

## Diversity and Innovation Buoy Toy Industry

By Karen Goulet, edited by Stacey Albert

The toy industry is fueled with optimism. Following a tough year of recalls and solid competition from other electronic gadgets like iPod and video games, this year's Toy Fair 2008 showing seems to be a positive indication of the resiliency of the industry. Opening-day buyer attendance topped 9,200 this year, a 30% increase compared to 7,100 for the same day last year.<sup>i</sup>

Overall sales may be down but consumption in key segments is holding. Reyne Rice, a toy trends specialist with the Toy Industry Association (TIA), "It continues to be a very big and diverse industry." Rice along with others seems to have little concern with a slight dip in U.S. retail sales of toys which generated \$22.1 billion in 2007, a 2% decline from the previous year.<sup>ii</sup>

### GAMES & TOYS - BOUGHT FOR IN THE LAST 12 MONTHS

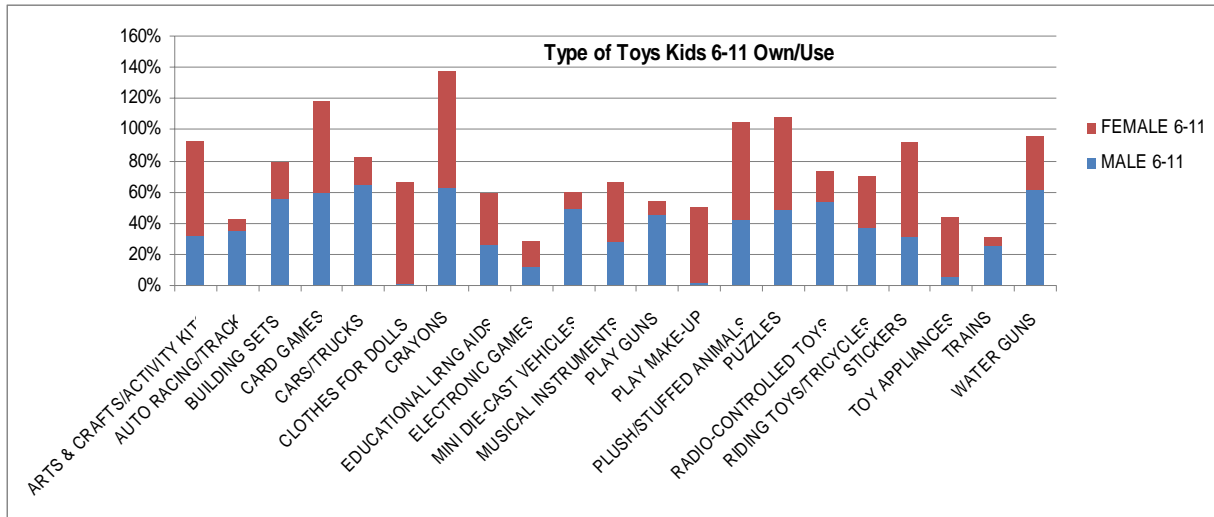
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>07 Vs. '05</u>
<b>TOTAL U.S ADULTS</b>	<b>53.2%</b>	<b>51.8%</b>	<b>51.3%</b>	
YOURSELF	8.6%	8.0%	7.8%	↓
OTHER ADULT	3.0%	3.1%	2.8%	↓
CHILDREN UNDER 12	33.1%	32.6%	32.8%	↓
TEENS 12-17	5.3%	4.9%	4.5%	↓
FRIENDS/CO-WORKERS	0.68%	0.71%	0.76%	↑
OTHER ADULT	1.2%	1.4%	1.6%	↑

Research from Simmons 2007 National Consumer Study shows that 51% of Adults 18+ purchased games and toys over the past year. However, the chart above shows a trending decline in the purchase of games and toys in the U.S. during the period from 2005 to 2007 consistent with the sales decline. Declines in the segments for which those games and toys were purchased are inconsistent. Simmons research illustrates that for the past three years, two of the six *bought for* categories are trending upwards.

Due to sheer size, buyers of games and toys for children under 12 form the cornerstone of the market. Identifying which toys are producing the most excitement and generating

interest at New York's Toy Fair translates into knowing what types of toys children under 12 are interested in.

