



Hasbro Interactive

In 1995 at the Tokyo Toy Fair, Alan Hassenfeld, chief executive of toy and game company Hasbro, decided it was time once again for his company to take a risk on interactive games. The company had been stung when betting on the notion that consumers would spurn traditional board games in favor of the electronic variety. However, the personal computer, with its improving multimedia capabilities, looked to be the future of gaming.

Mr. Hassenfeld spoke with Tom Dusenberry, an ambitious rising star from Parker Brothers, a game company that Hasbro had acquired in 1991. Familiar with Mr. Dusenberry's work, Mr. Hassenfeld admired his creativity and capability.

Mr. Dusenberry believed that interactive games had a brilliant future. He was also a talented visionary, proficient at activating others' enthusiasm for futuristic ideas. His effusiveness accelerated Mr. Hassenfeld's interest, and soon Mr. Hassenfeld charged Mr. Dusenberry with building a new division, to be named Hasbro Interactive. He was to write a business plan, form a team, and go to market, starting with a handful of existing CD-ROM products that Hasbro's long-standing toy and game divisions had developed in a decentralized fashion.

Over the course of his career at Parker Brothers, Mr. Dusenberry gained direct experience in most aspects of the game business. He had started working on a loading dock and had been promoted several times through positions in manufacturing, marketing, and sales. He survived the consolidation that followed Hasbro's acquisition of Parker Brothers and was promoted again, this time into product development. Throughout his career, he had remained connected to developments in interactive gaming. Running Hasbro Interactive would be his first experience as a general manager, and it was the break he had been waiting for. He recalled:

“My career goal was to end up with Alan Hassenfeld's job. I thought Hasbro Interactive was the best way to get there because it would give me exposure to the board of directors [who eventually would choose Mr. Hassenfeld's successor]. My strongest skill is leadership. Hasbro Interactive would allow me to let my leadership ability unfold.”

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Unless otherwise noted, the information in this case was gathered from one of the following sources: (1) SEC filings, (2) internal Hasbro, Inc. documents, and (3) interviews listed in Appendix 1.

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Dave Wilson, head of Hasbro's game division, supported Mr. Hassenfeld's move, believing that the one-off development of interactive products that was proceeding in many parts of Hasbro was too timid an approach. He also supported the nomination of Tom Dusenberry as head of Hasbro Interactive:

“I thought that Tom was the perfect manager for this business. He had a combination of intellect, product creativity, and a tremendous drive to succeed – all positive assets. He was a tremendously ambitious, dynamic, and aggressive manager who understood the [interactive] business well.”

A Brief History of Hasbro, Inc.

Polish immigrant Henry Hassenfeld, Alan's grandfather, founded Hasbro as Hassenfeld Brothers, Incorporated, in Pawtucket, Rhode Island, in 1923. The company manufactured a variety of inexpensive products, eventually turning to toys in the 1940s. But it was not until toy inventor George Lerner sold Hasbro president Merrill Hassenfeld, Henry's son, a quirky idea for \$500 and a 5% royalty in 1951 that the company hit pay dirt. Mr. Potato Head was a set of plastic noses, ears, eyes, mustaches, glasses, hats, and such with which children decorated potatoes or other foods. (Later a plastic spud was included in the package.) For reasons nobody could quite understand, Mr. Potato Head was a smash hit. Hasbro's future was in toys.

A bit more than a decade later, Hasbro had another tremendous hit — G.I. Joe. The company continued to grow and went public in 1968. When Merrill passed away in 1979, the board of directors named his eldest son, who had been involved in the company since a very young age, the new CEO. Under Stephen Hassenfeld's leadership, Hasbro became one of the fastest growing companies in America. The acquisition of game company Milton Bradley in 1984 helped accelerate that growth.

