Has Toy Spending Peaked In The US?

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On October 16, Global Toy News published an investigative story about a 30% decline in US per capita spent on toys, which has caused some controversy in the toys industry.

It first originated from the Goldman Sachs report of October 15, which stipulated that â€œtraditional toys and games are likely in the early stages of secular decline in developed marketsâ€•.Â
To arrive at this conclusion, Goldman Sachs used Euromonitor International data that indicated, as stated in Goldman Sachs report, that the â€œnominal amount spend on traditional toys and games in the US per capita is down 30% since 1998â€•, â€œwith the declines more substantial in real termsâ€•.

Letâ€™s look at the whole picture by putting all of the figures in context.

The figures mentioned in Goldman Sachsâ€™ report were incorrectly labelled as in â€œnominal termsâ€• with an additional emphasis that â€œthe decline in real terms is even largerâ€•. If we look at the table above, the 30% decline is in per capita spend is in real terms; while nominal terms decline is in fact much softer at -4.0%. This makes sense, considering that the toy market has stayed more or less flat since 1998 in current dollar terms, while inflation and population increase eroded the per capita spend in real terms. Over 1998-2011, the population increased by 13% in the US.

Another angle is to look is at spend per child rather than spend per capita, since the majority of toys are aimed at children. The increase in the population of 0-14 year olds was lower than that of the total population during 1998-2011, as the birth rate declined. The child population increased only 3% since 1998. Thus, if we look at spend â€œper childâ€•, the nominal expenditure on toys per child has even edged up 5.0%.

Have traditional toys peaked in developed markets?
More interesting is not only the US data, but the conclusions Goldman Sachs arrived at, which suggest that per capita spend on traditional toys has peaked in developed markets. This likely stems from the assumption that there is more competition from video games and alternative forms of play. But does the data from other developed markets support this idea?

Looking at the above figures, its pretty clear that traditional toys in the US is more of an exception, rather than a reflection of declining toy spend across developed markets. The US toy market may have stagnated since 1998, but the same cannot be said for other developed countries.

The UK market, for instance, has grown at an average 1% in value terms since 2006, despite the stark 7% current value decline in 2009 (more related with the Woolworths exit from the market than economic slowdown). Toys in Sweden and France has grown at an average 3% in current value terms annually throughout 2006-2011. At the same time, Japan has also grown at a healthy 3% in current value terms, despite the seemingly perpetual decline in its child population.

What makes the US market different?
Richard Gottlieb from Global Toy News suggested that the â€œWal-Mart effectâ€• may be responsible for declining toy spend, which makes a lot of sense.

First, the US has the most consolidated retail sector for traditional toys among developed economies. Wal-Mart, Target and Toys R'Us combined account for 68% of US and Canada value sales for Hasbro.

Second, two of the three largest toy sellers in the US are discounters, with plenty of bargaining power to exercise over toy manufacturers. Lower prices may be good for consumers, but such price pressure hurts the toy market . If we look at other countries, there is a correlation between toy market performance and the consolidation of toy retail, especially if there is a strong discounting culture. Germany, where Aldi and Lidl are strong, for instance, performed worse compared to the UK or Sweden in value terms growth over 1998-2011, both of latter countries have a more fragmented toy retail environment.

The most successful toy company in the US during recent years, without doubt, was LEGO. LEGO doubled their revenues in value terms in the US over 2008-2011, despite the flat toy market. One thing that sets LEGO apart is its network of single brand stores, allowing it more freedom to experiment with pricing.

What can we bring out of this discussion?

The Goldman Sachs report may have painted the story in over saturated colours and then over stretched the conclusions from the US market to imply that toy industry is on decline in developed countries. But it brought the performance of the US toy market to wider attention.

In the long term, the original report may have done a favour to the industry by facilitating the discussion. Whether it has to do with alternative play options, consolidated retail or lack of innovation in the industry, it is fair to say the US toy market has lagged behind other developed economies throughout the last decade, and continues to do so.

Another question is whether trends that have coincided with the decline of the US toy market will shift overseas, and what impact they will have there. In terms of retail, the trends so far point towards supermarkets/hypermarkets and internet retailers increasing the share of total toy sales, suggesting higher competition on prices.

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