

Watch

*How **Spin Master Toys** created the hit Liv dolls, a thoroughly modern marriage of tech, storytelling, and 21st-century marketing that has industry giant Mattel looking over its shoulder.*

BY KATE ROCKWOOD

Photograph by Jamie Chung



Your Back, Barbie!!!





The girls aisle is so different," says Spin Master Toys chief creative officer Ben Varadi with a sigh. He sounds very much like a boy used to playing with helicopters that can hover above open hands and laser-controlled race cars that zoom up walls. Which he is, because he helped invent those toys.

Varadi, 40, along with cofounders Ronnen Harary and Anton Rabie, have quietly built the fastest-growing and hottest toy company in North America, generating \$650 million in annual revenue. Spin Master's deft melding of tech and play has produced such boys' favorites as Air Hogs, Tech Decks, and Bakugan, a board game featuring pieces that look like plastic golf balls until they're rolled across magnetic trading cards, at which point they pop open into detailed action figures. Spin Master has translated Bakugan into a massive multiplayer online game, and Universal will release a Bakugan movie in 2011.

But with nothing to offer in the girls aisle, Spin Master was still just half a business. To enter the big leagues with Mattel and

Hasbro—the only two North American toy companies larger than Toronto-based Spin Master—Varadi knew he needed girls. Fashion dolls, he figured, could be a \$400 million opportunity for the privately held company.

"To survive as a toy company now," says George Van Horn, a senior analyst at IbisWorld, "you have to be a risk taker." And there's no bigger risk than trying to reinvent the fashion doll, the modern icon of the toy business. Mattel invented—and still dominates—the doll market with Barbie. Just two years ago, Mattel solidified that position by winning a \$100 million copyright lawsuit against rising rival Bratz, which effectively crushed the competitor.

But Varadi and a team at Spin Master saw opportunity—and over the past year, their Liv dolls have captured girls' imaginations with better backstories and play-friendly breakthroughs in hair and poses. Spin Master has done it with flexibility, perfectionism, and Internet-age marketing that has set Barbie on her heels. Now the real fun begins.

Spin Master's first move into girls toys was a disaster. In 2006, the company paid an undisclosed sum for a doll prototype with an internal mechanism that let it move its arms and legs freely. "We're competing against other dolls," Varadi says, explaining his thinking, "but we're also competing against computers, video games, TVs, and cell phones. Why not bring the worlds together?"

The mostly male development team, led by Varadi, put what can only be called a "fashion robot" in front of focus groups of young girls. It flopped. That might have been the end of the experiment, a thankfully private embarrassment and tacit admission that the company should stick to boys. "If Ben wasn't so passionate about this, we wouldn't have pursued dolls for so long," says Rabie, who serves as president and co-CEO.

Rather than retreat, Spin Master doubled down. It opened a design studio in Los Angeles in 2007, a warren of rainbow-soaked offices and showrooms, dotted with beanbag chairs, cases of Red Bull, and mountains of figurines. Varadi wooed Nicole Perez, a Mattel vet who had "worked on everything but Barbie" before moving to Vivendi Video Games. As senior marketing director, she recruited her friend and former Mattel colleague Tracey Thurman to be design director. "When we came to Spin Master," Thurman says, "the team was just Ben and a sculpt of a head." Varadi gave them two years to produce.

The team, now 11 people strong, quickly set about developing a narrative for the still-unnamed dolls. "With boys, they want to know immediately what the toy can do," Perez says. "Girls want to use the toy to tap into a story, to create a connection." The story Spin Master

Spin Master's Hot Streak

The Toronto-based toymaker has inspired crazes with its tech-driven creations.



**1994
Earth Buddy**

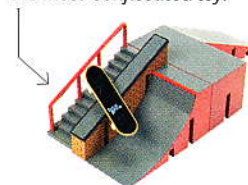
These small sacks of dirt that sprout grass were such a craze that Spin Master turned to Toronto's homeless population to help fill orders.

**1998
Air Hogs**
The technology powering these miniature planes is so sophisticated, nearly one-quarter of collectors are adults.