When Stephen died suddenly in 1989, leadership passed to younger brother Alan. An acquisition of Tonka, including Parker Brothers, followed. Hasbro properties then included many well-known products, including Monopoly, Batman, Nerf, Play-Doh, Raggedy Ann, Candy Land, Scrabble, Barney, and many more. The toy industry evolved into a two-horse race: Hasbro vs. Mattel. G.I. Joe vs. Barbie. After fending off a takeover bid from Mattel in 1996, Hasbro reached \$3B in revenues for the first time that year, behind Mattel at \$3.8B.¹

¹ Hasbro history abridged from G. Wayne Miller, *Toy Wars* (Times Books, 1998).

Investments in Interactive Games before Hasbro Interactive

Hasbro Interactive was not the first time that Hasbro or companies it had acquired had invested in electronic games, which came into vogue toward the end of the 1970s. At consumer friendly prices under \$40, electronic games haunted traditional game industry executives, who wondered if their companies could survive without their own electronic games.

By the early 1980s, Atari's video game system (users inserted individual game cartridges into a main control console that used standard televisions for display) was familiar to nearly every child in America. Milton Bradley, still independent at the time, made an acquisition that led to the launch of its own video game system, called VecTrex. Many observers believed that VecTrex was technically superior to Atari, but Atari's vast installed base was difficult to overcome. Third-party software developers focused on developing games for Atari because that was where the biggest dollars were.

VecTrex struggled and inflicted severe financial damage on Milton Bradley, and the company sought an acquirer. They succeeded in enticing Hasbro. Though the VecTrex failure cost Milton Bradley its independence, its executives had gained skills in managing outside software developers in the process. Soon they were making lower-risk investments by working with outside software developers to create video games for existing hardware platforms such as Nintendo. The development group conceptualized ways to convert well-known games into an electronic format, did some high-level design and visual work, and then turned the software development over to outside contractors. Some of the company's more technology-savvy employees monitored the contractors' work.

This remained Hasbro's business model for interactive games for some time, both within the Milton Bradley group and within other Hasbro divisions. The company created a brand with a traditional board game or toy, and then translated the concept to video. They never started a game or toy development project with video in mind — they waited to see if the traditional project would succeed first.

There was one significant exception. In the early 1990s, Hasbro began an ambitious project to develop a virtual reality system — a piece of electronic headgear that would create the sensation of moving in a three-dimensional world. Hasbro executives believed that virtual reality had the potential to be so engaging that Hasbro would topple market leaders Nintendo and Sega. Much depended on the development of a leading-edge microprocessor. But by 1995, after Hasbro had invested a few years and tens of millions of dollars, it did not appear that such a microprocessor could ever be produced at a price that consumers would bear, and the company wrote off the investment. Preferring the more immediate possibilities of CD-ROM-based games for personal computers — and soon for the Internet — Hasbro formed Hasbro Interactive.

Building Hasbro Interactive

Hasbro Interactive was created as a separate and independent division. Legally, it was a wholly-owned subsidiary of Hasbro. Mr. Dusenberry hired five people from Hasbro's game division in Springfield, Massachusetts, home of Milton Bradley, and set up shop in Beverly, Massachusetts, home of Parker Brothers. Recognizing that Hasbro employees did not have all of the requisite skills to make the business succeed, Mr. Dusenberry hired a number of outsiders, including Tony Parks, a software developer who was well known within the video game industry, and several experienced interactive game salespeople.

Mr. Dusenberry made all operational decisions, including those relating to organizational structure, product selection, and partnership agreements. He reported to Hasbro's corporate offices in Pawtucket, specifically to vice chair Sonny Gordon, an executive with a legal background and expertise in mergers and acquisitions. Mr. Hassenfeld and John O'Neill, the CFO, also provided oversight. This reporting structure gave Hasbro Interactive substantial separation from the rest of Hasbro. Hasbro Interactive followed Hasbro's annual planning and review cycle without significant interaction with other divisions.

Hasbro Interactive immediately generated revenues with five of Hasbro's existing CD-ROM products. (Hasbro Interactive paid an internal royalty back to Hasbro.) Hasbro Interactive's most important customers were buyers employed by large retail chains, who selected only 5-8% of thousands of available titles. Hasbro Interactive's early products were not blockbusters, but their well-known brands generated consistent sales from year to year. Top sellers in any particular year, by contrast, often had short lives.

