

The toys industry and future outlook marketing essay



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The report details the specifics of the global toy industry and the Indian perspective. The study also studies the trends, future growth patterns and challenges for the industry. For objectivity, and assessing consumer and market sentiments, two case analyses have also been presented from various major stores in Mumbai.

Welcome to the colorful world of teddy bears, singing dolls, miniature pianos that play nursery rhymes, battery operated cars and stuffed dogs and rabbits that walk, talk and shake hands. In one word: Toys. Toy merchants of yester years gave shape to the creative fancies and dreams of young ones and grow-ups alike.

The world market has seen various upheavals due to changing consumer preferences, new fads, technological advances and trade liberalization. Countries like China have marveled the world with their low cost manufacturing expertise while at the same time astonished them with their quick imitation, leading all the gigantic players of the world to act on their feet and formulate strategies to counterattack them and safeguard their shares.

India too has seen a shift in focus from traditional board games like Chess (Shatranj) and Ludo (Paasa) and sports like cricket to video games and consoles, puzzles, and Monopoly. The traditionally scattered market has shown signs of consolidation with the entry of companies like Reliance ADAG and Mahindra & Mahindra who are both expanding the market and adding sheen to it. India as a developing economy is a hotspot for MNCs like Mattel

and Hasbro which have now become household names with Barbie and Monopoly respectively.

Big retailers of the world which exclusively cater to this segment include Toys R Us and Hamley's, which house the best brands of the world and add a service dimension to toys.

This document discusses the various classes of toys, the current global scenario for toys, how China has affected the global toy industry, India's market and its growth prospects.

Categorization

Toys and games can fall in one of four general categories:-

Traditional toys: the category is essentially stagnant with 6296 manufacturers and the growth being consistent over the years. In 2007 revenues were \$21. 2. billion (US Market) and \$22. 3 billion in 2006. It includes:

Action Figures & Accessories (G. I. Joes)

Building Sets (Lego Sets)

Dolls (Barbies)

Games & Puzzles (Monopoly)

Plush (Soft Toys)

Vehicles (HotWheels)

Video games: one of the fastest growing segments with revenues of \$18.9 billion which is 51, 2% higher than its 2006 revenues. It includes:-

Youth Electronics (PS2, X-Box)

Gaming Parlours (Jammin, TimeZone)

Casino Games: Slot machines were introduced by casino games manufacturers which have ultimately benefitted the video game industry. Mostly offered by hotels.

Accessories and Others: Includes traditional games including sports items and educational toys for infants, which is also a fast growing industry

Global scenario

The US, China and Japan rank among the top 3 countries in terms of toy sales worldwide; their sales being US\$21.5 billion, US\$4.9 billion, and US\$5.8 billion respectively. Other countries with a significant toy sector include Germany, Brazil, France, India, Australia and Canada. Though the recession influenced toy sales, the sector did witness growth of about 3.6% with sales reaching \$80 billion.

The world's largest toy manufacturer and exporter – China makes 2/3 of the world's toys; the export value of Chinese toys in 2009 was US\$7.8 billion. Guangdong, Zhejiang, Shanghai, Jiangsu and Shandong are the foremost production and export bases for toys in China, accounting for more than 90% of the annual sales of Chinese toys.

Chinas plush toys enjoy a large share of the total sales in European & American market. But the low prices are also responsible for a low profit margin. However it entails high labor costs and therefore manufacturing costs are pretty high. Wooden toys also have a significant share of 10% and plastic toys are suffering due to the continuously rising price of raw materials, quality and safety issues, etc. China's intellectual toys too have a broad prospect, but relevant standards need to be released so as to guarantee the healthy development of the market.

Under annual average consumption of toys globally, China sees US\$20, while Australia and the USA reach respective US\$401 and US\$280. An average American girl child has seven Barbie dolls. At present, the population of Chinese juvenile and children has hit 300 million, so, there is huge potentiality of toy consumption in domestic market.

In 2009, in pace with the upgrading of technology, the toy export industry has witnessed several changes: developed countries have diverted their demands of toys to toys such as adult toys, high-tech electric toys, intellectual & educational toys from traditional medium and low-grade products like plastic toys and stuffed toys. Electric toys and online toys produced with high & new technology have become the new development orientation.

