China's toy market

I. Market overview

1. Toys in the Chinese market can be classified broadly into electronic, mechanical, plastic and wooden toys. In addition to traditional offerings, models, licensed toys (movie spin-offs, cartoon characters, etc), dolls, high-tech toys, educational toys, internet-compatible toys and toys for adults’ recreation and entertainment have continued to come onto the market.

2. According to estimates by market research company Euromonitor, the total retail sales of toys and games in China have soared from Rmb46.3 billion in 2010 to Rmb68.9 billion in 2013, registering an average annual growth rate of 14.2%.

3. As urban dwellers’ income rises and quality of life improves, their demands for toys are beginning to change. There is a shift away from traditional, medium- to low-quality battery-operated toys, construction sets and decorative toys towards innovative electronic toys, intelligent toys as well as upmarket plush toys and decorative cloth toys.

4. There are around 223 million children under the age of 14 on the Chinese mainland. In 2013, the Third Plenary Session of the 18th Central Committee of the Communist Party of China adopted the Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform, which put forward a policy that allows married couples to have two children if either parent is an only child. There are some 16 million newborns per year on the mainland. According to projections by the Institute of Population and Labor Economics, Chinese Academy of Social Sciences (IPLE-CASS), there would be an additional one to two million newborns in China each year following the relaxation of relevant policies. Besides, in view of the steady economic growth of China, the prospect of its toy market is rosy.

5. Electronic toys: high-tech electronic toys have caught on in recent years. Interactive, electronic toys with relatively high technology content have emerged as mainstream items. Another growth area is educational toys inspiring children’s imagination and creativity and enhancing their in-hand manipulation skills. Toys for both learning and fun are well-received by children and parents alike.

6. Plush toys: the plush toys market is marked by the following features: (1) Plush toys in novel and unique designs and especially popular TV drama characters and animation characters have been sought after in the past few years. (2) Integrating electronic toys with plush toys has become the latest trend. (3) Plush toys that
double as household decorative items have gained favour among many households.

7. Educational toys: educational toys like jigsaw puzzles, DIY toys and 3D construction sets are becoming the latest craze among parents and children. These toys are marked by several common characteristics: innovative in design, highly interactive and carrying high technology content.

8. Animation and related spin-offs: according to industry sources, the animation market in China is estimated to top Rmb12.7 billion in 2013. In China, toy-animation crossover has yet to mature as a profit-generating business model, and most enterprises in the animation and related spin-off sectors still rely on animation characters in the US and Japan in their production.

9. Homemade toys and handicrafts: making one’s own handicraft works is not only easy and inexpensive, but is also a relaxing and enjoyable pastime. It has captured a wide audience on the mainland, especially given the tremendous work pressure nowadays. Working on handicrafts during leisure time can help one wind down, and counter cross stitching, for example, has caught on as a popular home handicraft.

10. Toys for adults’ recreation and entertainment:

   - The market spells enormous potential, but supply is limited. The market remains largely untapped. According to a market survey conducted by the Social Survey Institute of China (SSIC) in 2010, companies specialised in making adult toys were already in operation in the US a long time ago, and over 40% of these companies’ toys are designed for adults. In China, on the other hand, the toy industry is still much confined to meeting children’s demands, and adult toys can hardly be found on the market. 62% of the respondents expressed that they would consider buying toys if they are of good quality and meet their needs.

   - Different adult consumer groups have different demands for adult toys. 34% of the young people interviewed indicated a preference for more complex, smart toys calling on their ability to think and explore as well as toys made for decorative and appreciation purposes; 29% of the middle-aged respondents said they have a penchant for recreational toys and toys incorporating light exercises. As opposed to adult males’ preferences, 27% of the adult females interviewed expressed the desire for decorative items for the home that double as handheld toys.

11. The China’s Toy Shoppers: A Purchasing Behaviour Survey published by the Hong Kong Trade Development Council (HKTDC) in 2014 has the following findings:

   - Among the parents surveyed, 93% point out that “I hope my child can have a pleasant and happy childhood; I will continue to buy toys to satisfy my child’s demand for toys”. To children at an older age (6-14), parents would normally give toys as a reward for the efforts they make.

   - Children starting from age 3 already know what toy they want and would ask their parents for it. As the children grow older, their influence on buying decisions would become stronger.
• The majority of children (73%) obtain information on toy trends from their friends. The proportion of children aged 9-14 who obtain information on toys from the internet and from electronic games is considerably higher than that of children in other age groups.

• Parents generally attach the most importance to safety (66%) and style/exterior design (55%).

• Generally speaking, girls in different age groups all like plush toys and dolls, while boys like remote-control/electric toys.

• The average annual frequency of toy purchase made by parents fell from 10.5 times in 2010 to 8.8 times in 2014, whereas the average annual total spending on toys climbed from Rmb799 in 2010 to Rmb1,069 in 2014.

• Large specialised toy stores/toy marts are the most popular channels for parents buying toys for their children (70%), followed by department stores (50%) and supermarkets/hypermarkets (49%).

