

# The Challenge of Selling Toys in an Increasingly Digital World

Online sales gains pressure brick and mortar

## ARTICLE |

### eMarketer Editors

The bankruptcy filing of Toys “R” Us partially reflects tough competition with the discount giants, but the changing digital landscape appears to be the single most pressing challenge the retailer will face once it emerges from bankruptcy protection.

According to eMarketer’s Retail and Ecommerce database, Toys “R” Us has slogged through at least five straight years of revenue declines, even as its store count edged higher.

The company’s ecommerce sales rose 12.3% in fiscal 2016, the first double-digit gain since 2012. That put ecommerce at 13% of total revenues.

At that level, Toys “R” Us trails the ecommerce sales share for the toys and sporting goods category overall, according to [Kantar Retail](#) data. In 2016, ecommerce made up 19% of total toy and sporting goods sales in the US. Kantar projects that digital’s share will grow to 28% by 2021.

### US Retail Ecommerce Sales Share, by Product Category, 2011, 2016 & 2021

% of total retail sales in each category

	2011	2016	2021
Electronics & appliances/computer & office products	19%	24%	32%
Books & magazines/music & videos	15%	21%	33%
Toys & sporting goods	10%	19%	28%
Apparel & footwear	9%	17%	28%
Furniture & home furnishings	6%	12%	18%
Drugs, health & beauty care	3%	6%	13%
Food & alcohol	1%	2%	5%

Note: read as in 2021, 5% of food and alcohol sales will be made digitally and 95% will be made in-store

Source: Kantar Retail, "Retail in Motion," July 19, 2017

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Meanwhile, ecommerce growth at Toys "R" Us appears to be trailing the wider category as well. eMarketer estimates that digital sales of toys and hobby products rose 16.2% in 2016, outpacing the company's growth in that area by almost 4 percentage points.

eMarketer projects that digital sales for the toys and hobby category will continue to see growth rates above 16% this year and next.

### US Retail Ecommerce Sales Growth, by Product Category, 2016-2021

% change

	2016	2017	2018	2019	2020	2021
Computer & consumer electronics	19.2%	18.1%	14.4%	14.0%	13.3%	13.5%
Toys & hobby	16.2%	16.4%	16.2%	15.5%	14.0%	13.5%
Food & beverage	15.8%	16.2%	16.0%	15.2%	14.5%	14.0%
Furniture & home furnishings	15.6%	15.9%	15.7%	14.8%	14.0%	13.6%
Health & personal care	15.7%	15.8%	15.4%	14.9%	14.2%	13.7%
Auto & parts	15.0%	15.8%	15.6%	14.9%	14.0%	13.6%
Apparel & accessories	15.0%	15.4%	15.2%	14.8%	14.0%	13.5%
Books/music/video	14.7%	15.2%	15.0%	14.6%	14.0%	13.4%
Office equipment & supplies	13.1%	13.5%	13.3%	12.9%	14.0%	13.5%
Other	11.0%	12.4%	14.9%	15.0%	14.4%	13.4%
<b>Total</b>	<b>14.9%</b>	<b>15.3%</b>	<b>15.1%</b>	<b>14.7%</b>	<b>14.0%</b>	<b>13.5%</b>

Note: includes products and services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets

Source: eMarketer, June 2017

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While physical retailers of all stripes face challenges from digital channels, the toy category presents something of a double bind for retailers in that space. First, consumers have become increasingly inclined to "play" digitally rather than with physical toys. Second, and

perhaps as a result of digital play, they show signs of preferring to shop for toys and games online.

**Market Track** data from February found that more than half of consumers said they prefer to buy toys and games digitally, rather than in stores.

**Categories for Which US Primary Household Shoppers Prefer to Buy Digitally vs. In-Store, Feb 2017**

*% of respondents*

	<b>In-Store</b>	<b>Digitally</b>
Automotive	88%	12%
Major appliances	85%	15%
Tools/hardware	77%	23%
Jewelry	71%	29%
Electronics	69%	31%
Kitchen & bath	69%	31%
Apparel/footwear	68%	32%
Kitchenware	68%	32%
Small appliances	66%	34%
Office/stationary	64%	36%
Tablets/smartphones	61%	39%
Computers	60%	40%
Cameras/accessories	57%	43%
Entertainment	48%	52%
Toys & games	48%	52%
Books	38%	62%

*Note: ages 18+*

*Source: Market Track as cited in company blog, March 27, 2017*

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The only category to skew even further toward digital? Books.

"Toys—like books and consumer electronics—are essentially commodities in the digital age," said eMarketer senior analyst Yory Wurmser. "A Hatchimal from Amazon is the same as one you buy from Mattel. Sales of these categories, especially toys, cluster in the holiday season, which always has a higher percentage of online sales. People are a lot more directed and price-conscious during the holidays since they're buying in bulk and for others. Toys 'R' Us and the rest of the traditional toy retail industry has a big challenge as a result."