysis

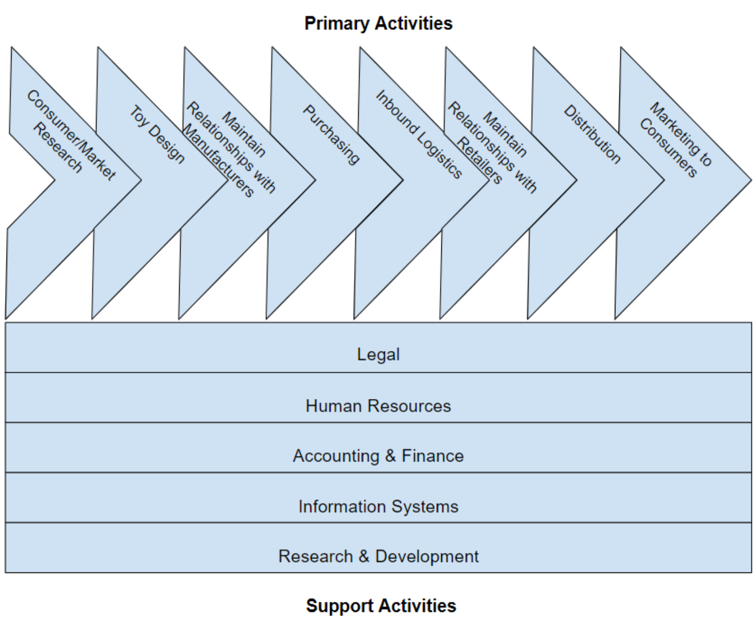

Figure 3: Hasbro value chain featuring primary and support activities

Although Hasbro has other divisions like digital gaming and film entertainment, this report's Value Chain analysis will focus on the division of the business that has historically formed the company's core, the Consumer Products division. This division is responsible for the physical toys that are most commonly associated with Hasbro.

As a toy wholesaler, Hasbro's primary activities revolve around designing and distributing toys that consumers will love. This leads to the primary activities of consumer research, toy design, supplier relations, purchasing, inbound logistics, retail relation, distribution, and marketing. To support these critical activities, Hasbro also has support activities. Important support activities include legal, HR, accounting and finance, information systems, and R&D. A diagram of Hasbro's Value Chain can be found above.

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SWOT Analysis

Hasbro is an experienced company with some impressive strengths but needs to be able to pivot and address their weaknesses in coming years. The greatest strength Hasbro has refined is content development, acquisition, and production in new and more modern mediums. In 2019 Hasbro acquired eOne. Brian Goldner, Hasbro chairman and chief executive officer, said about the acquisition, "The addition of eOne accelerates our blueprint strategy by expanding our brand portfolio with eOne's beloved global preschool brands, adding proven TV and film expertise, and creating additional opportunities for long-term profitable growth. We are pleased to welcome the incredibly talented eOne team to our Company." (*Hasbro Completes Acquisition*, 2019) Hasbro is confronting the changing toy and game landscape by diversifying and demonstrating their ability to create content in multiple mediums. Hasbro also has strong relationships with retailers and a time-tested supply chain that sets them apart from the majority of the market.

Hasbro faces the ever-present weakness of seasonality of the business model which they recognize in their 2021 Annual Report, explaining it “may cause our quarterly and annual operating results to fluctuate” (*2021 Hasbro Annual Report*, p. 17). They also recognize that this seasonality has worsened over time and will be a situation that continues to need minding. It also plays into their relationships with retailers and suppliers, as retailers are looking for more control in inventory levels. Hasbro has also faced backlash about working conditions in factories in China. Therefore, the processes and relationships that they have developed to source products serves as a weakness. This negative press affects consumer perception which is key in this time of increasing competition and Hasbro needs to stay on top of legal and human rights concerns.

The industry contains many opportunities in this transitory time. Consumers have demanded more ethical, environmentally-friendly manufacturing and hold companies accountable for their actions. Large manufacturing and shipping companies contribute heavily to pollution and plastic waste. There is a business incentive these days to paint your company green and clean up your image in the eye of the consumer, and this trend has benefited Hasbro. They’ve set up recycling options for old toys, committed to plastic-free packaging by 2022, and signed the Science Based Targets initiative. These investments, past and hopefully future, will clean up Hasbro’s brand image, helping consumers feel confident in their purchasing. Alongside environmental opportunities, we have seen a prominent trend toward consumers wanting more digital aspects of play. More and more virtual things are incorporated into the physical world, and the world of play is no outlier. Hasbro has opportunities to cross-sell its entertainment and digital gaming segment with its traditional toys and create more environments for interaction between physical and virtual entertainment. This is evidenced by their rapid growth in the digital gaming segment, up 42% YOY (*2021 Hasbro Annual Report*, p. 67).

As mentioned above, some of the biggest threats include the rising costs of manufacturing and shipping, and shrinking margins for middlemen. Ancillary to this, with supply chain difficulties and significant shipping delays, they take on the risk and volatility of the global supply chain, threatening sales goals. To mitigate these risks, they've begun advance purchasing ahead of their busy holiday quarter and refined investor expectations for margins. Separate from this, their largest risk is missing their target consumer's demands. If their brands fall out of favor and fail to engage audiences, sales will drop heavily. A wealth of scrutiny is placed on their brand mix and consumer engagement, so we expect this risk to be lowered but consistent.

Component 4 – Performance Analysis

Hasbro Performance Relative to Expectations

According to the 2021 Annual Report, Hasbro's operating profit was $763.3 million, or 11.9% of revenue. In 2020, this operating profit was 9.2% of revenue, showing growth within the company. Hasbro's net revenues increase 17%, with their Wizards of the Coast and Digital Gaming segment revenues increasing by 42% and Entertainment segment revenues rising by 27% (*2021 Hasbro Annual Report*, p. 1).