With the support of Mr. Wilson, head of Hasbro's game division, Mr. Dusenberry established cooperative operational interactions with Hasbro where needed. For example, Hasbro's manufacturing group handled product packaging on a cost-plus basis. And, without any formalized relationship, marketing teams within Hasbro cooperated with Hasbro Interactive to ensure that branding remained consistent as Hasbro Interactive translated traditional products into interactive formats. Al Verrecchia, a senior executive at Hasbro who would become CEO in 2003, commented:

“Naturally, when Monopoly was turned into an interactive game, the games group had a chance to see what was happening. Monopoly is the crown jewel of Hasbro. It is the best-selling game of all time, and you want to be very careful with it. But it was in the spirit of ‘let’s work things out,’ not ‘you must get the permission of the brand manager.’”

Because several insiders familiar with existing brands transferred to Hasbro Interactive, Mr. Dusenberry felt that little interaction was required. Though Hasbro brand managers resisted some of Hasbro Interactive's edgier designs, there were no major disagreements. Hasbro Interactive paid an internal licensing fee for use of the existing brands. Early titles included Tonka Trucks, Candy Land, Play-Doh, Mr. Potato Head, Battleship, Yahtzee, and others. CD-ROM versions of Monopoly and Scrabble won industry honors. Because software games did not compete for the same retail shelf space as traditional games, Hasbro toy and game executives did not fret about cannibalization.

Unfortunately, the opportunity to cooperate in sales was limited. Even where the same retail chain bought both traditional and electronic games, different buyers made purchases based on different criteria. Plus, the standard industry terms differed, especially with respect to returns of unsold product from the retailer to Hasbro.

Accelerating Hasbro Interactive's Growth

Hasbro Interactive broke even or came close to doing so in the early years. The division's plans called for continued growth at profit. Mr. Dusenberry found himself frequently in front of Wall Street analysts, touting the potential of Hasbro Interactive. Revenues more than doubled in 1997, from \$35M to \$86M. That year, Hasbro Interactive had two games on the industry top-10 list (Frogger and Tonka Search and Rescue). As a result of this strong performance, Hasbro's bonus plan paid handsome rewards to Hasbro Interactive employees. Numerous new cars appeared in the Hasbro Interactive parking lot in early 1998.

Hasbro Interactive hoped to at least double revenues again that year. To achieve the goal, Mr. Dusenberry expanded Hasbro Interactive's activities beyond translating existing Hasbro properties to interactive format. For example, he purchased a license to produce games based on the successful television game shows Jeopardy and Wheel of Fortune. He also purchased rights to all Atari games, hoping to renew interest in classics such as Asteroids and Missile Command. Further, the division announced it was developing its own game from scratch for the first time. Finally, in August, Hasbro Interactive announced the acquisition of two companies, Microprose and Avalon Hill, for \$70M and \$6M, respectively, to expand its product line further. Microprose employed a roughly \$20M/year development staff, which represented approximately a 50% increase in product development spending for Hasbro Interactive. At the time of the acquisition, Mr. Dusenberry commented that the acquisitions were "only the beginning" of Hasbro Interactive's plans.²

² "Hasbro Interactive to Stabilize into Christmas, Reload Acquisition Guns in 99," *Multimedia World*, September 17, 1998.

The venture gained momentum through 1998. Frogger became one of the top five games on Sony Playstation. As the Christmas season approached, Mr. Dusenberry, under pressure from the corporate offices, raised the revenue target for 1998 to \$200M and urged his team toward achieving the milestone. The team fell slightly short of the goal, generating \$196M in revenues. But Hasbro executives considered the year a success nonetheless. Hasbro Interactive generated \$23M in profits.

Growth Challenges for Hasbro

Hasbro made several acquisitions through Hasbro Interactive's early years. Nearly ten independent business units reported to corporate management. Hasbro executives believed that this structure would spawn greater creativity, innovation, and entrepreneurship. But the multi-business-unit structure placed new and unfamiliar demands on senior leaders, who generally agreed that strategic planning, budgeting, and business performance reviews were not Hasbro's strengths. One described the planning process as "back of the envelope."

