

ANALYSIS

Trouble in toy town?

Toys R Us' woes in North America have sparked questions about its UK business and the wider market – but its competitors remain confident, reports **Matthew Chapman**

A debt mountain of \$5bn, supplier pressure and online competition have forced Toys R Us' to file for bankruptcy protection in the US and Canada. However, the UK business does not fall under the Chapter 11 bankruptcy protection proceedings, and a UK Toys R Us spokesman told Retail Week that it was "business as usual".

"We are unaffected by the announcement. Clearly [it is] our parent company, but a Chapter 11 is different from administration so it is having no impact on the UK business," he insisted.

Toys R Us would not reveal how recent trading has been in the UK, but it is expanding here and will open new stores in Reading, Sunderland, Craighleith in Edinburgh and Blackburn in the coming months. The new openings will bring its store estate up to 110 shops.

It is also redeveloping stores in Brent Cross, Bristol and Croydon and relaunched its website two weeks ago, which now includes a quicker checkout process.

The spokesman said Toys R Us is "very pleased with initial results" of the website and the company is "very upbeat" about the company's future in the UK.

Verging on the irrelevant

However, the similarity between the Toys R Us businesses in the UK and the US has led to scepticism about how upbeat the UK operation can really be.

"The structural problems in the UK are the same as in the US," says Jon Copestake, chief retail and consumer goods analyst at the Economist Intelligence Unit.

"Toys R Us' are not destination shops any more. They are not places where you would

queue outside to go in and play like Hamleys or Lego stores.

"Their proposition would need to change for it to still be around in three years' time. If they were to change their store footprint and change every store into a funfair, and completely revamp their brand – if they have the money or time – then there may be a renaissance.

"There's scope for rehabilitation but sometimes things stop being relevant and I think Toys R Us is verging on the irrelevant."

The broader UK toy market

The toys market in the UK has grown year on year for the past three years as children shunned video games and returned to more traditional toys such as the Rubik's Cube and fidget spinners, according to figures from Euromonitor.

In 2014, growth of traditional toys and games was 2.1%, while there was 5.5%

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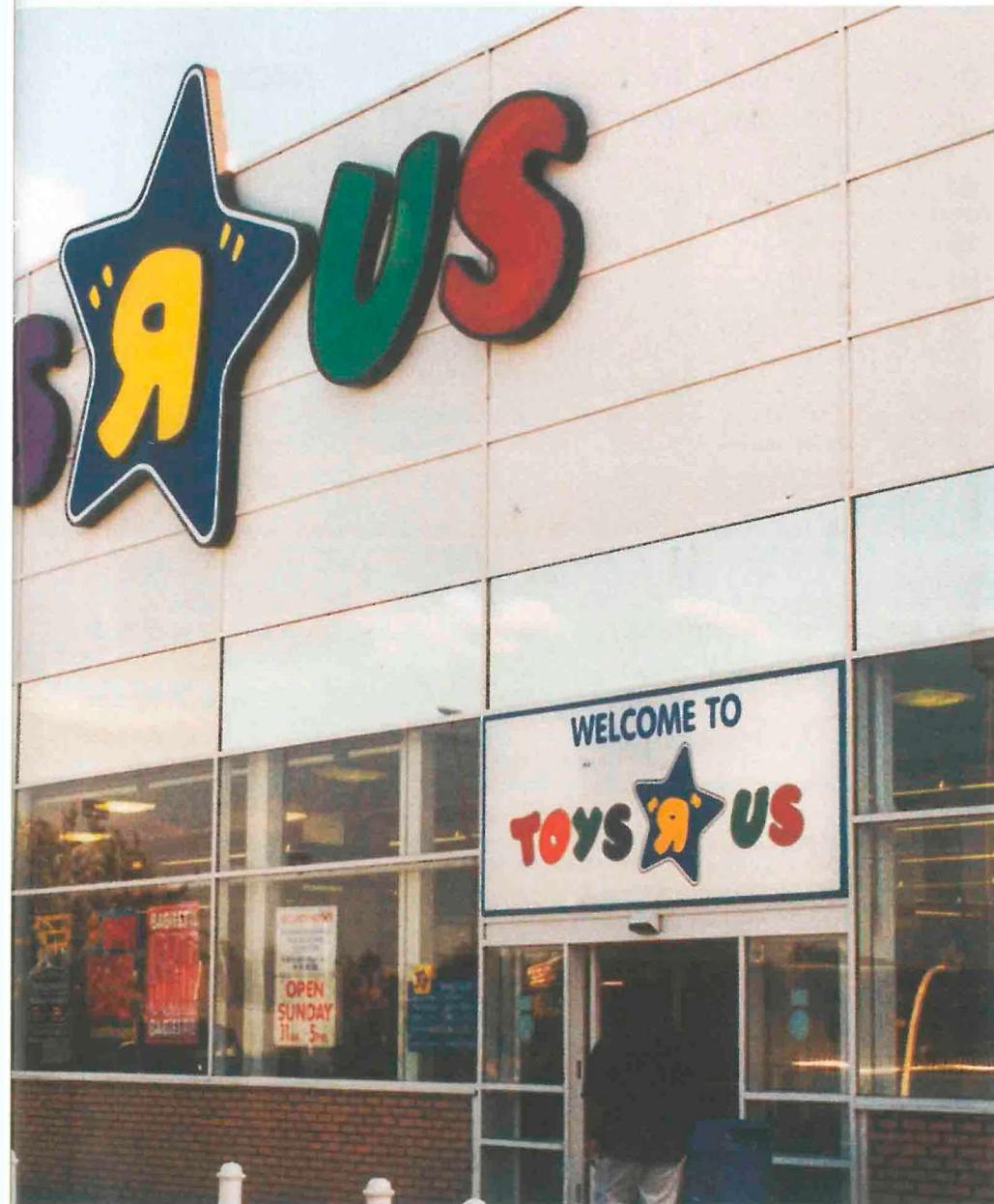
growth and 5.4% year-on-year growth in 2015 and 2016 respectively. Total toy sales hit £3.2bn last year.

