



The Journey through 2019: Contrasts of Healing and Disruption in the Toy Community

The year 2018 will forever be known as the year we lost Toys“R”Us. No matter what great achievements were marked or blockbuster products like L.O.L Surprise! continued their global rise, a look back over time will point to the profound impact of liquidating the U.S. portion of TRU. The loss of TRU, together with the rapidly evolving retail environment, rewrote the toy selling playbook.

As holiday sales results roll in, our earlier predictions of needing the full year of 2019 to recover from TRU disruption are being realized. While the overall retail sector saw about 5 percent growth, [toy sales entered the holiday selling season lagging](#) in October and November with softness in December. Results now look like an annual decline in the mid-single-digits. Just this morning, Sears Holding Corp. rejected a bid to save the storied retailer, putting it on a path to liquidation after 126 years in business. The fragmented U.S. retail toy sector has further to go to recapture the \$6.5 billion in TRU domestic sales, while the battle for share of market and share of consumers’ toy buying minds will continue. Meanwhile, year-end channel inventory is said to be quite low, meaning there is an advantage of clean inventories to start 2019.

To be sure, there were many great new products and business successes in the toy space over the past year. Companies continue to innovate and bring delight to children. Specialty retailers mobilized to take advantage of channel disruption. New players entered the space. Yet the question remains, what will be our new normal? The uncertainty felt in 2018 is still with us, but we must keep pushing forward. The rate of change will continue to escalate.

The 2019 Hot List of Issues is Lengthy

In addition to where and ultimately how much TRU market share moves, here are six – among many variables – that could impact 2019:

- **Resolving the tariffs threat.** The threatened fourth tranche of Section 301 China tariffs would be devastating to the toy industry. Our staff remains relentless and loud telling your stories on Capitol Hill and to the Administration. A planned fly-in for February will be your chance to add your influential voice to the choir. The Association has secured additional communications and lobbying resources which are now being implemented.
- **Attacking IP infringement, forgery, and counterfeiting.** Far more than just a financial risk to toy companies, illicit products and sellers threaten the health and safety of children. A recent holiday tragedy in Wisconsin involving a counterfeit, non-compliant product was entirely preventable. Toy companies are spending huge sums fighting legal battles with rogue sellers, Customs and Border Protection battles against the tide as does U.S. Consumer Safety Product Commission (CPSC), while perpetrators continue to pursue easy profits via ecommerce at the risk of consumers. Our forthcoming white paper on IP infringement and ecommerce in the toy

space is one of many continuing actions by the Association as we work across the industry and with both ecommerce sites and lawmakers to rein in these abuses.

- **The Internet of Things (IoT) puts toys in the crosshairs.** Data privacy and protection are vitally important topics in today's world and for our Marketing to Children Committee. While IoT toys are a tiny fraction of the global toy industry, NGO groups have found these toys make a very persuasive talking point before consumers versus more mundane household products. Our industry's strong support of the Children's Online Privacy Protection Act (COPPA) guidelines and assuring product compliance for toys needs to be better communicated to and understood by the public, while together all of us in the toy community must protect COPPA.
- **Who will be the next innovative bridge?** With more than \$6.5 billion in annual domestic sales and 24 percent of the U.S. toy market, Toys“R”Us was arguably far more than a dedicated big-box toy retailer. The company was a risk taker, supporter of innovative start-ups, and discovered new products unlike any other. It frequently acted as the bridge that gave small- and medium-sized companies that shot at going big. In an age of limited shelf space, retailers not committed to toys year-round, and others somewhat risk-averse, who will fill the gap, experiment, and pioneer? The Association will continue to bring forward fresh thinking and diverse thought leaders to address the problem facing innovation and creativity in our space.
- **Partnering on tomorrow's retail environment.** The retail ecosystem is alive and rapidly evolving. The rules of the traditional game have been tossed aside. Some 65 percent of toy sales still occur in brick and mortar stores, but as retail evolves what will be the place and scale of toys? Selections trimmed, ranges reduced, and consumer choice limited? As retailers transform their stores and formats, the Association and toymakers need to be offering insight and partnerships that transcend the old “make and sell” model. Both online and in-store experiences are still being defined, retail today is vastly more experimental, and opportunity abounds for those innovators investing hard work and vision. Toymakers will need to be even more data-driven, nimble, and fast to market.
- **Navigating economic uncertainty.** Our economy has been buoyed by a growth cycle of high consumer confidence and low unemployment following the struggle back from the recession of 2009. Positive fundamentals remain, yet corporate profits are slowing and the trade conflict with China indeed plays a detrimental role. Experts believe that even if growth should slow from its current pace, the economy will still grow at around 2 percent over the coming years. Low unemployment is holding, and readings of consumer confidence remain positive. At some point there will be another recession. Regardless of the timing, depth or duration of the next downturn, it will be vital for toy businesses to retain talent, sharpen focus, and refine strategy not just to weather the storm, but to emerge swiftly when brighter times come.

