

Analysis of the indian toy market marketing essay



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The name LEGO is an abbreviation of the two Danish words leg godt, meaning play well. The LEGO Group is a privately held company based in Billund, Denmark. It was founded in 1932 by Ole Kirk Kristiansen. The company has passed from father to son and is now owned by Kjeld Kirk Kristiansen, a grandchild of the founder.

It is engaged in the development of children's creativity through playing and learning. Based on the world-famous LEGO® brick, the company today provides toys, experiences and teaching materials for children in more than 130 countries. The LEGO Group has approximately 10, 000 employees, and it is the world's third largest manufacturer of play materials.

It has come a long way over the past almost 80 years – from a small carpenter's workshop to a modern, global enterprise that is now, in terms of sales, the world's fourth-largest manufacturer of toys.

The LEGO brick is their most important product. They have been named – “Toy of the Century” – twice. Their products have undergone extensive development over the years – but the foundation remains the traditional LEGO brick. The brick in its present form was launched in 1958. The interlocking principle with its tubes makes it unique, and offers unlimited building possibilities. It's just a matter of getting the imagination going – and letting a wealth of creative ideas emerge through play.

(Source: LEGO. com)

LEGO's products:

They are basically divided into product lines:

Chima, City, Star Wars, Friends, Videogames, Duplo, Ninjago, Marvel Super Heroes, DC Universe Super Heroes, Lego Master Builder Academy, Lord of the Rings, Hobbit, Hero Factory, Nickelodeon Teenage Mutant Ninja Turtles, Architecture, Monster Fighters, Technic, Heroica, Games, Lifestyle, Disney Pixar Cars, Dino, Minifigures, Bricks & More, Creator, Galaxy Squad, Pharaohs Quest, Racers, Mindstorms, Power Functions, Nickelodeon SpongeBob Squarepants, Life of George, Kingdoms.

These product lines then have a lot of products within each product line.

(Source: LEGO. com)

LEGO won market share in 2011 as profit jumped 32 percent, boosted by its new Ninjago building-block sets. Net income in the first six months of the year rose to 1. 48 billion DKK from 1. 12 billion DKK in the same period of 2010, according to a company statement released in 2011, and also reported in Bloomberg. com.

The article dated Aug 30, 2011, and headlined ‘ Lego Wins Toy Market Share as Profit Jumps 32% on Ninjago Sets’, further says: “ Lego grew at more than double the pace of its two biggest rivals as first-half revenue jumped 25 percent to 7. 36 billion DKK while the global toy market grew by about 2 percent in the period. Mattel Inc. (MAT) and Hasbro Inc. (HAS), the world’s largest toymakers, last month reported sales growth of 11 percent and 12 percent respectively for the same period. Lego said it increased its market share to 7 percent compared with 5. 9 percent for the whole of 2010 and 4. 8 percent in 2009.”

(Source: <http://www.bloomberg.com/news/2011-08-30/lego-wins-toy-market-share-as-profit-jumps-32-on-ninjago-sets.html>)

The key markets include: North America, most of Europe, Australia and now, even China. However, LEGO wants to expand its global footprints by making a presence in emerging markets and explore and exploit new consumer segments within established and emerging markets.

In other words, the company is looking at ways to increase market share in established markets while putting up a structure in place for delivering an idea to the store shelves in new or emerging markets.

So, I want to find out the scope for such a big player to enter in the huge market of India. I would find out some statistics regarding growth trends and year-on-year growth curves to base my analysis up on. A company would be better armed with the consumer insights and trends shown in the analysis and plan about launching innovative and safer products accordingly.

1. 2 Management question

The management would be concerned with these questions:

How can LEGO capitalize on the huge market potential of India to become a market leader?

How to find the premium mass consumer segment in India and be able to sell LEGO products to them successfully?

Based on the Ansoff Growth matrix used as a tool to envision different growth strategies, the management of LEGO could be told to narrow down to two alternatives:

Product development: Produce some new Indian-ized product lines for the Indian market, if that would help catch the consumer attention.

Or

Expansion: Just focus on setting up supply chains and logistics in the big metros with a planned phase out across rest of India (read tier II and tier III cities) with the existing product lines.

Figure: Ansoff Growth Model

Source: <http://www.smartdraw.com/examples/view/ansoff+matrix+chart/>

1.3 Problem formulation

To form an understanding of the complex Indian consumer market and needs.

To understand the Indian industry regulations and scope to become market leader.

To estimate the costs and benefits of both options.

