

## VTECH/LEAPFROG MERGER INQUIRY

### Summary of hearing with Mattel on 6 October 2016

#### Development and product pipeline

1. Mattel said that it categorised its products by brand. Its major brands were Fisher Price, Barbie, Thomas the Tank Engine (Thomas), Hot Wheels and American Girl.
2. Mattel told us that it had a licence business and had IP rights from companies such as Pixar, Marvel and Disney to create licensed toys.
3. Mattel viewed VTech and LeapFrog as competitors of Fisher Price in pre-school toys. In the tablet segment, LeapFrog competed with a company that Mattel had recently purchased called Fuhu (although LeapFrog probably targeted a younger age bracket).
4. Mattel did not believe that Thomas competed with VTech or LeapFrog. While it was a pre-school product, Thomas was a content driven product and operated in a fairly unique segment.
5. Mattel believed that while consumers might have a particular brand in mind when making a purchase, their perceptions changed when they entered a store and had access to the full retail offering.
6. Mattel positioned Fisher Price as a trusted brand that offered toys and baby care products. Fisher Price toys targeted some form of child development, but the overriding concern was to gain a parent's trust in the brand.
7. Mattel did not see Toddler Electronic Learning (TEL) toys as a currently core focus of its business. Mattel had noted a trend towards coding activities and app-based products in those sectors in which Fisher Price was active, [X].
8. Mattel said that there was a general view that the numbers of children using tablets and mobile phones, at a younger and younger age, was increasing. Mattel believed the software and apps for these was important and it did not see itself competing in the hardware segment of these markets.
9. [X]. Mattel purchased the maker of the tablets from bankruptcy and the company had not had the opportunity to develop the tablets outside of the US because of financial difficulties.

10. One of the primary reasons Mattel purchased the maker of the Fuhu and Nabi [REDACTED] was for its software capabilities. Mattel would use the software it purchased to develop a global app platform and believed the future trend would be software rather than hardware focussed.

### **Closeness of competitors' products to parties' products**

11. Mattel believed that Fisher price was closer to VTech with regards to the products it offered. Over the past couple of years, VTech had sold electronic toys that were very similar to, and targeted, Fisher Price products.
12. [REDACTED].
13. Mattel said that [REDACTED] it had launched Nabi tablets under the Barbie, Hot Wheels and American Girls brands in the US, [REDACTED].
14. Mattel told us that it had its own product designers and developed products in-house. It used child-focussed market research and followed trends and if a product was thought to be viable, Mattel would invest in its launch.
15. Mattel acknowledged that hand-me-down products in the tablet market facilitated children having access to tablets at a younger age. It had US-based anecdotal evidence that this practice was one cause of tablet proliferation.

[REDACTED]

16. [REDACTED].

### **Consumer behaviour**

17. Mattel said that a strong, well-known brand was critically important and was the basis on which it had built its business and differentiated itself in the market.
18. Mattel said that new products were commonplace in the toy market and it was quite common for a new entrant to launch a different proposition, based on innovation or price. It was not unusual for firms to launch products against established brands such as Mattel, [REDACTED].
19. Mattel told us that licences were an important part of a new product and were a means of 'renting' a well-known brand. Mattel did not find it difficult to acquire licences as it had the resources to acquire them and had a global scale that not all firms could match. There were more licences available than Mattel could accommodate, which other companies could benefit from.

## Entry and expansion

20. Mattel believed that current market conditions were good for entrants in the infant, child learning and learning developmental toys.
21. Retailers were an important component of the market and if they were having a tough time, this impacted on manufacturers as a decline in retail square footage led to a more competitive environment. There was always a need for products, particularly educational products, which led firms to differentiate their toys.
22. Mattel believed the digital space had provided an opportunity for new entrants. A trusted brand was not essential and it was inexpensive to develop an app or software that could sit on an IOS platform and be disseminated widely at a low price point. Once a critical mass was achieved, a brand could develop [X].
23. Mattel believed it was easier to get a place on a retail platform such as Amazon, rather than acquire a space in a retail footprint. Mattel told us the market was fragmenting – tougher in some areas and open on entrepreneurial activities in others. The decline in retail space did not mean that it was necessary to have an international presence to be successful, though this could be advantageous. But a global presence, in a trying retail environment, could also bring its own problems, for example, more working capital risk.

## Innovation

24. Mattel understood that LeapFrog undertook a lot of research and development, particular around education, and developed new products based on this research. The issue for LeapFrog was that while perceived as innovative, it was [X] unable to capitalise on that in a significant way.
25. Mattel viewed VTech as less innovative and founded on an electronics-based platform, which could be characterised as a low cost, provider platform. [X].
26. Mattel believed a lot of innovation came from the smaller toy companies, who were innovative within their own segments, such as virtual reality, drones or robotics. There was no large, diversified toy company that Mattel would identify as more innovative than others.
27. Mattel said that to a degree, trends in adult technology were driving innovation in children's toys. Mattel did not feel the need to compete with, or be at the cutting edge, of these technologies, particularly against drones that were priced at \$700. If anything, it would view its innovation as reversing the smartness of these technologies and making them suitable for children.

28. Mattel noted that there were a number of smaller firms that were building drones for children, but because of the way drones were manufactured, their cost structure and low margins, it was a sector Mattel might never develop.
29. Mattel said that there was no first-mover advantage if a toy was going to be a multi-year trend. There were very few instances where a product was so proprietary that another company could not create a product as equally successful.
30. Mattel said that child tablets struggled over the past couple of years as they competed against Apple and Google, as well as better and cheaper products. While some child tablets were marketed as indestructible, this competitive edge would diminish as tablets become cheaper. Mattel thought that child tablets had a few years of actually being important and relevant, but it was highly debatable whether that would continue in the future.

### **Views on the merger**

31. Mattel said that it was difficult to assess the impact of the merger and its effects. It regarded VTech as a legitimate competitor to Fisher Price and it was unsure as to the strategic plans of the merged entity. [✂].