

MANUFACTURE AND RETAIL OF TOYS AND GAMES IN SOUTH AFRICA

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1. INTRODUCTION

South Africa's traditional toys market, which is dominated by international players Hasbro and Mattel, was estimated to have reached R6.5bn revenue in 2022 and to increase to R6.7bn in 2023. With the exception of handmade toys that are locally manufactured, the industry is dominated by imported plastic products, mainly from China. South African consumers are financially strained, and retail trade sales decreased by 1% in Q2 2023 compared to the previous quarter and by 1.8% year on year, mainly due to higher prices eroding disposable income and affecting discretionary spending. Globally, demand for toys has slowed. Although overall toy sales have declined, digital gaming growth remains strong. The South African video games segment, which is small, is made up of a few local companies that mainly focus on premium games for niche markets in the United States (US), and Europe.

2. DESCRIPTION OF THE INDUSTRY

The toy manufacturing industry comprises companies mainly manufacturing and selling dolls, dolls' clothes, action figures, games, including electronic games, puzzles, hobby kits and children's vehicles. Children's bicycles are excluded and are covered under SIC code 3872. In this report, the products in the toy industry are divided into two broad categories.

- ◆ Traditional toys and games, including soft toys, dolls and action figures, board games and puzzles, outdoor and sports games, toy vehicles, including radio-controlled vehicles, scale toys, including model railways, infant toys, art and craft activities, dress-up clothes, musical instruments and building sets.
- ◆ Video games, including hardware and software for digital entertainment and gaming, with major brands in this category including PlayStation, Xbox, and Nintendo, and personal computer games.

The formal segment, which caters mainly to urban consumers, comprises products that are usually imported. Almost all the major toy brands are sold by large retailers and specialty stores. The informal segment comprises products that are often handmade or produced in small workshops. These do not usually carry any brand names and are sold in smaller stores, community fairs, on the street, and at tourist sites. These toys are often made of wood or cloth and include mainly dolls and other soft toys, wooden swords, and shields, skipping ropes, Mancala (a board game played across Africa) and wire toys. There is a significant and growing informal retail trade in toys at flea markets and on the streets.

The formal toys and games market is dominated by imported branded products. The top players in the market for traditional toys and games are Hasbro SA and Mattel South Africa, due to these companies' key licensing agreements for brands like Star Wars and Barbie, and having agreements with key distributors and retailers. Hasbro distributes directly to retail chains such as Shoprite, Pick n Pay, Game, Makro and Toys R Us through a local subsidiary. Its brands include Nerf, My Little Pony, Transformers, Play-Doh, Monopoly, Power Rangers, and Peppa Pig. Local company Blue Horizon Licensing is the exclusive licensing agent for Mattel brands in South Africa. These include Barbie, Barney, Fischer Price, Hot Wheels, Monster High, Masters of the Universe, Scrabble, and Uno.

Toys are sold by large retail chains and independent toy stores, and by a combination of brick-and-mortar stores and online retailers. According to Toys R Us, its buyers spend months sourcing, testing, and researching trends locally and globally, key consumer drivers and socio-economic factors driving purchasing behaviours. It said it selects toys that engage children in play that are fun and beneficial to their social, cognitive, and physical development. Selection is also based on popularity along themes and current popular characters or film franchises.

Formal retail trade takes place through toy superstores, mass discounters, supermarkets, department stores and independent toy shops. There is increasing retail trade online through strictly online retailers or stores that have a physical and a virtual storefront. While movies based on toy characters or themes increase toy sales, the festive season is usually the industry's busiest time of year, with the majority of sales driven over this period.

Video Games

Video games, or computer games, are electronic games that can be played using an input device, such as a controller, keyboard or joystick. Video game consoles usually use a controller, while games played on computers may use a keyboard, mouse or joystick.

Industry lobby group Interactive Entertainment South Africa divides the game development industry into:

- ◆ Entertainment – games played purely for enjoyment;
- ◆ Advertising – games made to promote a brand or product; and
- ◆ Serious games – games made and played in the interest of education awareness and research.

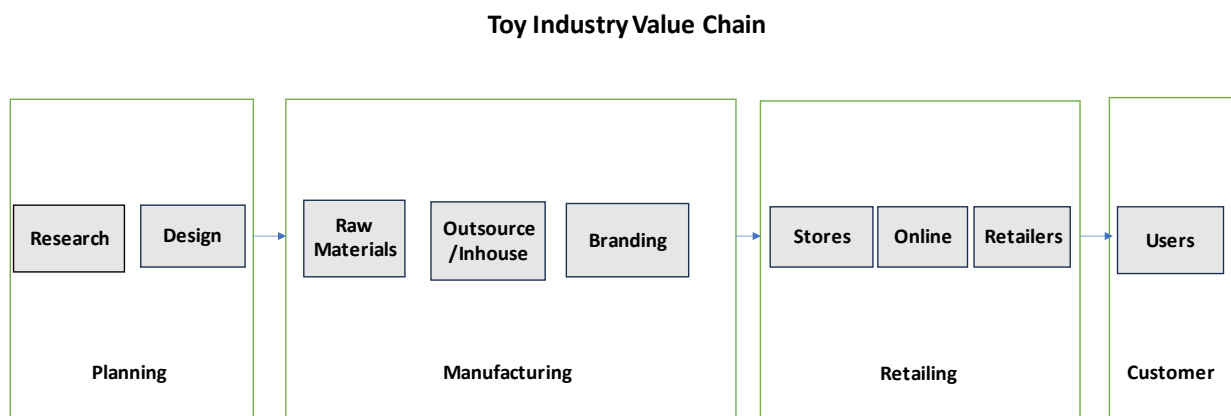
According to a 2022 report by South African Cultural Observation at Nelson Mandela University (NMU), *Gaming in South Africa: Producers & Consumers*, the local gaming sector is in its infancy with most companies under 10 years old. There are about 49 studios but only a fraction are active and generating an income producing games. There are currently no studios in South Africa producing high budget, high-profile games that are typically produced and distributed by large, well-known publishers. The focus is on smaller premium games for a niche audience beyond South Africa's borders.

The majority of these games, and the focus of studios producing them, are premium games where the player pays an upfront once-off fee for hardware (such as a console). South African studios are largely creating or servicing the independent or 'indie' games niche, a term used to refer to games created by small teams with low budgets, as opposed to AAA games, which are produced by large studios with sizeable budgets. The report said that "the South African gaming landscape is one defined by studios making indie games that cater to niche audiences, however, on a global scale, 'niche' markets can be lucrative ones."

2.1. Industry Value Chain

Major manufacturing companies usually use professional designers and engineers to refresh, redesign, and develop new toys. Independent designers who bring products to Mattel or Hasbro are usually paid a royalty of the net selling price for the products licensed to them. Various channels are used for sales and distribution, which include brick-and-mortar stores, online platforms, and partnerships with popular retailers.