Major players worldwide

Mattel Inc.:- Mattel sells products under a host of well-known brand names such as Barbie, Matchbox, Fischer Price, and Hot Wheels.

Hasbro :- Produces popular board games such as Clue, Monopoly, and Scrabble. Its other products include the Transformers, Mr. Potato Head, Play Doh as well as licensing agreements with brands such as Star Wars and Marvel.

JAKKS Pacific:- Produces traditional toys under licenses for brands such as Cabbage Patch Kids, Care Bears, and Hannah Montana, a particularly big earner for JAKKS in 2007.

Other big names include Russ Berrie and Company, RC2, Action Products International and Corgi International.

Together, Mattel Inc. and Hasbro Inc. have less than 40% of the market, which analysts expect will grow at a compound rate of roughly 2% annually.

INDIAN SCENARIO

Currently there are about 800 Indian games and toy manufacturers, exporters and suppliers in the small sector of India, with a turnover nearly \$2.5 billion. This includes manufacturers of fun games, electronic toys, soft toys, educational games, toy cars, rattles, dolls, plush toys, computer games, brain teasers, children puzzles etc. The total toys and games market in India stands at around Rs. 2500 crore, of which Rs. 250 crore is in Chennai.

Total Market Size: Rs. 2500 crore

Market Structure: 35% Organized Sector,

65% Unorganised Sector

Duties and Taxes: Excise Duty: 12. 5%

CST(Central Sales Tax): 4%

Global Export Contribution: 0. 4%

Governing Body: Toys Association of India (TAI)

Compared to European and American games and toy markets, Indian toy volumes are very low, mainly because toy buying is a relatively urban phenomenon. Most toy manufacturers are from the unorganised sector, who in turn sell their toys and games to big traders who market these toys.

The total export market for toys and games is around Rs. 18 or 19 crore. The export volumes are low because, the quality norms are very strict abroad.

Manufactured toys for export have to conform to the EN 71 norms, the European standards for toys. The toys have to be non-toxic and safe to sell abroad. Mattel, Lego and Funskool are three of the major players in the Indian toy industry

The toys and games available in India are a mix of both fun toys and educational tools. They include dolls, puzzles, electronic games, handmade toys, soft toys, board games, computer games etc. Indian wooden toys are of good quality and comparable to international standards. The demand for fun toys is greater than that of educational toys since parents usually prefer buying educational toys for their children.

Some Indian Players:

Zapak Games: It is a part of the Reliance Anil Dhirubhai Ambani Group.

Zapak Games operates in two categories – Game CD & Toys. It is the leader in Games CD in India. It holds licenses for leading kids properties from Cartoon Network, Nick, Disney, Pogo etc as well as represents some of the leading global toy companies in India.

The product distribution is across all toy stores and retail chains in the country through the traditional mom – n – pop outlets as well as large format key account stores. We had the opportunity of seeing some of these toys with Landmark outlets across the city. It acts as the merchandizing and licensing arm of Zapak Digital Entertainment Ltd. They are also in an association with Spin Master Ltd. which according to NPD is the third largest toy company in North America.

Mahindra and Mahindra – Mom & Me outlets across the city are operated by Mahindra which hosts educational toys for children. It also has the marketing rights for Lego brand of toys and soft toys from Disney.

Some small players are:

Prasid Toys Pvt Ltd. – Delhi based

Little Genius Toys Ltd. – (Wooden Educational Toys)

Leo Plast

Effect of China on Indian toy industry:

From a 2, 000 players a few years ago, barely 800 survive today, it is believed that nearly 40 per cent of toy companies have shut shop since Chinese products started flooding into the Indian market.

Even as the unorganized sector has been most hit, some of the other players like Mattel, Funskool (joint venture between MRF Tyres & Hasbro Intl), Mahindra Intertrade (which markets the Lego and Disney range of toys) and a few others are forced to fight back with a string of innovative strategies.

Compared with an average Rs 35 per kg a Chinese toy maker spends, an Indian manufacturer has to dish out Rs 65 per kilogram for raw materials. High excise duties and taxes including local taxes that vary greatly add to their woes.

Indian companies have not made efforts to market their products in a planned manner and while some Indian companies are trying to combat the threat from Chinese toys by slashing prices by 10 to 15%; others are strengthening their distribution skills in smaller towns, where the reach of imported toys is still limited.