The graph below not only represents the importance of crafts, games and stuff animals for kids 6-11, but it also shows the relative percentage of gender preference to items they own or use.



"Toys are really splitting off into two camps," says Claire Green, president of the Parents Choice Foundation. "It's always fun for us to see new stuff at Toy Fair. It's interesting to watch and see what appeals to the kids and what appeals to the parents."<sup>iii</sup>

### ***High-tech has universal appeal***

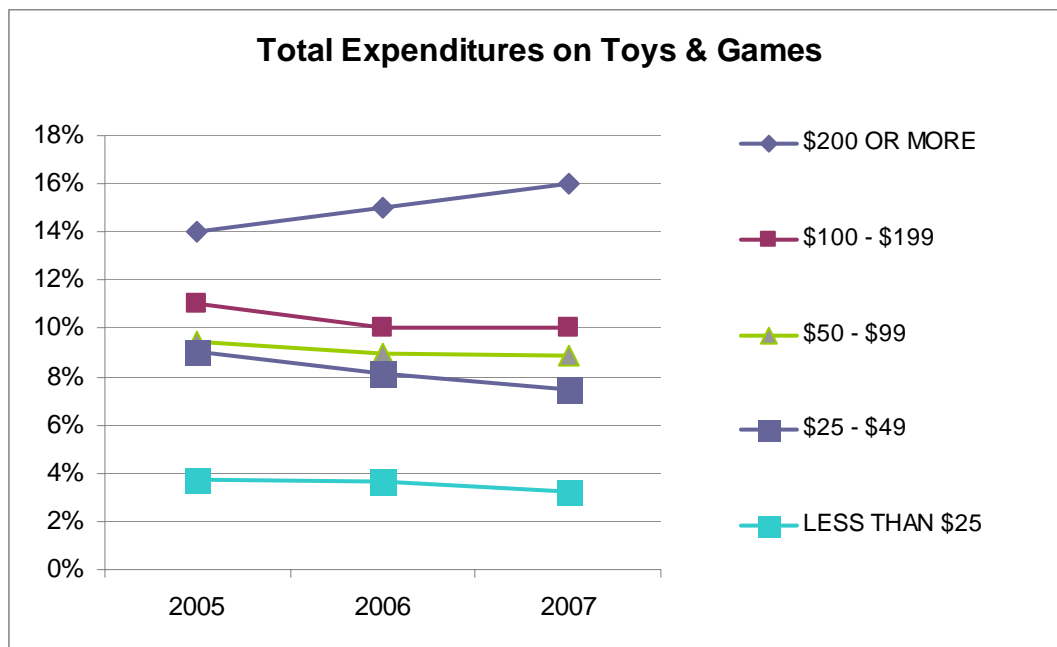
The two biggest trends to emerge in the months leading up to the Toy Fair underscore just how diverse the industry is. While it may seem these are opposing, tech-toys and eco-toys share in common innovation, excitement and the consumer passion necessary to help offset ongoing negative press on recalls and escalating safety issues.

Toys today incorporate increasingly sophisticated technology, including interactivity, safe social networking and life-like robotics. "Technology has just infused itself into every aisle of the toy store," said Reyne Rice. Rice said parents are also looking to balance technology with toys that teach discovery or get kids active.<sup>iv</sup>

The drive to high-tech from toymakers in 2008 seems to be driven by the motto "If you can't beat 'em, join 'em". In an all-out offensive against the iPod, Wii, PlayStation and other hot gadgets, toymakers have launched a raft of sophisticated tech toys of their own. "Electronics and the Internet, that's what kids are obsessed about today," said Jim Silver,

editor and co-publisher of Toy Wishes magazine. "They have an iPod, they are on Facebook and some are e-mailing by age five."<sup>v</sup>

The concern for parents is that some of the latest gadget toys come with a hefty price tag, which could be a problem at a time when many Americans aren't willing to spend lavishly. For example, Mattel's Fisher-Price pre-school division will unveil a \$180 "Kid-Tough" portable DVD player specially designed for a three year old. In defense of escalating price tags, Neil Friedman, president of Mattel Brands said that compared to the hundreds of dollars parents are spending on videogame systems and games, Mattel's new tech toys are still "relatively inexpensive."<sup>vi</sup>



Simmons research supports consumer indifference to increasing prices for games and toys. Of the total game and toy buyers reported in the 2007 Simmons National Consumer Study, almost a third are spending \$200 or more on game and toys for the year. The growth of this spending segment has increased steadily for the past three surveys, compared to the other spending segments. Whether this trend reflects an increase in category purchases or a willingness to pay more for items within the category, it does appear consumers' expectations for the coolest, most fun and innovative games and toys will come at a price consumers for now are willing to pay.