Whether to adopt an aggressive marketing approach or go for a soft launch to meet less resistance from other big toy makers.

2 Analysis of the Indian toy market

2.1 Research questions

The following research questions will be addressed:

An overview of the current Indian toy market situation

The expected current market size and future projections for market growth?

Scope for future growth in the next ten years?

An overview of trends and product releases

Which new toys would be preferred by consumers in this largely traditional toy market?

Would new retail store formats be preferred for catering to target group?

Which innovative product lines could LEGO come up with to connect with Indian children?

2.2 Data sources

The following secondary sources have been used to approach the posed research questions:

Euromonitor Global Market Information Database (GMID)

LEGO. com

bloomberg. com

economictimes. com

tai-india. org

Miscellaneous sources

2. 3 Market analysis results

India 2012: Status, outlook and trends

India is a country of 1. 2+ billion people (the second largest populated nation in the world) with a burgeoning middle class that rising aspirations and increasing income and education levels. India is a huge market for toys and games of all varieties. Twenty percent of the population is in age group of one to twelve years. As the country develops rapidly, so does the purchasing power of its people. It is a good consumer market with decent education levels and English speakers feeding not just on Indian entertainment channels but also on the Western entertainment satellite channels. The government of India is giving impetus to learning through toys via several projects and schemes.

There are several articles on Euromonitor that show a positive growth trends and potential for the toy industry in India.

An article dated 11 Jan 2007, with the headline: ‘ Asian parents look to give their children a headstart’, says:

“ An average Asian middle-class, upwardly mobile family is characterized by concerns for their children’s education. Competition for success is very intense and parents strive to help their children’s education from a very young age by hiring private tutors and managing leisure time. From India to Singapore, China, Japan and South Korea, the need to give children a headstart is a strong parental concern.

This is clearly reflected in the growth of pre-school and activity/construction toy sales in south and south-east Asia. Among the 30 countries under study, the seven countries classified as Asia/Australasia account for 18% of total traditional toys and games sales in 2006. However, they account for as much as 42% of pre-school toy sales. Their contribution is expected to rise to 46% by 2011. This region is expected to propel activity/construction toy sales as well making it the single largest subsector overtaking dolls/figures. The Asia-Pacific countries will contribute 31% to activity/construction sales by 2011, up from 23% in 2006.

As parents are the decision-makers for these toy purchases, they need to be impressed with the educational need of these toys. As affluence in this region increases, sales will move from the small, unbranded sector to better quality branded products, leading to higher levels of growth.”

Another article highlighted the need for branded toys and increasing awareness regarding toy safety in India.

Headlined ‘ New Toys and Games Research: What is it Telling Us?’ dated 17 June 2011, the article revealed a “ gradual shift in retailing influence to newer channels, the success or otherwise, of brand extension strategies, and the realities of finding growth further afield.”

The research findings state:

Asia Pacific is all set to surpass North America (the largest video games market globally) to become the largest traditional toy market by 2015 “

thanks to phenomenal growth in India and China. Projected decline in Japan will be offset by the emerging economies in the region.

Traditional toys and games managed a 6% increase in value sales in 2010 with construction the most dynamic category (12%) thanks in no small part to LEGO's phenomenal performance.

As play value becomes increasingly important, cash-strapped parents seek toys that will last while encouraging imagination. LEGO played to its strengths with continued innovation in its launches while supporting its classic lines with major licenses – contributing to a gain in traditional toys and games of almost 1.5 percentage points in just two years.

Mattel is the largest and best known traditional toy company in the world, with 13% share of global traditional toys and games market in 2010.

However, while it controls more than a fifth of the toys market in Latin and North America, its dominance is much lower in other world regions, such as Eastern Europe where LEGO Group leads, and Asia Pacific where the top spots are taken by BANDAI NAMCO and Takara Tomy."

Specifically, India, Chile, Argentina, Brazil and South Africa were the industry's fast growth markets, all recording more than 24% value growth in 2010, according to the article.

It mentions that " in India, branded toys benefited from improving disposable incomes among the middle class, improving availability and innovative product launches from both domestic and international players. In contrast, non-branded toy sales were hampered by stricter quality regulations on

imported Chinese toys, as well as growing awareness of toy safety issues generally.”

According to Toy Association of India, Indian toy industry manufactures toys worth INR 2, 500 crore and is growing at a steady rate of nearly 15 percent every year.