Industry Growth

Finding the right niche – marketing limited to premium segment

Indian consumers are gradually becoming less price sensitive, but are ready to pay for something they believe has a value proposition. They are realizing that toys help in the all round development of a child.

Take the \$6-billion Mattel Inc. for instance, after a runaway success with Barbie, Hot Wheels and the toddlers range Fisher Price, it has introduced the Harry Potter range of toys which caters to the premium segment. With its Fisher Price range, targeted at toddlers, Mattel is also launching developmental activities along with many toys associations, paediatricians and playschools to educate parents on how toys help the child in understanding the adult world better.

Mahindra Intertrade, which markets Lego in India undertakes innovative practices like putting up Lego play tables at playschools, hotels and resorts, shopping malls etc to educate consumers. Lego range of toys are steeply priced at anywhere in between Rs. 500 and Rs. 2500.

Experiential marketing – Stay away from the Chinese

The organized players have been proactive in educating the Indian consumers to look at toys as an effective tool that helps develop the child's intelligence and helps in all round development. It is this niche clientele that branded players cater to. The organized sector has been growing at the rate of 20 to 25 per cent and the market is shifting from unorganized to branded toys. From 30 per cent even a couple of years back, the organized sector

now accounts for 40 to 42 per cent of the total market. They have withstood the Chinese onslaught because of their deep pockets and emphasis on profits in the long term only.

Considering that it is in electronic or battery operated toys that the Chinese have had a clean sweep, most organised players, be it Mahindra Intertrade, Mattel or Funskool, stay away from this segment because it is not easy to match the Chinese scale and or their price. High sales tax of 12% combined with huge investments required on electronic toys is a major deterrent for big and new players to enter this sector.

Glocalization – Go Global Act Local

Almost all major players, have launched an indigenous range of competitively priced soft toys range, to cater to the growing market.

Mahindra Intertrade, for instance, launched Soft Wonders, to cater to the economically sensitive customers. Similarly, Mattel has launched Star Beanies for the Indian market and Funskool have launched their soft toys last month.

Act Faster than the Fastest

These players have also spruced up their legal activities against spurious products and taken actions to make the vigilance stricter.

They try to bring in designs faster than the Chinese can imitate. For instance, once the market gets flooded with fake products with Mickey or Donald motives, be it on cups, bottle, plates, tiffin boxes etc, Mahindra Intertrade would quickly launch Mickey in sportswear and shift the demand. Such

marketing skills a range of strong brands have enabled them withstand the Chinese threat and allowed them to play a crucial role in growing the market.

Trends

Online Buying:

In 2004 when Mattel registered on Indiatimes, Rediff and Baazee, they discovered that when kids did not look for toys online, their parents (on the lookout of discounts) did. Also online shopping for toys accounted for approximately 2% of total sales, that is Rs 21. 24 crore (Rs billion) in 2005-06.

Mall practice

Malls are an undisguised blessing for the toy makers. In a mall one gets better shelf space to exhibit products, and the entire range can be displayed with the add ons which then have a good chance of being sold to the potential customers. Better sales tracking is another advantage one gets from the malls.

In 2005, Mattel opened two 1, 200 sq ft Barbie stores in Mumbai at the western suburbs (Inorbit mall) and at the central suburbs (Nirmal Lifestyle). Approximately 35% of the sales of toys for Funskool and Mattel take place at the malls.

Fusing Entertainment with toys

Mattel has produced five movies to promote its existing range of toys, whereas Funskool, its rival has been using existing movies like batman to create a new range of toys for itself.

Toys for Men

Towards the end of November 2005, Mattel had launched toys for men. It featured models of premium cars such as BMW 645 Ci as well as Ferrari Scaglietti; and Williams and Renault in its ' F1 Range' of Hotwheels Collectibles; having a price ranging from Rs 999 to Rs 1, 999.

Changing Demographics

Demographic variables are also responsible for the changing trends: greater divorce rates, due to which children get two sets of toys; increasing buying power per child as a result of 2 income families; and an increase in the involvement grandparents have in their kid's lives due to an increasing life expectancy are all influencing the growth rate of the toys.