Nonetheless, the basic management philosophy at Hasbro was similar to that in other multi-business-unit corporations. Disparities between plans and actual results influenced perceptions of the performance of business unit heads more than any other factor, tempered by the understanding that certain aspects of Hasbro's business were inherently unpredictable. For example, while sales of the game Monopoly could readily be projected based on years of history, toys tended to have much shorter life cycles, and projecting the outcome of any new toy launch was next to impossible. Toys tied to movies were even harder to predict, since they relied upon the success of the movie. David Hargreaves, a finance executive who would later become Hasbro's chief financial officer, elaborated:

"We know what kind of products these are. The fact that you are off plan at the end of the year doesn't mean you are going to get fired — as long as, through the year, you come back and say, 'My business is not doing so well and these are the reasons why and this is what I am trying to do about it.'"

Through 1998, to spur organic growth, the company became more aggressive in setting revenue targets for each division. To achieve the targets, most or all of the company's risky initiatives had to succeed. They did not, and an unusually high number of divisions missed their budgets.

Encouraged by the board, Mr. Hassenfeld initiated an outside search for a new president and chief operating officer — someone who could help Hasbro operate more professionally and who could step in as chief executive if necessary. In the first of what would turn out to be several changes in the senior management team that year, Mr. Hassenfeld hired Herb Baum in January 1999. Mr. Baum, who had

previously served as the chief executive of Quaker State Oil, recalled the decision to accept the challenge at Hasbro:

“They were looking for outside leadership to enhance the company’s management skills. They were looking for someone to come in and bring some discipline. Alan Hassenfeld did a great job of charming me. And he told me that I would be running the company.”

To increase the perceived level of accountability to plans, Mr. Baum modified the planning system. For example, he called monthly meetings that included every business unit head. For the first time, each participated in all other reviews. All business units reported standard metrics known as “value drivers.” This naturally increased the sense of competitiveness, although at the time, the competition was limited, as no division felt that it was unable to get the resources it needed to execute its growth plans. Mr. Baum included Hasbro Interactive in the meetings and named Mr. Dusenberry a “sector head,” clarifying his status as a peer of other business unit managers.

Hasbro Interactive Shoots for the Stars

Mr. Baum was intrigued by the potential of Hasbro Interactive. He viewed traditional toys and games as having very limited growth potential by comparison. He also admired Tom Dusenberry:

“Tom had a great strength for bringing his people together. He was a good team leader. He had a vision for the business.”

Soon, early in 1999, there was talk of Hasbro Interactive reaching \$1B in revenues within as little as three years. This would require continuing to nearly double revenues annually. Although the target was merely conversational, it was also emotional. It fueled ambition. If Hasbro Interactive achieved the goal, it would vault into position as one of Hasbro’s largest and most important divisions. The lofty goal changed behavior and affected decision-making. Some senior executives expressed concern about the risks inherent in pursuit of such rapid growth. But nobody acted to put a stop to the \$1B aspiration. Mr. Dusenberry’s excitement about his business’s potential to reach \$1B was transparent to his colleagues.

At the time, technology stocks were skyrocketing, and Wall Street encouraged Hasbro to increase investment in Hasbro Interactive. And, Hasbro’s arch-rival, Mattel, had just announced that it would acquire educational software developer The Learning Company for over \$3.5B, taking Mattel’s interactive revenues to nearly \$1B.

Mr. Dusenberry and a few members of his staff began “scouring the earth” to find new ideas. To pursue the good ones, they hired dozens of product developers, signed

several agreements with outside developers, and expanded the number of platforms for which they intended to develop games — including a highly anticipated new platform from Sega known as Dreamcast.

They made several additional acquisitions and licensing deals. In April, they licensed eleven well-known video games, including Pac Man and Dig Dug from Namco. In June, they created a sports division and signed a five-year licensing deal with Formula 1 to expand their motor sports category. In August, they acquired Europress to move into educational games. Mr. Dusenberry even aspired to acquire Electronic Arts, a video gaming giant with revenues approaching \$1B.