Figure 1

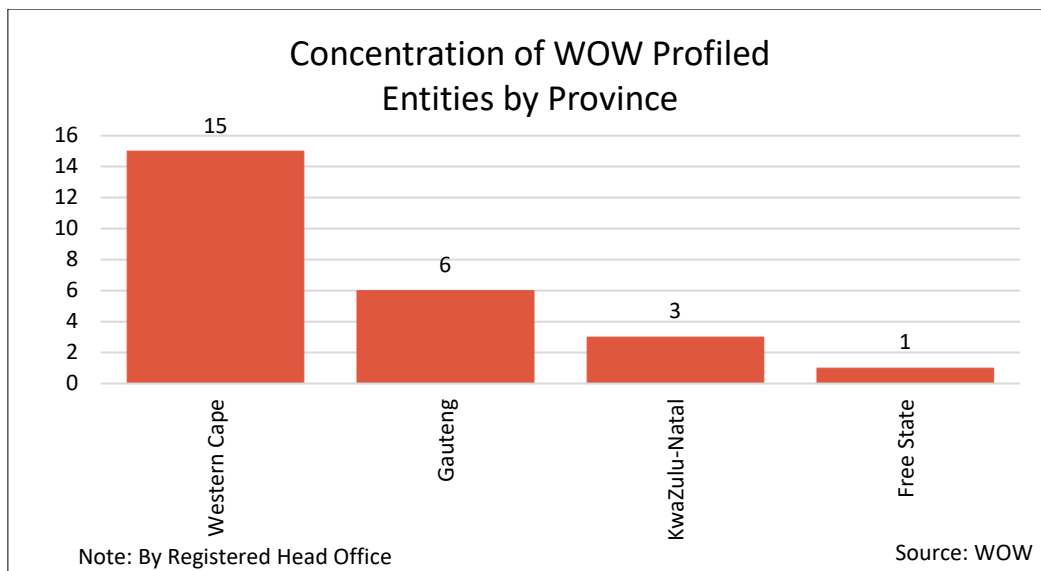


Source: Who Owns Whom

2.2. Geographic Position

The following graph represents the provincial distribution of companies that WOW profiles in this report and is not representative of all companies in the industry.

Graph 1

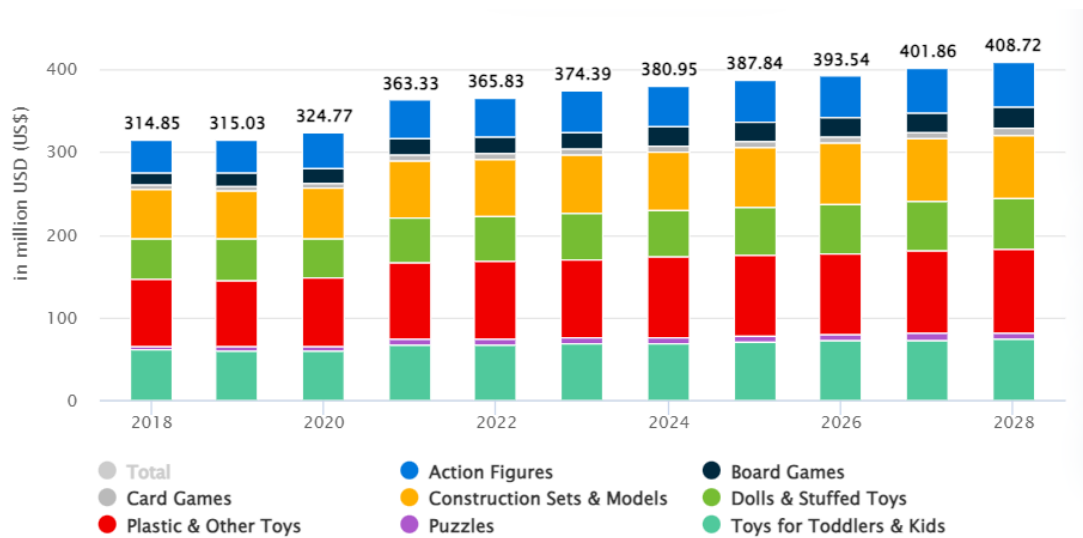


The majority of gaming studios are based in Cape Town.

2.3. Size of the Industry

The local toy market is dominated by global companies Hasbro, Mattel and The LEGO Group, that hold significant market shares in various product categories including action figures, dolls, board games, puzzles and construction sets. Mattel and Hasbro supply products directly to many retailers such as Toys R Us, Toy Kingdom, Toy Zone, Lilliputs, Hamleys, Pick n Pay, Shoprite Checkers, Game and Makro. Prima Toys is the largest local toy distributor in South Africa, importing and distributing toys to most retail chains and stores. According to Statista, toys and games revenue is estimated to reach R6.7bn (US\$374.4m) in 2023, 2.4% higher than 2022, and to grow at a CAGR of 1.77% between 2023 and 2028. Plastic toys account for the highest share of sales, accounting for an expected R1.9bn (US\$95m) in 2023 from R1.8bn (US\$93.8m) in 2022.

Graph 2 – South African Toy Revenue and Growth Forecast 2018 - 2028



Source: Statista

According to the NMU report, there are 49 gaming studios, which include notable studios such as Balisti Studios, 24 Bit, Free Lives, Sea Monster, Quarter Centre Forward, and Nyamakop. Refer to 3.4 Notable Players.

The industry consists mainly of microenterprises and/or hobbyists. A census of 168 people aligned to the South African gaming industry found that around 75% of gaming hobbyists indicated that they worked in software development, with the next most common industry being animation (12.8%), and 69% of the hobbyists were interested in working in the games industry on a full-time basis. The main barriers were that they could earn more in other industries, there were insufficient job opportunities and they lacked the necessary skills.

3. LOCAL

3.1. State of the Industry

The pandemic resulted in a shift in consumer preferences, the types of products sold, and the way customers bought toys. There was an increased focus on educational and interactive toys, a surge in demand for digital toys and games, growth of ecommerce and increasing trend of adults buying toys for themselves (called kidults).

There is increasing demand for educational toys that promote science, technology, engineering, arts, and mathematics learning, According to the South Africa Toy Market Research Report, 2027 by Indian company Actual Market Research, the market for learning and skill-development educational toys is expanding, with toys that foster discovery, and enhance motor skills, in demand. Sensory and developmental toys are popular with babies and young children. These include shape sorters, activity mats, and soft toys.

The Bureau of Economic Research's Retail Trade survey recorded a 14% drop in retailer confidence from Q1 2023 to Q2 2023, linked to lower profits on the back of increasing loadshedding-related costs, high levels of food inflation and climbing interest rates.

Although financially constrained consumers are limiting spending on discretionary items like toys, Toys R Us marketing manager Catherine Jacoby said the local toy market grew in the past two years, driven by kidults buying nostalgic toys which started during the pandemic. In August 2022 Toys R Us reported that the most popular toys included vintage items, throwbacks to the 90s, and more recent toys inspired by movie franchises and TV shows, including LEGO, Barbie, Hotwheels, Pokémon, and Rubik's Cube. Half of all LEGO sold is bought by adults according to Jacoby.

Miroslav Riha, country manager of LEGO Group South Africa said in a March 2023 interview with Hypertext that while the focus remains on younger builders, the botanical collection, which has an age range of 18+, had been successful.

