

State of the Industry 2010

The Complete Interviews

John Frascotti, global chief marketing officer

Hasbro

Which industry trends from 2009 will carry into 2010 and which will fade away?

We believe that in 2010 consumers will continue to embrace brands that deliver immersive entertainment experiences. Consumers now expect their favorite brands to be available to them in multiple formats, from motion pictures to television programs to toys and games to video games.

We also believe that in 2010 consumers will continue to look for value and quality. From a Hasbro perspective, we have always put a premium on providing our consumers with superior value. We also have the distinct advantage of owning an incredible portfolio of brands that parents and families around the world have enjoyed and trusted for many years.

In 2009, consumers rediscovered the joys of playing games, and our Family Game Night promotional programs provided families with all the tools they needed to have a Family Game Night. The social interaction of playing a game together with members of a family, or with friends, is as timeless, relevant, and enjoyable as ever, and we feel it will continue into 2010 and beyond.

In what new directions is your company headed in 2010?

We will remain focused on our strategy of re-inventing, re-igniting, and re-imagining our brands and delivering these brands to our consumers in multiple formats, whenever and wherever they want them. Our brands have enjoyed great success in both motion pictures and video games. This fall, we are particularly excited to be launching The Hub television network and hubworld.com with Discovery. The Hub will reach approximately 60 million homes and will offer young viewers and their families novel and compelling content, ranging from new comedies and animated adventures to live-action franchises and game shows, many based on Hasbro's most popular brands, including Transformers and My Little Pony, and all celebrating the core childhood concepts of fun and play.

2009 saw a trend toward lower price points. Was that a successful strategy? Will this trend continue for 2010?

We know that price will always be a factor in one's purchasing decision, and that consumers in 2009 were very focused on value for money. Delivering strong value across various price points, many of which were less than \$30, was a successful strategy for us in 2009, and we don't see this changing dramatically in 2010. We also understand, however, that price often is not the primary consideration, and that consumers will almost always choose brands and products that provide high quality, meaningful innovation, and compelling entertainment experiences.



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Sarah Wood, director

Amazon's Toy & Games Store

Zhu Zhu Pets came out of left field as the hit toy for 2010. How do you read trends early enough to inventory for the holidays?

We listen to our customers to try to get an early read on successful toys, paying close attention to customer discussion boards and customer reviews. We look at how the product is performing on the site and since we can often offer products for preorder, it can help us determine how the toy will perform. We also work closely with our vendors and stay on top of industry trends to gauge whether we think a toy may take off.

Which industry trends from 2009 will carry into 2010 and which will fade away?

Certainly value comes to mind. Parents want to spend their dollars wisely and want to purchase toys that have lasting play value. I don't think this will change in 2010. I also think the integration of technology and toys will continue with robotic/animatronic and digital media themes. Toys that mimic high tech gadgets will also likely continue to be popular as kids that are too young for digital cameras, MP3 players, or cell phones still like to pretend they are using the real thing.

Was consumer spending what you expected in 2009? What is your forecast for 2010?

2009 was a successful year for us and customers have undoubtedly shown that the Amazon.com Toy store's broad selection, low prices, and convenience are a powerful combination. We will continue to create value for our customers and we expect continued success in 2010.

Retail prices seemed to drop by as much as 40-50 percent during the holidays. Are these price reductions handled as a partnership between manufacturer and retailer?

We work closely with manufacturers to offer customers everyday low prices as well as value through shipping programs like Free Super Saver Shipping and Amazon Prime, which allow customers to save money and get their items delivered quickly. Amazon is committed to offering the lowest prices possible and will continue to do so in 2010.



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Anton Rabie, president and co-CEO

Spin Master

In what new directions is your company headed in 2010?

We will be focusing on employee engagement, training, and development. As a first step, we have recently hired a new executive vice president of human resources, Sonia Narcisse, to help transform the way we operate with respect to our staff, which are our number one asset.



How did the economy affect your business in 2009 vs. 2008? What is your economic outlook for 2010?

Spin Master had a very successful 2009 that included the launch of a number of new brands including our new Liv fashion doll line, which performed very well and will see increased shelf space in 2010. We are very excited about 2010. Spin Master Entertainment is growing and we are working on a number of new and exciting properties. We will be starting production on our Bakugan movie which is scheduled for release in 2011.

