

## VTECH/LEAPFROG MERGER INQUIRY

### Summary of hearing with Artsana (Chicco UK) on 12 October 2016

#### Market segmentation

1. Artsana (Chicco UK) told us that it split the toy market into two sectors, infant and pre-school. Infant was focused on products such as nightlights and projectors for newborns and infants. Chicco UK worked very strongly with juvenile or side-sleeping and was looking at running a campaign concerning sleep time expertise. The campaign would be run under a range called 'First Dreams' and offer nightlights, soothers, projectors and a 'Boppy' pillow.
2. Chicco UK said that for pre-school children, a sector in which VTech and LeapFrog were prominent, it offered products for one to three year olds. Chicco UK had recently launched a television advertising campaign with a new concept around 'fun of development' and worked closely with paediatricians and the Baby Research Centre in Italy when developing products for the UK market.
3. Chicco UK told us that it offered electronic products, but its new strategy was very focused on products that targeted the developmental needs of babies and pre-school children.
4. Chicco UK told us that it had adopted a new strategy to achieve its own unique selling point, as it believed there were a lot of similar products in the market and it wanted to establish Chicco as a toy specialist. [REDACTED].
5. Chicco UK believed this approach, combined with a strong television presence, had been successful, with a 26% increase in sales expected by the end of 2016.

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

6. Chicco UK said that though it operated in a similar age bracket to LeapFrog, it offered more conventional toys compared to LeapFrog's products, which had a strong connection with technology via its watches and tablets. Chicco UK's products did have some electrical components such as lights and sound, but they were very educational and tailored to the development needs of an infant. Chicco was more traditional whereas LeapFrog was moving forward and leveraging technology.

7. Chicco UK said that market research and information from its parent company had shown that there was a market for hi-tech toys for toddlers as more and more toddlers interacted with smart phones and adult tablets at a younger age. Children could access their parents' devices, but there were products in the UK market that offered safeguards for child usage. Chicco UK told us that a year ago they did some research around traditional toys versus more modern technology and how it could connect the two, but at that time it felt the UK was not ready for this leap forward (compared to Europe).
8. Chicco UK told us that it had recently considered launching a building blocks product, which, when it interacted with an iPhone, created an element of augmented reality. (Another company had launched a similar product, aimed at an older age group, a few years ago in the UK, but it had not had a positive reception.) Chicco UK trialled a similar building block product for younger children. It was decided not to launch the product in the UK, though Chicco UK's parent did launch the product in France and Italy.
9. Chicco UK told us that it operated in a similar age bracket to VTech, but offered more conventional toys. VTech had a price point that ranged from £6.99 up to £70 for its larger products. VTech's Toot-Toot product was a good example of the way technology was utilised in its products to connect with customers.
10. Chicco UK said that VTech had a strong presence in the UK market and was prominent in retail and catalogue space. Under the banner of 'fun of development', it was trying to establish a level of uniqueness, which was difficult due to VTech's strong position in this arena.
11. Chicco UK viewed VTech as a competitor in pre-school products. Chicco UK's competitor analysis looked at VTech's products, their price positioning, new products and advertising strategies. Chicco UK was particularly interested in the Toot-Toot range as it was very similar to radio controlled products offered by Chicco UK.
12. Chicco UK believed that VTech was developing products that had a more developmental focus, for example the Toot-Toot range addressed coordination. This was very close to what Chicco was trying to offer in the UK market.
13. Chicco UK said that the 'fun of development' concept had different islands. There was the 'fun of moving', which was supported by the 'Move n Grow' range, which included products such as activity walkers and balance bikes. The 'fun of racing' had radio controlled toys and cars.

14. Chicco UK believed its twin island approach to developing and learning different skills was unique, and was well received, in the UK market, which was reflected in sales growth. Increased investment, particularly in advertising, had reinforced the image of Chicco UK as a strong brand.
15. Chicco UK said that television advertising had worked very well with Next2Me the slide-sleeping crib proving popular. Chicco UK was applying the same level of strength and success to its toy strategy.
16. Chicco UK said that Christmas was a time when many companies advertised on television.