This string of deals, while consistent with what competitors were doing, dramatically exceeded the plans set forth in the 1999 budget, agreed to in the fall of 1998. Hasbro Interactive was operating with ambition, but without a multi-year plan that estimated the total investment that would be required to reach profitability at \$1B in revenues.

Through 1999, several Hasbro senior executives began to lose confidence in Hasbro Interactive, despite Mr. Hassenfeld and Mr. Baum's continued support. The first precipitating event came early in the year, when Mr. Dusenberry reported the magnitude of product returns from the 1998 holiday season. The returns were large enough to recast Hasbro Interactive's 1998 results from a very positive light to a neutral one. The issue caught Hasbro business unit leaders by surprise because they were accustomed to the standard agreements with the retail trade for toys and games, which had very strict conditions for the return of unsold product. The industry standard for software, by contrast, mimicked the publishing industry's very liberal standards. The aggressive sales tactics toward the end of 1998 had come back to haunt Hasbro Interactive.

Additional confidence was lost when Hasbro Interactive initiated a Monopoly promotion with Burger King, because Hasbro already had a Monopoly promotion with McDonalds. As a result, some felt that stricter oversight from the established business units was necessary. Jane Ritson-Parsons, who managed licensing agreements for Hasbro, described why she actually found it easier to manage external licensees of Hasbro properties:

“We have Hasbro personnel at Hasbro Interactive. They do not feel the need to consult with us because they believe that they know what is going on with the brand. But they can't do the research that we do and they don't have the consumer insights that we use to manage our business.”

A third factor that led to lost confidence in Hasbro Interactive was revisions in financial projections. In addition to higher-than-expected product returns, prices in the industry were dropping as competition intensified. Further, Hasbro Interactive's development team missed deadlines and exceeded initial cost projections on several

products. Some new products missed the important holiday season. Developers pointed out that gaming systems were becoming more and more complex, and development times had to lengthen as a result — up to as long as two years.

Tightening Controls at Hasbro Interactive

Mr. Verrecchia, who had been promoted to CFO at Hasbro, expressed the strongest concern among his colleagues. Finance executive Mr. Hargreaves, after studying operations at Hasbro Interactive at Mr. Verrecchia's request, noted that Mr. Dusenberry's CFO was so busy valuing acquisition targets that he had little time left over to manage Hasbro Interactive's financial monitoring systems as efficiently as possible. In fact, business information that was considered standard within Hasbro was unavailable within Hasbro Interactive. Such criticisms annoyed Mr. Dusenberry, who wanted to focus on the future. Some senior executives perceived that Mr. Dusenberry felt he was above concerns about financial details.

Responding to pressures for closer supervision of Hasbro Interactive, Mr. Baum started spending more time there. He also hired Charlie McCarthy, a past colleague, to serve as Mr. Dusenberry's chief operating officer, and Jackie Daya, a financial executive from the publishing industry who had managed the integration of several acquired companies, to replace the CFO. Mr. Baum asked both to keep an eye on costs.

Within only a few days of starting work with Hasbro Interactive in the fall of 1999, Ms. Daya warned that the division was going to fall far short of expectations for the year. She began implementing more exacting financial systems. At the time, it was difficult for Hasbro Interactive managers to gather information regarding the amount of inventory currently in the retail trade or the total amount of the commitments to outside product developers. Part of the problem was that there were delays in transferring contract information from paper to the financial system. Another issue was that Hasbro had recently installed a new financial reporting software package. The system was optimized for the toy and game business, and did not fit Hasbro Interactive's business. Mr. Dusenberry described the impact of the new system on his business unit as "a disaster."

Ms. Daya's changes were not welcomed at Hasbro Interactive, where employees bristled at anything that they perceived could dampen innovation and creativity. Mr. Dusenberry felt that Ms. Daya was a divisive influence, and his team began to lose confidence in the corporate leadership. Ms. Daya, for her part, did not take the antagonism personally. She believed that Hasbro Interactive personnel were primarily reacting to the fact that her activities were bringing negative information into full view. (Months later, Ms. Daya felt that Hasbro Interactive had accepted the more disciplined processes she put in place. They caused minimal disruption and clarified what was going on in the business.)