(http://articles.economictimes.indiatimes.com/2012-08-11/news/33153119_1_indian-toy-toy-association-toy-manufacturers)

The kids’ market in India is estimated to be at INR 26, 000 crore of which the toys segment alone comprises INR 5, 000 crore. About INR 1, 700 crore of this is organised, which is majorly captured by Chinese products. Now on a growth path, registering a year-on-year growth of 35 per cent, the domestic market is set to touch INR 11, 500 crore by 2014.

(http://www.business-standard.com/article/companies/toys-e-tailing-gains-steam-112101500021_1.html)

The domestic toy industry is highly fragmented, unorganised and is predominantly dominated by micro, small and medium-scale manufacturers. About 70% of the toy market in India is unorganised.

(<http://www.thehindubusinessline.com/industry-and-economy/article2785113.ece>)

Hamleys, Simba and Hape are just some of the brands that have come in recently, even as a whole host of others, including Brio, will hit shop shelves

<https://assignbuster.com/analysis-of-the-indian-toy-market-marketing-essay/>

in weeks and months to come. “ The fact that the organised toy market in India is small is an added advantage. Also, India has one of the largest baby populations, which spells an opportunity for toy companies.”

(http://www.dnaindia.com/money/report_digital-shift-pushes-toy-brands-to-india_1804052)

Some more facts and figures:

Market Sizes | Historic | Retail Value RSP | € mn | Current Prices | Year on Year Exchange Rates | Growth Index

Geographies

Categories

2006

2007

2008

2009

2010

2011

India

Baby (0-18 months)

100. 0

126. 7

134. 5

152. 5

203. 4

230. 6

India

Infant (19-36 Months)

100. 0

125. 5

145. 9

183. 6

272. 1

325. 5

India

Pre-School (3-4 Year Old)

100. 0

125. 6

144. 0

176. 5

254.9

305.6

India

Action Figures and Accessories

100.0

120.8

126.9

146.2

198.1

250.5

India

Construction Toys

100.0

103.4

104.8

113.6

144.8

153. 7

India

Games and Puzzles

100. 0

114. 2

115. 3

123. 0

153. 4

161. 8

India

Radio/Remote Control Toys

100. 0

112. 0

114. 2

127. 3

167. 6

190. 0

Research Sources:

Toys and Games: Euromonitor from trade sources/national statistics

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**Market Sizes | Historic | Retail Value RSP | € Per ‘ 000
Households | Current Prices | Year| on| Year Exchange
Rates**

Geographies

Categories

2006

2007

2008

2009

2010

2011

India

Baby (0-18 months)

12. 3

15. 3

16. 0

17. 9

23. 4

26. 1

India

Infant (19-36 Months)

21. 4

26. 4

30. 2

37. 4

54. 5

64. 2

India

Pre-School (3-4 Year Old)

50. 0

61. 6

69. 5

83. 7

119. 0

140. 4

India

Action Figures and Accessories

4. 3

5. 2

5. 3

6. 0

8. 0

10. 0

India

Construction Toys

22. 8

23. 1

23. 1

24. 6

30. 8

32. 2

India

Games and Puzzles

133. 3

149. 7

148. 4

155. 8

191. 1

198. 3

India

Radio/Remote Control Toys

63. 8

70. 3

70. 4

77. 2

100. 0

111. 6

Research Sources:

Toys and Games: Euromonitor from trade sources/national statistics

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Market Sizes | Historic | Retail Value RSP | € mn | Current Prices | Year| on| Year Exchange Rates | Period Growth

Geographies

Categories

2006-11 %

2006-11 CAGR %

2006-11 Absolute

India

Baby (0-18 months)

130. 6

18. 2

3. 4

India

Infant (19-36 Months)

225. 5

26. 6

10. 2

India

Pre-School (3-4 Year Old)

205. 6

25. 0

21. 7

India

Action Figures and Accessories

150. 5

20. 2

1. 4

India

Construction Toys

53. 7

9. 0

2. 6

India

Games and Puzzles

61. 8

10. 1

17. 4

India

Radio/Remote Control Toys

90. 0

13. 7

12. 1

Research Sources:

Toys and Games: Euromonitor from trade sources/national statistics

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Market Sizes | Historic | Retail Value RSP | € mn | Current Prices | Year| on| Year Exchange Rates | Year| on| Year Growth (%)

Geographies

Categories

2006-07

2007-08

2008-09

2009-10

2010-11

India

Baby (0-18 months)

26. 7

6. 1

13. 4

33. 4

13. 4

India

Infant (19-36 Months)

25. 5

16. 3

25. 8

48. 2

19. 6

India

Pre-School (3-4 Year Old)