Sensitive to parents being crunched between tighter budgets and rising toy costs, many companies are aiming to deliver more value for money. "You're seeing a lot of innovation at lower prices," said Chris Byrne, an independent toy industry analyst. "Toys are kind of the last area to go when you pull back on spending, but parents are looking at things a lot

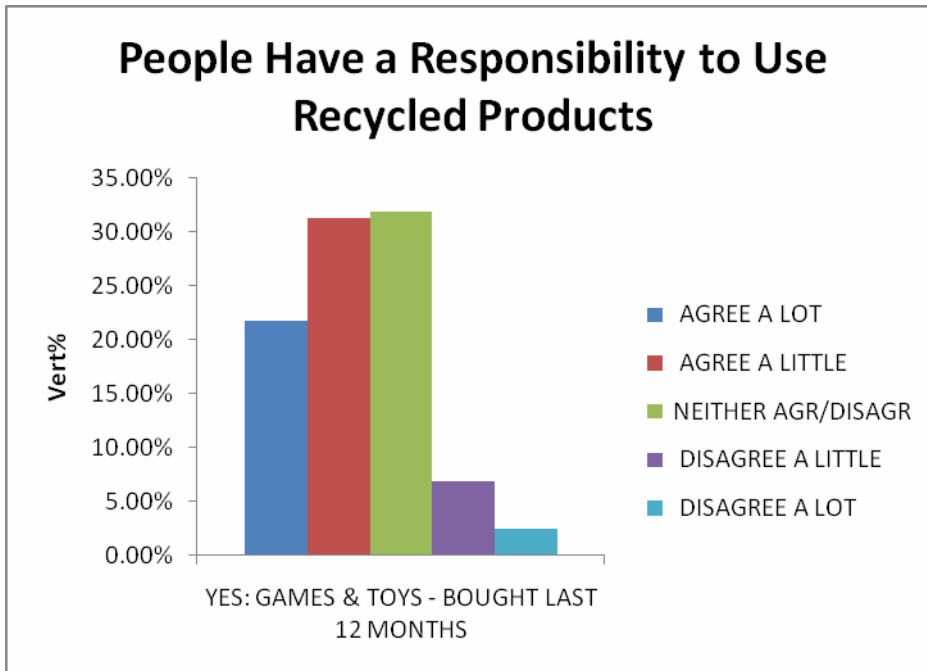
more critically." Byrne said major manufacturers have fewer high-end items costing \$100 or more and are focusing more on their core business of "goofy, collectible, plush" toys.<sup>vii</sup>

### *The color "green"*

Eco is the other booming subset of the industry. "Two years ago I didn't hear anything about environmental sustainability issues," says Mark Randall, head of toys and baby products at Amazon, a major toy buyer. "Now I think the industry is at the beginning of that change process." Ed Schmults, chief executive of FAO Schwartz also agrees, "I think we're at the beginning of a sea change." Having worked at Patagonia, the outdoor clothing company in his career, Mr. Schmults was surprised when joining FAO Schwartz how the toy industry lacks awareness of environmental issues. Now "product safety and environment" is listed among the top 5 qualities they want their products to reflect. "I think the toy business has been out to lunch on the environmental thing," says Mr. Schmults. "If there's something positive to come out of the China recalls, it is that this is now getting much more attention."<sup>viii</sup>

Companies like FAO Schwartz are realizing that making a formal commitment to safety and environment in product development is an investment in their company's future. Simmons National Consumer Study reports that of game and toy purchasers for 2007, 77% of respondents say they agree *it is important that a company acts ethically*. Fifty-five percent strongly agree to that statement.