Ms. Daya's next challenge was helping Hasbro Interactive prepare for the 2000 planning cycle. In doing so, she discovered that forward-looking sales plans and product development plans often did not mesh. For example, the sales plan would show revenues for a product before the scheduled launch date. Once such issues were corrected, and revising estimates to make them more realistic based on past experience, the revenue forecast was reduced – but was still ambitious at greater than \$400M for the year.

A few months later, the company closed the books for 1999. Hasbro Interactive had lost \$74M on \$237M in revenues. Mr. Dusenberry argued that the loss in the accounting sense was a good investment in the division's future. He reflected on how his colleagues reacted:

“I learned that there is a fine line between *investment* and *loss*. Herb Baum would talk investment and Al Verrecchia would talk about loss and they were both talking about the same expenditures.”

Several division heads found it difficult to be supportive of Hasbro Interactive's product development spending because they felt that there was no clear roadmap in place. Making some more nervous, Mr. Dusenberry wanted to capitalize product development expenditures. While Generally Accepted Accounting Principles allowed that software development expenditures could be capitalized when products were developed based on a proven technology, the practice was unfamiliar within Hasbro, and the company preferred to have standard managerial reporting across all sectors.

Concerned about his fate after having lost such a significant sum, Mr. Dusenberry quietly began making inquiries about career options outside of Hasbro.

Launching Games.com

Earlier in 1999, Hasbro had created a venture to offer gaming over the Internet. At the time, many established corporations were trying to cash in on extremely high Internet valuations by creating high-profile online ventures.

Mr. Hassenfeld, believing that Mr. Dusenberry had his hands full as it was, asked Mr. Verrecchia, then serving as an executive vice president of manufacturing and operations, to explore online possibilities. Mr. Hassenfeld felt that the company was starting out ahead — Hasbro had had the foresight to reserve the URL “games.com” back in 1995.

Outside market research agencies were estimating the potential of Internet gaming to be greater than \$1B. Hasbro believed that its traditional game properties were uniquely suited to the Internet because they were not graphics-intensive, and the Internet at that time could support limited graphics. Several ideas regarding how to

generate revenue from online gaming, including pay-per-play, advertising, and sponsorships of tournaments, were discussed.

Mr. Verrecchia worked to establish the necessary agreements to get games.com off the ground. First, he needed to find a partner to operate and support the Web site so that Hasbro would only have to provide the content. After “frightening” discussions with America Online, Mr. Verrecchia chose the Go To Network in December 1999. Though the name was not as well known as America Online, it had grand ambitions backed by high-profile investors, including Paul Allen of Microsoft.

Mr. Verrecchia also had to work through some significant legal complications. For example, some popular Hasbro properties were tied to licensing agreements with the original inventors. At the time such legal agreements were created, nobody visualized the Internet. Was an Internet game the legal equivalent of a consumer electronics product? If a license allowed distribution in North America, did that include distribution over the Internet?

As these issues were addressed, Hasbro built a \$100M game studio in Silicon Valley. Immediately thereafter, however, the company ran into difficulties hiring a sufficient number of product developers. The market for talented developers was so competitive that it was difficult for Hasbro to compete without lucrative options packages on the table. Hasbro, like many other companies at the time, was also losing managers to the dot-coms, the most notable of whom was Meg Whitman, a toy executive who became the CEO of eBay.

Hasbro began investigating what would be required to take games.com public with a tracking stock. Agog with visions of personal wealth, Hasbro employees interested in transferring to games.com concerned themselves with options packages on the (still nonexistent) tracking stock. They agreed to forego additional options on Hasbro stock in order to receive them. Alan Hassenfeld commented:

“Everybody in Silicon Valley was throwing options around, and every potential hire wanted to know when we were going public. Greed became the mentality, and it became very disconcerting to watch.”

Because of the hiring difficulties, Hasbro announced that they would delay the launch of games.com until 2001.

