

# Toys & Games



June 2009 US\$395

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# TOYS & GAMES

## *Supplier capability in China*

### EXECUTIVE SUMMARY

China's toys and games industry is still facing a tough year. After the closure of more than 4,000 suppliers in 2008, weaker overseas demand, compounded by stricter product standards, may drive more companies to drop the line or cease operations altogether.

Export figures reflect the contraction in demand. In November 2008, sales from overseas markets slumped for the first time in more than five years. Total revenue for the year grew a marginal 2 percent, however, buoyed by strong sales during the first 10 months to \$8.6 billion. Declining demand became more apparent in 2009, with export revenue for the first four months falling 13 percent year on year to \$1.8 billion.

Sales from overseas markets are expected to remain weak in the months ahead. In Global Sources' survey, 80 percent of the respondents do not foresee export growth exceeding 10 percent.

To boost sales, many suppliers are stimulating demand via lower price tags. The strategy might be difficult to sustain in coming months, however, as new product requirements come into force. Even with raw material costs down from 2008 levels, margins are still at a stage where additional expenses for compliant inputs, testing and certification can put either a company's price competitiveness or financial health in jeopardy.

Amid this business climate, the following are some of the key trends we see among China suppliers of toys and games:

- Makers will streamline operations, invest in staff training, reduce product defects and cut back on other expenses to mitigate the effects of costs arising from their compliance with standards. Many are aiming for stable quotes or markdowns in coming months.

- The EU and North America will remain the industry's largest overseas markets, even with the technical

barriers posed by stricter requirements. Nonetheless, sales to the domestic market, South America, the Middle East and other regions will continue increasing, in line with efforts to reduce business risk and enhance long-term competitiveness.

- Besides geographically, makers will also expand their markets by targeting a wider age group. Collectors and hobbyists are some of the segments they will be exploring.

- Consequently, at many companies, R&D will receive more attention. Besides aiming for models with a differentiation advantage, suppliers will be conducting deeper studies of their target markets to ensure returns on investment.

- Multifunctionality will be a key product trend. Upcoming releases are expected to provide more play and developmental opportunities for various ages.

This report covers the major products of China's toy and game industry, namely dolls, action figures, building blocks, construction sets, play vehicles, arts and crafts, and stuffed, electronic, outdoor, sports and infant toys.

Details about the main export lines in each category, their common features and price determinants are provided. The latest trends in design and materials are also discussed.

The Industry Overview illustrates the effects of the global economic slowdown and stricter product requirements on the industry. It also identifies the strategies that most companies are employing to stimulate demand and boost revenue.

To reflect the industry structure, 95 percent of the suppliers interviewed for this report are based in Guangdong, Jiangsu and Zhejiang. The three provinces account for more than 80 percent of China's exports of toys and games.

### In this report

- 21 in-depth company profiles
- 16 additional suppliers
- 96 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

### METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For in-depth company profiles, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capability of each supplier.

All profiled suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

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## INDUSTRY OVERVIEW

China's toys and games industry is preparing itself for another challenging year. Down to nearly half its size at the beginning of 2008, the supplier base may become smaller in coming months as the effects of the US financial crisis continue to sweep through various markets. Effects of product recalls in 2007 also linger, taking the form of tougher standards and export requirements that will limit the entry of several companies into North America and the EU.

In 2008, as overseas demand slumped due to economic uncertainty and safety concerns, exports of toys and games grew only 2 percent to \$8.6 billion. After an overall increase of 4 percent in the first 10 months, revenue from overseas shipments fell 9 percent in November and 8 percent in December year on year.

Export sales continued to contract in the first four months of 2009. Compared with the same period last year, revenue declined 13 percent to \$1.8 billion as economic uncertainty tightened discretionary spending.

In coming months, external demand is expected to remain weak as consumers in North America and the EU continue cutting back on nonessentials. Other economies are also expected to contract, which may cause overseas shipments to decline further.

### Facing stricter norms

Amid this business climate, China's 4,000 or so remaining manufacturers of toys and games are stimulating demand primarily through lower quotes. In fact, over the past three months, a number implemented markdowns of up to 10 percent, taking advantage of lower raw material costs to boost price competitiveness and attract more orders.

Concerns about sustaining this strategy, however, are mounting. Most are due to stricter product standards, which are forcing companies to employ

more-expensive materials and spend for additional testing.

Among the legislation contributing to suppliers' anxieties is the US Consumer Product Safety Improvement Act of 2008. Signed into law last August, the CPSIA is considered the most-comprehensive overhaul of US consumer product safety laws since the creation of the Consumer Product Safety Commission or CPSC in 1972. In fact, the full scope and impact of the legislation have yet to be felt since many of the conditions are still not in force.