Last year leading U.S. toy manufacturers recalled millions of toys because of unacceptably high lead levels in paint. Additionally more than 4 million children's crafts sets (known as Bindeez in Australia and Aqua Dots in the U.S.) were recalled because of the presence of a chemical that became toxic when swallowed.<sup>ix</sup>



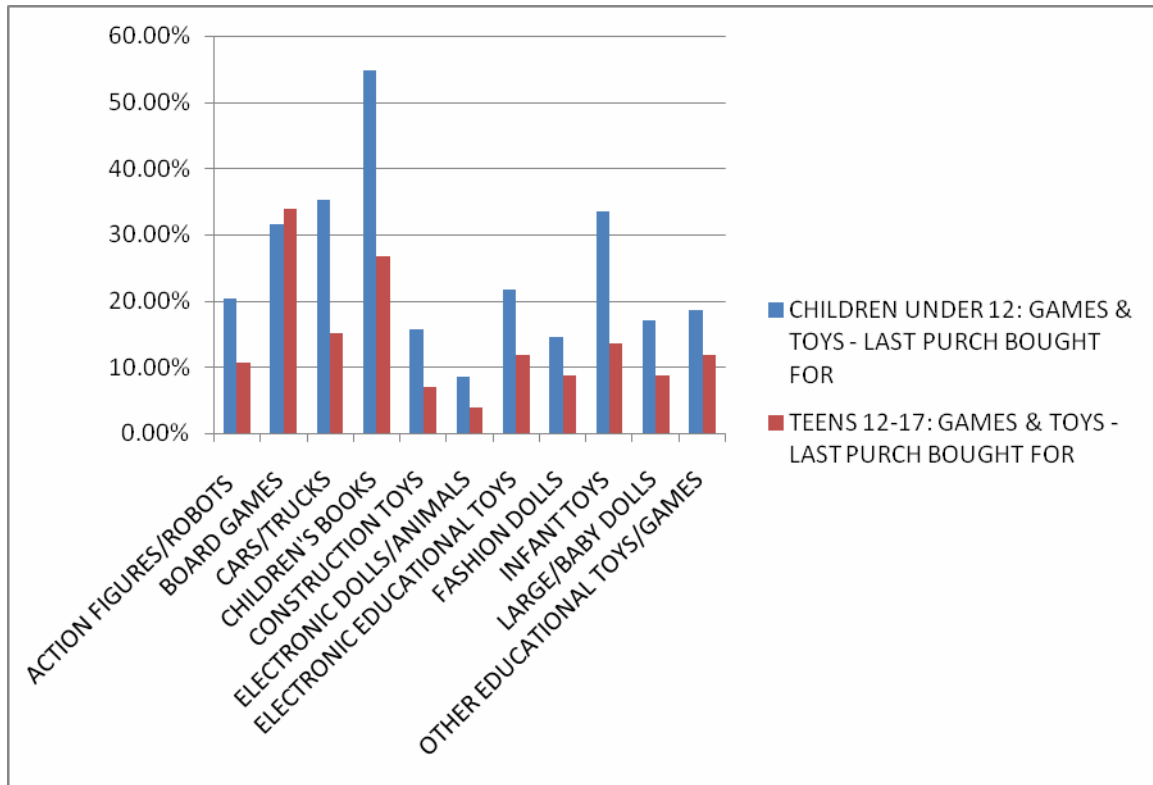
Consumers seem to be clear on the importance of companies acting ethically but are less passionate about personal responsibility with regards to using recycled products. Eco-toys are a relatively new trend which may require a few more years for consumers to fully embrace. As reflected in the Simmons 2007 National Consumer Study graph above, the largest percentages of game and toy purchasers agreed a little or were neutral about the statement; *people have a responsibility to use recycled products*. While this may allude to dispassionate opinions towards recycled toy products, the percentage trend of toy and game purchasers who strongly agree to using recycled products do tend to be growing as reflected in the chart below and has increased 15% in one year from 20% in 2006 to 23% in 2007.