Hasbro leadership indicates that by year-end 2024, the Potato Head brand will transition to plant-based or renewable material. The toy and game lines will also transition to recycled or renewable materials by 2033. Hasbro leadership also states their goal is to eliminate almost all plastic from new product packaging by year-end 2022.

Hasbro paid off over $1 billion in debt and ended 2021 with over $1 billion in cash (*2021 Hasbro Annual Report*, p. 5). Debt was reduced to adjusted EBITDA by 1.7X to 3.1X, and

Hasbro reports they are on track to hit their target of 2.0X to 2.5X by the end of 2023 (*2021 Hasbro Annual Report*, p. 5). This performance indicates the progress made toward financial stability.

Hasbro Performance Evaluation Metrics

Hasbro is most focused on financial metrics, but social and environmental factors seem important, too. This conclusion becomes evident when looking at the 2021 Annual Report. The note from the CEO that starts the report evaluates firm performance entirely on financial outcomes. For instance, the second paragraph says, "We finished the year strong, delivering full-year results above our guidance, including 17% revenue growth to $6.42 billion; a 40-basis point improvement in adjusted operating profit margin to 15.5%; 41% growth in adjusted earnings to $5.23 per share; 23% growth in adjusted EBITDA to $1.31 billion; and $817.9 million in operating cash flow" (*2021 Hasbro Annual Report*, p. 3). Clearly, financial metrics play a significant role in how the CEO evaluates performance. He also never mentions social or environmental performance metrics in his note.

The next section of the Annual Report is titled Year in Review. This section acts as a summary of Hasbro's outcomes and performance in 2021. Therefore, this section should include the information Hasbro views as necessary to understand the company's performance. The Year in Review discusses segment revenues, debt, and upcoming releases of toys and films. However, it never mentions any social or environmental considerations, providing further evidence that Hasbro first evaluates performance through a financial lens (*2021 Hasbro Annual Report*, p. 6).

It is only right before the start of the official 10-K that Hasbro evaluates its performance relative to social and environmental goals. In this section, Hasbro labels itself as a purpose-led organization and lays out its ESG achievements. For instance, Hasbro is on pace to eliminate plastic packaging by the end of 2022. The company also highlights a social accomplishment stating they are "on track with our 2025 goals to increase the percentage of women in leadership roles globally to 50% and to expand ethnically and racially diverse employee representation in the US to 25%" (*2021 Hasbro Annual Report*, p. 9). While Hasbro does set and evaluate social and environmental goals, the structure and content of the Annual Report make it clear that financial metrics are the company's most impactful measure of firm performance.

Competitive Advantage based on Financial Metrics

Hasbro's market share was 7.4% in 2021, a slight decrease of -0.6% from 2017 to 2021. Hasbro's most significant competitor Mattel had an 8.11% market share in 2021 which was only a -0.1% change over 2017 to 2021.

Hasbro's revenue has varied significantly from 2017 to 2021. In 2018 Hasbro was 4% below the industry average for change in revenue but more recently exceeded the industry average by about 13% in 2021, making their average revenue growth from 2017-2021 3.8%. However, Mattel exceeded the industry average revenue growth by about 33% in 2021 and maintained an average revenue growth of 5.4% from 2017 to 2021. Hasbro's profit margin well exceeded the industry average in 2019 but has not changed with the industry average in the past two years, causing them to have 12% lower than average growth. They have also had an average 8.5% decrease in profit margin over the past four years. Similarly, Mattel had a 14% lower than the industry average profit margin growth in 2021 but maintained a positive 11% growth from 2017 to 2021 (Lang, 2022).

Hasbro's market share, large brand portfolio, and extensive distribution network have given them a competitive advantage over other firms in the industry. However, while their recent acquisition of Entertainment One and increased e-commerce sales have made their future potential look strong, many financial metrics show they are drifting behind their main competitor. While their revenue growth greatly exceeded the industry average in 2021, it was still much smaller than Mattel's revenue change. Additionally, Mattel's profit margins have grown, while Hasbro's has been shrinking over the last four years. If Mattel continues to have better profit margins than Hasbro, it could capture more market share. Therefore, while Hasbro has had a competitive advantage up to this point, they need to focus on profit margins and future opportunities to compete with Mattel.

Compensation System for Top Management Team

According to Hasbro's 2020 Proxy Statement, they apply a pay-for-performance to their top management team. In 2020, 86.4% of Hasbro's CEO's total target compensation was performance-based and at-risk. The CEO's long-term equity compensation is 100% performance based, with the value of the CEO's annual equity compensation being divided approximately evenly between performance contingent stock awards and stock options.

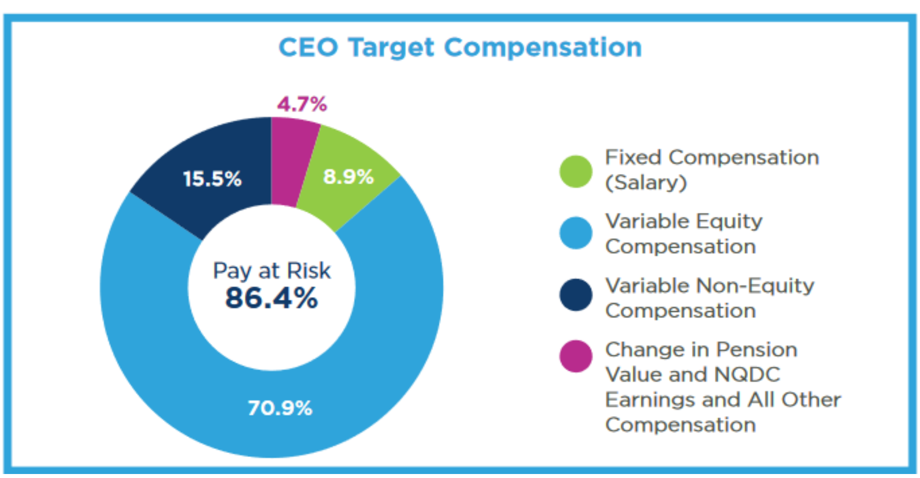


Figure 4: CEO Target Compensation Breakdown

In 2020, named Executive Officers other than Hasbro's CEO received approximately 50% of their long-term incentive target award in contingent stock performance awards, 25% in stock options, and 25% in time-based restricted stock units.

