

Toon Titans

How ANIMATION MAGIC turned two hobbyists into home-grown chain retailers

MARIA TORRES-KITAMURA

Its merchandise may sport funny faces, but Animation Magic is no novelty. The 11-year-old company is a five-store chain of licensed cartoon products, such as stuffed animals, T-shirts and novelty items, from Strawberry Shortcake to Spongebob Squarepants. Also under the name Animation Magic Inc., owners Janis Mizuno and Kerri Nakanishi branched out into manufacturing last January with All That Aloha, a Hawaii-themed store featuring their own animated character, a Bratzlike local girl named Mekana, and into food retailing two years ago, with Snak-a-licious, a snack store at Ward Warehouse. The new Animation Magic store at Ala Moana, which opened in November, is projected to more than double revenues, from just under \$2 million this year, to \$5 million by the end of next year.

FUN AND GAMES AT WORK: Kerri Nakanishi (left) and Janis Mizuno at their Animation Magic store at Aloha Tower Marketplace.

Mizuno and Nakanishi met through mutual friends almost 20 years ago, and discovered that they shared a passion for animated characters. Mizuno, who worked in TV advertising, collected animation cells. Nakanishi, then a waitress at the Kapahulu Shiro's Saimin, favored Flintstones and Snoopy merchandise. They didn't start the business until August 1993, when they were recruited to promote Income Builders International (IBI), an Alabama-based entrepreneurship training and networking company. As part of their training, Mizuno and Nakanishi attended the \$2,500, weeklong seminar as clients. The sessions covered everything from business plans to presentations and networking with experienced entrepreneurs, lawyers, accountants and various industry experts.

Mizuno says the investment paid off, giving them access to industry contacts and resources. "To me, if you're going to set up a business, to get the resources you need to get on track in the beginning, that's the most important stage ... That gave us the foundation, the building blocks," she says. Instead of selling the seminars, they emerged with a business idea of their own, opening their first store at Pearl Kai Shopping Center three months later.

FIRST, FOLLOW YOUR PASSION

Mizuno says the most important takeaway from the seminar was not to follow the money: "Some people want to be doctors or lawyers because you get paid well, but the whole thing of starting your own business was to find something that you enjoy doing, then from there, try to find a way you can make money off of it," she says. Nakanishi says that's important, considering the partners continue to work at least 70 hours a week, plus time spent paying bills and other administrative tasks after the stores close, learning about new products and scoping out competitors' stores. Passion was also an important driver in the startup phase, when both partners and their families scraped together \$40,000 in startup costs to open their first store at Pearl Kai. They broke even on first-year revenues of \$12,000, because neither partner got paid until the following year. But they knew early on

that the work would pay off.

As collectors of animated merchandise, Mizuno and Nakanishi knew there were several well-loved animated characters that were not represented by animation studio stores such as Disney and Warner Bros. "We know there's a lot of people who enjoy the same kind of thing, cartoons that weren't really part of the mainstream, like Betty Boop and Garfield," says Mizuno. "Even Disney, when they do merchandising, they do things exclusively for their stores ... yet they license out other products ... so that created a market for us. Whatever they didn't sell, we can offer."

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The more they evaluated the idea, the clearer the reasons became for starting their business. For one, the industry attracted customers of all ages, from the young and trendy to classic collectors. Second, there was an endless march of new merchandise with built-in marketing campaigns to drive traffic to their stores: "Toy makers and filmmakers are always going to be coming out with something new, which makes our job easier," says Nakanishi.

BUILD ON EXPERTS' BACKGROUNDS

As enamored as they were with their business idea, they were glad to tap into IBI's considerable network. Through IBI, the partners met Rand Brenner, a former licensing agent for Warner Bros., who now has his own international licensing company. "He was a major source for us," says Mizuno. "He taught us how to source the products, where to get information, how to find different things." Nakanishi's late father, an accountant, helped set up the business. Elaine Higa, Mizuno's aunt and owner of Toyriffic stores in Kapolei and Mililani, became their sounding board. "As young as they were, they were much wiser than some of the people I've had experience with, in the business. Part of the secret is that they're really hard workers," says Higa.

CARRYING That served them well after Brenner provided animation-industry licensing and distribution contacts.
CRITERIA: "You still have to go out and work the list. The resources are there for you, you can ask people for
Animation help, but we had to work it ourselves from there," Mizuno says. Nakanishi says they hit a glitch early
Magic on: "No one would ship you merchandise if you didn't have a store, so we had to open up anywhere."
stores carry They opened at Pearl Kai, simply because space was available in turnkey condition. Mizuno says,
merchandise "All we had to do was put in the product and start selling."

that are
cute, cuddly Following their own instincts led them to open their Aloha Tower Marketplace store, just as the
and in marketplace was about to open. "We actually took a big risk when we opened our second store,
demand. because we got it in loft condition, which meant we had to do all the construction on it," says Mizuno.
"A lot of people thought, you know, it's kind of slow at Pearl Kai, I don't know if you want to invest
that much" in a second store. But, she says that, from the beginning, "A lot of people came around and really
reinforced that it was a good idea." So good that they closed the first store and have remained at the Aloha Tower
location for the past 10 years.

