

## **VTECH/LEAPFROG MERGER INQUIRY**

### **Summary of hearing with Argos on 14 October 2016**

1. Argos told us that the VTech and LeapFrog tablets were bought by the Argos' toys buying team, while other tablets (eg the Kurio and Amazon tablets) were bought by the Argos' tablets buying team. These were viewed within Argos as a different area of the business, because of how Argos was set up, and were dealt with by the team that cultivates the relationship with those suppliers.

#### **Product choice**

2. Argos told us that there were more products available on the Argos website than in the Argos catalogues. The products in the Argos catalogues would be those expected to be the highest selling lines as well as those most easily available through the Argos store network.
3. Argos told us that age was one of many factors it considered in segmenting the toys market. Licencing was another important factor which was important for buyers. Argos told us that it did not solely use NPD's approach to segmenting the market as there were many complex factors that came into the decision on how to segment the market and no single factor was completely dominant in segmenting the market; for instance, for certain products (eg a branded electronic learning product), it was not clear whether the toy sale was driven by the licence or the product's characteristics.
4. Argos told us that toys were a fashion-driven product and a product range was built up based on an educated guess or prediction of what might happen in the future, based on what happened in the previous year and trends in the market.
5. Argos told us that LeapFrog and VTech were two massive brands and there was a history of these products having been innovative and selling well.
6. Argos told us that it had an own label range (Chad Valley) for which it purchased toys directly from overseas manufacturers.
7. Argos told us that the purchase journey for consumers was difficult to map and the age of child, price range (budget), educational features, etc were all relevant considerations.

8. Argos told us there were multiple 'touchpoints' in the journey for a consumer. Argos told us that approximately 60% of Argos customer journeys started online. To reach customers with deals, there are flyers and paper publications in store, deals published on browsers, a toy wall with products in stores and in-store point of sale (POS).

### **Contract/supply agreement negotiation**

9. Argos told us that it negotiated with VTech and LeapFrog in a similar way (to all other suppliers). Prior to negotiations, Argos had its' own idea of what to do with the parties' product ranges and would decide on how to negotiate taking into account the product ranges presented to them.
10. Argos said that the easiest way to grow a product category was to include more products in it; however, this does not necessarily lead to increased sales. Other ways of building a category included increased advertising and innovation, as well as better prices for the consumer. Argos would also be interested in exclusive products, marketing campaigns, and strong deals which were unique to Argos.
11. Argos told us that while the toy market has grown steadily for the past five years, growth at category level will be mixed and disparate, with fashion leading the growth.
12. Argos told us that it negotiated on individual products as well as across product ranges and this varied on a case-by-case basis. [X].
13. Argos told us that it worked with different suppliers that had dedicated brand stores on the Argos website. Argos said that there were additional costs associated with having a brand store on the Argos website [X].

### **Alternative suppliers**

14. Argos told us that it did not include child tablets manufactured by tablet manufacturers in the same place in the catalogue or website as child tablets developed by toy manufacturers. Argos said that while its website was constantly changing and this situation could change in future, it believed that adult tablet manufacturers expected to benefit from some of the adult tablet buyers who would consider buying a child tablet of the same brand.
15. Argos told us that there has been a contraction in the tablets market in general. Argos said there was a big boom in tablets a few years ago (both adult and child tablets) which led to Argos issuing a promotional flyer, which included a mix of tablets. Argos said that the downward trend was caused by

a lot of low quality tablets coming into the market and an increased push in the media for less screen time for children and for parents to play with their children.

16. Argos told us that the Chad Valley tablet [✂] had no software-based platform.
17. Argos said that the Lexibook tablet was picked up by the online buying team; however, this was not included in the toys section where this decision was based on its assessment of the size of the opportunity presented by stocking the product. Argos told us that the amount of tablets it had listed over the years has reduced as the market has reduced. Argos said that in the toy section, it only ranged LeapFrog and VTech tablets. Although the market has been contracting, Argos still thought there was a market for child tablets.
18. Argos told us that it did not expect the LeapFrog brand to disappear as a result of the merger as LeapFrog was a recognised and commercially valuable brand in the educational area. However, Argos said it could bring in other suppliers if necessary [✂].
19. Argos told us that branding was important in the toys sector, for instance, in relation to gaining trust and there was a brand hierarchy in all ranges.

### **Innovation**

20. Argos told us that VTech and LeapFrog were both innovative companies whose products resonated well with consumers and other manufacturers tended to copy them, rather than the other way round. However, Argos said that there were other companies doing similar things. [✂].
21. Argos told us that a new brand entering the market needed to offer something different from its existing range for its products to be added to Argos' existing range.

### **Top toys**

22. Argos told us it nominated a top toy list, and there is also the Dream Toys List created by the retail community. Argos told us that a VTech product was nominated as a top toy this year, but no LeapFrog product was nominated.
23. [✂].