Provisions of the law include lower limits for lead in coatings and substrates, permanent and provisional bans on certain phthalates, new safety standards and testing procedures, mandatory third-party testing and general certification, tracking labels and registration, and labeling requirements for advertising toys and games.

On Feb. 10, several regulations in line with the abovementioned provisions came into effect. Total lead

### Supplier summary

Suppliers surveyed	21
Export sales	\$203.0mn
Export ratio	71%
OEM business	43%
Capacity utilized	58%
Annual R&D spending	\$11.1mn
Full-time employees	8,164

Data: All surveyed suppliers

by weight in substrates, for instance, is now restricted to 600ppm, except for certain electronic devices where meeting this requirement is not technologically feasible. This limit will go down to 300ppm on Aug. 14, then drop further to 100ppm in 2011, unless the CPSC determines it is not technologically viable.

Also beginning Feb. 10, children's toys and child care articles can no longer be sold, offered for sale, manufactured or imported for sale in the US if they contain more than 0.1 percent of the phthalates DEHP, DBP and BBP. Three other phthalates DINP, DIDP and DnOP are prohibited in concentrations of more than 0.1

### Major customers

Company	
Canfine	Auchan (France); Tesco (UK); Li & Fung (Hong Kong)
Fenghua Jinxing	Target (US)
Guangzhou Walkera	Hobbico, Hobby Shack (US); Ikarus, Robbe (Germany); MRC (France); Century, Ripmax (UK)
HK (Shenzhen) Industries	K-mart (Australia)
Holhan	Cozy Cookie, Nestle, Coca-Cola, Disney (US); Nissan (Japan); Carrefour (France)
Hoping	Disney (US)
New Sunny	Wal-Mart, Ford (US); K-mart (Australia)
Shantou Dihua	Wal-Mart (US); Carrefour (France)
Shantou TS	Eluz (France)
Shenzhen Xiang Xin Mao Yuan	Carrefour (France)
Yangzhou Great-Tang	Fancy Toys (Russia)
Yunhe Hunter	Top-Toy (Denmark)

Data: All surveyed suppliers

**Amax Industrial Co. Ltd**

Amax produced an average of 13,000 toys per month in 2008. The line consisted of play vehicles, and electronic, outdoor and sports toys. All output were sent to North, Central and South America, Europe, South Africa, the Middle East and the Asia-Pacific region. Export sales reached \$4 million.

OEM orders constituted 40 percent of shipments. Ten percent were under ODM contracts and the rest consisted of models bearing the in-house Amax brand.

Established in 1999, the company

invested about \$200,000 or 5 percent of total annual sales in R&D last year. Of its 250 full-time employees, 20 handle product development.

Amax is based in Shenzhen, Guangdong province. It operates two factories, which are located in the cities of Dongguan and Shantou.

The plants, which have an overall area of 2,000sqm, can produce 20,000 toys each month. These manufacturing facilities are equipped with plastic-injection and foaming machines, and assembly lines. Thirty workers carry out QC procedures.

**Company facts**

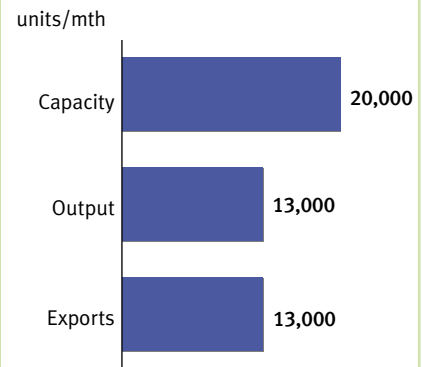
Year established	1999
Business type	Manufacturer
Company ownership	Mainland China-owned
Head office location	Shenzhen (Guangdong)
Number of factories	2
Factory location(s)	Dongguan, Shantou (Guangdong)
Total factory area	2,000sqm
No. of full-time employees	250
No. of R&D/design staff	20
No. of QC staff	30
Annual sales (all products)	\$4.0mn
Annual R&D spending	\$200,000
ISO certification	No

**Sales & output: Toys & games**

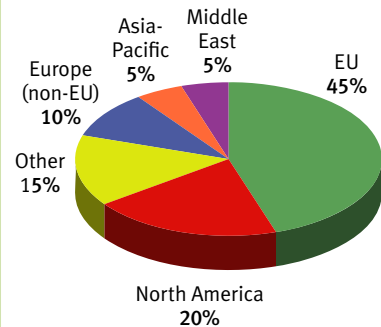
Annual sales	\$4.0mn
Share of total sales	100%
Annual export sales	\$4.0mn
Total monthly capacity	20,000 units
Average monthly output	13,000 units
Capacity utilized	65%
Average monthly exports	13,000 units
Export ratio	100%
OEM % of exports	40%
ODM % of exports	10%
OBM % of exports	50%