To demonstrate how Hasbro's compensation system design is consistent with overall firm-level performance expectations, they have a Board and Compensation Committee who work to set objectives at the beginning of the year and then evaluate performances at the end of the year. For the annual management incentive awards for 2020, the Committee selected the following three financial performance metrics to capture the most critical aspects: revenues, profitability, and cash generation. Hasbro consistently delivers strict guidelines regarding Annual Long-Term Incentive Awards. The metrics for the performance-contingent stock awards, average return on invested capital, and cumulative net revenues over three years are from Hasbro's long-term strategic plan and budget that the Company's Board has approved. The performance contingent stock awards granted to NEOs with a trailing three-year performance period ending in fiscal 2020 did not achieve the minimum performance level for any payout to be made. As a result, the Committee affirmed that NEOs had no payout. This demonstrates Hasbro's commitment to acting on its principle of pay-for-performance (*Notice of 2020 Annual*, 2020).

Component 5 – Competitive Dynamics

Industry Concentration

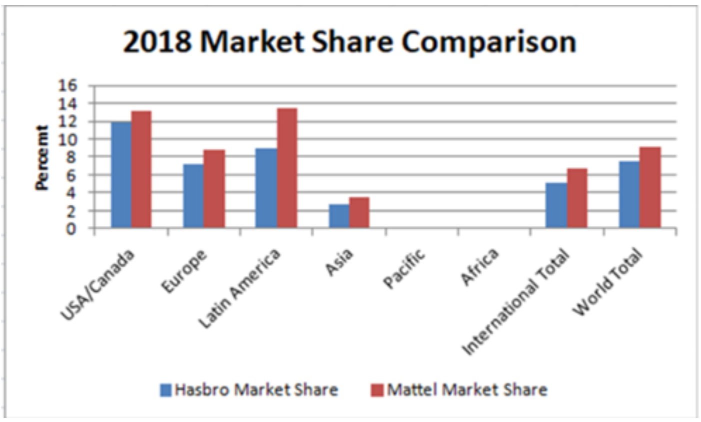
The level of concentration truly depends on where you draw industry lines. If Disney is included, the industry looks severely concentrated, with the top 4 firms controlling 99.01% of the market share (*Hasbro Inc Market*, 2022). However, picking and choosing the closest competing firms of Lego, Bandai Namco, Hasbro, and Mattel, the concentration ratio drops to a more reasonable 26.48% (Tighe, 2022a; Tighe, 2022b). This points to a low number of dominant firms but a more considerable number of firms competing for the market. The industry is appealing, as it only takes owning a few popular toy brands to take sections of the market share. Overall, the sector includes 9,962 companies, which is a number that's been growing for the last few years.

Without a dominant firm like Disney, the door remains open for the growth of any company within the industry. The level of competition is healthy but not restrictive enough to cut off profit potential levels. As mentioned, with any toy, brand, or digital game that consumers see as valuable, companies of any size or scope will be able to capture segments of the market and the resulting profits. For Hasbro specifically, they have the capabilities of effectively identifying and producing winning brands, toys, and digital games, leading a large market share.

Competitor Firm

One of Hasbro's most direct competitors and comparable firms is Mattel Inc. Mattel is in a highly similar market segment. The main difference is the different brands each company owns. They both grew through toy development and sales for business segments but have branched into digital gaming and entertainment productions. Ultimately, their target markets overlap heavily, from the scope of both age and location. They are active in all developed nations and are spread across most continents, competing heavily for toy sales and engagement. Hasbro wins and loses some international markets and has been losing ground to Mattel in recent years (Muller, 2019).

For resources, both companies have well-developed production processes, but Hasbro doesn't directly own factories, while Mattel does. They both have built extensive wholesale customer networks and are branching into online, direct-to-consumer sales. Hasbro recently acquired eOne to enable their growing slew of video productions, while Mattel must pitch to and lease individual production companies. Mattel is looking to increase its digital gaming presence with significant investments, putting direct pressure on Hasbro's booming digital gaming segment.



With similar capabilities of creating, producing, and selling their toys to their target markets, most competition comes from owning and leasing the most successful brands. They are direct competitors vying for patents and key trademarks, whether they buy or lease these rights.

Figure 5: Hasbro v. Mattel Market Share across the globe

Strategic Actions & Competitor Responses

Hasbro has seen explosive growth in their digital gaming and entertainment segments. Digital games have experienced 36% growth in sales in the past year, and the My Little Pony show on Netflix has revitalized the line of toys (*2021 Hasbro Annual Report*, p. 5 & 7). This success has not gone unnoticed by Mattel. Until recently, Mattel was focused on turning around slumping brands to respond. They were reeling from the loss of the license to make Disney toys and from diminished interest in Barbie and American Girl dolls. However, CEO Ynon Kreiz has righted the ship, allowing Mattel to focus on opportunities instead of just threats (Whitten, 2022).