• Online shopping has emerged as a new trend in the mainland. According to the 2010 survey, only 14% of the surveyed parents indicated that they had bought toys online in the preceding year. However, the 2014 survey finds that this proportion has risen to 46%.

• In the past year, among parents who have bought toys online, 79% point out that the toy purchase was made on the Taobao platform. Other major platforms include Tmall (56%) and jd.com (39%). The average price of toys purchased online is Rmb112.

12. China’s toy imports in 2013 with breakdown as follows:

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>2013 (US$ million)</th>
<th>2013/12 Growth (%)</th>
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<tbody>
<tr>
<td>9503</td>
<td>Tricycles, scooters, pedal cars and similar wheeled toys; dolls; other toys: reduced-size (&quot;scale&quot;) models and similar recreational models working or not; puzzles of all kinds</td>
<td>313.9</td>
<td>29.2</td>
</tr>
<tr>
<td>9504</td>
<td>Articles for funfair, table or parlour games, including pintables, billiards, special tables for casino games and automatic bowling alley equipment</td>
<td>312.0</td>
<td>-38.9</td>
</tr>
<tr>
<td>9506</td>
<td>Festive, carnivale or other entertainment articles, including conjuring tricks and novelty jokes</td>
<td>5.1</td>
<td>-12.0</td>
</tr>
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</table>

Source: Global Trade Atlas

II. Market competition

1. China is a major toy producer. It is estimated that about 75% of toys worldwide is made in China. The main toy production and export bases are Guangdong, Jiangsu, Shanghai, Shandong, Zhejiang and Fujian. Guangdong is a leading toy producer, with manufacturing activities centred around Shenzhen, Dongguan, Guangzhou,
Shantou’s Chenghai, and Foshan. The bulk of toy exports are produced to OEM orders for foreign brands.

2. Competition in the Chinese toy market is intensifying. The high-end of the market is dominated by foreign enterprises while local brands are the mainstay in the medium- to low-end segments of the market. Practically all international toy giants have established their own factories on the mainland or collaborated with local manufacturers to engage in production. Most of the major international toy enterprises have also made their inroads into the mainland market by way of appointing sales agents or setting up their own marketing operations there. Some examples are Mattel and Hasbro of the US and Sega of Japan.

3. In light of factors like declining external demands, escalating local production costs and changes in the Renminbi exchange rate, Chinese toy exporters are coming under tremendous pressure. Many enterprises are increasingly looking to the domestic market for business opportunities. In recent years, many brands have proactively set up sales channels to tap into the local market, among which are international brandnames such as Disney and DreamWorks and local brands like Auldey, Goodbaby and Great Dreams. Foreign products and products made by Sino-foreign joint ventures make up the lion’s share of the domestic toy market. In a survey, it was found that 41.6% of the respondents opined that Disney, among various players in the toy market, tops the corporate social responsibility rankings. Its competitors, Goodbaby, Barbie, Lego and Fisher-Price, are placed second to fifth respectively.

4. In terms of pricing, there is a huge gap between locally-made toys and international brandname toys. As such, locally-made toys still maintain a strong edge in the medium- to low-end segments of the market and practically monopolise sales channels like the wholesale market and individually-run retailers.

5. While OEM remains the primary production mode in China’s toy industry, changes are taking place. Some Chinese toy makers are paying more attention to R&D. A number of key enterprises with their own proprietary IPR and brandnames have emerged, such as Auldey, Lanmao, Goodbaby, Meisida and Huawei. In the Pearl River Delta region, toy enterprises have also embarked on transformation and shifted gradually their operations to other activities of the value chain like sales and marketing and product development.

III. Sales channels

1. Traditional sales channels for toys include major shopping centres offering mainly mid- to high-end, international brandname toys; supermarkets and hypermarkets which are important sales avenues for medium-to-low priced toys; and wholesale markets. Specialty stores and franchise chains such as Toys “R” Us, Edutainment, Leyou and Lijiababy have been expanding in recent years and new sales channels like online shops have also flourished.

2. Toy suppliers have found their way into the fast developing e-commerce platforms in recent years. According to Tmall.com, a number of toy brands like Hasbro, Barbie, Toys “R” Us and Bandai from Japan have gained a foothold in baby.tmall.com. Meanwhile, some foreign brands have successfully entered the
mainland market through online platforms.

3. There are two main ways through which foreign brands break into the Chinese market: by appointing agents to assist in penetrating the market or making a direct entry into the retail sector. The products offered by these foreign toy makers are essentially toys with high technology content like electronic toys, educational toys and game consoles, posing direct threats to the traditional toy market.

4. Zoos, museums and science and technology museums also serve as sales channels for toys. These venues offer markedly different products from those in department stores, with each having their own focus. While zoos offer relatively more animal figurines, museums often make available a full range of dinosaur toys, and science and technology museums deal mainly in intellectual toys of all kinds.