Copestake believes that while Toys R Us is struggling to maintain its relevance, others are succeeding by offering in-store theatre, a strong price proposition or convenience.

David Mordecai, chief executive of Hawkin's Bazaar's parent company Tobar Group, agrees. "Theatre in stores is really important and



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that is something we are trying to do more and more of and it is key for successful businesses.

"Trade is pretty good and we are looking at opening 20 pop-up stores at Christmas," he says. "We are still seeing good figures coming out of our bricks-and-mortar stores."

Hawkin's Bazaar, which closed 57 stores after it went into administration in 2011, is now in expansion mode again after evaluating its proposition.

"We went out of our way to change the product offering more to gifts and gadgets, and with that we were selling more high-price items, which resulted in a higher average transaction value and means we were not relying on loads of people walking into our stores," says Mordecai.

The rise of the discounter

At the other end of the scale, other toy retailers are focused on value and convenience.

Convenience king Argos is still the biggest retailer of toys when it comes to sales value. And while the grocers are also gobbling up a fair chunk of the market, the discount sector appears to be booming.

"It is a very competitive market," says The Works chief executive Kevin Keaney, who suggests Toys R Us may have suffered from the rise of the discounters at retail parks.

"B&M and Home Bargains are good at what they do and trade alongside Toys R Us. Smyths are also opening a number of stores," says Keaney.

Unlike Toys R Us, The Works is primarily based on the high street rather than in retail parks, and Keaney attributes the business's growth in toy sales to its unique proposition, which offers bargain kids' toys and books in one place.

Despite online accounting for 37% of toy sales in the UK last year, according to intelligence group NPD Group, Keaney comments that the unique pocket-money culture in the UK means The Works' high-street model is thriving.

"There is still a very big pocket-money culture in the UK, which we do very well on," says Keaney.

"We find a lot of parents giving their children a fiver, and what they love about The Works is how much they can buy with that fiver. That culture is very much immune to online."

The UK vs the US

Mordecai believes UK toy retailers are also striking the right balance between in-store and online sales, as opposed to the Toys R Us business in North America, which he describes as "more bricks and mortar based rather than having any online offering".

"Over here in the UK, both the online and bricks and mortar join up and become one, which puts businesses in a far better position," says Mordecai.

The Hawkin's Bazaar boss believes toy retailers also have an edge over Amazon because it is a "different animal". Shoppers may realise there is a better price tag, but there can be "issues returning stuff" to its marketplace sellers, he explains.

"Sometimes people actually want to see and pick up the product," he adds.

This plays into the current toy trend, Mordecai says, where big sellers are "anything of a sensory nature", such as putty or products that can be squeezed or stretched.

The Entertainer, which prides itself on its in-store experience, recently revealed it has benefited from playground crazes including fidget spinners.

It reported a 6% increase in sales during the first half of the year, and although like-for-like sales were flat, profits jumped 5%.

Keaney is positive about the health of the toys market because "however tight

things are, families will always celebrate Christmas and the last thing you ever sacrifice is your kids' wellbeing".

"I don't sense any downturn in the kids' toy market at all," concludes Keaney. "In many ways the demographics are in favour of selling children's products

because there are more kids in the UK than at any time."

With the all-important key Christmas trading period fast approaching, jitters created by the Toys R Us business in North America need not be felt by toy retailers in the UK if they maintain a strong proposition.

For years Christmas in the UK was heralded by the Toys R Us advert. The retailer will need to make sure it once again becomes a magical place, and fast, if it is to refine its mojo in an increasingly competitive environment. **rw**

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The number of pop-up stores that Hawkin's Bazaar is planning to open this Christmas