Threats/Hindrances/Challenges

There is a rise in the raw material costs, due to an increase in the manufacturing costs for

traditional toys

Most of the traditional toys are made from plastic resin. Petroleum, whose price is continuously increasing, is one of the main components of plastic resin. This has a negatively impact on the manufacturing costs.

Changing Consumer preferences

Nowadays, customers prefer electronic games to traditional table games. This trend is not beneficial for the traditional game equipment manufacturers.

Revenue of the Video Games Industries and Traditional Toys (\$ in billions)

Industry

2004

2005

2006

2007

Video Games

9.9

10.5

12.5

18.9

Traditional Toys

22.4

22.2

22.3

21.2

In India, toys aren't perceived as developmental. So toy manufacturers take advantage of impulse purchasing trends and the pester power of kids works in advantage for the toy manufacturers.

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Indian parents perceive expenditure on toys as a waste of money.

Educational games like Scrabble and toys for pre-school children and infants are an exception to this belief.

Impact of Recession

Only when the consumers have enough disposable income to afford luxury goods, they buy toys. A struggling U. S. housing market, rising oil prices and other factors have limited their income. The toy industry was also affected by this trend, as its overall revenue decreased.

Declining profits due to emphasis on product safety

Product safety is another major concern of the toy industry. This was discovered when there was a rising number of product recalls in the second half of 2007. So while companies put more focus on their higher margin core brands, the positive margin implications from this shift are offset by quality and safety testing, as well as higher costs for raw materials.

Competing with large brands

Small manufacturers which form the bulk of the unorganized sector are unable to brand and market their products, which has been a critical disadvantage for them. With a large number of players in the market, only the international brands have a strong brand recall. Here, manufacturing competency isn't the real concern since most of the branded players outsource their requirements from Indian manufacturers. However, lack of marketing acumen and an expertise to cultivate brands is found to be lacking in most indigenous companies. Small manufacturers have been

inward-looking in their approach, with small capacities and catering mainly to local markets.

New strategies

Coupling toy launch with movies and vice versa

Transformers, Shrek, etc

Art Attack a Television series by Hit Entertainment has also entered the toy market. It showcases Do-It-Yourself arts and crafts in their videos and has now made them available in DVD formats across major stores. They also merchandise their creative works through books.

Cradle catching

In 2005, Mattel entered into a partnership with diaper brand Huggies. By this move, Mattel targeted its potential audience at their birth place, and even before they were born at the maternity homes.

When the mothers visit the doctor for the first time, they are given a medical file, as well as well as the information on the different phases that a child is likely to pass through as it grows which helps in selecting toys from the Fisher Price range that fits each growth phase ie. crawling, sitting, standing, etc.

Within a very short period of time, they claimed to have targeted 600, 000 mothers by having tie ups with 300 pediatricians and 50 gynecologists, across the top six Indian cities.

Also, another innovative technique used by Mattel is a toy directory which is placed in retail outlets that informs parents about the best toy for each age group.

CASE ANALYSIS: Toy Industry and Related Trends

CASE #1

Place – Hamleys, Phoenix Mills Mall, Lower Parel, Mumbai

Description –

Hamleys, the world's iconic toy maker from UK, has set up a 21000 sq ft outlet spread over three floors in Mumbai, its first branch in India through franchise agreement with Reliance Retail. The tie-up is valid for 20 years. The company plans to invest Rs. 150 crore in the next seven years to set up 20 more stores across the country, including tier-II cities.

Brands – Other than Hamleys' own-brand range of toys, imported brands such as Mattel, Hasbro, Disney, Fisher-Price, Playmobil, Leapfrog, Mecchano ,, Scalextrics, Hornby, Maisto, Burrago, and Lego are also present in the store.

Segments – The shop has been divided into segments catering to infants, young boys & girls, teenagers and adults.

It has a Barbie Doll House and Barbie Salon and Spa for young girls.

Grand Racing Track for RC Cars, London Double Decker Bus, Safari Jeep for young boys.

Petals & Pods-Play area and Bear Tree House are for infant and pre-school children.

Science Molecules, Candy Shop, Disney Castle, Experiential gaming stations, Party rooms area are for teenagers.

A KodakExpress studio has a shop-in-shop strategically placed in the center of the shop to capture moments at Hamleys.