25. 6

14. 7

22. 6

44. 5

19. 9

India

Action Figures and Accessories

20. 8

5. 1

15. 2

35. 5

26. 5

India

Construction Toys

3. 4

1. 3

8. 4

27. 5

6. 1

India

Games and Puzzles

14. 2

0. 9

6. 7

24. 7

5. 4

India

Radio/Remote Control Toys

12. 0

2. 0

11. 5

31. 7

13. 4

Research Sources:

Toys and Games: Euromonitor from trade sources/national statistics

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Market Sizes | Historic | Retail Value RSP | € mn | Current Prices | Year| on| Year Exchange Rates

Geographies

Categories

2006

2007

2008

2009

2010

2011

India

Baby (0-18 months)

2. 6

3. 3

3. 5

4. 0

5. 3

6. 0

India

Infant (19-36 Months)

4. 5

5. 7

6. 6

8. 3

12. 3

14. 7

India

Pre-School (3-4 Year Old)

10. 5

13. 2

15. 2

18. 6

26. 9

32. 2

India

Action Figures and Accessories

0. 9

1. 1

1. 2

1. 3

1. 8

2. 3

India

Construction Toys

4. 8

5. 0

5. 0

5. 5

7. 0

7. 4

India

Games and Puzzles

28. 1

32. 1

32. 4

34. 6

43. 2

45. 5

India

Radio/Remote Control Toys

13. 5

15. 1

15. 4

17. 2

22. 6

25. 6

Research Sources:

Toys and Games: Euromonitor from trade sources/national statistics

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2. 4. Discussions and preliminary conclusions

It is clearly a very big opportunity for LEGO. Since there is so much growth potential that has been so less explored so far and a very small part of the market is organized, calls for LEGO to think seriously about expanding its footprints in the Indian market.

New product idea

Opportunity identification

In the backdrop of all these findings, it becomes imperative to aggressively enter the Indian market and put efficient supply chains in place for the company to efficiently be able to deliver across the big geographical region without adding to the inventory. Also, there should be focus on explaining the safety involved in producing LEGO's toys to an Indian parent, concerned about his/ her child's safety.

3. 2. Positioning statement

The positioning statement for LEGO in India could be: “ Infinite creativity for your child.”

Further, as India has several regional languages, this positioning statement could be translated into the respective regional languages too; although not entirely necessary given that English is the official language of India and our customers would like to read it in English.

3. 3. Product concept

The product concept is that children can unleash their creativity with the LEGO bricks and build whatever they want. The possibilities are many. Also, it is an edu-tainment for them, which helps them apply their hands and heads both to make something constructive, as opposed to the destructive video games popular now.

Research project outline

The goal of this proposed research project is to investigate marketing information and be able to derive the investment risks by moving to a more educated decision base and facilitate a go/ kill decision about the present alternatives.

The research project has dual goals – investigate both growth opportunities: a) producing some new Indian-ized product lines for an aggressive entry into the Indian market, or b) expansion plans in India with the existing product lines.

4. 1 Research questions

4. 1. 1. Introduction of new India-centric product lines for the consumers

Should they be made on popular Indian cartoon movie characters like Bal Ganesh, Krishna and Balaram, Chotta Bheem, Bal Hanuman, Ramayana, etc., that have captured the imagination of a new generation of Indian children?

Or characters from Bollywood movies made for children like Ra. One, Krissh, etc. that also have strong merchandising power and appeal among children?

4. 1. 2. Expansion plans in India with the existing product lines

Should a production unit be set up locally to meet the expected future demand?

If yes, what are the local regulations? Which state of India would be most suitable in terms of political ideology of the state government in power in relation to foreign investment?

Also the state's infrastructure, proximity to ports and railheads, manpower needs and red tape, etc.?

How should the supply chain management be put to work efficiently across a vast country like this?

Who are the main competitors in the organized toy market segment?

Opportunities and threats in the market. Trade barriers or conditions, if any.

4. 2 Participants and procedures

An exploratory research design including a qualitative and quantitative component is proposed.

4. 2. 1 Introduction of a new product line in the new market

To investigate the chance of success for the new product lines and to ideate on which of them to go ahead with; how that product family could be composed, etc., a qualitative focus group would be needed and discussions will be organized.

A professional moderator will lead the discussion, aided by an observing assistant. All the discussions will be videotaped.

Three focus groups with respondents belonging to the middle class, upper middle class and the luxury class of buyers would be composed drawing respondents from different metros in India. The three focus groups' discussions will be followed by a pilot launch in top of the line retail stores in the rich pockets of Mumbai and/or New Delhi, in connection with the new products' perceived quality and appeal.