LEGO has a niche appeal among collectors who buy sets for over R10,000. In a News24 article, Bryony Poulter, founder of an official South African LEGO retailer, Kiddiwinks, said that LEGO sets, and even individual pieces, sometimes increase in value, especially sets that contain unique pieces or characters. LEGO Ideas, Creator Expert, and some Technic sets are bought as an investment because demand continues for several years after production ends. The second hand LEGO market is also popular for collectors and investors, where Poulter said the price is almost always based on availability. Research from Russian public research university HSE University showed that "secondary market prices of retired LEGO sets grow by an average 11% annually, which is faster than gold, stocks, and bonds." Toys like Star Wars Action figures, Pokémon cards, Barbie, My Little Pony, Teenage Mutant Ninja Turtles, Beanie Babies have also become collectibles.

In 2022, Toys R Us launched Fan Vault for kidult collectors, which includes collectible toys such as Barbies. In July 2023, Toys R Us reported 30% growth in Barbie doll sales since the pre-screening and launch of the Barbie movie. Jacoby said blockbusters always contribute to the popularity of collectibles. Trends in 2022 included toys that are played by families, and parents' preferred screen-free toys which encourage hands-on play and skill-building. Sensory and educational toys that help develop children through play are also in demand. She noted that some of the trends from the pandemic have remained such as family board games, puzzles and outdoor games. Roleplay, sensory and educational play toy sales have surged following the pandemic with parents investing more in toys that teach their children through play.

Jacoby also noted "the resurgence of GI Joe, Turtles, Rubik's Cube, Thundercat's and Nintendo, as action figures linked to TV shows and movies are seeing a huge explosion". Jacoby said brands like Tamagotchi, Pokémon, Polly Pocket, Barbie, Hot Wheels, and Power Rangers, which were popular in the 1990s, are becoming popular again.

Sources say that manufacturers are producing toys to keep up with rapidly-changing customer preferences. Some products are being shipped within a month of production, compared to the industry standard of 3-9 months for most toys.

Local manufacture

According to toy importer and distributor Prima Toys owner Deneb Investments, many international toy manufacturers are moving their production facilities out of China into Vietnam, Pakistan, India, and Mexico. This and the increase in freight rates from China and congestion at many major Chinese ports, has prompted an investigation into the viability of local production of some of the high volume plush and plastic goods. Large retailers are also encouraging distributors to consider local production options, and Prima is considering reintroducing locally-produced products into its range.

Local manufacturers include the following.

- ◆ Colour Me Kids makes a box of 12 non-toxic triangular crayons that represent various skin tones.
- ◆ Africar for Keeps makes a range of wire car toys in its factory in Bloemfontein. Products are modernised versions of wire cars sold commonly such as Land Rover Defenders, Isuzu bakkies, helicopters and tractors. It is sold online, and in stores.

- ◆ Stumped, a family-run toy business founded in Knysna, makes wooden toys and games, and DIY kits such as bird feeders and picture frames.

Video games

The market for online gaming is small and as there is insufficient local audience to drive expansion. A few local companies are co-producing games with third party international publishers, mainly in the US. Local studios with the exception of those doing third-party service work sell their games on Steam, which is how they generate an income. According to the NMU report, salaries of gaming professionals are cheaper than first world countries, allowing local studios to remain competitive in the global market, but not as cheap in India.

According to the NMU 2022 Gaming in South Africa report:

- ◆ The local gaming industry is in its infancy, and conditions in South Africa are not very favourable to encourage growth;
- ◆ Factors discouraging growth include insufficient local audience, lack of government support, and unfriendly trading practices;
- ◆ Due to limited access to fixed internet, mobile and hand-held games are most popular, followed by console games and PC games;
- ◆ There are a small number of local players;
- ◆ Local studios are not creating content targeting South African consumers, as local consumers largely play free-to-play games which do not earn revenue for content creators;
- ◆ The most significant studios, with more than 10 people, and involved in producing intellectual property (the creative and artistic components that go into game design), or service work (co-producing games for other studios, publishers, or companies), were all founded around 2014. This is most probably due to local companies only gaining access to international online platforms such as Steam, which is the biggest online market for PC-based games, in 2013.
- ◆ The first locally-produced games, The Harvest and Desktop Dungeons, were launched on Steam in 2013.
- ◆ The standard royalty split is 30% publisher and 70% studio. All the studios in South Africa except those involved in third-party service work sell their games on Steam. Only 20% of games are free to play on the platform and that figure is said to be declining.

3.2. Key Trends

- ◆ Post-pandemic social consciousness, nostalgia, and consumers looking for value.
- ◆ Traditional toys and vintage are popular.
- ◆ Growing demand for educational toys.

3.3. Key Issues

- ◆ Limited capacity to spend on discretionary items like toys.
- ◆ Increasing input costs.
- ◆ Unstable electricity supply is challenging especially for gaming development companies that require internet access.

3.4. Notable Players

Toys

Amic Trading, which trades as Toys R Us, (including Babies R Us), sells toys and baby goods and has 50 stores including an online store and a store each in Namibia, Zambia, and Botswana. It had 60 stores in 2017.

Toy Kingdom, a subsidiary of local company Super Brands Holdings, sells toys, including educational games, crafts, hobbies, and model cars which it imports from China from 23 stores. It also exports to Tanzania.

The Great Yellow Brick Company, which is the South African licence-holder of the LEGO certified store concept, opened the first four LEGO stores in 2018 and 2019. And the fifth in Mall of Africa, Gauteng in 2022. In March 2023, LEGO's Říha said on Hypertext that LEGO has over 80 retail partners. South Africa is a small market for LEGO. At the end of August 2023, LEGO (global) reported that although total revenue increased by 1% to US\$4bn in the first six months of 2023, the company experienced higher costs for material, shipping, and energy. Net profit for the first half of 2023 declined by 17% to US\$742m year on year. LEGO increased prices due to higher manufacturing costs, including the investment in moving from plastic bags inside sets to paper.

Hamleys South Africa is a franchise of multinational toy retailer, Hamleys, which is owned by India-based Reliance Brand Holdings. The local franchise owner is Antares, a private company owned by a

partnership between Gauteng retailers Osbro, and Rand Outfitters. Antares bought Hamleys from local company Ensolor after it went into business rescue in 2019 due to the former franchise operator stealing more than R20m from Ensolor in December 2018 by transferring money from company accounts to his own personal account. Mall of Africa Hamleys had to close down when Ensolor went into business rescue in 2019. There are five stores in Gauteng, one in KwaZulu-Natal, and one in Cape Town. A 4% royalty fee is paid to the parent company. In 2020, one of the new directors Faheem Mahomed told Business Day that in its 150 Hamleys stores in India, Reliance sells cheaper unbranded toys in lower-income malls, and different toys in high-end areas. The local company's stock is imported directly. Reliance Brand Holdings reported total revenues of £56.7m in the year ending December 2022 (FY2022). UK subsidiary, Hamleys of London increased sales by 68% to £50.8m in FY2022 (FY2021: £30.3m).