**2004
Aquadoodle**
This toy lets kids draw in multicolor disappearing ink using only water. It's one of the best-selling preschool toys in the U.S.

**2006
Tech Deck**
Spin Master pioneered the action-sports toy category—to the ire of middle-school teachers everywhere, who list it as the most-confiscated toy.



**2007
Bakugan**
Magnets turn plastic spheres into these intricate action figures, ready for tournament battle.



Designing Women: Nicole Perez, left, and Tracey Thurman led the Spin Master team that created the hit Liv dolls.

developed centered around four friends at an imaginary high school, and they scouted local surf shops, malls, and fro-yo stands for inspiration and detail. While Barbie has built her empire around the glitz and glamour of make-believe—Police officer Barbie! Astronaut Barbie!—the Liv dolls are decidedly down-to-earth. Katie is an athlete who turns into a klutz when she's off her skateboard. Bespectacled Sophie wants to be a hairstylist when she's older and loves to practice on her friends. "The dolls needed to be pretty," Perez says, "because they're dolls and that's what girls want, but we also wanted to make the dolls approachable and real."

Perez and Thurman decided to incorporate diversity into the main narrative, not just present ethnic dolls as supporting players. Of the four Liv characters, African-American Alexis is the most fashion-focused of the bunch and plagued by a pesky younger brother; Hispanic Daniela is an aspiring musician. "Past age 6, girls start developmentally trying on different personalities, so they're very drawn to distinct storylines," says Reyne Rice, a trend specialist at the Toy Industry Association. "Liv dolls are still aspirational, but in a real-life way."

The Liv group didn't focus exclusively on stories. Because young girls are obsessed with the "broken-doll poses" flaunted on magazine covers and *America's Next Top Model*, Spin Master gave Liv dolls 14 points of articulation (most dolls have only 8), so they're easier to bend and pose. "Boys action figures have long had more articulation points, but it's an incredibly difficult

thing to do in a doll," Thurman says. "You're not just creating a knee joint—you also have to worry about what it looks like. Little girls want it to be a beautiful knee joint that bends."

The Liv team also blew out the concept of playing with doll hair by giving her high-quality wigs that can be styled, swapped, and cut. "I can't tell you how many Barbies I ruined as a kid by cutting their

hair," Perez says. In early focus groups, Perez and Thurman presented girls with a slew of wigs—some streaked with blue or pink—and a pair of scissors; most of the kids had to be reassured more than once that it was okay to actually cut the hair before they snipped away.

Spin Master originally planned to launch its new doll line in late 2010, but then Mattel won its lawsuit against Bratz maker MGA Entertainment (arguing that toy designer Carter Bryant had developed the Barbie rival while still employed at Mattel). Bratz sales quickly collapsed. Spin Master execs recognized an opening in the market and moved the launch date for Liv dolls up by a full year.

"Usually, it takes at least 18 months to develop a line like this, if not a couple of years," Perez says. She and Thurman traveled to the Toronto headquarters in January 2009

to discuss whether a launch later that year was even possible. "I'll never forget; we said, 'We really don't think there's enough time. You guys are crazy.' And they said, 'We're doing it!' It was an intense moment of 'brace yourself.'"

"We were designing on the fly," Thurman says, sitting at a pint-

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Valley of the Dolls

Big breakthroughs in the history of toys for girls



1959 Barbie
The first adult doll focused on fashion was also one of the first toys to rely heavily on TV advertising.



1960 Chatty Cathy
This talking doll used a low-fidelity phonograph record to speak one of 11 phrases when the "chatty ring" on her back was pulled.



1986 American Girl
Blends historical-fiction storybooks with 18-inch character dolls and has grown to include boutiques, bistros, and live-theater shows.



2001 Bratz
Heavy makeup and provocative fashions, including fishnets and miniskirts, made the fashion doll contemporary—and controversial.