PEOPLE HAVE A RESPONSIBILITY TO USE RECYCLED PRDCTS: AGREE A LOT	2005	2006	2007
	20%	20%	23%

In addition to high-tech and eco-friendly toys, other top trends from this year's Toy Show include: old-school toys (especially those made from wood), toys that get kids moving both indoors and out, bilingual toys, dinosaurs and of diversity.<sup>x</sup> A renewed focus on educational toys both with and without a technological component was also featured strongly.<sup>xi</sup>

**Buyers as diverse as the toys**

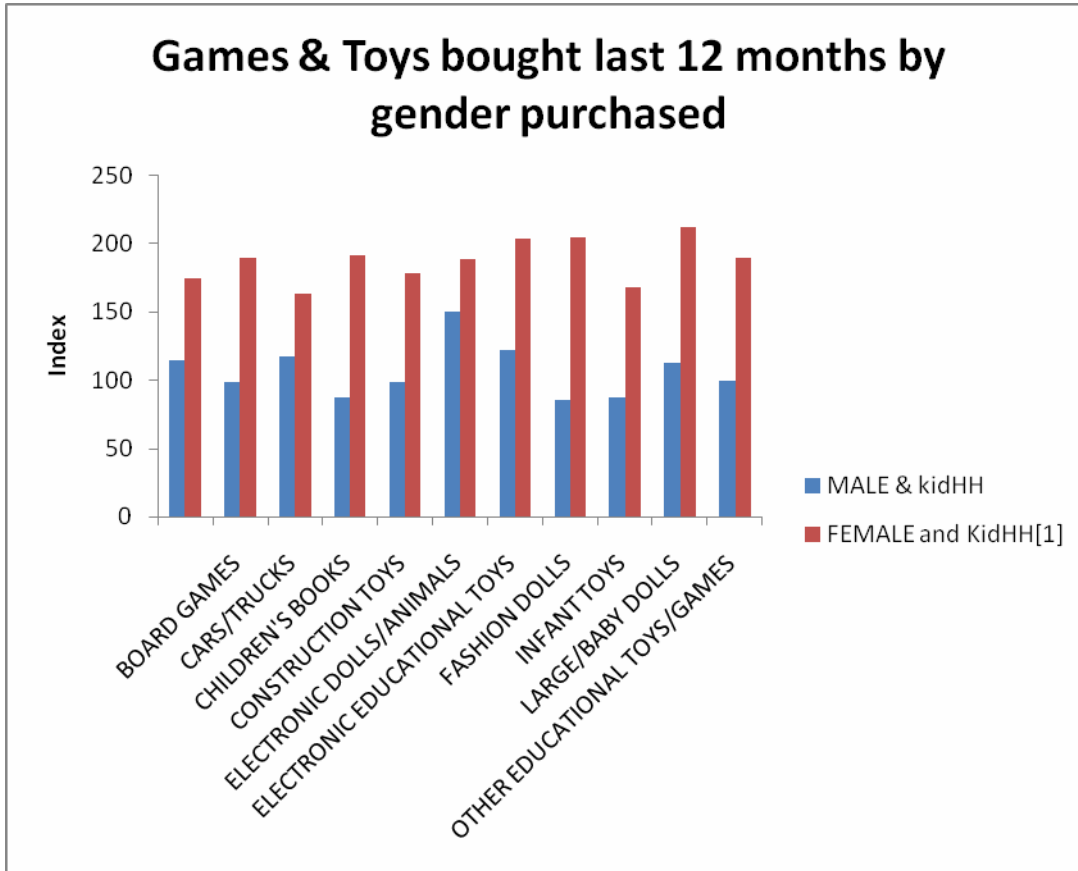
While the toy variety and diversity may prove exciting for industry buyers, not all toys will appeal to all toy buyers. Jim Silver, editor in chief of Toy Wishes magazine, agrees. He said an eco-friendly line is a smart move but it probably will appeal to only a small segment of the toy-buying population.<sup>xii</sup>