Prima Toys, wholly owned by investment company Deneb Investments, is a distribution business that imports, warehouses, and distributes branded, semi-branded and generic products to retailers in various African countries. It distributes to the major supermarket retailers and specialist toy, baby, outdoor and fishing retailers. Most toy products are for children aged from six months to 12 years and include educational, role-play/imaginary play, collectability, outdoor play, construction, colour and activity, science and technology, games, and puzzles. It recently acquired distribution rights for toy brands Chicco (baby) and Intex (leisure/hobbies). Deneb has a sales and administration office/showroom in Hong Kong, where most of its China-based product sourcing and development originates. The Hong Kong office also facilitates all of the 'direct to retail' business conducted with many of the large retail chains in South Africa. Deneb's Hong Kong-based branded product distribution entity, HTIC, specialises in sourcing products in China, and logistics, focusing mainly on toy imports. Prima Interactive, which focuses on gaming and IT related products, sources, and wholesales Xbox consoles, gaming accessories, console games, printers, projectors, and printer accessories.

Gaming

Cape Town-based Free Lives is a video game developer, and is considered South Africa's leading games studio, according to NMU, as it successfully developed six of its own intellectual property games. Broforce, which has had sales of US\$1m (R17m) per annum, was released in 2014, and remains the studio's most successful game and is considered the most successful locally created PC game. Its sales fund some of its new game development. GORN is the studio's first virtual reality game. The company usually makes premium games for PC or console, but Cricket Through the Ages is a mobile-only game and is exclusive to Apple Arcade. The games target a niche audience that is mainly in the US. According

to Steam statistics on Broforce, 0.3% of its revenue is derived from Africa and 46% from North America since its release.

Triggerfish Animation Studios, a computer animation film studio based in Cape Town has a subsidiary Ballisti Studios, with 12 employees, that does service work for international companies such as Disney, American video game software development company Unity, UK game development studio Pixel Toys, Nordeus (a Serbian mobile games company) and Canadian video game developer, Bioware.

Johannesburg based Nyamakop was co-founded in 2015 by three University of the Witwatersrand students. They received considerable attention with their debut title, Semblance, which was started as a university project. This led to Nyamakop being selected to join Stugan, a Swedish accelerator programme, co-founded and sponsored by the creators of games including Angry Birds, Candy Crush Saga, and Minecraft. Semblance was the first game developed in Africa to be released on any Nintendo console according to NMU, which said its success led to the studio landing “what is rumoured to be the biggest game development deal for an African gaming studio with a concept that is currently in the making” with a large US publisher. Unlike most local studios, Nyamakop creates games with Afrocentric content.

24 Bit, with 43 employees in Cape Town and Johannesburg, initially adapted games for mobile or PC/console. It also co-produces games for other small studios at the request of game publishers and has done third-party work for some local gaming developers such as Free Lives and Nyamakop. 95% of 24 Bit’s revenue is derived from international clients, and in the last three years, it has tripled in size in terms of staff and turnover due to the increase in demand for games during the pandemic and to “stable relationships with clients who wanted to give us more work,” COO Pieter Koornhof was quoted in the NMU report.

Sea Monster in Cape Town with 30-35 employees, has created about 80 ‘serious’ games (games that are also educational or have other serious goals).

- ◆ Live2Love for pharmaceutical company Cipla, is a game that motivates audiences to adopt and retain important habits around the use of HIV-related medication and testing.
- ◆ Business Boost SA for African Entrepreneurship Initiative is a gamified platform for young entrepreneurs to train and upskill.
- ◆ #PointTaken are animated explainer videos addressing vaccine hesitancy.

- ◆ Livin' It Up for Capitec is a mobile game about balancing daily money decisions against long-term financial goals.
- ◆ FishFORCE is a virtual law enforcement game for fisheries law enforcement officers which simulates vessel inspections at ports.

Game development studio Quarter Circle Forward in Cape Town has 10 employees and produced Desktop Dungeons, pull-out boardgames for magazines, educational content for the World Bank Institute, mobile advergames (a form of advertising in video games), and Xbox 360 proofs of concept product testing.

Gaming store BT Games has stores in most major malls and an online store. It sells games, consoles, hardware, accessories, and related merchandise.

3.5. Trade

Imports

China is the largest supplier of toys to South Africa, with approximately 89% share of total imports.

Table 1

South Africa's Toy Imports by Country 2018 – 2022 (Rm)					
Region	2018	2019	2020	2021	2022
World	2,400.00	2,300.00	1,700.00	2,400.00	2,600.00
China	1,800	1,800	1,300	1,800	1,900
Czech Republic	78.1	60.2	43.1	88.4	106.9
Vietnam	38.2	37.5	51.2	83.2	98.6
Hungary	28.0	48.9	31.3	53.5	65.5
India	65.0	60.7	35.8	66.3	57.2
US	45.9	41.5	36.4	39.8	41.3

Source: Trade Map

Includes tricycles, scooters, pedal cars, dolls' carriages, dolls, toys, scale models and puzzles.

Table 2

South Africa's Toy Exports by Country 2018 – 2022 (Rm)					
Region	2018	2019	2020	2021	2022
World	228.2	258.0	191.4	257.0	282.5
Namibia	74.3	74.7	61.7	80.2	87.3
Botswana	32.4	29.4	21.4	30.2	36.9
Zambia	22.6	28.3	17.9	29.4	31.8
Mozambique	10.11	14.8	8.6	18.8	17.0
Eswatini	7.9	10.0	7.2	11.7	14.11

Source: Trade Map

3.6. Corporate Actions

Date	Event
August 2023	Prima Interactive became the distributor for Asian tech manufacturing company Rapoo.
January 2020	Local company Antares bought Hamleys' South African franchise after the previous operator Ensolor was put into business rescue in 2019.

3.7. Regulations

Legislation applicable to the industry includes:

- ◆ Customs and Excise Act, 1964.
- ◆ The Competition Act, 1998.
- ◆ The Consumer Protection Act, 2008.

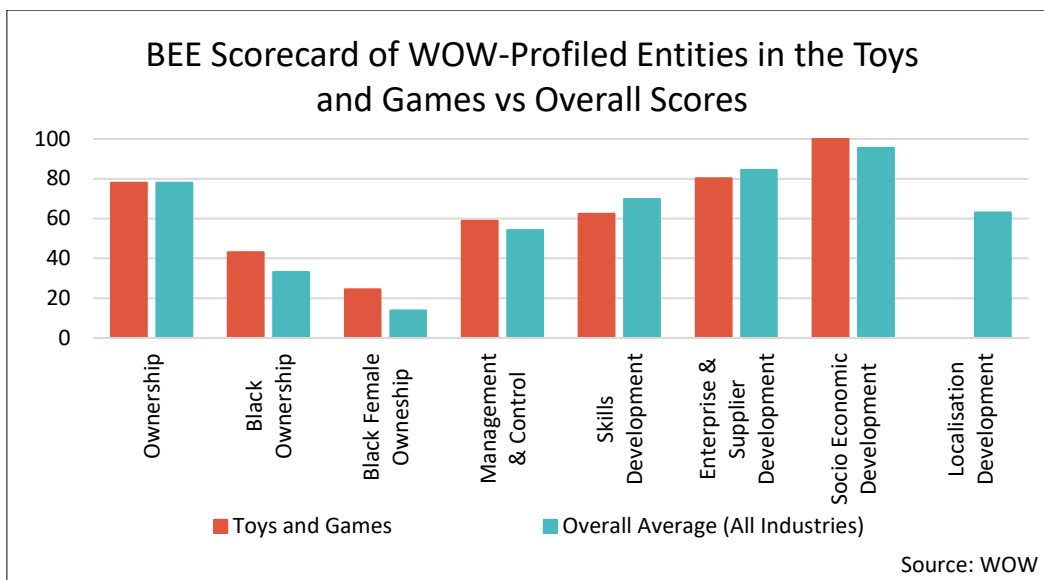
Toys must conform to the SANS standard on the Safety of Toys, and various South African Bureau of Standards (SABS) and International Organisation for Standardisation (ISO) standards pertaining to toys.