That location led to greater visibility, which led to another store at Ward Warehouse in 1997. Two Waikiki stores
were added in 1999 - one each at the Hilton Hawaiian Village and the Hyatt Regency Waikiki - when their
competitor, Baby Toons, decided to sell out. Almost 12 years after the idea first struck, they've become more
confident in their own abilities to chart their own course. "Every step is more reinforcement [for us]," says
Mizuno, who says she was amazed at each step forward the company took. "Every time you think, this is it,
there's something more that happens." Nakanishi agrees: "Just when we think we're going to slow down, we're
expanding again."

GO OUTSIDE YOUR COMFORT ZONE

Even as the Animation Magic stores continued to grow, the partners considered other lines of business. Because
Aloha Tower's customer base consisted mostly of tourists, the partners felt there was a market for a Hawaii-
themed store, All That Aloha, built around a local animated character, Mekana. The idea for Snak-a-licious came
when the coffee store next to the Ward Animation Magic store closed, just as the entertainment complex opened
up and the center began getting more customer traffic, says Nakanishi.

Still, both acknowledged that the learning curve for doing both was steeper than they anticipated. Mizuno says
that, like retailing, food products are subject to trends and changing customer preferences. "So we really have to
do a lot of research on what people want and who carries what, and right now, maybe our time is a little bit spread
too thin." Says Nakanishi, "We never thought it would take up so much time ... and there's not as much profit."

Similarly, says Mizuno, "Manufacturing takes more time, because you really have to be on top of the most popular
items, like a certain style of purse, and then [decide how to] put your character on it. It takes a lot of legwork."
Nakanishi says another challenge is managing inventory. "If you manufacture something, you have to make a lot
of it, and if it doesn't sell, you're stuck with it." Unlike the retail snack store, Mizuno says, "The profit margin is
better when you're manufacturing, but then your minimum [orders] are a lot bigger, so your financial commitment
is bigger."

Toyriatic owner Higa says that, although she was concerned about whether they could handle so much additional business, she's been pleasantly surprised at the partners' ability to juggle the different enterprises. "They demand a lot of themselves ... but they're expanding into things that they like," she says. For now, Animation Magic remains their bread and butter, Nakanishi says: "It allowed us the opportunity to further explore different things we're interested in, in other markets that we want to get into. But it's still our No.1 business."

STAY CLOSE TO CUSTOMERS

Both Mizuno and Nakanishi continue to work in their stores, believing this is the only way they can stay close to their customers. Mizuno says, "You have to be willing to be in your store. If you're doing it just to find some business to buy, and think it's going to run itself, that would be the biggest mistake. No matter what the business is, you have to be in there and know your customers and know what they want, or what they're looking for."

For example, she says, a successful movie doesn't always translate into merchandise sales. "Shrek was a good example," says Nakanishi. "It was a very good movie hit, but none of their merchandise sold."

Mizuno says Hercules was another example: "While it may have been a good movie, we were thinking, how many people want to carry around that doll?" In contrast, she says, "With Lion King, everyone thought Simba was so cute, and we thought everyone would carry it. So it's a matter of picking and choosing."

CHOICES,
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The broad
appeal of
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from
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to nostalgic
adults and
serious

collectors.

Beyond cute and cuddly, Mizuno says, it takes knowing that different characters appeal to different market segments: "Like Care Bears, there's a big gap, because little kids like it, then there's the teenage market, the juniors. So you have to know only to buy certain sizes [of clothing], because [manufacturers] offer a wide spectrum ... we constantly have to weed through who we feel it's going to appeal to."

While they have their own experience to support their choices, Nakanishi says, "You talk to the kids a lot. They'll tell you what's good and what's not." Mizuno agrees: "That's why we work in our stores ... we're not in an office, removed and just guessing on our own. Sometimes kids even hear about things before it hits the market. So if we hear enough about it then we'll go investigate, 'So what is this they're talking about,' and then you know to go that way."

The downside to all this hands-on management is that it limits the company's growth. The partners say the tradeoff is worth it. "We're always asked if we have stores in other states or other islands, and whether we would franchise, but [the answer is always] no," Nakanishi says. "We put in too much time and energy getting to where we are just to let someone else have it." Mizuno says, "If we can't be hands-on, I think it would be really hard. It's hard to be an absentee owner." She adds that what makes her partnership with Nakanishi work is that they have the same level of commitment, which would be difficult to find in those who have not invested as much time in the business as they. Animation Magic may be built on whimsical characters, but to its owners, it's serious business.