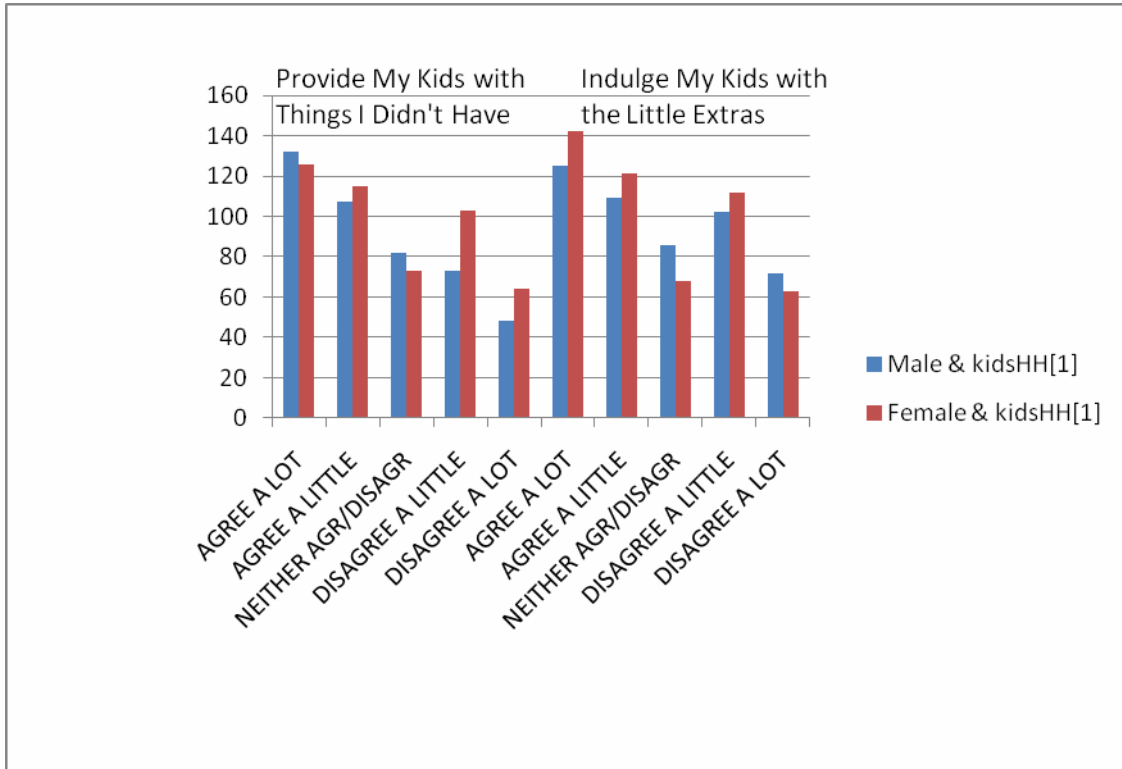
Game and toy purchasers have traditionally demonstrated more conventional selections in toy purchasing. According to Simmons 2007 National Consumer Study, board games and children’s books are among the favorite items *last purchased* by the majority of game and toys buyers for both their children under 12 and teens 12-17. Additionally, cars/trucks and infant toys were among the items last purchased for children under 12.

The Simmons study also reveals the likelihood that females with children in the household are the primary purchasers of games and toys across all types of toys. An online survey showed that 76% of female respondents say that the materials used in a product play a major role on their purchasing decisions.<sup>xiii</sup> This might be vital to an eco-toy manufacturer’s marketing efforts. A tech-toy manufacturer may need to keep their eye on male purchase behavior. As indicated in the chart below, males with children in

the household show an increase in likelihood to purchase toys with electronic components.



Males with children in the household also have slightly different motivations for buying games and toys for their kids than their female counterparts. The graph below suggests that males are more nostalgic, responding with “agree a lot” to wanting to *provide my kids with the things I didn’t have*. They are also less likely to disagree to this question compared to their response of the second question *indulging kids with the little extras*. Females with children in the household on the other hand had a slightly higher index at 142 and 121 to “agree a lot” and “agree a little” to *indulging kids with the little extras*. This second mindset is almost contrary to the nostalgia male mindset which is influenced by past. The “indulging” female mindset is focused on living in the moment.



### *Safety, a never ending battle?*

Toy safety continues to be an unsettling topic. Many states are considering several bills and the U.S. Congress is proposing new laws to insure the safety of our children's health and development. Amazing however is the level of debate which surrounds bans on the use of lead and some potentially dangerous chemicals in plastics, specifically bisphenol-A (BPA) or phthalates (a chemical that when added to plastic makes it soft.)

