The Future of the Industry: More of the Same

by Gerrick Johnson, stock analyst at BMO Capital Markets Equity Research Group

As a stock analyst, my job is to recommend appropriate investments within the toy and leisure industries to institutional investor clients. Though this means my perspective on the future of the industry may be somewhat unique, because I am not necessarily a toy industry "insider," it also means that I am snooping around toy stores more than most people—including insiders.

So far, retail toy sales for this year have been disappointing. As well-known stock market technical analyst John Murphy once said, "As with the weather, the safest bet is that the next day will be the same as the last." In many ways, I do think next year will be similar to this year, as many of the trends we are seeing now will carry forward, and the cautiousness and uncertainty that is present at retail will likely persist. The biggest difference, however, is that retailers will probably end this year in a much cleaner inventory position than they did last year, meaning the toy industry can likely start off next year by shipping new spring products rather than spending time, money, and energy clearing out old goods.

Low-Priced Collectibles

The NPD Group reported toy sales to be down in the mid-single digits in the U.S. for this year. While I have no hard evidence to support this, I believe the number of units sold could actually be up, even if the total value is down, because of the excessive amount of clearance and discounted sales early in the year coupled with the preponderance of low-priced collectible items in fall assortments.

In fact, I find that retail is littered with low-priced $2 to $10 items, often in blister packs that have the tagline, "collect them all!" Collectibles will entice multiple trips to the store or multiple units purchased per trip, but it seems to be the hard way to make money and offers little in the way of barriers-to-entry. Low-priced collectibles are also decidedly low-tech. This is somewhat ironic, given that high-tech gadgets are often cited as the biggest competition to toys for kids' time and attention.

The low-priced collectibles trend seems to be a reaction to the weak economy and uncertain outlook. With plans for next year being made in a time of depressed confidence and high uncertainty, I am not sure we will see a change in strategy.

Board Games

In recent months, many investors have told me that board games are in secular decline, dying at the hands of mobile devices and apps. I, however, do not subscribe to this line of thinking. Board games are experiencing a cyclical decline, while apps and mobile devices are experiencing a cyclical upswing. However, I am not forecasting that these cycles will correct themselves any time soon, and I suspect that next year will be another difficult one for board games.

The App Frenzy

Although they have been at the forefront in recent months, the excitement about apps and mobile devices will likely pass. After all, mobile devices and associated apps are really just the latest iteration of the handheld electronic game, a toy that has been around for a very long time, the best-known being Nintendo's Game Boy. My favorite handheld game as a child was Coleco's Electronic Quarterback, which I found under my Christmas tree in