2009 saw a trend toward lower price points. Was that a successful strategy? Will this trend continue for 2010?

Spin Master has always tried to deliver the most innovative and exciting new products at affordable price points. While toy companies and retailers are cautiously predicting a more positive economy in 2010, pricing will continue to be an important consideration for consumers and therefore also for toy companies and retailers.

Which industry trends from 2009 will carry into 2010 and which will fade away?

We applaud the success of Zhu Zhu Pets. It's a great reminder that innovation and small companies always have a great chance to succeed.

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Carter Keithley, president

Toy Industry Association

How did the economy affect the toy industry in 2009 vs. 2008? What is your economic outlook for 2010?

We look at the same data that everyone in the industry uses to assess the impact of the economy on the toy industry. I think everyone recognized that the sluggish economy had a continuing impact on how consumers shopped in 2009. Parents and gift givers were looking to stretch their dollars, looking for value, discounts, and great pricing. Manufacturers provided special pricing with retailer support, and offered multi-tier pricing for favorite brands and character licensed products. Built-in price-value was achieved with toys and games that grow with children by offering beginner and advanced modes of play, as well as intergenerational products that appealed to both kids and adults.

The good news is that retail inventories had been worked down pretty far by the fourth quarter, allowing for a pick up in shipments. And there were enough new product launches during the quarter to generate decent sell-in.

Our February 2009 Toy Fair exhibit and buyer attendance data seem to verify those reports. Toy companies are being extremely cautious and working even harder than before to justify every nickel of expense. That seems healthy for the industry in these uncertain times.

From TIA's perspective, we are constantly looking for ways to add new value to our trade events. In 2010, we are adding new elements, such as the "Engage!" exhibition to the February Toy Fair and rolling out the ECRM buyer/seller connection software to make our Fall Toy Preview even more productive. We are hopeful that a modest economic recovery in 2010, combined with the need for retailers to refill their shelves, foreshadows new growth and prosperity for the toy industry.

Which industry trends from 2009 will carry into 2010 and which will fade away?

I believe the trend toward the purchase of higher quality toys will continue into 2010. Toy price points are low enough to make them accessible to consumers even in hard economic times, but the trend toward fiscal prudence will cause consumers to continue to look for durability and quality in their toy purchases. In addition, the concerns about toy safety have not completely abated, and the continuing desire of consumers to be sure their toys are safe will reinforce their willingness to spend a little more for quality.

Certain toy safety requirements are now being pushed back to 2011. How does this affect manufacturer's product development plans?

In reality, the requirements have not been pushed back. What the CPSC has done is simply to postpone active enforcement of some of the requirements. Companies are well advised to do everything they must do to assure that their toys meet the new requirements now. Moreover, the lead times involved in creating, designing, producing, testing, and marketing toys is long enough that a six month or even one year postponement in enforcement is meaningless to a manufacturer. They must start now to learn what is required and take the necessary steps to assure compliance.

The CPSIA brings an enhanced level of protection for both children and the toy industry, and it raises the bar on entry into the toy business. There is a new expertise that is required. This will increase the level of professionalism and quality and value of companies in the industry.



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Julia Fitzgerald, DVP/CMO, Toys & Seasonal Sears Holdings Management Corp.

Was consumer spending what you expected in 2009? What is your forecast for 2010?

Consumer spending was about what we expected this year. We knew we would have to offer moms good values on the toys their kids were asking for—not just offer cheap toys. Even when families are having a tough year, Mom always does what she can to deliver that special present. We see 2010 still being a pretty conservative year. Most trend trackers tell us that frugality is here to stay for some time.

Zhu Zhu Pets came out of left field as the hit toy for 2010. How do you read trends early enough to inventory for the holidays?

We try to pick up on trends by watching early POS data, and increasingly we listen in to the vibe of social media to see what kids and moms are excited about.

How was the relaunch of your toy departments for the holidays? What is your anticipated strategy for 2010?

We had a successful pilot program and learned a lot about what our customers want from their Sears Toy Shop. We look forward to building on this in 2010!



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The Complete Interviews

Stephen Berman, president and COO

JAKKS Pacific

2009 saw a trend toward lower price points. Was that a successful strategy? Will this trend continue for 2010?