2018 Achievements Laid the Foundation to Take on the Challenges of 2019

As for the year past, The Toy Association stood with our members against every threat and to help accelerate their opportunities. We saw many successes in 2018 – progress that came as a direct result

of the volunteer committees, talented staff, and active collaboration of members that together drive the work of The Toy Association. Noteworthy highlights include:

Membership & Support for Fellow Organizations

Membership in your trade Association continued to grow, ending the year 1,113 companies strong. Member engagement increased throughout our offerings from webinars, to participation in the Annual Business Conference to the Young Professionals Network, and across a range of products and services. By implementing Net Promoter Scoring to assess member experience, we now receive immediate diagnostics on how to improve while having established a baseline for 2019. This year, we will launch a multi-tiered membership offering to enable specialty toy stores and individual toy buyers to participate as members in Association activities. Strengthening and supporting the entire toy community is why we come to work each day.

Our direct support continued in 2018 lead by a sustaining partnership with the Canadian Toy Association (CTA). The CTA team and Board in Toronto strives to be the organization the Canadian toy community needs while actively supporting crucial players like the newly restaged Toys“R”Us Canada. Elsewhere, we take great honor in serving the International Council of Toy Industries (ICTI), the ICTI Ethical Toy Program, Women in Toys (WIT), and International Toy Industry CEO Roundtable via secretariat duties. Supporting charitable and education endeavors like The Toy Foundation, FIT Toy Design Program, OTIS College Toy Design, and the Strong Museum are highpoints among philanthropic activities.

Government & Regulatory Affairs

Members of all sizes and types continue to cite legislative, and standards and regulatory affairs work as a key value of their membership. That’s true for both our work here in the U.S. and around the world. As you likely know, The Toy Association has played a leading role in efforts to oppose tariffs on toys made in China, advocating with the Administration, key agencies, the U.S. Trade Representative, and blanketing Capitol Hill offices with targeted advocacy meetings. We have had more than 30 of those meetings in just the last two months alone. We will continue strong opposition of toy tariffs including our participation in the Americans for Free Trade Coalition which will organize a congressional fly-in next month for our member companies to take their message directly to Capitol Hill.

The staff, together with our new IP Protection Committee and IP Steering Committee, ended the year engaging directly with top ecommerce companies and by completing a formal white paper outlining industry concerns with intellectual property-infringing products on a wide range of ecommerce sites. That paper will be published and promoted in the coming days of January. The white paper is intended to be a living document with frequent updates as issues evolve and progress made. It’s clear that threats to product safety and brand equity via counterfeits and rogue sellers are pervasive, driven by online sellers, and will demand constant focus.

In 2018, our team members in Washington, DC, New York City, Sacramento, Chicago, and Boston poured through hundreds of pieces of federal, state, and local legislation, addressed standards and regulatory shifts in dozens of nations around the globe, and directly defeated or amended harmful legislation from impacting the toy industry in 10 states. The global breadth and depth of their work, together with our many committees populated with member representatives, are a powerful force that effectively helps protect the entire toy community.

Global Market Events

Helping more members sell more product more often through more doors. It's a mantra often repeated in our hallways. In 2018, Toy Fair New York, Toy Fair Dallas, and ShopToys365.com remained vital offerings. In 2019, we will continue to strengthen each while also designating and organizing a primary El Segundo, CA showroom location for members without LA area business operations seeking previews in April and September.

The moment a sold-out 2018 Toy Fair New York ended, work began on the 2019 show. With the creation of the Creative Factor Advisory Board, we have significantly enhanced educational experiences offered to designers and inventors. A sampling of some planned topics for 2019 includes: design innovation, IP protection, alternative routes to distribution, VR character modeling, and the connected play landscape. Additionally, we will host the inaugural CF@TF Inventor Day the day before Toy Fair opens on Friday, February 15. From submitted ideas, finalists will be invited to display their ideas to prospective partners in manufacturing or licensing. Toy Association members are invited to come through the presentation area in room 1A03 at the Javits Center to review these inventor submissions.

In 2018, the Play Fair experience evolved and is now fully integrated into AwesomeCon (DC), Big Easy Con (New Orleans), and Rose City Comic Con (Portland, OR). As junior Con experiences, the Play Fair goal of creating member brand experiences for kids and families has found a good home in these quality Cons. Our members have made it clear the value they place in fan access through existing Cons and these three events illustrate the broad opportunity available to our members outside of San Diego and New York.

In response to attendee feedback and Committee discussions held during our 2018 Dallas show, we have redrawn the layout for the 12th floor to be more linear to improve navigation. The hub-and-spoke model will be retired. We will add an innovative product zone to the center of the 13th floor and it will include a stage area for potential live pitch presentations. An additional enhancement to the show will be the availability of a custom app and an appointment-scheduling tool. Several issues raised by attending buyers, including exhibitors closing early and frustration with totally enclosed exhibits, are topics to be debated by the Trade Show Committee in the months to come.

