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Wal-Mart Spurs Sustainable Toy Animals Into \$1 Billion Market

By *Esmé E. Deprez*

March 26 (Bloomberg) -- When Norma Ramos went to the Wal-Mart in North Bergen, New Jersey, last week to shop for her son's birthday party, she passed over the plastic toys in favor of wooden ones with minimal paint.

"Five years ago, I never paid attention," said Ramos, 36, a mother of three who says she now smells toys to make sure they're free of plastic odor. "Then I thought about what kind of environment my children's children would grow up in."

Wal-Mart Stores Inc., Wham-O Inc. and Warren Buffett's Garan Inc. are backing toys made from natural or recycled materials. As customers such as Ramos get choosier, sales of green toys may balloon to \$1 billion, or as much as 5 percent of toy sales in the next five years, according to Earthsense, a Syracuse, New York-based environmental research firm.

The heightened interest in green toys is a progression from the trend's popularity in household cleaning and personal-care products, according to Catherine Fox-Simpson, a retail consultant at BDO Seidman. U.S. sales of natural and organic household cleaners grew 35 percent to \$737 million in 2008, according to the Nutrition Business Journal.

"Retailers are focused on going green because their consumers are focused on it," said Fox-Simpson, who is based in Dallas.

Paying a Premium

While green toys account for less than 1 percent of the market, the number of products is growing, said Jim Silver, editor-in-chief of www.TimetoPlayMag.com. Researcher NPD Group, based in Port Washington, New York, estimated the toy industry's 2009 retail sales at \$21.5 billion.

The growth of earth-friendly toys has been hampered by the higher prices that accompany sustainable manufacturing, or making products while using renewable resources, less energy and creating less waste, said Sean McGowan, a New York-based analyst at Needham & Co.

"In any economic climate, the willingness to pay a premium to save the earth can be a tough sell," McGowan said. With the U.S. unemployment rate at about 10 percent, "it's even harder," he said.

Wal-Mart, the world's largest retailer, may help change that. Shoppers are buying Garanimals blocks and puzzles made with wood from renewable forests, said Melissa O'Brien, a Wal-Mart spokeswoman. Garanimals toys are made by Garan, a unit of Buffett's Berkshire Hathaway Inc.

Also popular with customers now are plush animals made from recycled plastic bottles, a product from closely held Dan Dee International Ltd., in Jersey City, New Jersey, O'Brien said.

Games, Modeling Dough

As Wal-Mart makes a bigger push into green toys, the industry may have to respond. The chain is the biggest toy-seller, said **Joseph Feldman, senior retail analyst at Telsey Advisory Group** in New York. Based on the square footage devoted to toys in stores, he estimated that toy sales accounted for as much as 7 percent of Wal-Mart's \$258.2 billion in annual U.S. revenue last year.

Amazon.com Inc., the biggest online retailer, said it has seen increased demand for toys with a lighter environmental impact. Popular products include color-matching games made from bamboo and modeling dough made from rice flour and vegetable extracts, according to Sarah Wood, director of the company's toy store. Both Amazon.com and Wal-Mart declined to provide sales figures.

Mattel Inc. and Hasbro Inc., the two biggest U.S. toy companies, may produce eco-toys of their own to maintain shelf space at retailers, said Reyne Rice, a trend analyst at the New York-based Toy Industry Association.

Frisbee-maker Wham-O Inc., based in Emeryville, California, bought Sprig Toys in February to add ecological products, and Rice said there will be more acquisitions in the industry.

Sprigwood

Fort Collins, Colorado-based Sprig was founded in 2007 by three former designers from Mattel around the time lead-paint toy scandals plagued larger manufacturers. Sprig makes paint-free toys from reclaimed wood and recycled plastic, a composite they call Sprigwood, and uses kinetic energy instead of batteries to power the toys' lights and sounds.

Wham-O, whose products are available at Wal-Mart, Target Corp. and Toys 'R' Us Inc., will sell Sprig toys in 4,000 stores this year, Sprig co-founder Justin Discoe said. In 2008, that number was 400. Sprig wouldn't provide sales figures.

Mattel has been working on reducing the size and amount of materials used in packaging and increasing the use of recycled content where possible, said Jules Andres, a spokeswoman for the El Segundo, California-based company. Hasbro, based in Pawtucket, Rhode Island, advertises similar strategies on its Web site and declined to comment further.

Hampered Growth

Wham-O will use its existing factories to make Sprig toys, which will reduce manufacturing costs beginning with the 2010 line, Discoe said. The average price of Sprig's Captain Owen's Dolphin Explorer Boat will fall to \$19.99 in June from \$29.99 last year.

"Sprig's ability to sell eco-friendly toys at prices comparable to 'regular' toys is a big deal," said Needham's McGowan.

Ramos, whose search for birthday-party favors was only her third trip to Wal-Mart, said she has made up for the higher price of eco-friendly toys at specialty stores by purchasing fewer of them.

"I'd tend to buy more if they were cheaper," she said. "I'll definitely come back to Wal-Mart now that I see what they have."