This is a strategy that JAKKS has incorporated since our inception and will continue to offer for 2010 and beyond. The majority of JAKKS products fall under \$25, with just a few items over \$50. Typically these items are in our electronics category and although they are priced at over \$50, they are a toyetic version of popular adult-oriented consumer electronics products that are typically expensive and out of reach for many families. We make them available in the toy aisle with fun, playable features and at a more affordable price than other higher priced versions.

But as I said, most of our items are under \$25 by design. For example, JAKKS Disney Fairies dolls, doll accessories, and playsets are new for 2010 and now available at major retailers nationwide. Key items in the spring lineup include the 4.5-inch Magic Glow Fairies (\$10.99), which feature dolls with light-up molded wings, and the Disney Fairies Balloon playset (\$19.99) is based on Tinker Bell's "cotton puff" in the movie. Roleplay items from our CDI division include Tinker Bell's Secret Jewelry Box (\$17.99) and Tinker Bell and Friends Dresses (\$19.99 each).

Our award-winning Girl Gourmet Sweets line has a number of terrific make-your-own candy jewelry activities, such as the Girl Gourmet Sweets Candy Ring Maker (\$14.99) and Girl Gourmet Sweets Sprinkle Art Jewelry (\$7.99), and JAKKS' Club Penguin, Phineas & Ferb, Alvin & The Chipmunks, Hello Kitty, In My Pocket, and Pokemon lines continue to offer extensive mini figures, plush, and mini playsets for under \$20.

CDI has a robust portfolio of novelty items based on Disney and Marvel licenses that retail for as low as \$1.99, which are great impulse purchases. New licenses for 2010 will include Hello Kitty, Phineas & Ferb, SpongeBob, and Smurfs, and our unique novelty play caters to our core demographic as well as older segments who collect and accessorize. We have a target of boys and girls 4-8 years old, and a secondary target of boys and girls 9-12 years old. Our strategy is to utilize these brands to create a line that matches our traditional novelty competencies but has a trendy and stylish bent and showcase the properties' hip and humorous gags.


In what new directions is your company headed in 2010?

We recently announced MONSUNO, a new original boys' action property with an animated television series co-produced by JAKKS and Dentsu that we will be very busy developing in 2010 for a 2011 launch. There will initially be 52 animated episodes and a related toy line—we are very excited about the potential.

For 2010 we will also be embarking on a new direction for our wrestling action figure portfolio with our new TNA line of action figures, playsets, and accessories. We have about 15 years of wrestling expertise we will apply to the line that will ship in April, and we're thrilled that WWE superstars such as Hulk Hogan and Mick Foley have joined the franchise. Our UFC line is off to a strong start and we expect to see that trend continue.

And other recognizable brands and licenses that offer strong value are more important than ever. 2010 will see JAKKS





as the go-to partner for many of Disney's upcoming initiatives and major properties. For example, the Toy Story brand will be a big Disney initiative this year and you will see terrific Toy Story products featuring Buzz Lightyear, Woody, and the other lovable characters throughout JAKKS' portfolio in many different product categories including CDI roleplay and novelties, Disguise Halloween costumes, Kids Only! room decor, and JAKKS Interactive electronics products.

In addition to our new Disney Fairies dolls, we are also launching Disney Princess Babies from Tollytots, slated for a fall launch at Disney stores, Toys "R" Us, and on QVC. Plus all the Disney Princess roleplay, Halloween costumes, pre-school products, electronics, novelties, and more.

Our "it girl" Taylor Swift is hotter than ever, and we will have new dolls, playsets, and musical instruments at retailers nationwide. And we are excited to see new extensions in the Hello Kitty, Bella Sara, Cabbage Patch Kids, and In My Pocket brands with great offerings in the girls' aisle.

JAKKS will also see expansion of our own intellectual property portfolio with Real Construction, a preschool construction line that lets little kids build cool things; our new Spy Net line; and Girl Gourmet Chill Treats that will have young chefs whipping up their very own frozen treats.

And these are the just a few of the great brands in the JAKKS portfolio!

Certain toy safety requirements are now being pushed back to 2011. How does this affect your product development plans?

We have really tried to stay ahead of the curve with regard to all the safety requirements, and have taken steps to make sure JAKKS' standards meet and usually exceed the CPSC requirements. We have seasoned teams working hand and hand in the U.S. and Asia at every step of the development and manufacturing processes.