5. Selected toy exhibitions to be held in China in the second half of 2014 and 2015:

<table>
<thead>
<tr>
<th>Date</th>
<th>Exhibition</th>
<th>Location</th>
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<tbody>
<tr>
<td>11-13 September 2014</td>
<td>Guangzhou International Maternity, Baby &amp; Children Products and Clothing Exhibition</td>
<td>Guangzhou</td>
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<tr>
<td>14-16 October 2014</td>
<td>China International Trade Fair for Toys &amp; Preschool Educational Resources</td>
<td>Shanghai</td>
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<tr>
<td>0-10 April 2015</td>
<td>Guangzhou International Toy and Hobby Fair</td>
<td>Guangzhou</td>
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IV. Import and trade regulations

1. China implements zero tariffs for toys from countries and regions enjoying the Most Favoured Nation status.

2. Under the Regulations for the Administration of Inspection of Toy Imports and Exports, inspection must be carried out on each and every batch of imported plush toys, mechanical toys, battery-operated toys, plastic toys, inflatable toys, wooden toys, children vehicles and other toy categories included in the list of imported toys subject to inspection. Those which fail the inspections must not be sold or used.

3. A new set of mandatory national standards for children’s toys has been in effect since 1 October 2004. In the new standards, more attention is paid to the potential danger in toys, with an aim of minimising hazards posed to children. The new standards differ from the old ones mainly in the limits imposed on hazardous heavy metals. While a test on selenium has been added, most of the indicators in the new standards are also more stringent.

4. Foreign companies venturing into the mainland toy market should be aware of the relevant standards applicable to the industry. In the Standardisation Law of the People’s Republic of China which took effect on 1 April 1989, four levels of standards are stipulated: national standards, industry standards, local standards and enterprise standards, in descending order of binding force. National standards are classified into mandatory and recommended standards, represented respectively by standard codes GB and GB/T. For the industry standards, there are likewise mandatory standards and recommended standards, and the toy industry is deemed a light industry and represented by the standard codes QB and QB/T.
respectively. Local standards are mandatory standards within their respective administrative regions, while enterprise standards are applicable to the respective enterprises. For details of the standards, reference can be made to the standardisation website hosted by the Industry Coordination Department of the National Development and Reform Commission and the website of the Standardisation Administration of the People’s Republic of China.[1]

5. With effect from 1 March 2006, the China Compulsory Certification (CCC) scheme has been implemented on six types of toys, namely children’s vehicles, battery-operated toys, projectile toys, dolls, plastic toys and metal toys. The CCC toy standards govern the raw materials, structure, design as well as the circuit design of toys in a bid to protect children’s safety when the toys are played with. Starting from 1 June 2007, the above products which have not been certified or do not carry the certification mark are not allowed to leave the factory, put on sale, imported or used in sales activities. (For details, please refer to http://www.cclc.org.cn/)

6. On 1 June 2007, the new version of the National Standard on Instructions for Use for Toys (GB 5296.5-2006) was implemented. Compared to the 1996 version, revisions on labelling requirements have been made in aspects like age grading, safety warnings, major ingredients and materials, usage methods, and repair and maintenance. New requirements on durability labelling and installation positions have also been added. Meanwhile, appendix A in the 1996 version on the “content of the instructions for use for toys” was deleted.

7. On 3 September 2007, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) promulgated and implemented the Regulations for the Administration of Recalls for Toys, which further regulate recall activities for children’s toys.

8. Since 1 September 2008, China has implemented a new set of recommended standards for plush toys and cloth toys, which were revised based on the standards on the safety and quality of plush toys and cloth toys drawn up in 1993. The new standards require that toy fillings should be even and of an appropriate softness, contain no hard objects and can hold the toy’s shape.

9. Since 15 September 2009, the AQSIQ has implemented the Measures for the Administration of Inspection and Supervision of Toy Imports and Exports. The measures require that for imported toys not listed in the CCC catalogue, a report from the lab for testing toy imports and exports certifying that the products have passed the relevant tests should be furnished.

10. The Technical Requirements for Environmental Certification of Wooden Toys have been implemented since 1 June 2010. The national standards set out requirements for environmental performance associated with the production of wooden toys and their raw materials and packaging materials.

11. The Guidelines for Matching Toys with Children’s Age have been in force since 1 February 2012. The guidelines apply to toys which are designed for children aged below 13, and set out the methods of matching toys with children's age and the relevant jargons and definitions.

12. The General Technical Requirements on Inflatable Toys have been in force since 1
July 2012. The requirements apply to inflatable toys for children aged below 14, and set out the jargons and definitions pertaining to inflatable toys as well as the relevant technical standards, testing methods and classification of defects.

13. To ensure the safety and quality of children’s toys and to protect the health and safety of children, the Standardisation Administration of China (SAC) has revised GB 6675-2003: National Technical Requirements for Toy Safety which forms parts 1 to 4 of GB 6675-2014: National Standard for Toy Safety. The requirements are mandatory and will come into force on 1 January 2016.