No fun: Toy retailers struggle against international competitors

By Hayley Munro-Smith

Companies across the toy retail sector are feeling the effects of overseas competition and cautious consumer spending.

Over the past five years, rising living costs and stagnant wages growth have placed downwards pressure on consumer sentiment and limited spending on discretionary items, such as toys. Additionally, overseas firms have eroded market share held by domestic toy and games retailers over the period. However, the performance of online toy retailers versus bricks-and-mortar retailers diverge when the trend towards online shopping and the strength of demand for video games are taken into account.

Revenue for the Online Toy Sales industry is expected to rise at an annualised 8.5% over the five years through 2018-19, to $76.8 million. By comparison, the Toy and Game Retailing industry is expected to contract at an annualised 3.3% over the same period, to reach $740.0 million.

Negative consumer sentiment during the past five years has constrained the expansion of all firms along the retail spectrum. Overall growth in household discretionary incomes has been modest over the period and the rising cost of living has restricted much of consumers’ capacity to spend on entertainment purchases, including toys. Additionally, overseas retailers have eroded market share for firms in the Toy and Game Retailing industry as well as the Online Toy Sales industry.

Retailers of toys and games overseas that sell to domestic consumers often offer their products at lower prices. Combined with cautious consumer spending trends over the past five years, the intense competition between domestic and international toy retailers has placed strong downwards pressure on prices and constrained growth in revenue for both industries. In May 2018, Toys “R” Us (Australia) Pty Ltd entered voluntary administration, as slowing consumer demand and intensifying competition and price pressures forced the company to close its doors.

However, with Australians becoming increasingly comfortable with shopping online, firms in the Online Toy Sales industry have demonstrated strong resilience against the growing price pressures influencing the retail sector. The lower overhead costs typically enjoyed by digital retailers has provided a buffer for online stores against current retail trade conditions. Combined with steady growth in consumer demand for digital shopping, this trend has helped preserve profit margins and the overall performance of firms in the Online Toy Sales industry. However, players in the Toy and Game Retailing industry, which operate physical stores and incur higher overhead expenses, have faced the retail sector’s rising competition and falling prices without the cushion enjoyed by online toy retailers.

Conversely, the strong shift towards electronic and video games has served firms in the Toy and Game Retailing industry well, while the Online Toy Sales
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industry has struggled against this trend. Children are beginning to use electronic toys at far earlier ages and the release of many sophisticated consoles and video games over the past decade has only accelerated demand for these products. The Online Toy Sales industry does not include video and interactive games. As such, these firms have been unable to capitalise on the expansion of this toy category and changing consumer preferences in recent years.

Industries mentioned in this report
Toy and Game Retailing in Australia
Online Toy Sales in Australia

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