- ◆ ISO 8124-1:2009 relates to the safety of the mechanical and physical properties of toys.
- ◆ ISO 8124-2:2007 relates to flammability.
- ◆ ISO 8124-3:1997 relates to the migration of certain elements.

3.8. Enterprise Development and Social Development

The BEE scores of companies profiled in this report are shown in the graph below. These may not be representative of the industry as a whole.

Graph 3



In February 2023, Toys R Us partnered with The LEARN Project, which assists schools and children in need, to launch a library with materials that children can see, touch, and explore in Newlands East township in KwaZulu-Natal. The Bright Future Sensory Library has over 1,000 books as well as educational resources.

The LEGO Foundation supports United Nations Children's Fund (UNICEF) programmes to strengthen learning through play in early learning programmes and the foundation phase of basic education. The partnership focuses on developing the capacity and understanding of parents, caregivers, early childhood development programmes, educators, and administrators, about the value of play in the early years.

Toy Project is a community-based initiative to help unemployed women in the Groenfontein Valley outside Calitzdorp in the Western Cape and Wittedrift, outside Plettenberg Bay. It focuses on up-skilling women to enable them to make handmade charms, key rings, dolls, and plush stuffed African animals, all handmade in shweshwe, a printed dyed cotton fabric.

Shongololo sells handcrafted toys made in Cape Town by a small team of women. The toys, all made from shweshwe, include an animal range and two types of dolls. The products are sold in stores at the V&A Waterfront and the Neighbourgoods Market at the Old Biscuit Mill in Cape Town, as well as online. Little Pine Tree has a four-week to create safari-themed plush toys and dolls, that the company sells in stores and online.

Opportunities for SMEs

Large retail chains' efforts to increase local products and sourcing, and this offers opportunities for small businesses. For example, Cape Town-based toy manufacturer Hope Sonic expanded its Zeus toy range to supply Shoprite and Checkers supermarkets. These include the Zeus ride-on bike made from recycled milk bottles, and dump trucks and diggers. Shoprite and Checkers contracted local manufacturer Indofurn and Mitchells Plain-based company 3Fold Life Support to stuff and stitch its imported teddy bear and other plush toy skins.

4. AFRICA

State of the Industry

Africa's toys and games market is growing, driven by video games, a growing population and increasing awareness of educational toys, according to 2022 data from 6Wresearch. Sales of games and toys based on cartoon characters, TV shows, and movies are increasing. Popular toys include dolls, rattles, skipping ropes, jigsaw puzzles, and board games. Most toys are imported, largely from Hasbro (US), Mattel (US), Ravensburger (Germany), Tomy (Japan), The LEGO Group (Denmark), JAKKS Pacific (US), LeapFrog Enterprises (China), MGA Entertainment (US), Playmates Toys (China), ToyQuest (US), and British toy manufacturer Vivid Imaginations. 6Wresearch said online sales will register the fastest growth over the next few years, and the 15 years and above segment is expected to account for the largest share of toys and games revenue.

According to toy review site TheToyZone, Barbie is the most popular toy in 15 countries in Africa, followed by PS4 in 13 countries, and PS5 in six countries. Although an African American character (Christie) and African American Barbie were first released in 1968 and 1980, the first Africa Barbie (South African singer Lerato Molapo) appeared in 2019.

Video Games

According to data from Dutch research company Newzoo, despite challenges around access to gaming content, the games industry in Africa will surpass US\$1bn revenue in 2023 from US\$862.8m in 2022, excluding hardware sales. The 8.7% year-on-year revenue rise in 2022 was driven by mobile gaming, which represents 90.2% of the market. Of that revenue, 74% was from Android and 26% Apple. The research showed that in 2022:

- ◆ The major gaming countries are Nigeria, South Africa, Ethiopia, Ghana, and Kenya;
- ◆ Nigerian mobile gaming revenue was US\$249m, South Africa US\$236m, Kenya US\$46m, Ethiopia US\$42m, and Ghana US\$34m;
- ◆ Ethiopia had the highest (13%) year-on-year growth;
- ◆ South Africa has the highest saturation of gamers, with 24 million people or around 40% of the population; compared to 27% of people in Ghana, 23% in Nigeria, 22% in Kenya, and 13% in Ethiopia; and
- ◆ A higher proportion of South African gamers (43%) pay for games than Ghanaians and Ethiopians (33%), and Nigerians and Kenyans (32%).

By 2023, African mobile gaming revenue is anticipated to be ten times the size of the PC gaming market. African mobile gaming revenue is expected to reach US\$1.1bn by 2025 from US\$778.6m in 2022, with sustained growth from 2023 to 2025 driven by large and growing young population, growing penetration of smartphones and internet accessibility, and the growing popularity of multi-player games.

Trade

Table 3

African Toy Imports 2018-2021 (US\$m)					
Region	2018	2019	2020	2021	2022
World	50,200.0	50,600.0	47,600.0	60,400.0	65,800.0
Africa	442.5	467.4	405.9	502.6	547.1

Source: Trade Map

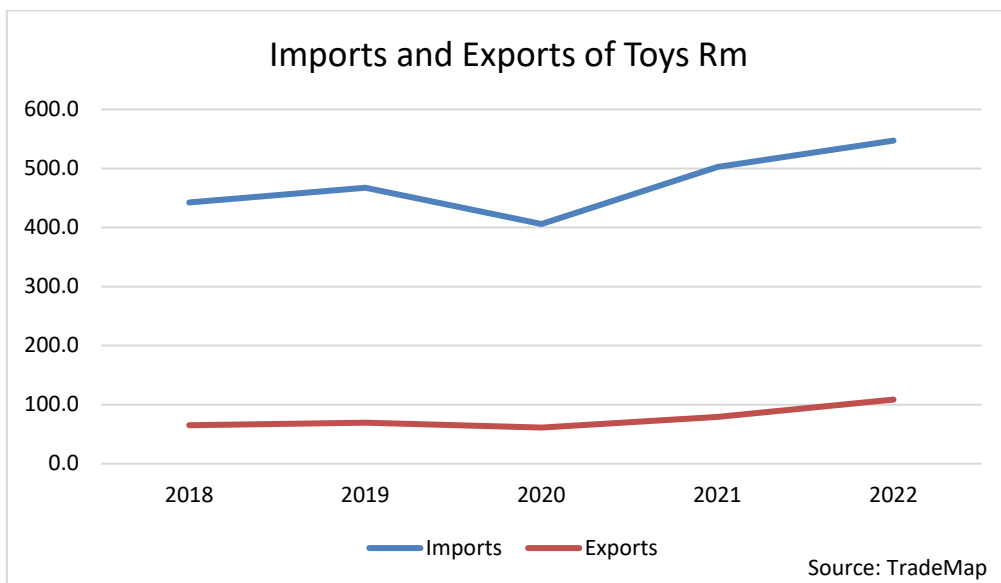
Tricycles, scooters, pedal cars, dolls' carriages, dolls;, toys, models and puzzles.