Further Difficulties for Hasbro Interactive

Hasbro Interactive proceeded somewhat more carefully in 2000, a year that would prove the beginning of the end for many software companies caught up in the dot-com frenzy. The company continued to develop new products but made fewer, more deliberate bets. Despite the fact that one product, Roller Coaster Tycoon, became the

industry's best seller, Hasbro Interactive suffered early in 2000 when returns were once again disappointingly high. Worse, the division continued to miss product development deadlines. Further, it became clear that certain properties, particularly a flight simulator game, cost far more to maintain than was anticipated. Many employees within Hasbro Interactive, once energized by the division's promise, wondered if their jobs were secure.

It was also a difficult year for Hasbro as a whole. Several major product lines fell short of expectations, including Star Wars, Furby, and Pokemon. With fewer resources available, debates between business unit heads about appropriate uses of capital became much more contentious. Hasbro's stock price dropped from \$37 in the spring of 1999 to \$11 by the middle of 2000. For the first time in more than two decades, Hasbro would lose money in 2000.

In March, Mr. Verrecchia, who had maintained a conservative and concerned point of view on Hasbro Interactive, convinced the senior team that Hasbro Interactive should create a business plan that incorporated a long-term goal of \$300M in revenues, not \$1B. Mr. Dusenberry was dismayed, believing that growth far beyond that level was possible with a commitment to invest.

A few months later, a frustrated Mr. Dusenberry announced his intention to leave Hasbro, but to his surprise, Mr. Hassenfeld and Mr. Baum worked hard to get him to stay. They even agreed to put games.com under his control. Only a short time later, in August, Mr. Baum received an offer that he could not refuse — a position as chief executive of Dial Corporation. Although Mr. Hassenfeld had given him a great deal of latitude as president and COO, Mr. Baum had already been a CEO and wanted to return to a position of full control.

Mr. Verrecchia was promoted to Mr. Baum's position. With Mr. Hassenfeld's support, he moved once again to curtail the losses at Hasbro Interactive. Soon thereafter, he let Mr. Dusenberry know that he was looking at "strategic options" for Hasbro Interactive. He wanted to sell the division. Mr. Dusenberry agreed to support the effort. By the end of the year, Hasbro sold Hasbro Interactive, including the games.com website, to a French company, Infogrames, for \$100M. The deal provided that Infogrames license Hasbro properties, creating ongoing revenue streams for Hasbro. At roughly the same time, concluding a well-publicized disaster story, Mattel sold The Learning Company, and received nothing more than a share of the company's future earnings.

Two months later, in February 2001, Infogrames laid off 40 of the 150 employees working at the former headquarters of Hasbro Interactive.

Refocusing Hasbro and Learning from Hasbro Interactive

From 2001 through 2003, Mr. Hassenfeld and Mr. Verrecchia executed a strategy of refocusing Hasbro on excellence in its core activities and succeeded in restoring the company to profitability. Mr. Verrecchia was promoted to CEO in May of 2003, his thirty-eighth with Hasbro, and Mr. Hassenfeld retained the title of chair.

In Hasbro's portfolio there remained one property with an interactive component, Wizards of the Coast, which Hasbro had acquired in 1999. Hasbro had managed the property separately from Hasbro Interactive, and it was still performing well. Its lead product, Magic: The Gathering, was an engrossing fantasy and role-playing game that involved establishing characters with certain attributes that fought in battles. The concept spawned large sales of trading cards, plus a desire for a great deal of online interaction among fans of the game. It was unlike any other Hasbro Interactive property in that sense, so it was not clear how to translate the success of Magic: The Gathering to additional interactive successes for Hasbro.

The Internet frenzy had waned. One sign of the times was that Electronic Arts, which had once paid millions to America Online to put its games online, was receiving a fee from America Online for use of its product. And it appeared that families were forsaking the PC and returning to the family room to play traditional board games. Mr. Verrecchia commented:

“I think that when you sit around on a Friday night and play Scrabble or Monopoly with your family and neighbors with some pizza and beer you are having a completely different experience than when you sit in front of your computer playing alone — or even with an anonymous partner over the Internet.”