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Eric Levin, president

Techno Source

How did the economy affect your business in 2009 vs. 2008? What is your economic outlook for 2010?

It is hard to separate 2008 from 2009 when evaluating the business climate. Most of what happened in 2009 was a direct result of the severe economic downturn in late 2008. Since this happened so late in 2008, manufacturers and retailers had little time to react and adjust their businesses to the new economic realities. This made for slow sell through for Holiday 2008, and therefore little to no need for re-orders in the first half of 2009. While things certainly stabilized in the second half of 2009, the damage had already been done. 2010 seems to be starting from a much better place. While nobody is overly enthusiastic that 2010 will be a dramatic recovery year, it does seem that there is slow growing optimism, on a base of stability. This is allowing most people to take a much more positive approach to 2010 planning. We do believe 2010 will be a much better year than 2009 for most toy companies and retailers.



Retail prices seemed to drop by as much as 40-50 percent during the holidays. Are these price reductions handled as a partnership between manufacturer and retailer?

I would say that these price reductions are generally handled via some form of partnership. We do see rare cases where retailers take these actions and aren't looking for some sort of contribution. That said, price reductions can come in many forms, including annual accruals, volume rebates, mdf funds, etc. So they are not always specifically directed funds that are pre-planned in partnership between retailer and manufacturer. Often, retailers are making moves on their own in order to gain competitive advantage vis a vis other retailers with little direct input from the manufacturer.

Certain toy safety requirements are now being pushed back to 2011. How does this affect your product development plans?

There is little impact on Techno Source's development plans. As these rules have been such a moving target, we generally try to stay as far ahead of the curve as possible. If we know these changes are coming, we implement them as soon as possible. There is no reason to have the added risk in our supply chain at this time.

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Sharon DiMinico, founder and CEO

Learning Express

How did the economy affect Learning Express in 2009 vs. 2008? What is your economic outlook for 2010?

We planned for a 10 percent decrease in sales for 2009 for two reasons: declining sales in Webkinz, which was huge in 2007-2008, and the downturn in the economy beginning in the fall of 2008. We were very pleased that we finished 2009 slightly up. Unfortunately, there are still parts of the country where the economic decline is severe and unemployment is high—parts of Florida and Michigan especially. We plan to open 15-18 new stores in 2010, so we expect another year of positive growth for comp store sales and overall sales.



2009 saw a trend toward lower price points. Was that a successful strategy? Will this trend continue for 2010?

We followed that trend too, especially in our advertising pieces. If we could have a “do-over,” we would have included higher price points in our fall catalogs. Although I believe there has been a shift in spending, I believe our customers will open their wallets to higher price points in 2010, as long as the value is there.

What would you like to see toy manufacturers do better?

Better inventory management so they do not run out of product in the fourth quarter, especially best sellers! Our stores are ready to re-stock best sellers on December 26 so they will have a good January. We would also like our manufacturers to develop more specialty-only products.

Which industry trends from 2009 will carry into 2010 and which will fade away?

Inexpensive, unique items like the Iwako erasers and the collectible rubber bands will continue to be hot. Impulse collectables and fashion items are perfect for our discriminating customers that want to treat their kids but not break the bank. In the doll and plush categories, Uglydoll sales continue to grow but Webkinz sales have been slowing down for many months.

Certain toy safety requirements are now being pushed back to 2011. How does this affect manufacturers' product development plans?

I think the push back will give manufacturers more flexibility. However, most of our key suppliers have been compliant with the safety regulations in anticipation of the effective dates, so it may have little to no effect on their product development plans.

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Marc Bertrand, CEO

MEGA Brands

How did the economy affect your business in 2009 vs. 2008? What is your economic outlook for 2010?

The toy industry has always been recession-resistant but last year, the industry as a whole was impacted and business remained challenging for toy makers. MEGA Brands reacted quickly to the economic downturn and focused on delivering great value and innovation at lower price points that resonated with the consumer. All toys launched in 2009 were priced at key price points of \$10, \$20, \$30, and \$40 without compromising on value.

Although consumers still looked to spend their hard-earned money on toys for their children, they became savvy shoppers, bargain-hunting for value and the best deals. In these times, consumers also gravitated towards classic and trusted brands like Mega Bloks.

