

Brand names and knockoffs compete for shopper dollars

BY DINA ELBOGHADY
The Washington Post

For the holidays, Michele Hobson wants to buy "fun" and "catchy" toys for her two girls.

But the last thing Hobson cares about are the brand names.

After all, her 2 1/2-year-old daughter can't tell the difference between Barbie and any other fashion doll.

The nation's largest toy retailers are hoping even betting that lots of shoppers feel the same way. Increasingly, they're lining their shelves with lower-cost versions of heavily advertised brand-name toys, versions they expect will put more profit into the cutthroat business that toy retailing has become.

Shoppers may well reap the benefit of these lower-cost dolls and toy cars and such, and so might the retailers' bottom lines, at least in the short term. But some industry observers say the retailers' strategy may ultimately backfire on them and their customers.

The same strategy has been embraced by many industries for decades, most

notably supermarket chains. Even private label toys aren't a novelty. Some retailers, such as FAO Schwarz, have offered them for years.

Still, in modern, brand-crazy America, such toys were the exception until five years ago. Today, they take up about 15 percent of shelf space on average at the nation's top five retail chains Wal-Mart, Toys R Us, Target, Kmart and KB Toys, according to a study released this month by the New York investment firm Harris Nesbitt Gerard.

The big five toy chains are going directly to toy factories overseas and ordering custom-designed toys. The study found that some of those toys complement major brand offerings (such as a PT Cruiser car for a Mattel Barbie doll) while others compete (for instance, Wal-Mart's Kid Connection preschool products look like LeapFrog brand items).

Because retailers have eliminated the middlemen by dealing directly with factories, they've also eliminated paying for the advertis-

ing, research and other costs included in the wholesale price charged by a Mattel or LeapFrog.

So they build more profit margin into their store-brand toys even though those toys sell more cheaply. But the more shelf space retailers devote to their own brands, the less space they have for better-known manufacturers, said Sean McGowan, a managing director at Harris Nesbitt Gerard.

"The retailers are pretty clearly skimming sales from their brand-name suppliers," said McGowan. Jim Silver, co-publisher of Toy Wishes.

If this trend continues, he said, consumers can expect to see less innovative toys in the future. In-house brands will cut into the famous makers' sales, forcing manufacturers to cut back on research and development.

"All the retailers do is copy toys that are already out there," Silver said. "They might save consumers 10 cents, but they're killing innovation."

Retailers rarely go head-

to-head with big manufacturers on "hot" toys that people ask for by name. Those toys are the most heavily advertised because they attract shoppers. But they also command the lowest retail markups, said John Taylor, an industry analyst with Arcadia Investment Corp.

Instead, retailers increasingly rely on selling in-house versions of generic board games, such as checkers, or stuffed animals to make up for those lost margins. That's how chains such as Toys R Us stay competitive with discounters such as Wal-Mart, Taylor said.

"Without (store brands), a Toys R Us wouldn't be able to compete on price because they wouldn't make money on anything," he said.

But even Wal-Mart is getting aggressive about offering its own toys. Wal-Mart's toy vehicles marketed under the Kid Connection name take up more shelf space than Mattel's brand, according to a recent study by Funosophy Inc. in Long Beach, Calif.

The study also found that

private-label toys accounted for 50 percent of total shelf space set aside for large dolls at Wal-Mart, Toys R Us and Target.

Karen Burk, a Wal-Mart spokeswoman, said her company offers 300 Kid Connection toys. She declined to say how much of Wal-Mart's toy sales are generated by Kid Connection and other Wal-Mart toys, though many analysts estimate it is close to 20 percent.

"Wal-Mart is a brand-oriented company first, and we

built the trust of our customers by offering quality well-known brands at everyday low prices," Burk said. But "we do use private-label toys to fill a void in pricing or value."

The company declined to break down how much of that is private-label and how much is well-known merchandise sold only at Toys R Us, such as Cabbage Patch dolls. But the Harris Nesbitt Gerard study estimates the private-label sales at about half.

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