Nonetheless, interactive products remained an important part of the Hasbro strategy. But Hasbro would rely on licensing their brands to external developers. In retrospect, some executives felt that licensing should have been the approach all along. The company also began to analyze the extent to which their interactive products affected the sales of traditional games.

Hasbro executives drew many conclusions from the Hasbro Interactive experience. A common conclusion was that with any ambitious growth plan, it is important to set specific expectations in advance regarding tolerable losses in the early years. Mr. Verrecchia commented:

“I think the way we went about it was emotional rather than strategic. I do not think we really sat down and tried to put together a plan. Tom [Dusenberry] promoted it, and he got the support that he needed.”

Mr. Dusenberry, who by 2003 was serving as chief executive of Marblehead Entertainment, which focused on games for wireless devices, summarized his own conclusions:

“Hasbro Interactive is really two stories. It is the story of an independent company, effectively managed outside of Hasbro until 1999, and then it is the story of how, in 1999, Hasbro decided to help us out. We went from total independence to being totally controlled by corporate. It was a great success story going from zero to \$200M in four years, but then in 1999 corporate management wanted \$1B and they had to own a piece of the success.”

Mr. Dusenberry continued:

“I really respect Al Verrecchia. He is a bright son of a gun and he has done a great job in turning Hasbro around. And perhaps he also deserves credit for recognizing tremendous risks associated with any attempt that Hasbro makes to stretch beyond its existing capabilities in traditional toys and games.”

Several senior executives shared nearly equivalent viewpoints regarding Mr. Dusenberry’s role in the Hasbro Interactive story and his general strengths and weaknesses. Mr. Dusenberry was a tremendous visionary, motivator, inspirer, and promoter, they believed. But his weaknesses in finance and operations, a point of concern for some even before Hasbro Interactive was launched, appeared to be critical factors leading to Hasbro Interactive’s downfall. His consistently rosy projections, even in the face of bad news, eventually cost him his credibility. To some he appeared at times simply to be in denial. One executive described Mr. Dusenberry as an outstanding “thoroughbred” that needed “reins” and a “good jockey.” He needed to be married with the right partner to round out his skills.

Too strong a belief in too rosy a future was hardly limited to Mr. Dusenberry. Mr. Hassenfeld commented:

“People became bigger than they really were. Too many people, too much overhead, too many egos. Regrettably, it all imploded. At the end of the day it was my fault, because I was watching over the whole thing. People began approving things that never would have been approved a year or two earlier.”

While acknowledging the need for an outside hire as COO, Mr. Hassenfeld regretted turning over so much authority so quickly to Mr. Baum. In Mr. Hassenfeld’s view, Mr. Baum’s heart was never in the business like the hearts of those who had been with Hasbro for decades.

Mr. Verrecchia drew his own lessons from the experience, believing that it was prudent to be much more cautious in diversifying beyond the core business, and that it was important to maintain strong links with the core when doing so. He also concluded that it was a mistake to accelerate spending so quickly, or even to aspire to grow so quickly. Further, he believed it was important that any new venture report to a general manager of an established business. Finally, he resolved not to pay quite such close attention to Wall Street:

“Businesses must stay on strategy. Unfortunately, there is always pressure from Wall Street to produce immediate results even when it is detrimental to your long-term health. If you allow yourself to be caught up in Wall Street pressures, your business will suffer. That is why I don't have a problem telling the Wall Street community that we will not run our business based on their opinions.”

Appendix 1

Interviews for this case included:

Alan Hassenfeld, Chairman of the Board, Hasbro, Inc.

Al Verrecchia, President & Chief Executive Officer, Hasbro, Inc.

Dave Wilson, President, Games, Hasbro, Inc.

David Hargreaves, Chief Financial Officer, Hasbro, Inc.

Herb Baum, former President and COO, Hasbro, Inc.

Jackie Daya, Senior Vice President Corporate Finance, Hasbro, Inc.

Jane Ritson Parsons, President, Hasbro Properties Group, Hasbro, Inc.

Tom Dusenberry, former President, Hasbro Interactive