### **Product development pipeline**

17. Chicco UK said that it had signed-off its products for autumn-winter 2017 and the focus was to enhance the 'fun of development'. Within 'fun of development', there were three sub-categories: Fit & Fun; Move n Grow; and, Turbo Team. Within these three categories, Chicco UK's parent company would invest in the development of novelties.
18. Chicco UK said that it constantly worked with its parent company on new concepts. It would test these in the UK market to see if there was a need and if the product sat within Chicco UK's strategy.

### **Contracts and negotiations with retailers**

19. Chicco UK said that major toy fairs, such as Nuremberg, were an important starting point for its negotiations. Firms would see previews of products for autumn-winter 2017, get a sense of what competitors were offering, identify trending products and sense retailers' expectations for the coming year.
20. Chicco UK said that it had a directional retail strategy focus point for sales for the whole of its business. [X]. Chicco UK worked with the key retailers in each channel to ensure that its products were strategically placed to ensure the maximum sales. For example, the work with toy specialists was intended to build the brand, ensure key products and lines had good in-store locations and were supported by marketing activity, both online and in print.
21. Chicco UK said that it was flexible in meeting demand for its products and could provide more if requested by a retailer.
22. Chicco UK said that toys was a very competitive market and if a product was not unique, a retailer would negotiate heavily on the price of a product. If a

resolution could not be reached, it was possible that a retailer could switch to a replacement or totally different product.

23. Chicco UK believed that the product a retailer might switch to would be driven by the fashion at that time. For example, if there was a movie coming out, toy buyers would look to products that had a connection with the film. Products associated with the film Frozen were very popular a couple of years ago, but the space allocated to Frozen products was decreasing as new films emerged.

## **Consumer behaviour**

24. Chicco UK believed that branding was very important in the toy market. Parents wanted to have a connection with, and trust, a brand and believe that it would meet and fulfil their children's needs. Some toys were very expensive and a brand provided reassurance for a parent's purchase.
25. Chicco UK said that it had a strong brand because of the quality of its products, which were sourced from Europe and China. Parents also found reassurance in Chicco UK's products because of the connection with the Baby Research Centre, the research Chicco UK undertook and the educational component of its products.

## **Entry and expansion**

26. Chicco UK said that its current range of products were priced from £6.99 up to £50. It had to feel confident when launching a product that it was relevant for the UK market and it would not shy away from offering an item at a higher price-point, with appropriate marketing support, if it felt it was relevant for the UK market.
27. Chicco UK said that the infant and toddler learning markets were expanding, with the UK toy market increasing at an annual rate of 1%. New toys came onto the market as consumers were savvier with their spending habits and looked for unique products to help with their educational need.

## **Innovation**

28. Chicco UK said that innovation was critical in the toy market and was a key factor for success in the pre-school sector. As an example, it cited the Argos catalogue where, in the pre-school sector alone, around 30% of products would be what Chicco UK termed new innovations. Lines that had worked well from the previous year would have been extended to reflect new colours or new entrants might offer a slighter lower price proposition.

29. Chicco UK said that its key competitors in pre-school were, Fisher Price, VTech, LeapFrog and possibly copycats such as Chad Valley. Infant toys was a very different market.
30. Chicco UK viewed LeapFrog products as learning tools, focusing on updated technology in products such as watches or tablets, but LeapFrog also offered more conventional toys that had an electronic element.
31. Chicco UK said that VTech again had the technological component in its products, visible in toys such as Toot-Toot and the SmartPoint technology used in racing car games.
32. Chicco UK noted the correlation between LeapFrog and VTech with regard to innovation and technology and the fact that they both worked within the same age bracket.

### **Views on the merger**

33. Chicco UK said that the merger could present challenging conditions for it and other competitors. Both VTech and LeapFrog were established in the UK toy market, with strong market shares. Their products received a lot of coverage in the Argos catalogue, dominated a lot of online and retail space, and their marketing spend would be much higher than Chicco UK. The merged entity in the UK would be very powerful.
34. Chicco UK believed Fisher Price had a strong market share, but did not have as much innovation and technology as LeapFrog and VTech. It was beginning to regain that, but VTech and LeapFrog currently had stronger positioning, particularly VTech in technology advances (it was very dominant, as shown by the huge amount of space allocated to it by the retailer Smyths in preschool).