The consumers' response to this could pave a way for going ahead with this plan.

4. 2. 2 Expansion with existing product lines

A market research company should be employed to analyze secondary data and summarize the findings into a Pestel analysis. Data sources to be used can be news reports, articles, trade statistics and computerized databases. A step further would be to conduct interviews with a number of parents in the

Socio Economic Category (SEC) A and B in the Indian metros, to form an idea of potential interest in and purchase intentions of LEGO's existing products. This will give a fair idea of what will work in the near future for the Co.

4. 3 Constructs and measures

4. 3. 1 Introduction of new product lines

The following themes and narratives will be paid attention to during the focus group discussions. The themes will then be deconstructed into identifiable subcategories.

Toy types – which were mentioned?

Cartoon or Bollywood characters – which were mentioned?

Combinations of both

Were any specific associations made between the two?

How many times was a certain combination mentioned?

Discourses used when talking about them: TV, cinema halls, attitudes, reviews, discussions about what children discussed in their schools regarding these two.

4. 3. 2 Expansion plan with existing product lines

A small selection of Indian cities (2-3) will be selected based on LEGO's perception of potential receptiveness and assessed on the following seven constructs with related measures.

Market Potential

Population size

<https://assignbuster.com/analysis-of-the-indian-toy-market-marketing-essay/>

Local toy manufacturers

Presence of other worldwide toy industry leaders

Market Growth Potential

In GDP

In sales per capita

Market Accessibility

Import tariffs

Availability of local sales cooperation partner/ distribution channels

Pricing

Marketing/advertising practices

Economic Factors

Exchange rate development

Political Factors

Trade barriers

Attitude towards imported products

Attitude towards big foreign companies

Overall political climate in the country and states

Government stability

Cultural Factors

Health attitudes

Attitudes towards toys

Geographical Factors

Distance

Means of transportation

(John R. Jagoe's Export Sales and Marketing Manual [www. tradeport. org](http://www.tradeport.org))

4. 4. Planned analysis

4. 4. 1 Introduction of new product lines in the market

The discussions with the three different focus groups will be transcribed. The video recordings will be scanned and observed closely to look for nonverbal communication. The observer's notes will be taken note of. The transcripts will be analyzed using a descriptive phenomenological approach.

4. 4. 2 Market expansion with existing product lines

Both the quantitative and qualitative data will be analyzed and summarized in a Pestel framework for each city and then for drawing conclusions about the overall Indian market.

All the political, economic, legal, environmental, social, technological factors would be considered according to the Pestel framework.

In order to decide the most profitable state within India to launch the product in, each alternative will be assigned values for each weighted construct. The

alternatives will be ranked and the alternative with the highest value points will be chosen.

5. Making the decision

5.1 Either/ or – which decision will make more sense in the current scenario

In this case, the LEGO management will have to decide between two options, i. e.

introducing one or more new product lines before entering the Indian market

or

using the existing product lines for the big launch in India.

To make this decision, a thorough cost-benefit analysis should be made using a value tree considering several cost attributes like land availability and costs, land acquisition issues and legal fee (if the land has full or a big chunk of agricultural area, it could lead to legal disputes), raw material, transportation, taxes, labor, cost of new machinery and cost of packaging. Benefit attributes to be measured are closeness to target metro cities, infrastructure like highways or railways, and effect on production procedures.

If management finds that a cost-benefit analysis is not enough to make the decision, a utility function can be applied to making the choice between exports or product introduction, where the potential profit is estimated based on expected sales volume and where probabilities are estimated based on

historical sales data in the market of choice. (Goodwin & Wright 2010, pages 121-122)

5. 2 Go/No-go

Should LEGO's management decide to go with alternative b) using the existing product lines for the big launch in India, a checklist will be used to help make the Go/ No-go decision at different points in time with regard to the stages of development, launch and sales process of its products.

Stage

Criteria

Yes

No

Pre-

launch

1

Fits with strategic framework of LEGO

Go

No-go

2

Market opportunity recognized

Go

No-go

3

The expansion in new market is technically feasible with the available resources only, in the near future

Go

No-go

4

Estimated to fit within the pre-set break-even period

Go

No-go

Launch

5

Customer acceptance – 6 month's interim sales report shows steady sales increase

Go

Withdraw

6

Financial performance – break-even period holds one year after launch

Go

Withdraw

(Carbonell-Foulquie, Munuera-Alema, Rodríguez-Escudero, 2004)