With a stronger balance sheet, Mattel is trying to follow Hasbro's lead in terms of digital gaming and entertainment. A new Barbie movie is coming out next year, and Mattel is planning to expand its offering of video games and films in the coming years. The company has over a dozen films in development (Whitten, 2022). Mattel has seen the revenue this strategy has brought to Hasbro, and they plan to pursue something similar.

In February, Hasbro took the strategic action of signing the Science Based Targets initiative (SBTi). This marks a new level of commitment to protecting the environment. The SBTi provides a science-based approach to help companies operations fall in line with the most stringent goals of the Paris Agreement (McEneaney, 2022). Hasbro signing the SBTi is only the latest move in a shift toward environmentally-friendly toys from both Hasbro and Mattel. Both companies have programs that allow consumers to send back old toys to be recycled. Additionally Hasbro and Mattel have committed to reducing the plastic used in packing and products (*2021 Hasbro Annual Report*, p. 9; McEneaney, 2022; *Business Model Innovation*, n.d.; *Sustainable Materials in Toys*, n.d.; *Sustainable Packaging*, n.d.).

These actions by both toy designers are in response to external pressures. Current market research shows that parents increasingly care about the sustainability of their children's toys (*The Future of Play*, 2019). Therefore, Hasbro and Mattel are forced to pursue these green initiatives if they want to retain their status as industry leaders. Additionally, the two companies find it in their best interest to stay ahead of regulators. Hasbro and Mattel will find it easier to adapt to sustainable practices if they pursue these strategies on their own accord, instead of waiting for regulations to force them to change quickly to fall in line with new environmental rules.

Component 6 - Business-Level Strategy

Basis for Differentiation From Competition

In the toy industry, there is no set of features that make a product line of toys inherently better. It comes down to what children find more enjoyable to play with. Branding is incredibly important when determining if kids find certain toys enjoyable. If the toys are marketed well, as many of Hasbro's toys are, the branding provides them with a story around which the children can base their play. Since stories are core to how kids play, the story the branding creates is a central attraction for children. In this way, Hasbro uses iconic branding to set its products apart from competitors' products (Whitten, 2022a).

A second way Hasbro differentiates itself from other toy companies is through its Brand Blueprint. Hasbro works to cross its brands over to multiple mediums. Oftentimes, they start out as toys before moving to video games and shows or movies (*2021 Hasbro Annual Report*, p. 8). People often talk about technology companies like Apple creating brand ecosystems, but Hasbro is pursuing a similar concept in the toy industry. Hasbro creates a stronger, richer connection with its customers by allowing consumers to engage with their favorite brands in various ways. They can watch their favorite toys in movies and play the characters in digital games, which can drive a kid to play with the toys and act out those same storylines. The Brand Blueprint is a significant source of differentiation right now. Mattel is the only other company in the industry seriously pursuing this source of differentiation. Mattel's efforts to translate its toy brands to new mediums are only getting underway (Whitten, 2022b).

Cost-Leadership Position

Hasbro does not pursue a cost-leadership position in this business. Evidence of this can be found within the value drivers that Hasbro utilizes and leverages. One of these is their acquisition and integration of digital gaming and entertainment. These investments will provide drivers for growth, providing consumers with values that are differentiated from competitors. The overall strategic position of Hasbro does not fall within the cost-driven aspect and is guided more by differentiation.

Approach to the Market

Hasbro has a broad approach to the toy and entertainment markets. Using its vast portfolio of characters and products, Hasbro can tap into several different segments, including traditional toys, video games, and hobby and craft supplies. In their annual statement, Hasbro reported that their "key areas of focus for activating our brands across the Hasbro Brand Blueprint" are Toys and Games, Licensed Consumer Products, Digital Gaming, and Entertainment which includes: Television, Film, and Family Brands Animation (*2021 Hasbro Annual Report*, p. 22). Hasbro's scope of the competition is quite wide, and they are choosing to go after the broader market by offering so many options in several different segments.

Business Strategy

Hasbro approaches the market with a broad differentiator strategy. In the market, there are successes and losses mainly based on how popular the brands and toys a company owns are. Hasbro knows this very well, so they have focused on building and following the Brand Blueprint. While each toy coming off the production line may not be the most complex and differentiated product, the brand and content associated with it will try to be. They leverage multiple forms of media and experiences to build brands through engaging storytelling and iconic characters. They compete by diversifying how consumers connect to brands deepening these connections within each medium. Hasbro is using eOne to push forward and build more depth behind brands, redefining the standard value chain for toy and game companies. To enhance the quality of consumer experiences, they can then employ their brands in digital gaming forms, extracting more value and creating more interaction. This is a different approach to the market than others, and they get rewarded by customers paying a premium for their products. This strategy has been applied appropriately as Hasbro pursues cost savings. However, Hasbro does not hesitate to invest further into its current leading brands and strategic actions that push the boundary on brand development and engagement.

Strategy Performance

The differentiator strategy has many positives and negatives to bring to the table. In general, firms with a differentiator strategy are riskier, as the costs are higher, and new products might be too far “ahead” of where the current consumer demand is. The risk of a missed target market and an unpopular toy or game is inherent, whereas a cost leader would produce products that are already popular to the masses and drive costs down to gain consumer preference. However, this risk is rewarded with the potential premium earned from consumers valuing a product much more than the cost to produce it. As Hasbro captures value with alternative mediums, such as eOne and their digital gaming segments, they must allocate capital to these divisions while researching potential new divisions. This creates a taller value chain and deeper extraction of value but spreads the efforts of management and critical resources thinner, making the organization more complicated and riskier. Also, Hasbro currently uses a network of third-party manufacturers to produce their products, which increases costs (Kim, 2019). However, this also increases their flexibility and decreases the capital intensity of their manufacturing process. A cost leader would look to build their own manufacturing plants, while Hasbro values the lightweight, highly flexible approach to keep up with the changing market needs. All in all, the differentiator strategy has contributed to Hasbro becoming a massive market leader, and they should continue to employ this moving forward.