Prices – The price varies from as low as Rs 200 to as high as Rs 30, 000 depending upon the requirements and preferences of the customer. Most products are priced on the higher end of the spectrum keeping the affluent urban folk in mind.

Age Group – It caters to infants, young boys and girls and teenagers. Board Games are popular with adults also.

Managers Views –

The shop is one of its kinds in Mumbai, since it is an exclusive ‘toys only’ outlet with all kinds of toys under one roof. The trends noted by them are that parents are more interested in buying toys and games that offer educational value to their children; and children too are more interested in games that offer intellectual stimulation. Children have moved from the traditional sports of cricket and kabaddi to gaming consoles and Scrabble. Also adults are a growing segment with them fraying towards traditional games such as Mancala – a French board game, Monopoly, and Poker – for which they buy Poker chips. Workshops are organized to engage the children

and merchandise related to new films are sold every now and then to offer something new to the customers.

Customers Views

Customers always find it a delight to visit Hamleys since it offers so much variety. A few of the customers just come with their children to provide some entertainment and spend time in the shop. They appreciate the display of the store and the hygiene maintained in the store. Also, though a few products were manufactured in China, they didn't mind buying them if they were sold in Hamleys since the name offered credibility to the product. The range and variety of toys offered by them is also unmatched.

Analysis & Comments:-

Layout: the layout of the store is very carefully planned with the store being divided into a girls section and a boys section. Educational board games, interior decoration kits and games for adults are placed in the center of the shop. The section which caters to toys for toddlers is separate, and the floor above only houses gaming consoles, CDs and educational books.

Staff: A large number of staff take care of the customers' needs and are specially trained to provide entertainment to their most important consumers – the kids! The manager himself caters to customers and entertains all doubts and queries to help them purchase what best suits their requirements.

Store Aesthetics and marketing: A lot of effort has been taken to enhance the visual appeal of the store through visual merchandizing and display

walls. Most toys are displayed and little remote controlled cars and helicopters zoom in and around the store... some of them hovering above one's head or new cars that stick to the walls. The store has a facility for gift wrapping their products, and children and adults alike are allowed to touch and operate various toys in the store.

CASE #2

Place – Mother and Me, R City Mall, Ghatkopar, Mumbai

Description –

Mother & Me is a Retail store owned by Mahindra Group, which caters to the need of Pregnant women, infants, toddlers, pre-schoolers & learners. Its toys section is huge and is gaining popularity day by day. Following are the details of its toys section:-

Brands:-Fischer price, Funskool, Mattel, Lego, Disney V-tech

Segments:-Soft toys, Wooden toys, Metal toys & Plastic toys

Prices:- 350 – 5000

Age Group 0 – 9 Yrs

Manager's Views:

Following are the points which Store Managers told us.

They prefer to keep toys of price range 350 to 5000.

Mother and Me use SAP for inventory replenishment.

They have kept the toys according to their type (wooden toys at one place & soft toys at another place) rather than age group wise (toys for 0-5 yrs at one place).

According to them toys which are able to connect to Indian traditions are highly in demand, eg. Indian Barbies.

Maximum complaints they receive are against Chinese toys and toys manufactured in China.

Customer's Views:

We received the following feedbacks from customers.

Most of them buy toys once a month.

Fisher price is preferred by most of them

Most of them prefer plastic toys over metal & Wooden toys

Most of them are not in favour of Chinese toys despite of the low of cost.

Most of them were in favour of interactive toys.

Some Customers stressed the need of toys, which inculcate the values necessary in human society & were against the toys, which resembles the violent figures or creature.

Analysis & Comments:

From the information provided by store Managers & feedbacks from customers we analyzed that the Toy Industry has a bright future ahead but only if it meets the challenge of providing-

Better quality Interactive toys, which not only make learning easy but also help in cultivating the values necessary in human society.

Light weight Plastic toys as they are easy to handle & more resistant to wear & tear.

Value for money, as most of the parents feel toys overly priced.

Toys which adheres to regional and social trends.

CASE #3

Place - Landmark, Phoenix Mills Mall, Lower Parel, Mumbai

Description –

Landmark is a one stop destination for shopping for today's youth. It consists of books, stationery, garments, merchandize, music, toys, movies, gaming, Technology products and other gift items.