Table 4

African Toy Exports 2018-2021 (US\$m)					
Region	2018	2019	2020	2021	2022
World	46,300.0	51,700.0	54,200.0	70,900.0	72,600.0
Africa	65.3	69.5	61.2	79.2	108.6

Source: Trade Map

Graph 4



Source: TradeMap

South African Companies' Footprint Across Africa

- ◆ Toys R Us has one shop in Botswana, and one in Namibia.
- ◆ Toy Factory Shop, based in Hillcrest KwaZulu-Natal, wholesales to customers in South Africa, Botswana, Zimbabwe, Namibia, Kenya, Mozambique, Eswatini, Lesotho, Angola, Zambia, Malawi, Tanzania, and DRC.

5. INTERNATIONAL

State of the Industry

The three major toy manufacturing countries are China, Vietnam, and India, according to a July 2023, Global Toy News report. China has an estimated 5,000 to 10,000 toy factories and Vietnam more than 100 export-level toy factories. Vietnam's toy factories are predominantly owned by Chinese business people, reflecting the growing trend of Chinese businesses significantly increasing their production

presence in Vietnam in recent years. Vietnam largely imports toy components from China, India, but plans to produce component elements locally. It is fast becoming a significant toy manufacturing hub due to government supporting the industry with measures such as the production-linked incentive scheme. In July 2022, India's prime minister Narendra Modi said that toy imports had declined by a massive 70% from US\$371m in FY2019 (1 April to 31 March) to US\$110m in FY2022, while toy exports increased by 61% from US\$202m to US\$326.

Global toy sales were US\$107.4bn in 2022, 1.5% higher than US\$105.8bn in 2021 according to the Toy Association. Sales have increased at a CAGR of 3.5% since 2017.

According to an Asia-Pacific Toy Market Outlook, 2027 report, with increasing population and income levels, Asia-Pacific contributes significantly to the global toy market and is one of the fastest growing regions for traditional toys and games. Revenue is expected to increase at a CAGR of 9% to US\$60bn from US\$39bn in 2021. A trend that emerged from the pandemic of adults purchasing toys and games is also driving growth in the region.

Toy World magazine reported that in 2022, about a quarter of toy sales globally were to young adults aged between 19 and 29 years. Kidults bought 24% of all toys from June 2021 to June 2022, accounting for about two-thirds of the growth in the toy market, according to Time magazine. NPD Group's Global Toy Market report showed that the kidult sector's revenue increased by 19% in the past four years with games and puzzles among the highest growth categories in 2021, while toys associated with cartoons, superheroes, and collectibles, were popular in 2022.

Yahoo Finance reported that the two biggest toy companies worldwide based on annual revenue and brand value, are The LEGO Group, and Japanese company, Bandai Namco Holdings, whose popular brands include Tamagotchi, Dragon Ball, and Anime Heroes. According to Brand Finance, The LEGO Group was also the largest toy company in 2022 based on brand value.

Table 5

Top Toy Companies by Brand Value				
Brand/Company	Country	2022 Revenue US\$m	2023 Brand Value US\$m	2022 Brand Value US\$m
The LEGO Group	Denmark	8,000	7,400	6,000
Bandai Namco	Japan	7,600	1,600	1,700
Fisher-Price (Mattel)	US	1,100	879	746
Barbie (Mattel)	US	1,700	701	588
Nerf (Hasbro)	US	400	462	463

*Numbers reflect these companies' top brands, not overall company value or revenue

Source: Brand Finance

Mattel reported the following in its 2022 annual report.

- ◆ Revenue was US\$5.4bn (2021: US\$5.5bn), and fourth quarter results were below expectations with net sales down 22%.
- ◆ Mattel Films is developing a movie based on the Matchbox vehicles toy line. A Hot Wheels movie will be produced with Warner Brothers.
- ◆ In digital gaming, Mattel increased its products through licensed partnerships and by expanding Mattel163, its mobile gaming joint venture with Chinese internet technology company NetEase.

Hasbro reported:

- ◆ Revenue for year ended 30 June 2022 declined 14.2% to US\$5.6bn (2021: US\$6.4bn), with a slowdown in the fourth quarter. Full year 2022 revenue was down 9% to US\$5.9bn; and
- ◆ In the 2022 calendar year, gaming revenue was US\$581.8m in Q4 2022, up 5% from Q4 2021 and 5% lower than the full calendar year in 2021. Gaming revenue in 2022 was US\$743.3m from US\$851.4m in 2021.

In April 2023, for the first time, rivals Mattel and Hasbro entered into a multi licensing agreement to create co-branded toys and games. The collaboration came before two major movies, Transformers: Rise of the Beasts from Paramount, and Barbie from Warner Bros. were released. Hasbro is launching Barbie-branded Monopoly games in October 2023, and Mattel will produce Transformers-branded UNO games later in the year. Transformers-branded Hot Wheels vehicles are expected to be released in early 2024. The two companies usually compete over licensing properties, for example, in 2022, Mattel took over the licence for Disney's princesses, including its Frozen franchise, after Hasbro's deal expired.

In September 2023, Hamleys reported that Barbie and LOL (Li'l Outrageous Littles) dolls, which are collectable mini dolls that come with various accessories and stickers, are expected to be favourites for Christmas this year. Kidults are also expected to drive toy sales growth.

The global games market generated US\$182.9bn revenue in 2022, down 5.1% from 2021, according to Dutch analytics company Newzoo. There has been a contraction in video game activity globally, mainly due to higher cost of living that has forced consumers to tighten their belts. Many well-known companies in the gaming world such as Activision Blizzard Inc and Electronic Arts, reported slower-than-expected growth due to pressure on consumer spending. The largest gaming companies globally based on revenue are Chinese tech company Tencent which generated US\$83.6bn in 2022, Japanese multinational Sony Corporation with US\$80.9bn, and US company Microsoft around US\$16bn. Tencent's biggest games include Call of Duty, League of Legends, and Fortnite. Sony's popular games include The Last of Us, Marvel's Spider-Man, and God of War. Microsoft's popular games include Minecraft, Ages of Empire, Microsoft Solitaire, and Microsoft Flight Simulator.

Key Trends

- ◆ With licensed toys and games accounting for 31% of total toy sales, movie, television, and streaming releases continue to have an impact on the toy market.
- ◆ Kidult toy buyers are contributing to industry growth.
- ◆ Toy companies are expected to forge or expand partnerships with experts in education, diversity, and sustainability.

