



## Thoughts on the Toys “R” Us Acquisition of Toys.com

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Using the purchase by Toys “R” Us of Toys.com as an example, I outline the problems that come with using the popular ascending auction design and point out some of the potential strategic uses and signals of the domain name acquisition.

Toys “R” Us paid \$5.1 million in February 2009 for Toys.com. It outbid five others, including [National A-1 Advertising](#) and Frank Schilling. The auction was closely watched by the industry, though a number of popular blogs (click [here](#) and [here](#)) focused on how the deal would affect search engine optimization (SEO), which is, at best, of tertiary importance to shareholder value creation when compared with visitors’ experience management.

Was the auction design optimal for the seller? What is the company signaling about its future strategy? The blogs missed out on these key issues.

### **Auction Mechanism Design**

Could the owner (and the auction house) have made more money using a different auction mechanism?

The ascending (often called “English”) auction popularized by eBay is not always best. An alternative is a sealed-bid (or “Dutch”) auction. And under certain conditions, the smartest choice is a combination of the two, the Anglo-Dutch auction.

An Anglo-Dutch auction begins with would-be buyers bidding up the price until two contenders are left, at which point each makes a sealed-bid offer no lower than the current asking price. The process is similar to the way houses are often sold.

In a pure ascending auction, an 800-pound gorilla—a would-be buyer known to be both very determined and very rich—can scare off other contenders before a bid gets made. Toys “R” Us was such a competitor due to its market size and its recent acquisition of [eToys.com](#). The hybrid model, with the uncertainty of outcome made possible by its sealed-bid showdown, might have emboldened more contenders to take part.

Even before hitting its second, or Dutch, stage, an Anglo-Dutch auction will sometimes generate higher bids than a purely ascending auction. Bidders compete to reach the second stage, and the uncertainty of the arrangement makes collusion less likely.

### **Best Use**

It is not clear what Toys “R” Us is planning to do with the domain name. The company has in the past relied on a short-tail strategy of selling popular items. Other online competitors have followed a long-tail strategy. Thus, Toys “R” Us has the option of using the domain name to follow either of these strategies or a combination. Moreover, Toys “R” Us could be sending mixed signals to keep its competitors from guessing about its future strategy, thus increasing their costs. However, more analysis is needed to determine the best use of the domain name, which would also shed some light on whether the other bidders and potential bidders missed an acquisition opportunity.

### **Concluding Remarks**

When analyzing, say, the auctioning of [single-character domain names](#) or [new TLDs](#), it is important to have an auction mechanism that is most appropriate for the item being sold. We should not use a convenient one-fits-all design.

Although SEO should not be ignored, a company’s first priority is to put the acquired domain to its best use and design its Web site with a focus on the visitors’ experience so as to increase the visit-to-sales conversion rate and customer satisfaction for repeat purchases. ■