**Profile**

**Production**



**Export markets**



**Contact details**

**Business contact**

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 Shenzhen, Guangdong, China

Capability

Production checklist

Makes molds in-house	No
Cutting machines	—
Sewing machines	—
Hot-sealing machines	—
Plastic-injection machines	6
Plastic-foaming machines	8
Assembly lines	3
Needle detectors	—
In-house PCB assembly	No
In-house printing	No

Exports by product

Action figures & dolls	—
Stuffed toys	—
Arts & crafts	—
Building blocks & construction sets	—
Outdoor & sports toys	10%
Play vehicles	80%
Electronic toys	10%
Infant toys	—
Other toys	—

Exports by market

North America	20%
European Union	45%
Europe (non-EU)	10%
Asia-Pacific	5%
Middle East	5%
Other	15%

Survey

- **Export prices**  
Stayed the same
- **Export sales**  
Decrease
- **Target market**  
European Union
- **Capital expenditure**  
Reduce expenditure
- **Major challenge**  
Price competition
- **Export capability**  
Widen product range
- **R&D focus**  
Multifunction models

Popular export models



**Description:** RC off-road vehicle; 1:8 scale; 3,000kV brushless motor; ABS body; aluminum 6061 chassis/shock tower; oil-filled adjustable shock absorber; 4WD system; 1:11.1 gear ratio; 115x42mm wheels; 325mm wheelbase; 30mm ground clearance; 490x305x190mm; optional 2.4GHz system; CE, EN 71, RoHS

Play vehicle

Model	8060
Minimum order	4 units
Packaging type	Colored box
Delivery time	4 to 7 days
Indicated price	•



**Description:** RC car; 1:10 scale; 540 motor; ABS body; 6.52:1 gear ratio; 65x26mm wheels; 260mm wheelbase; 4.5mm ground clearance; 1.35kg; 7.2V 1,800mAh NiMH battery pack; 360x200x112mm; optional 2.4GHz system; CE, EN 71, RoHS

Play vehicle

Model	10230
Minimum order	4 units
Packaging type	Colored box
Delivery time	4 to 7 days
Indicated price	•



**Description:** RC crawler; two 540 motors; 120mm ground clearance; 1:147 gear ratio; 7.2V 1800mAh battery pack; 27MHz system; transmitter runs on eight AA batteries; CE, EN 71, RoHS

Play vehicle

Model	6002
Minimum order	2 units
Packaging type	Colored box
Delivery time	4 to 7 days
Indicated price	•

• Information not disclosed

## PRODUCT GALLERY

### Stuffed toys



**Holhan**  
 (profile page 48)  
**Model:** TPAL0010  
**Minimum order:** 500 pieces  
**Packaging type:** Customer-specified  
**Delivery time:** 25 days  
**Indicated price:** \$1.50  
**Description:** Fish; microbead filling; 25cm height; EN 71



**Holhan**  
 (profile page 48)  
**Model:** TPCX0045  
**Minimum order:** 500 pieces  
**Packaging type:** Customer-specified  
**Delivery time:** 25 days  
**Indicated price:** \$3.00  
**Description:** Mole; plush exterior; 18cm height; with PU toy mobile phone; EN 71



**Hoping**  
 (profile page 50)  
**Model:** HPT0220-01  
**Minimum order:** 3,000 pieces  
**Packaging type:** PP bag  
**Delivery time:** 30 days  
**Indicated price:** •  
**Description:** Sheep; 30cm height; ASTM, EN 71



**Hoping**  
 (profile page 50)  
**Model:** HPT0152-01  
**Minimum order:** 2,500 pieces  
**Packaging type:** PP bag  
**Delivery time:** 30 days  
**Indicated price:** •  
**Description:** Christmas bear; 24cm height; with red cap and scarf; ASTM, EN 71



**Hoping**  
 (profile page 50)  
**Model:** HPT0179-01  
**Minimum order:** 3,000 pieces  
**Packaging type:** PP bag  
**Delivery time:** 30 days  
**Indicated price:** •  
**Description:** Dog in T-shirt; plush exterior; 25cm height; ASTM, EN 71



**Hoping**  
 (profile page 50)  
**Model:** HT01015  
**Minimum order:** 5,000 pieces  
**Packaging type:** PP bag  
**Delivery time:** 30 days  
**Indicated price:** •  
**Description:** Baby elephant; 15cm height; ASTM, EN 71

• Information not disclosed

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