At MEGA, value extends beyond price relationship; it's about delivering well-designed products, great play patterns, offering educational benefits, and cool content. 2010 is very promising for us with the celebration of the 25th anniversary of Mega Bloks, exciting new product launches in our preschool lineup such as Thomas & Friends, the expansion of our Halo offering, the launch of our own Dragons Universe, and more.

In what new directions is your company headed in 2010?

In 2010, innovation and consumer insight will continue to lead our differentiation strategy and allow our products to stand out. We remain the worldwide leader in preschool construction and will continue to reinforce our position with great new products that appeal to kids and families.

We have once again aligned ourselves with key, strategic licensing partners to diversify and strengthen our portfolio. We're very excited about the launch of a new product line based on the world's No. 1 preschool boys license, Thomas & Friends, which will allow kids to build high and tall. In the boys category, we are expanding the Halo collection and are thrilled to launch our Iron Man 2 lineup.

We are also introducing innovations within our core line. Based on the past success of our Dragons line and Battle Strikers, we're set to release a new futuristic version with Dragons Universe and reinvent battling tops again by creating new ways for kids to battle. Our Streetz line continues to have strong momentum and will be expanded with added collectibility and enhanced features.

RoseArt and Mega Puzzles also continues to offer creative and entertaining activities in 2010 with simple crafts for young creative minds, as well as numerous challenging puzzles for kids and avid puzzlers alike.

Certain toy safety requirements are now being pushed back to 2011. How does this affect your product development plans?

The stay of enforcement on certain CPSIA requirements has no impact on the development of MEGA Brands products, as we are already complying with all applicable safety requirements and will continue to meet them every year.



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Kathleen McHugh, president

American Specialty Toy Retailing Association

How did the economy affect the specialty toy business in 2009 vs. 2008? What is your economic outlook for 2010?

All reports indicate that specialty beat the average in 2009, which may say more about the creativity of entrepreneurial independent businesses than it does about the economy. The American Independent Business Alliance (AIBA) calculates that holiday sales were up an average of 2.2 percent for the independent retail sector this past season, compared to a .75 percent increase for all retail. Though specialty toy data is not teased out of the AIBA data, anecdotally ASTRA retailers and manufacturers are confirming this healthy upward trend. ASTRA retailers embraced a “let’s make lemonade” attitude in 2009, and focused on what they could impact in their own businesses rather than on the woes of the economy. We see a good year ahead for toy retailers who stick to the basics and keep that focus on the things they can do to sell more, no matter what the economy is doing.



2009 saw a trend toward lower price points. Was that a successful strategy? Will this trend continue for 2010?

Many specialty retailers diversified their product assortment for the 2009 holiday season with lower cost items, so while the average sale may have dropped, this was not caused by shaving margins. Many ASTRA stores used these items to anchor Black Friday door-buster specials, thereby taking advantage of the media-driven focus on deals that day. The strategy worked for some and not for others, so it’s fair to say that this will be one of those ASTRA store-by-store decisions in 2010 rather than a trend that we can predict.

Which industry trends from 2009 will carry into 2010 and which will fade away?

Consumers will continue to shop conservatively—meaning they will buy less and put a greater emphasis on unique, high-quality play products with staying power. In other words, value will be a strong driver of sales in 2010, which is great news for specialty toy retailers because value is what we do best. Consumers, retailers, and manufacturers are growing more and more aware of environmental impact, so we can expect to see a continuation of the trend toward less packaging; green packaging; and use of recycled and environmentally neutral materials. This spills over into increased consciousness of buying from independently and locally owned businesses, which appears to be one of the factors that fueled the uptick in specialty sales this past season. This will continue, supported by the increasing number of “Buy Local” campaigns around the country.

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The Complete Interviews

Bruce Lund, founder

Lund and Company Invention

How has the economy affected your partnerships with manufacturers?

Manufacturers are putting fewer new products into the market because of reduced shelf space and other factors, making it more challenging for inventors to license products they have developed. We will be trying to work more collaboratively with our best client companies to make sure that we are creating products that they need—and want—to bring to market.

Challenges in the past have made us better at what we do, resulted in our creating better toys, with better play patterns, as well as more innovative mechanisms and technologies. There is always a benefit that can be come from a difficult market environment.

