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Koala Corporation - Company Profile, Information, Business Description, History, Background Information on Koala Corporation

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Company Perspectives:

Koala Corporation is rapidly building a portfolio of products and solutions that resonate with the values of its brand: convenient, practical solutions for families. Through internal growth and acquisition, Koala has become a full-service provider of these solutions. From its industry leading Baby Changing Station and other parental convenience products to indoor and outdoor modular play equipment, Koala represents one-stop shopping for businesses that cater to families.

History of Koala Corporation

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Demonstrating that necessity is the mother of invention, Koala Corporation is best known for its signature product, the Koala Bear Kare Baby Changing Station, which was developed in response to the increasing acceptance of infants and toddlers in places other than the nursery or the park. Building on its commitment to "family-friendly" products, Koala has moved far beyond its initial baby-changing tables; through a series of acquisitions it has branched out into products such as playground equipment and indoor and outdoor play areas. In the years since the Baby Changing Station was introduced, other companies have entered the market--but Koala still has at least half the market share. Its well-known logo--a smiling, diaper-clad koala--is recognized in some 50 countries.

Early Days: A Practical Solution

The history of Koala goes back to 1986, when four Minnesota businessmen formed a company in St. Paul called JBJ Industries. JBJ sold one product--a baby-changing table that could be attached to walls in public restrooms. Until perhaps the late 1970s, infants and toddlers were not as ubiquitous as they were by the

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children, but partly it was no longer as easy to leave toddlers home. Parents hear the phrase "try finding a baby-sitter" from their friends as frequently as they hear "are we there yet?" from their children.

One of the challenges of going out shopping with an infant is how and where to change diapers. Counter tops in public restrooms were hardly the ideal choice; even those that were clean had limited room. The four St. Paul businessmen, one of whom was medical-device salesman Jeffrey Hilger, came up with the idea of a standalone product--a folding table that could be attached to walls in restrooms. Parents could place their babies on these tables and change them safely and privately. When not in use, the tables would fold flat against the wall.

The result was the Koala Bear Kare Baby Changing Station--a product that is easy to install, easy to use, and easy to maintain. Although the original product evolved over the years, its initial design--molded polyethylene and steel, rounded edges to prevent injury, compact size when folded to accommodate even small restrooms--has remained the same. Among the additions made in later years were safety instructions molded into the station in several languages as well as Braille. Parents who used the Baby Changing Station were both relieved and impressed by the simple and practical application.

JBJ's big break came in 1988, when a fast-food restaurant chain decided to install Baby Changing Stations in its facilities. Before long, Koala Bear Kare tables began appearing in other public restrooms, and within a few years JBJ was developing related products. The company made "family-friendly" its chief focus.

In 1991, JBJ introduced a child protection seat, a wall-mounted seat with straps. Like the Baby Changing Station, this seat could be attached directly to the restroom wall. The rationale behind this new product was that parents with small children occasionally need to use the restroom themselves. Since parents often carry their children in child pouches rather than wheeling them in strollers, the problem of using a restroom while carrying an infant is obvious. A safe and comfortable seat in which the infant could be placed would have obvious appeal.

JBJ continued to grow, and in 1993 it changed its name to Koala Corporation. It became a public company and began trading on the NASDAQ. A year later, it acquired A&B Booster, a Fort Myers, Florida, company that manufactured booster seats. The product known as the Booster Buddy is designed to allow children who are too old for high chairs but still too small to sit comfortably in adult-sized chairs. Booster Buddy seats allow children to sit at table level in restaurants; they also allow children to sit at eye level in theaters (the seats include recessed cup and snack holders).

A Move and Continued Growth

In 1995, Mark Betker joined Koala as president and CEO. Betker, who had successfully helped grow the industrial cleaning-equipment manufacturer Windsor Industries, became chairman the following year when Hilger retired. In fact, 1996 was a year of significant change for Koala. It acquired Activities Unlimited, a manufacturer of children's play stations for retail stores. This marked the beginning of a new focus for Koala, but one still centered on the family-friendly concept. Also in 1996, Koala moved its corporate headquarters from St. Paul to Denver, Colorado.

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The Baby Changing Station was by far the most immediately recognizable Koala product. Koala had made some inroads into diversification with the safety chair and the Booster Buddy, but it was clear that it could move still more aggressively. The trend toward dual-income couples continued, and there was also a rise in single-parent families. Children were increasingly visible in stores, theaters, malls, and even offices. More and more companies, no longer only fast-food restaurants, were looking for ways to become family-friendly.

As other companies began to manufacture their own baby-changing stations, Koala realized that it could not count on its signature product indefinitely as its cash cow. Even with its strong market share, it was only a matter of time before Koala would be just one of many players. Moreover, there was always the danger that eventually the market would become saturated once baby-changing stations became common in all businesses. Betker thus saw the need for a family-friendly environment in a growing number of venues as the key to Koala's success. In 1997, the company acquired Delta Play, Ltd., a Canadian manufacturer of indoor and outdoor modular play systems, and in 1998 it acquired Park Structures, a manufacturer of outdoor children's play equipment.

The family-friendly approach was adopted by a number of businesses, from small operations to large chains such as Pizza Hut and Outback Steakhouse. Koala's acquisitions and internal developments allowed the company to market everything from simple play-station tables with building blocks to custom-made play units complete with ladders and tunnels. This way, Koala could serve the needs of both individual professionals (such as pediatricians) as easily as it could serve large retail stores. Betker believed that making businesses family-friendly had advantages beyond merely attracting families. Getting a family inside a store is one matter, but keeping the parents from being distracted can be a greater challenge. Betker said as much in 1998 when he told *Forbes*: "No car dealer in the world can compete with a two-year-old."