Component 7 - Corporate-Level Strategy

Value Chain Analysis

Hasbro owns the development, design, sale, and marketing elements of its value chain but supplies and outsources the raw materials and overall manufacturing of its toys and games. Hasbro provides value through their global development teams by developing, designing, and engineering new products while redesigning existing products to leverage toy and game industry opportunities. Most of Hasbro’s toys and games utilize raw materials, including plastic, paper, and cardboard, while some products use electronic components. Hasbro enters into supplier agreements at the beginning of the fiscal year and may renegotiate throughout the year if significant prices of materials change (*2021 Hasbro Annual Report*, p. 19)

Throughout 2021, Hasbro manufactured its products in third-party facilities, primarily in China, Vietnam, and India, and utilized a subsidiary operation for quality control in Hong Kong. In addition to their operations in the Far East, Hasbro uses previously owned facilities in the U.S. and Ireland, now operated by Cartamundi, to manufacture large quantities of game products through a multiyear agreement (*2021 Hasbro Annual Report*, p. 31). Since Hasbro has chosen to outsource its manufacturing, they have made an effort to diversify its global sourcing mix to decrease its dependence on China and mitigate risk.

Hasbro markets and sells toys and games for the brands they own and control at retail stores, through e-commerce, and Hasbro PULSE, a direct-to-consumer platform. In a few situations, Hasbro out-licenses the marketing and sale of toy products when they consider the out-licensing of those brands more effective and profitable than developing and marketing the products themselves (*2021 Hasbro Annual Report*, p. 22). Overall, Hasbro primarily owns the beginning design and development of their products and the end marketing and sale of their finished product to provide value to customers.

Diversification

Hasbro pursues a related-constrained diversification strategy. The firm is divided into three strategic business units: Consumer Products, Wizards of the Coast & Digital Gaming, and Entertainment. The largest business unit by revenue is Consumer Products, which accounts for 62% of Hasbro's revenue (*2021 Hasbro Annual Report*, p. 67). Since the largest business unit provides less than 70% of the revenue, no dominant business exists.

The best evidence that Hasbro has related-constrained diversification is its Brand Blueprint. All of their business units are strategically important and benefit from synergies. In the Consumer Products unit, Hasbro possesses a strong capability for developing brands that resonate with consumers. Hasbro then leverages this capability throughout all three business units to design toys, digital games, and movies centered on their iconic brands (*2021 Hasbro Annual Report*, p. 8).

Pursuing a related-constrained diversification strategy provides value to Hasbro because it allows them to reach new customers and capture more value from existing customers. Hasbro has determined that customers of the Consumer Products unit will follow their favorite brands to the other two business units (*2021 Hasbro Annual Report*, p. 21). By leveraging its diversification strategy, Hasbro can extract value from these customers in three ways instead of only one. Additionally, some customers aren't interested in consumer products but may become interested in Hasbro's brands if they are translated into digital games or movies, and TV shows. Therefore, Hasbro's diversification strategy allows them to reach new customers with its existing brands.

Hasbro also pursues geographic diversification. Outside of the United States, the company also markets its products in Europe, Latin America, and Asia (Muller, 2019). Hasbro had sales in 120 countries in 2019 (*2021 Hasbro Annual Report*, p. 27). Hasbro knows that most of the growth in the toy business will come from outside of America (Muller, 2019). Therefore, one of the easiest ways to achieve the growth that shareholders expect is to participate in the international toy market.

Component 8 - Merger and Acquisition Strategies

Mergers and Acquisitions

Saban Properties LLC Entities

In 2018, Hasbro acquired competitor Saban Properties' Power Rangers and other Entertainment Assets through a combination of cash and stock valued at $522 million. Hasbro's chairman and chief executive officer, Brian Goldner, commented,

"Power Rangers will benefit from execution across Hasbro's Brand Blueprint and distribution through our omni-channel retail relationships globally. Informed by engaging, multi-screen entertainment, a robust and innovative product line and consumer products opportunities all built on the brand's strong heritage of teamwork and inclusivity, we see a tremendous future for Power Rangers as part of Hasbro's brand portfolio" (*Hasbro Closes Acquisition*, 2018)

In addition to the Power Rangers, Hasbro acquired Saban Properties' additional entertainment assets, including My Pet Monster, Popples, Julius Jr., Luna Petunia, Treehouse Detectives and more.

Entertainment One

In 2019, Hasbro acquired Entertainment One for an all-cash transaction valued at approximately $4 billion. eOne shareholders received £5.60 in cash for each common share of eOne, representing a 31% premium to eOne's 30-day volume weighted average price (VWAP) as of August 2019.

Brian Goldner said, "The acquisition of eOne adds beloved story-led global family brands that deliver strong operating returns to Hasbro's portfolio and provides a pipeline of new brand creation driven by family-oriented storytelling, which will now include Hasbro's IP. "In addition, Hasbro will leverage eOne's immersive entertainment capabilities to bring our portfolio of brands that have appeal to gamers, fans and families to all screens globally and realize full franchise economics across our blueprint strategy for shareholders" (*Hasbro to Acquire Entertainment*, 2019).

D&D Beyond

Earlier this year, in April, Hasbro acquired D&D Beyond for $146.3 million in cash from Fandom Inc., owned by TPG Inc..