As you may know, the Chinese pictogram for “crisis” is two words, one on top of the other, depicting literally “opportunity” and “dangerous wind.” Crisis is opportunity riding the “dangerous wind.” Such times can be great opportunity for those who seek it.

I believe there are great opportunities for our industry and toy retailers, if we follow these simple prescripts:

1. Toy industry—Formulate a message to the public on the profound importance and impact of toys on children, and as children become adults, the profound impact of toys and play on adults. As adults run the world, make discoveries, change society, and influence politics and thinking, let them know toys impact our world more than any other product category. Get the message out that toys matter!
2. Retailers—Do not market toys in the boring manner in which you are currently doing. Make the toy department special, magical. If you can't do it, I will take a year off and do it for you, one by one, in Wal-Mart, Targets, and even Sears/Kmarts across the country. Market to that part of the consumer's psyche for which toys still are magical and laden with powerful emotional content.

What industry trends to you foresee in 2010?

Licensed characters and other entertainment-based toys promise to stand out in 2010. As do truly new products with established play patterns such as Zhu Zhu Pets and the Bakugan collectible card game. Products that truly amaze, and become newsworthy, such as TMX Elmo and others, and those that deliver superior play value, will always succeed.

Increased costs due to new safety standards promise to put great pressure on smaller companies and make toys more expensive, and as a result have a lower level of features, mechanisms, technologies, and we hope not, but perhaps less need for the inventive features that we bring to toy products. Fewer new products will be brought to market, and at higher prices, so that if they are our prices, our revenues for any given product may end up higher.

Do you consider the cost of materials and toy safety testing in your inventions? How has this changed as the economy has declined and now as it stabilizes?

We certainly do consider the cost of materials and components, as well as safety, in the engineering and design of our new concepts. We work hard to keep material and component costs down and to make sure that there are no inherent safety hazards in our products.

Our goal is great products that delight, entertain, perhaps inspire, with great value to the consumer, delivering more play value than the consumer is used to getting in a toy. In short, we endeavor to create great toys, truly innovative products at price points that are accessible to the widest range of consumers.



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Bill Beebe, president & COO

Hooga Loo Toys

How did the economy affect your business in 2009 vs. 2008? What is your economic outlook for 2010?

There's little question that 2009 was a challenging year from an overall economic perspective. It was, however, refreshing to see that many toy partners reported better than anticipated sales during the fourth quarter holiday sales season. Like all companies, we too were impacted. For Hooga Loo specifically, we continued the year-to-year growth that we have exhibited since our founding several years ago. This can be attributed to continued product innovation and strong relationships with our retail partners. Regarding 2010, I remain cautiously optimistic that our economy will continue to gradually recover. For the toy industry overall, and Hooga Loo specifically, I expect modest gains in 2010.



In what new directions is your company headed in 2010?

The old adage that product is king has never been more true and, as such, Hooga Loo has always been focused on developing innovative products that provide real value to consumers. We have had significant success with our established brands and expect that to continue again this year. At the same time, we introduced an exciting new product in the Penguins of Madagascar and FaceChipz brands that has been well received not only by retailers but by consumers as well. We will continue to support these products while launching additional products and continuing to explore the most appropriate licensing opportunities for our brands.

2009 saw a trend toward lower price points. Was that a successful strategy? Will this trend continue for 2010?

Obviously, the economy and a change in consumer shopping habits dictated a more concerted trend to lower priced products. The real issue, however, is not necessarily the price of the product available at retail, but more importantly the perceived value that product delivers to a customer at a given price point. Was it successful? If you look at the retail sales numbers from the fourth quarter, one would have to say that this strategy was sound. Based upon this experience, it's reasonable to expect that this trend will continue in 2010. The most important consideration, however, is the value that a product provides to the customer.

Retail prices seemed to drop by as much as 40-50 percent during the holidays. Are these price reductions handled as a partnership between manufacturer and retailer?

From the time we founded Hooga Loo to today, one of our core strengths has been our relationship with our retail partners. We are true partners and, as such, work together to develop a joint strategy that will work in the marketplace. Obviously, for us to be successful, retailers need to succeed as well. Given the recent economic woes that our country has experienced, it is more important than ever to work in close partnership with retailers on product development, price points, packaging, merchandising, promotional activities, and overall support. I believe this will continue to be as important as ever in 2010.