Brands -There were various brands present in the store and a few of them are as follows Mattel, Disney, Fisher-Price, Zapak and Lego are also present in the store.

Segments – The shop has been divided into segments where toys for infants, young boys and girls and teenagers can be found. It also has a sports section and board game section.

Prices – The price varies from as low as Rs 200 to as high as Rs 15, 000 depending upon the requirements and preferences of the customer. The pricing is not exorbitant in Landmark and most of the toys are priced by keeping the Indian customer in mind.

Age Group – It caters to infants, young boys and girls and teenagers. Board Games are popular with adults also.

Managers Views –

Maximum profit is generated from the infant's toy section of the store.

Selling one item from the infant section is equivalent to selling 3-4 items from the others sections. Boys prefer hotwheels, cricket kit and board games and girls are still hooked onto Barbie dolls. The video game industry has not really impacted the toy industry in a negative way. Toys are still favorites with children. Toys are imported from France and Germany and most of them are made in India.

Customers Views –

Toys are ideal gifts for young children and they don't even cost a fortune when it comes to buying them. Customers don't mind paying for the latest and most popular toys for the kids.

Analysis & Comments –

Landmark has been doing a good job of catering to the growing toys market and plans to introduce more imported toys in future. The Sports goods have a prominent place in Landmark and a lot of importance has been given to the sports and board game section.

Future of toys

Predicting the future is never easy. The future of toys specially very difficult to predict . You never know when an old favorite toy will make a sudden resurgence into the mainstream or a new technology will bring about yet another revolution in toy technology.

Generally speaking, video game consoles would predictably always rise to the top of wish lists. However, classic toys often come back to take over the lists for top toys. In recent years, we've seen old comic book characters and action heroes rise to the top again after being in the bottom of comic bins for years. This year's Iron Man 2 brought back an old action favorite, and action figures and cars are available with an Iron Man twist. Other movies like Transformers have done the same.

Old favorite cartoons are also being brought to the forefront. A few years ago, a new Teenage Mutant Ninja Turtles movie in CGI was released, and this past year, Transformers were all the rage. It wouldn't surprise me to see He-Man or the Thundercats rise up to become live action or CGI movies themselves. If they do, expect them to corner the toy market after the movie is released.

It would also be prudent not to underestimate the power of toy fads that are still going strong even 12 years later. Pokemon first got big in 1998, and has been a huge hit with video games, playing cards, and T. V. shows ever since. It has been hard for toy manufacturers to dethrone Pokemon, because it's such a huge hit among kids and even young adults who grew up playing the game. It's very possible that it could last for another 12 years or more. (What do you think of Pokemon?)

Indeed, toy inventors are pushing the boundaries of artificial intelligence, speech synthesis, wireless communications, and networked virtual reality. What's more, they are figuring out how to cram huge chunks of realistic graphics, dialogue, and sensory cues onto tiny, inexpensive computer chips. The toy industry is really at the mercy of technology for the limits it can go to. There are only so many interesting ways for them to reinvent dolls like Mr. Potato Head before kids are no longer interested. Dolls like Furby were a step in the right direction, but the fad did not last for very long. Technology working its way into the toys of the future will bring in a wider audience of interested kids, but it has to be directed at toys that are more than just popular, but are fun too.

The future of toys is bright and exciting. Any new innovation could shape the kinds of toys kids play with. You can bet that the toys of the future are going to have something of the past, however.

Augmented reality: jet fuel for the imagination

The future of toys almost undoubtedly belongs to augmented reality.

Mattel's i-Tags, will use Augmented Reality will be included with action figures the company will make for "Titanic" director James Cameron's blockbuster film, "Avatar."

Augmented reality is an overlay of digital information or imagery on top of real-world objects. WIKIPEDIA: Augmented Reality is a field of computer research that deals with the combination of real-world and computer-generated data (virtual reality), where computer graphics objects are blended into real footage in real time.

In the case of the "Avatar" action figures, AR is being implemented in the form of small plastic cards—the i-Tags—that kids can hold up in front of any Webcam. When they do, a fully 3D digital image is superimposed over the card on the screen. This can be anything from a simple set of information about a character from the film to a full-on, five-on-five shooting battle involving large military helicopters and flying dinosaur-like creatures called Leonopteryx.

It is not about today, but about wha