Trade

- ◆ Top importing countries in 2022 were the US (US\$55.2bn), Germany (US\$4.5bn), UK (US\$2.9bn), France (US\$2.4bn) and Japan (US\$2.3bn).
- ◆ The top exporters in 2022 were China (US\$103.3bn), the US (US\$7.4bn), Vietnam (US\$6.8bn), Germany (US\$6.1bn), and Czech Republic (US\$4.3bn).
- ◆ Around 27.1% of all toy exports from China went to the US, followed by Japan (5%). Other major export destinations for China's toys include the UK, South Korea, and Mexico.

Table 6

Top Toy Exporting Countries 2018-2022 (US\$bn)					
Region	2018	2019	2020	2021	2022
World	119.1	121.9	131.2	174.4	174.4
China	56.7	62.4	71.5	101.8	103.3
US	6.8	6.4	5.4	6.8	7.4
Vietnam	1.4	1.9	2.9	2.9	6.8
Germany	6.0	5.8	5.9	6.9	6.1
Czech Republic	3.7	3.6	3.9	4.5	4.3

Source: Trade Map

Global Players' Footprint in South Africa

Mattel, Hasbro, The LEGO Group, Hamleys.

6. INFLUENCING FACTORS

6.1. COVID-19

COVID-19 disrupted the way the toy industry operated and shaped the way it is today. The pandemic accelerated trends such as the rise of online shopping, click-and-collect, and an increase in kids buying toys and games. Some small online businesses like Colour Me Kids launched in the height of lockdown. Sales of games, puzzles and construction kits boomed during the pandemic, and gaming increased.

6.2. Economic Environment

Toys are discretionary items and disposable income is decreasing. Stats SA's June 2023 retail trade sales report, which was released in August, showed that retail sales decreased by 1% in the second quarter of 2023 compared with the first quarter. This was the sixth consecutive month that retail sales declined.

Toymakers usually earn a large portion of their sales and profits in the second half of the year, especially during the holiday season. However, Hasbro, and Mattel reported a sharp slowdown in toy demand during the 2022 holiday season as the industry reeled from a tight spending environment and retailers cutting back on inventories. Hasbro reduced its global workforce by 15% (about 1,000 jobs) in the first few months of 2023, after its disappointing sales over the holidays. Both companies experienced declines again in Q1 and Q2 2023 sales, due to weak demand. Inflation and toy companies wanting to drive revenue growth will mean that prices of toys and games are expected to remain high.

6.3. Input Costs

Toy manufacturing input costs include raw materials such as plastics, fibre, and metals, manufacturing equipment, packaging materials, labour costs, utilities, marketing, and licensing fees. According to sources, the cost of shipping and raw materials has increased by about 15% in total over the past two years. Most toys are imported, and the exchange rate has caused imports to become more expensive. The rand weakened from around R17.00 to the dollar in January 2023 to over R19.80 in June. The average exchange rate in 2022 was R16.37. High levels of loadshedding have also disrupted retail operations and supply chains, affected margins and resulting in increased prices. According to an article by Daily Maverick, all retailers are experiencing slower sales growth, higher costs, lower margins and either higher capital spending or are having to re-allocate capex from growth initiatives to installing alternative power solutions. Not all small businesses can afford to invest in alternative power.

Hasbro reported that freight and supply chain expenses have affected profits, as have the prices of resin, packaging, transport and metal.

LEGO's Řiha said in 2023 that LEGO prices increased due to higher manufacturing input costs.

6.4. Labour

Unions active in the general retail sector include the South Africa Commercial, Catering and Allied Workers Union (SACCAWU) and the General Industries Worker's Union (GIWUSA).

Employment figures for the sector are not available. People with various educational backgrounds are employed in the industry. Those in supervisory, research, and design positions may hold bachelor or graduate degrees in art, electronics, engineering, psychology, business and sciences. Those working in

production positions, such as machine operators and toy assemblers, usually learn through on-the-job training.

Training and Skills Development

A toy or product designer may need a degree in industrial design or a related field, must understand the toy market, trends, and consumer preferences, and have strong problem-solving and communication skills. Production workers require patience and the ability to do repetitive work, with good hand-eye coordination. Video game designers usually need a degree in software engineering with training in data management, software fundamentals and web development.

The following institutes offer courses related to game development.

- ◆ The University of Cape Town offers a major in computer games development which must be taken in conjunction with a major in computer science.
- ◆ Cape Town's Friends of Design Academy of Digital Arts has a one-year part-or full-time course in game design. There is a prerequisite of a formal qualification in graphic design, IT & programming, web design, 3D animation, or illustration and fine art.
- ◆ The University of Witwatersrand has two game design courses.
- ◆ SAE Institute has a three year bachelor of arts and a one year higher certificate in game design and production and a one year higher certificate in virtual reality, which is an entry level, skills focused programme.

6.5. Environmental Issues

Plastic makes up 90% of toys, and retailers and consumers globally are becoming increasingly aware of plastic and its negative impact on the environment. Research in biodegradable materials is resulting in new applications development.

A 2023 Yale environment review on the ecological impact of children's toys found that toys make up 6% of all landfill sites. Around 60 million Barbie dolls are sold annually, contributing emissions equivalent to burning 381 million gallons of fuel.

According to Prima Toys owner Deneb's 2022 annual report, the international toy industry is under pressure to reduce its eco footprint. Many international toy companies have already adapted their manufacturing plants to incorporate the use of recycled plastics, zero acetate (clear plastic) boxed

packaging, and reduced use of plastic ties found in most toy packaging. Prima has engaged with suppliers to incorporate more FSC (forest stewardship council)-certified product, including the first eco range of Peppa Pig plush, which is produced from a mixture of recycled plastics and sustainable corn-based ingredients to manufacture the textiles used in production.

LEGO reported that it is committed to making all of its products from sustainable materials by 2030. LEGO, which uses around 100,000 tonnes of plastic in its products annually, said it will use recycled material from plastic bottles that are certified as safe to handle beverages in Europe and the US. A one litre plastic water bottle will yield about ten standard LEGO bricks. Since 2018, the company has made some of the less rigid parts of LEGO sets, such as plants and trees, from bio-polyethylene made from sugarcane. However, using these for harder bricks while maintaining shape, feel and safety was challenging. In April 2023, LEGO said it will buy e-methanol, a lower-carbon alternative to conventional plastic ingredients, for use in its plastic bricks when the world's first large-scale plant starts operations in Denmark next year. LEGO will explore using e-methanol in some types of its building bricks and aims to bring new prototype bricks to the market in the future. LEGO's flower and bonsai kits include parts made from the bioplastic components.

Mattel reported that it aims to produce its plastic toys from recycled, recyclable, or bio-mass plastics from 2030. Its goal is to also reduce plastic packaging by 25% per product by 2030.

6.6. Technology, R&D, Innovation

Social media platforms have become increasingly influential in determining toy trends, for example, Ryan's World, previously known as Ryan Toys Review, is a YouTube channel earning around US\$36m a year reviewing and promoting toys. Brands often work with influencers to reach wider audiences and generate excitement through user-generated content. For example, American Mini Brands, the miniature collectibles toy company, has capitalised on TikTok influencer campaigns and viral trends like unboxing videos.

In September 2023, LEGO announced that its braille bricks, which are popular at schools for visually impaired children, are now available to the public.