In their official press release statement, Hasbro commented, "Driven by a shared vision to build the best possible player-centric experiences for the world's greatest role-playing game, the acquisition of D&D Beyond will further accelerate Wizards of the Coast's capabilities to strengthen their unique ecosystem of world-class tabletop and digital play to create deeper player engagement and satisfaction and support growth across all expressions and regions" (*Hasbro to Acquire D&D*, 2022)

Stock Prices

	Pre-Acquisition Price	Post-Acquisition Price	Stock Value
Saban Properties LLC Entities Parent company: Saban Capital Group (SCG)	Private Company	Private Company	NA
Hasbro	92.31 (6/1/18)	99.61 (7/1/18)	Increase
Entertainment One	178.498 (4/1/19)	522.933 (5/1/19)	Increase
Hasbro	101.86 (4/1/19)	95.41 (5/1/19)	Decrease
D&D Beyond Parent company: TPG	30.85 (4/1/22)	28.70 (6/1/22)	Decrease

Hasbro	**88.06 (4/1/22)**	**81.88 (6/1/22)**	**Decrease**

Table 1: Stock Prices Sourced from Yahoo Finance

Acquisition Strategy

The firm's acquisition strategy is a contentious issue for Hasbro investors. Their strategy seems to have two types of acquisitions: brands and capabilities. The brand acquisitions are easy to value and show direct results if you have access to the specific data. Unfortunately, once the company lumps a brand into its reporting segments, it's difficult to find any granular information about the sales and performance of that brand. These types of acquisitions are generally successful, as they diversify the company's brand portfolio and increase opportunities for cost synergies and cross-marketing in their separate divisions. Hasbro has the expertise and Brand Blueprint to further build the acquired brand and extract more value, and there are considerable cross-promotional opportunities gained. Next, the firm's acquisition strategy for new business divisions is more highly debated. This mainly correlates to the direction of the business as a whole, with some investors disliking the expansion into digital gaming and entertainment. However, the eOne and D&D Beyond acquisitions were necessary steps to take to employ the company's strategy under previous CEO Brian Goldner. Organically growing a capability to produce video entertainment is extremely difficult and out of the question for Hasbro. Acquiring eOne was a direct route to access the entertainment industry and created a relatively instant capability to produce Hasbro-branded content. This has been a rocky acquisition, as they have split eOne and sold off the music division in 2021. Now, they are probing investors to sell off other large divisions of eOne. (Unglesbee, 2022) With the recent CEO turbulence and overall company strategy change, it seems they are reversing the previous direction. However, the firm's acquisition strategy still has supported the company's overall strategy, despite that being somewhat volatile. The acquisition strategy to add brands is certainly successful, but the strategy to add capabilities is only as successful as the overarching company strategy.

Component 9 - Corporate Governance

Board Compensation System

The Hasbro Board of Directors are paid around $300,000 on average, with the maximum and minimum compensation being $325,033 and $282,530, respectively. The pay is based on an annual retainer amount of $95,000, along with "raises" earned by committee positions and chair responsibilities. Then, all board members get an annual stock award of $160,000, a non-performance based amount determined to be fair by external sources. These awards are only direct stock holdings, so no stock options are awarded. Board members are not allowed to sell stock while on the board, unless holding more than $475,000 in Hasbro common stock. There are no fees paid for board or committee meeting attendance (*Notice of 2022*, p. 51).

Board Composition and Structure

Hasbro has 13 members on their Board of Directors, with 12 being independent. These 13 members have a diverse skill set with extensive experience in the industry and other board experience. The board is also 54% female and has two racially diverse members (*Notice of 2022*, p. 13) The CEO, Chris Cocks is a member of the Board of Directors but is not the Chair of the Board. Before becoming CEO in 2022, Cocks was the President and CEO of Wizards of the Coast and Digital Gaming, and before Hasbro worked for Microsoft.

Hasbro's Board Chair is Richard Stoddart, who recently served as interim CEO of Hasbro from October 2021 to February 2022 after the sudden death of former Hasbro CEO Brian Goldner. Before that, Stoddart was President and CEO of InterWorkings Inc., the largest global marketing execution company, giving him unique and valuable knowledge he can offer to Hasbro (*Board of Directors*, 2022). Hasbro does not appoint a specific Lead Director of the Board of Directors; they only specify their Board Chair.

Committee Structure

Chairperson = Chairperson
Member = Member
★ = Chair of the Board

	Audit Committee	Compensation Committee	Cybersecurity and Data Privacy Committee	Finance and Capital Allocation Committee	Nominating, Governance & Social Responsibility Committee
Chris Cocks					
Elizabeth Hamren *Independent Director*		Member	Member		
Blake Jorgensen *Independent Director*	Member			Member	
Tracy A. Leinbach *Independent Director*	Member			Member	Member
Kenneth A. Bronfin *Independent Director*	Member	Member	Member		
Michael Burns *Independent Director*				Member	Member
Hope Cochran *Independent Director*	Chairperson		Member	Member	
Lisa Gersh *Independent Director*	Member	Chairperson			
Edward M. Philip *Independent Director*		Member			Chairperson
Laurel J. Richie *Independent Director*		Member			Member
Richard S. Stoddart ★ *Independent Director*					
Mary Beth West *Independent Director*				Chairperson	Member
Linda K. Zecher *Independent Director*	Member		Chairperson		

Figure 6: Committee Composition from (Committee Composition, 2022)

There are five committees within the Board of Directors: Audit Committee, Compensation Committee, Cybersecurity and Data Privacy Committee, Finance and Capital Allocation

Committee, and Nominating, Governance & Social Responsibility Committee (*Committee Composition*, 2022).

Within the Audit Committee, Hope Cochran serves as the chairperson. She is a Managing Director of a technology-focused venture capital group. Prior to this position, she was the Chief Financial Officer of King Digital Entertainment, and successfully led the Company's IPO and several successful acquisitions (*Committee Composition*, 2022).