Strategic & Marketing Communications

Our shift to proactive and even aggressive communications has paid great dividends for members over the past two years. The Toy Association amplified safety messaging generating 60.5 million impressions on social media that promoted PlaySafe.org and safe play tips while calling out NGO groups and their spurious annual dangerous toy lists. Industry POV now regularly appears in press coverage of these NGO events while our sharing facts and figures that counter specious claims have caused significant declines in media coverage during the annual "toy hunting" season. What's more, we always step in to directly help each toy company named in these reports.

Our revitalized trends initiative in 2018 featured 450 products from member toy companies mentioned in TV segments and domestic and international trade articles, up 143 percent from 2017. In print, 166 companies were mentioned – more than double from 2017 – while 85 companies (up 49 percent year over year) were mentioned on broadcast segments.

Value of play advocacy exploded as more and more media embraced our Genius of Play message. Donated PSAs provided over \$16 million in media value delivering 400 million impressions, website visits increased over 42 percent, social media surpassed 1.5 million engagements, and news media coverage totaling 1 billion impressions included AP, USA Today, Chicago Tribune, and many others. More importantly, new research indicates that consumers receiving these messages have a stronger intent to purchase toys. Stay tuned for some exciting findings to be released in the coming weeks.

Finance, TRU Bankruptcy, and Credit Committee

Connecting members with actionable information and expert counsel regarding both the TRU bankruptcy and subsequent liquidation was the top priority in 2018. Attending and constantly monitoring of TRU bankruptcy proceedings, issuing alerts, and hosting five town hall webinars for members featuring bankruptcy and legal authorities are just the top few items we commenced and participated in last year.

The Association produced 12 new research projects shared with members covering global markets, toy industry business studies, and consumer insights. Seventeen issue-oriented webinars were completed, 11 Trend Hunter reports, as well as two major thought-leadership reports issued through our partnership with ProdigyWorks.

A successful Summer Business Conference in Seattle was expanded to welcome more than only Credit Committee members. The result of this experiment in expanding appeal, in partnership with Amazon, showed the way forward to a new approach for 2019, delivering actionable business risk, and sustainability and marketing content that can be useful to all 1000+ Association members. Look for information soon on the new Annual Business Conference in partnership with Target planned for June 18 to 19 in Minneapolis, MN.

The strength of our team was noted as The Toy Association was named one of the Top 50 2018 Best Nonprofits to Work in America, coming in at No. 24 among thousands of nonprofits across the nation. And, as a further sign of commitment to the toy community, we were honored to take over the financial back office functions in support of Women in Toys in 2018.

The Toy Foundation

In 2018, the toy industry generously donated more than \$22 million in toys. This enabled The Toy Foundation to provide the magic of play to more than 1.5 million children who are sick, impoverished, in foster care, in military families, and those experiencing other types of adversity. This represented a 45 percent increase in total Toy Bank donations compared to 2017 and a 25 percent increase in the number of children served!

Of note to the toy industry, the Foundation completed the research phase of its innovative children's hospital program with Nemours Children's Health Systems regarding the role of play in trauma informed care. The study team at Nemours then began a rigorous process of developing a play "intervention kit" which will be tested in select Nemours hospitals in 2019. The research results will be both published in prestigious journals and presented at major conferences this year.

Play Your Part events continued to engage greater numbers of toy industry employees and events are now held in Boston, Chicago, and Los Angeles – with a Florida test event anticipated for 2019.

Toy Industry Strengths Vastly Outweigh Weaknesses; Opportunities Outnumber Threats

While the world around us is in rapid-fire change mode, that fact remains that the innovation, creativity, and resilience of the toy community are legend. The TRU disruption will ultimately be settled, kids will go on celebrating birthdays and holidays, kid-adults will seek out toys and collectibles, while families will continue to enjoy board games and other forms of entertainment. We have every opportunity to capture consumer attention and dollars by continuing to deliver innovative, exciting, safe, and educational playthings.

Just as toy companies, designers, inventors, licensors, and every other part of our industry contend with change, so will The Toy Association. We've already begun a reassessment of strategic priorities and seek to expose any gaps or expand our services based upon the needs of members. Our own constant evolution and reinvention is essential. Protecting and promoting member companies as well as working to the benefit of the broader toy community are the reason we exist.

I made a conscious choice to begin this letter outlining select risks for our industry, but the fact remains that countless successes and fundamental strength of both ideas and character are hallmarks of the business of toys. The staff and I are honored to work on your behalf and look forward to 2019 with great optimism.

All good wishes always,

A handwritten signature in black ink, appearing to read "Steve Pasierb". The signature is fluid and cursive, with the first letter "S" being particularly large and stylized.

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