2009 Liv
The four high-school friends come decked out in fast fashion, with changeable wigs and bendable bodies.

size table in Liv's L.A. showroom, "literally going from a sketch to handing it over to the factory to sew it up and make it." The frenetic pace inevitably led to hiccups. "I flew to Hong Kong eight times last year to oversee production, and the first dolls that came off the line were all cross-eyed," Thurman says, crossing her fingers in front of her face. "I called up Nicole, like, 'We might not be able to do this.'"

Its factory more than once misread specs and produced human-scale versions of doll accessories, translating a fabric pattern intended as a tiny floral print into one that barely fit a single flower on a doll's shirt and making sunglasses that "could have fit Tracey's face," Perez says. "It's funny now, but at the time it was a pressure cooker."

Meanwhile, they developed livworld.com, where girls can register their dolls, dress them up from a virtual closet, and, most important, play games, read online diaries, and watch Web videos. The goal: to seed the brand across platforms and extend engagement from physical to computer play, a Spin Master specialty. When Liv owners log on and register their fashions and play sets, they unlock the virtual versions of those items. To help feed the desire both online and off for new items—and connect the fashion doll to the fashion world—Spin Master produces clothing lines for the dolls every three months and retires dated fashions just as quickly. "Our clothing designers come from the fashion industry," Thurman says. "When you look at their sketches, you wouldn't know if it was for a doll or a real girl." As backstories and plot lines unfurl, new clothes, accessories, and characters are introduced. A fifth doll is slated to join the crew this fall, but girls will start reading about this "mysterious friend" over the summer in the online diaries, Perez says.

Unveiled last summer, Liv dolls quickly became a top seller at Walmart and the No. 2 doll at Target in terms of shelf space. The brand's "We're a hit!" moment came during the holiday crush last December. Toys "R" Us CEO Gerald Storch was working the sales floor one Sunday afternoon when he ran out of Liv stock. He called Spin Master's Rabie. "We need more Liv dolls—now!" he shouted from his cell phone. Storch wasn't the only retailer to underestimate demand for the fab four dolls, and Liv products were in limited supply the last two weeks of December. Despite shortages, Liv dolls snagged 5% market share in just six months, a feat that took Bratz six times as long to achieve.

The battle with Barbie—the reigning queen of the toy business for 50 years, the \$1.3 billion behemoth with a 50% share of the fashion-doll market—is on. "Liv is probably the only one who can challenge Barbie in the long haul," says Lutz Muller, an analyst with Klosters Trading. "Liv is incredibly well made, and once it's established, it becomes the standard, even if Mattel introduces a line that looks and moves like Liv."

In fact, Mattel has launched a line of Fashionista Barbies, with 12 articulation points, evidence that the \$5.4 billion company is paying attention to its 21st-century rival. But one line won't mend Barbie's woes. "We need to reconnect Barbie back to her rich fashion roots," admitted Richard Dickson, senior vice president at Mattel, shortly after he joined the company in 2008. Dickson, tasked with pumping cool style into the 11.5-inch doll, arranged a New York

Fashion Week runway show, set up a human-scale Malibu dream house, and opened a six-story Shanghai flagship store. Still, worldwide sales of the Barbie brand declined 3% last year; Dickson left Mattel this past February. Analysts estimate that sales peaked in 2002.

Mattel has also struggled with its virtual presence. It launched its Web portal barbiegirls.com in 2007 and drew plaudits initially for attracting more than 3 million users in just 60 days. But growth leveled off and the initial financial driver behind the site—selling MP3 players—fizzled. Mattel shifted to a subscription-based model, but analysts question how much online play has driven real-world sales.

Spin Master, in the meantime, reports that almost one-third of Liv dolls have been registered online, and girls spend an average of 12 minutes on each site visit. Its top execs are too much the polite Canadians to confront their admittedly litigious competition verbally.

"The doll category is so fierce and so controlled by Barbie. Everyone watches the newcomer," is all Varadi will say. For its part, the Liv team is busy worrying about the competition from handheld devices, multimedia, Web sites, and the dwindling attention spans they create. "We see this as a huge long-term brand," Perez says. "The toy is obviously critical, but that's just one part of it. We want to deliver content to every corner that we can." **FC**

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