For the Compensation Committee, Lisa Gersch serves as the chairperson. She previously served as the Chief Executive Officer of Alexander Wang, Goop, Inc., and President and CEO of Martha Stewart Living Omnimedia, Inc. She also serves as the Nominating and Governance Committee Chair of Moneylion, as well as a member of the Compensation Committee, and as the Compensation Committee Chair for Pershing Square Tontine Holdings, Ltd., as well as a member of the Audit Committee (*Committee Composition*, 2022).

Linda K. Zecher serves as the chairperson for the Cybersecurity and Data Privacy Committee. She is currently the Chief Executive Officer and Managing Partner of The Barkley Group. Previous to her current position, she held senior roles with various top technology corporations, such as Microsoft, Oracle, and PeopleSoft (*Committee Composition*, 2022).

Within the Finance and Capital Allocation Committee, Mary Beth West serves as the chairperson. She formerly served as the Senior Vice President and Chief Growth Officer of The Hershey Company. Before this role, she held the Executive Vice President and Chief Customer & Marketing Officer position at J.C.Penney Company (*Committee Composition*, 2022).

Finally, Edward M. Philip serves as the chairperson for the Governance and Social Responsibility Committee. He is the retired Chief Operating Officer of a non-profit healthcare organization. He has more than 30 years of experience in business and management, at both the operating executive and C-suite levels (*Committee Composition*, 2022).

Code of Ethical Conduct

Hasbro's ethical code of conduct is titled Doing Business with Integrity. In it, they acknowledge that, while it is a privilege to be able to provide channels for play for children and caregivers, such privilege comes with a lot of responsibility. They say, "But with this privilege comes responsibilities: as employees and directors of Hasbro we must maintain high ethical standards, meet social compliance expectations, and consistently deliver safe and trusted products, while returning value to our shareholders" (*Doing Business with Integrity*, 2022). The document then goes on to detail "Our Responsibility to One Another", "Our Responsibilities to Our Consumers and Business Partners", "Our Responsibilities in the Marketplace", and "Our Responsibilities as Corporate Citizens" (*Doing Business with Integrity*, 2022). It ends with a summary of the resources available, including a helpline and contact information for key departments.

Shareholders

Institutions hold 86.75% of shares, mutual funds hold 34% of shares, and insiders hold 7.78%. There are 26 insider stockholders with 10,749,513 shares. These insider values reflect direct beneficial ownership (*Ownership Profile*, 2022).

Figure 7 shows the top holders of Hasbro, Inc. stock. The largest holder is The Vanguard Group, Inc., which holds 10.60% of shares (*Ownership Profile*, 2022).

Holder	Shares Held	% O/S	Share Change	Filing Date
The Vanguard Group, Inc.	14,633,670	10.60	-128,416	6/30/22
Hassenfeld (Alan Geoffrey)	7,598,726	5.50	--	4/21/22
BlackRock Institutional Trust Company, N.A.	7,276,138	5.27	408,815	6/30/22
Capital Research Global Investors	7,189,435	5.21	-406,331	6/30/22
State Street Global Advisors (US)	5,193,880	3.76	-143,155	6/30/22
Janus Henderson Investors	3,760,932	2.72	-917,551	6/30/22
Boston Partners	3,197,185	2.31	51,545	6/30/22
Alta Fox Capital Management, LLC	3,142,133	2.28	2,352,632	6/30/22
Geode Capital Management, L.L.C.	2,636,871	1.91	83,885	6/30/22
Charles Schwab Investment Management, Inc.	2,570,417	1.86	160,950	6/30/22

Figure 7: Top Shareholders from (Onwership Profile, 2022)

Shareholder Votes

At the 2022 Annual Meeting of Shareholders, there were three main votes. Two of these votes were routine matters. First, Hasbro shareholders had to ratify KPMG's role as the public accounting firm that would audit the company's financial statements. Second, the shareholders had an advisory vote on the compensation of executive leadership (*Notice of 2022*, p. 5). Hasbro uses a pay-for-performance philosophy to help align the interests of executives with those of shareholders. During 2021, however, the details of the compensation packages shifted to be less reactive to current metrics that may be unpredictable due to global instability. In 2022, the planned compensation reverts back to the typical package. It is unlikely that Hasbro will see much resistance to this compensation plan in the shareholder advisory vote. Over the past five years, 93.5% of the votes cast have favored Hasbro’s compensation program (*Notice of 2022*, p. 20).

The third vote at the 2022 Annual Meeting of Shareholders was much more significant for Hasbro. This vote was to elect a new board of directors. In the fall of 2021, an activist investment firm called Alta Fox contacted Hasbro and expressed discontent with the Wizards of the Coast segment of Hasbro, as well as the company’s allocation of capital (*Notice of 2022*, p. 30). Alta Fox believed that Hasbro should spin off Wizards of the Coast, Hasbro’s digital gaming segment. The activist investor opposed Hasbro’s Brand Blueprint strategy and wanted the company to focus on making toys and shows. In an attempt to pressure Hasbro into making their desired changes, Alta Fox initially nominated five people for the Board of Directors. Eventually, four of these nominees were withdrawn. At the Annual Meeting of Shareholders, the challenge from Alta Fox was defeated, and all 13 directors were reelected to the board (Whitten, 2022a).