Arguments surround issues of acceptable U.S. lead standards, "accessibility" to parts or the whole toy, and even the science safety studies themselves. "It's a question of can they buy their way to put the chemical companies before our children," said Sarah Uhl of Clean Water Action, an environmental group, trying to counter the talking points of seven industry lobbyists. Europe on the other hand has had their standards set on acceptable lead levels and has made do without phthalates which were banned from certain toys by the EU since 1999.<sup>xiv</sup>

Safety has been so notable that many large retailers are not waiting for lawmakers to solidify the U.S. position on the subject. Soren Torp Laursen, president of Lego Americas, said the toy industry's new safety guidelines, in response to public criticism of the 25 million toys recalled over the summer, could push up production costs for manufacturer and retail prices for consumers - especially if they include mandatory safety checks. In

early February 2008, Wal-Mart and Toys "R" Us separately announced guidelines which, among other things, require manufacturers to cut the amount of lead used in toys sold in their stores.<sup>xv</sup>

Big retailers are just what the industry needs to lead lawmakers to change. It just so happens, game and toy buyers prefer discount stores and Toys “R” Us to most other stores when it comes to toy buying. Simmons 2007 National Consumer Study reports that in the past three months, 23% of game and toy buyers bought toys from a Wal-Mart and 14% from a Target. This is the largest percent of buyers compared to all other stores and the numbers have trended up over the past three years. Furthermore, 9% of the same group reported shopped at Toys “R” Us 1 to 2 times in a one-month period.

	Fall 2005	Fall 2006	Fall 2007
TARGET: BOUGHT TOYS-LAST 3 MONTHS	5.9%	6.5%	7.6%
WAL-MART: BOUGHT TOYS-LAST 3 MONTHS	12.5%	13.1%	13.3%
ANY DISCOUNT/DEPARTMENT STORES: TOYS LAST 3 MONTHS	19.0%	19.7%	20.2%

When compared to other channels, discount and department store purchases still outpace the purchases of games or toys through catalogs, mail/phone order or the Internet. In the chart below, the majority of game and toys buyers, 35%, bought toys from a discount or department store in the last 3 months. This is significantly higher than 13% who bought from the Internet, 9% who purchased from catalogs and 4% who ordered from mail or phone in the past 12 months.



### Conclusion

Holding fast to innovative and diverse, the toy industry’s newest products are proving favorable to both industry insiders as well as consumers. This will allow the industry to stave off significant down turns in sales due to more conservative consumer spending and ever continuing product recalls in the near future.

Meanwhile the U.S. governing bodies and lobbyists need to come to terms over acceptable lead and chemical use in toy manufacturing. At stake is millions of dollars in sales over the value of health of an American child. Without mandated federal guidelines, the rest of the world and our biggest toy retailers will continue to lead in setting standards for others to follow. Uncertain however is whether this in the long run will be in the best interest of the American consumer.

As with many others, the industry is in the midst of change. While working through these dynamic changes in product development and standards, marketers will do well to sharpen their consumer research and targeting efforts in order to ensure the right product brand and advertising communications are reaching the right people.

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Karen Goulet is founder of MediaMuse, a consulting firm specializing in Connections Planning. MediaMuse focuses on consumer centric research and insights to formulate ideas that close the gap between brand strategy and media placement to deliver a marketing communication experience that is right for the brand. Prior to starting her own company in 2007, Karen held a prominent position as Director of Media Strategy and Research for Omnicom working with many TBWA and OMD clients. Previous to this, she planned and bought media for some of the largest brands in the nation; Coca-Cola, Wal-Mart, Sprint and Toyota. With close to 20 years experience in advertising, Karen is dedicated to bringing media research and consumer insights found in resources like Experian Consumer Research's suite of Simmons solutions to the forefront of strategic planning.

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Stacey Albert brings deep expertise in online and traditional marketing from a range of industries. In her current role as Product Analyst for Experian Local Market Services, Stacey acts as a liaison between production, sales, client services and the brand management team while working closely with the marketing team for product positioning and data analysis.

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**Fall 2007 Adult Full Year (Jan07-Nov07)-Pop**  
**Kids Fall 2007 Full Year - Pop**