

## VTECH/LEAPFROG MERGER INQUIRY

### Summary of hearing with Tesco on 4 October 2016

#### Product Choice

1. Tesco told us that its decisions on ranging toys within particular store formats are determined by customer expectations and customer shopping mission. [X].
2. Tesco said that store space for toys was allocated to ensure it had a balanced customer offer and all its customers were catered for. Past sales, a strong media campaign and a unique selling proposition influenced store space allocated to products. The space given to individual products was also determined by factors such as the customer proposition and price point. Weekly and monthly market data also influenced the allocation of space for products.
3. Tesco told us that toy categories were broken down into sub-categories, such as pre-school, fashion dolls, collectibles and construction and its stores offered a balanced range across all these sub-categories.
4. [X]. However, VTech toys were a key part of Tesco's offering as they were extremely popular and provided credibility to a retailer. Brand loyalty was also more prominent among pre-school toys.
5. Tesco told us that it purchased products from overseas suppliers for its own label toys, 'Carousel'. [X].
6. Tesco believed that purchase choices were a mix of impulse buys – its bestselling products were lower-priced items – and planned acquisitions, which Tesco divided into three shopping missions:
  - Purchase of a weekly treat, which was a lower-priced item.
  - Purchase of a birthday gift.
  - Purchase for a special occasion.
7. Tesco told us that child tablets were sold online and were not grouped with adult products. According to NPD data, Tesco's market share of child tablets was zero.

8. Tesco told us that the market for child tablets had declined very rapidly over the past 12 months, which it viewed as a possible result of the declining price and functionality offered by adult tablets.
9. Tesco said that it had offered a tablet for adults called Hudl, which it had recently discontinued, but it was part of a different category ('electronics') and no child versions were available.

### **Contract and supply agreements**

10. [REDACTED].
11. [REDACTED].
12. [REDACTED].
13. [REDACTED].
14. Tesco told us that it had negotiated [REDACTED].
15. Tesco said that Mattel (Fisher Price) was an alternative supplier to VTech with regards to electronic learning toys (which Tesco defined as any toy which had an electronic part to the product that helps you learn whilst you were playing with it). In the event that Tesco did not take a VTech product, [REDACTED].
16. [REDACTED].
17. Tesco said that toys had a high churn of new products to market. For example, Lego, the leading supplier within the construction category's average product churn on an annual basis is over 70%. Though churn was high, Tesco strove to ensure that products that they stocked were those that could be sold at reasonable prices to customers.

### **Consumers and branding**

18. Tesco told us that in the segments in which VTech and LeapFrog were active, it might also [REDACTED].
19. Tesco said that it would work with lesser known brands to improve their brand recognition. In terms of in store promotions, [REDACTED].

### **Entry and Expansion**

20. Tesco said that the [REDACTED].
21. Tesco told us that the process to develop and launch [REDACTED].

22. Tesco said that the process it undertook for the [✂].

### **Innovation**

23. Tesco told us that it viewed innovation as something that would set a product apart from what it already had and which would sell well. Tesco said that it encountered a number of such products each year, in some instances from suppliers it had never previously worked with. Tesco considered that VTech had been innovative over the last few years, but LeapFrog less so; for example, VTech's Toot-Toot range offered a particularly strong product, with a unique method of play.

24. Tesco had seen a preview of Fisher Price toys and believed these [✂].

25. Tesco had not noticed any change in its interaction with VTech and LeapFrog following the merger.