The changes to Hasbro that Alta Fox demanded were extremely important. Hasbro’s current strategy is built around creating stories for their toy brands and translating those stories across mediums. The Brand Blueprint is central to how Hasbro sees itself. The company’s ability to translate a physical toy brand to digital games and shows is what sets it apart from its competitors. In 2021, the Wizards of the Coast segment was also the biggest source of revenue growth. The Wizards of the Coast segment saw revenues increase by 42%, while the Entertainment segment revenues increased by 27%, and Consumer Products revenue increased by 9% (*2021 Hasbro Annual Report*, p. 3). If Alta Fox would have had their way, Hasbro would have been left without its growth engine or a coherent strategy to direct future decision-making.

Component 10 - Organizational Structure and Controls

Current Organizational Structure

Hasbro uses a multi-divisional organizational structure. There are three separate strategic business units (SBUs). They are Consumer Products, Wizards of the Coast and Digital Gaming, and Entertainment (*2021 Hasbro Annual Report*, p. 27). Each one of these segments has its own profit responsibilities. As a result, when examining yearly revenues in the Annual Report, Hasbro breaks the data down into segment revenue (*2021 Hasbro Annual Report*, p. 67).

In line with the multi-divisional structure, each of these segments has its own leader. eOne, the company Hasbro acquired to create its Entertainment segment, is led by Darren Throop. Darren led eOne from its infancy as it grew into a successful entertainment studio. Once eOne was acquired by Hasbro, Darren became the President and CEO of the Entertainment segment. The Wizards of the Coast segment is led by Cynthia Williams. As segment president, she is responsible for setting strategies for Hasbro's growing portfolio of digital games. Finally, the Consumer Products segment appears to be led by Eric Nyman. He serves as Hasbro's President and COO. Before beginning this role as COO of the whole company, Eric was the COO of the Consumer Products segment. Nobody has been named to replace him in that specific role (*Executive Management*, 2022). Overall, the multi-divisional structure allows each segment leader to pursue the right strategy for their segment while still collaborating across segments.

Strategy and Structure

A company's strategy and structure must align to achieve optimal efficiency and performance. As previously stated, Hasbro utilizes a multidivisional structure with three different SBUs that operate independently from each other, each with its own leader. This type of structure is appropriate for the related diversification strategy they pursue because while their business efforts are related, they operate separately and therefore need separate leadership. While Hasbro has independent leaders of each SBU, they concentrate decision-making at the highest level of the organization to allow a high level of integration. These practices are consistent with many other firms utilizing an M-from organization structure and related-diversification strategy as it enables companies to leverage and transfer core competencies across different SBUs.

Board of Directors Structure

The Board of Directors, according to the company's Corporate Governing Principles document, should consist of 10-14 members. The Board Chairperson can be held by the current Chief Executive Officer; however, an Independent Lead Director is appointed if the Board Chairperson and CEO are the same people. This is to ensure effective board governance. The Board has five committees: the Audit Committee, the Compensation Committee, the Cybersecurity and Data Privacy Committee, the Finance Committee, and the Nominating, Governance, and Social Responsibility Committee (*Committee Composition*, 2022).

The Board of Directors structure aligns with Hasbro's organizational structure, as this structure allows for specialization within each committee. It also allows individuals to express their talents and expertise within each committee topic, and relevant knowledge can be leveraged when making important decisions. Decision-making in committees also incentivizes creativity and innovation, which are especially important for the Board of Directors.

Control Systems

Hasbro utilizes standard operating procedures for their third-party manufacturers to ensure quality across the products produced and combat performance implications from defects. For example, a Hasbro corporate quality assurance report stated that toys with major dimensions greater than 4 1/2" should not have defect areas exceeding 0.015 square inches and must compare favorably with approved product standard samples (Fischer, n.d.). While that is just one example of a product Hasbro produces, they enforce quality standards for all their raw materials and products.

Along with physical product controls, Hasbro also solicits feedback, makes modifications to ensure their employees have a productive and safe environment, and continuously monitors employee efficiency, satisfaction, and morale as they continue to transition back to in-person work (*2021 Hasbro Annual Report*, p. 40).

Recent Strategic Decision

On November 17, 2022, Hasbro announced that it would attempt to sell the part of eOne's TV and film business that doesn't align with Hasbro's strategy (Hasbro Initiates Sale, 2022). In 2019, Hasbro acquired the film studio to obtain the capability to make movies and shows. eOne brought a catalog of movies and shows they were already making. This catalog included childhood favorites like Peppa Pig and PJ Masks, as well as content aimed at adults, like Naked & Afraid (*Hasbro to Acquire Entertainment*, 2019).

In the past three years, Hasbro has identified the eOne franchisees that align with the company's strategy. These franchises have been integrated into the other two segments of Hasbro. For instance, Hasbro launched new toys for both the Peppa Pig and PJ Masks franchises (*2021 Hasbro Annual Report*, p. 6). These shows aimed at children match Hasbro's identity as a maker of toys and stories for children. As a result, the stories from these shows are being integrated into the Brand Blueprint framework and translated across mediums. However, other eOne franchises, like Naked & Afraid and Yellowjackets, are aimed at adults (*Hasbro Initiates Sale*, 2022). These shows are significantly outside Hasbro's identity and are impossible to integrate meaningfully with the rest of the company.

Hasbro's strategic decision to sell the misaligned portion of eOne is a good one. While eOne contained franchises that fit Hasbro well, others were disconnected from Hasbro's identity. These shows did nothing to promote the Hasbro brand as a leader in play. In fact, if the public realized that Hasbro owned Naked & Afraid, it could even harm Hasbro's brand. Additionally, Hasbro is a company that has a very clear vision in which all pieces of the company are interwoven through the Brand Blueprint. Therefore, it makes little sense to own shows and movies that are impossible to fit into the Brand Blueprint. By selling the more adult portion of eOne, Hasbro will be able to retain the strategically aligned franchises and remove distractions from their clear vision of translating their brands across mediums.

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