Thanks in part to its acquisitions, Koala's revenues rose from \$8.9 million in 1996 to \$19.1 million in 1998. In 1999, Koala acquired Superior Foam and Polymers, Inc., a maker of soft foam play structures. It also acquired Smart Products, a manufacturer of high chairs and grocery cart straps. By year's end, revenues had nearly doubled to \$37.1 million.

In 2000, Koala continued to acquire companies that fit its family-friendly focus. March saw the acquisition of SCS Interactive, an interactive play equipment manufacturer. Among SCS's offerings are so-called "water play" products, the sort that would be commonly found in amusement parks and similar venues. One of SCS's most recent projects was the completion of a three-acre theme park inside an existing amusement park. In August, Koala acquired the playground surfacing manufacturer Fibar. Fibar's specialty is protective surfacing, a key concern among playground manufacturers. With safety an issue of constant concern among parents, play areas that minimize the risk of injury have enormous appeal. Also in 2000, Koala signed licensing agreements with La Rue International and Associated Hygienic Products. Under the terms of these deals, the Koala Bear Kare name and logo would appear on such products as disposable diapers, diaper bags, and other infant and child care products.

Koala was working full force to establish its reputation as a supplier of family-friendly products across the board. Whether a family wanted a simple high chair at the local restaurant, a play area to amuse their children at the local mall, or an interactive water slide at a theme park, Koala wanted to be there as well. By the end of the twentieth century, Koala's products had reached such companies as McDonald's, Burger King, Walt Disney World, Target Stores, the Mayo Clinic, and Sony Pictures. Koala finished out the century by being named to *Forbes*' list of the 200 Best Small Companies in America for the fifth year in a row.

Striking a Balance

By 2000, Koala had effected a significant shift from the product that had initially put it on the map. Sales of Baby Changing Stations now accounted for less than 15 percent of Koala's sales. This was not a reflection on the Baby Changing Stations, whose sales were still strong in their established markets. Rather, it was because Baby Changing Stations represented a relatively small part of the company's product line. Thanks to its acquisitions, Koala now had a highly diverse product mix.

As the economy began slowing in 2000, Koala felt even more justified that its acquisition strategy was the wisest long-term move it could make. Koala's management was confident that the trend toward family-friendly outings and entertainment

would grow. Stores that had seen the advantages of installing child-friendly products, whether baby changing tables or activity/play areas, would obviously want to keep a competitive edge over stores that offered no conveniences for parents or children. Moreover, even the most durable playground equipment wears out, and Koala was banking on revenues generated from replacing existing equipment as well as opening new playgrounds.

By the fourth quarter of 2000, Koala's sales had begun to slow--this after nearly a decade of solid and steady growth. Koala finished out the fourth quarter with \$16.6 million in sales--an impressive amount, but short of an anticipated \$18 million. The company attributed the unexpected shortfall to several factors, including more competition, higher-than anticipated administrative expenses, and cost overruns in its modular play business.

Revenues for the year were initially set at \$61.6 million, up significantly from the year before. In March 2001, the company announced that it was revising those figures downward. The reason: delays in product shipments meant that money credited in the fourth quarter of 2000 would now have to be credited for the first quarter of 2001. As a result, Koala's actual sales for 2000 were \$59.7 million. This was still significantly higher than 1999's figure of \$37.1 million. Net income for the year, however, was \$4.0 million, down for the first time in the company's history (it had been \$5.1 million in 1999).

The first quarter of 2001 saw sales 20 percent higher than the previous year--\$13.8 million against \$11.5 million. Still, sales were lower than expected. Net income for the quarter was \$474,930, down from \$1.3 million a year earlier. The company attributed the lower-than-expected sales to several factors, including weather-related delays in product shipment and the overall slowing of the economy. Some investment analysts expressed concern over Koala, wondering whether the company may have overextended itself too quickly with so many acquisitions. But Koala said that it remains committed to growing its business through acquisitions that meet its focus and that give it broader access to the market. While the company admitted that it might be suffering from "growing pains" in light of its acquisitions, it also said that all of the businesses it had acquired were strong performers with a reputation for high quality and commitment to customers. Koala's outlook for the years ahead is optimistic.

Principal Divisions: Activities Unlimited; Delta Play; Fibar; Park Structures; SCS; Smart Products; Superior Foam.

Principal Competitors: Dorel Industries Inc.; Newell Rubbermaid, Inc.; Evenflo Company Inc.; Landscape Structures Inc.

Chronology

- **Key Dates:**
- **1986:** JBJ Industries founded by four Minnesota businessmen who develop wall-mounted baby changing table.
- **1988:** Koala Bear Kare Baby Changing Station makes its debut in fast-food restaurant franchises.
- **1993:** JBJ merges into Koala Corporation and begins trading on the NASDAQ.
- **1996:** Co-founder Jeffrey Hilger retires; Mark Betker is named president. The company relocates corporate headquarters to Denver.
- **1997:** Koala acquires Delta Play, manufacturer of indoor soft play equipment.
- **1998:** Koala acquires Park Structures, modular outdoor play equipment manufacturer.
- **1999:** Koala expands with acquisition of Superior Foam (soft play equipment) and Smart Products (high chairs and grocery cart straps).
- **2000:** Koala announces licensing agreements with La Rue International and Associated Hygienic Products to market child care products under Koala brand.

Additional Details

- **Public Company**
- **Incorporated:** 1986
- **Employees:** 400
- **Sales:** \$59.7 million (2000)

- **Stock Exchanges:** NASDAQ
- **Ticker Symbol:** KARE
- **NAIC:**315999 Other Apparel Accessories and Other Apparel Manufacturing; 326199 All Other Plastic Product Manufacturing; 337127 Institutional Furniture Manufacturing; 337215 Showcase, Partition, Shelving, and Locker Manufacturing

Further Reference

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