Smart toys, which use artificial intelligence (AI) technology to create an interactive play experience for children, are a rapidly expanding market and include smart speakers to robotic companions that can

identify, speak to, and interact with children. However, studies show that most parents are concerned about children's privacy and said there is a need for parental control when a child is playing with a smart toy with internet access.

Various research studies show that products with short life cycles (quick development and production) are becoming increasingly common in many industries including toy manufacturing, due to higher levels of competition, shorter product development time, and increased product diversity.

According to the NMU report, "the spread of broadband has defined the limits of the market." A report by Newzoo, and gaming platform and publisher Carry1st, showed that an estimated 95% of gamers play on mobile. The country's internet speeds are relatively slow at 30.54 Mbps (megabits per second) for mobile and 29.73 Mbps for fixed internet connections, according to 2022 data from Kepios, an advisory company on digital trends and online behaviours. This has implications for mobile and online PC/console gaming as the faster the internet connection speed, the better the online gaming experience. Kepios also found that South Africans spend around 1 hour and 3 minutes per day on average using a games console.

7. COMPETITIVE ENVIRONMENT

7.1. Competition

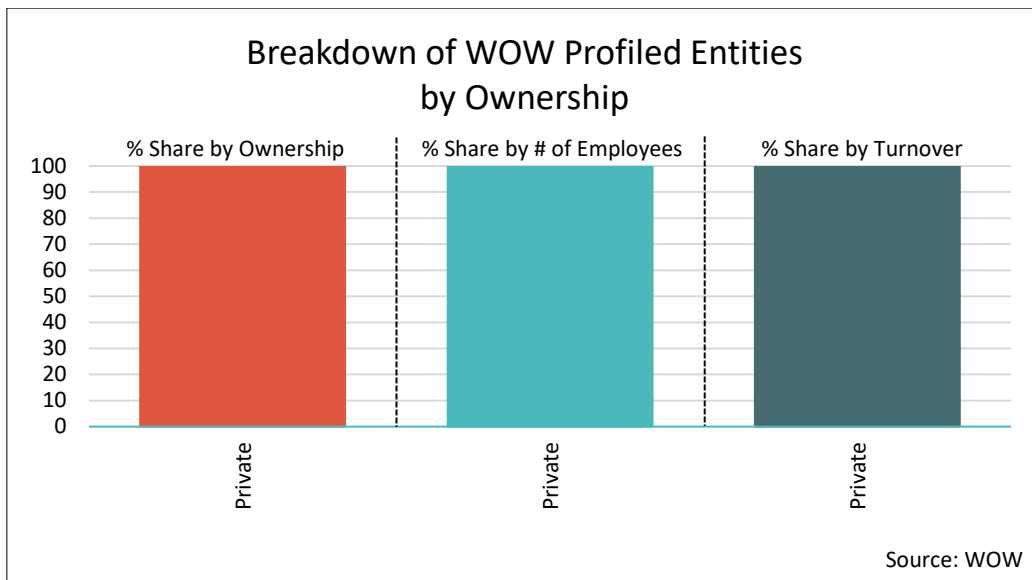
Competition in the manufacture, marketing, and sale of toys is based mainly on quality, price, and play value (how much play can be a child get out of a toy). Toy companies compete with each other in terms of toy production and for retailers' shelf space. According to Mattel, "competition continues to be heavily influenced by the fact that a small number of retailers account for a large portion of all toy sales, allocate the shelf space from which toys are viewed, and have direct contact with parents and children through in-store purchases, coupons, and print advertisements." Retailers usually promote their own private label toys and can allocate shelf space to one type of toy over another. Competition is also intensifying due to the availability of online-only distributors, including Takealot which is able to promote a wide variety of toys and represent a wide variety of toy manufacturers.

Competition among toy companies is intensifying due to trends towards shorter product life cycles and an increasing use of electronic consumer products and video games.

7.2. Ownership Structure of the Industry

The following graph represents the ownership structure of companies that WOW profiles in this report and is not representative of all companies in the industry.

Graph 5



7.3. Barriers to Entry

Barriers to entry are relatively low for small companies importing toys. For entrants wanting to compete on a bigger scale especially in the licensed toys segment, barriers include:

- ◆ Capital outlay especially to market a new product;
- ◆ High operating costs;
- ◆ Technical and managerial skills;
- ◆ Competing against the products of established players; and
- ◆ Competing against imports.

In the gaming sector, entrants need to understand coding, programming, and game development. It can take years to become a professional game developer through specialised study, building connections, and mastering new technology. Startup costs are high, and competition is intense, and due to online infrastructure required, it can be difficult for new entrepreneurs to venture in this industry.

8. INDUSTRY SUMMARY

Trends	
<ul style="list-style-type: none"> ◆ Growth through increased kidult spending. ◆ Increasing popularity of educational toys. 	
Opportunities	Challenges
<ul style="list-style-type: none"> ◆ Expansion into emerging markets. ◆ New product development. ◆ Eco-friendly products. 	<ul style="list-style-type: none"> ◆ Global economic uncertainty and a poor local economy can affect sales due to reduced consumer spending on discretionary items like toys. ◆ Rising input costs. ◆ Competition from global and local players. ◆ Changing consumer preferences and the rapid growth of digital gaming devices can limit demand for traditional toys.

9. OUTLOOK

Toy companies are expected to continue adapting to changing consumer preferences and market trends such as the growing demand for educational toys. Sales of games and toys based on cartoon characters, TV shows, and movies are expected to increase in the run up to the festive season.

Global revenue in the toys and games market is expected to be driven by higher disposable income in developing countries such as China, Brazil, and India, and population growth in Southeast Asia and Africa. Merchandising opportunities and partnerships are important growth factors for toy companies, with tie-ups across retail and entertainment providing additional revenue streams outside of the traditional manufacturing and sales of the physical toy. For example, the LEGO movie was followed by collaborations with franchises such as Frozen, Star Wars, Harry Potter, Spiderman, and Batman. LEGO has also expanded its range of complex products like its technic and botanical ranges for adults.

Despite the video games market being small, there are opportunities for local gaming studios to be successful and attract international publishing deals. According to Games Industry Africa, “with the

global gaming market experiencing a downturn, publishers will turn to emerging markets as they seek value in their quest to see a higher return on investment.” Sub-Saharan Africa’s mobile player audience is projected to be the fastest-growing globally, and with the continent having the fastest population growth rate in the world, averaging 2.7% compared to a global average of 1%, Africa is home to the largest population of young people. This generation is expected to grow up with video games as their primary entertainment preference, and the continent offers a significant growth market especially for mobile gaming.

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APPENDIX 1

Summary of Notable Players

The following table includes companies that WOW profiles in this report. The list of notable players is not exhaustive.

Company	Manufacture	Wholesale	Retail	Import	Export	Stores	Employees	Shareholder Type
Free State								
Africars for Keeps (Pty) Ltd	X							Private
Gauteng								
Antares Holding (Pty) Ltd			X			7 Hamleys		Private
B T Games (Pty) Ltd			X			17 B T Games		Private
The Great Yellow Brick (Pty) Ltd t/a LEGO Certified Stores			X			4 LEGO Certified Stores		Private
Mykatrade 75 CC t/a Hands on Technology		X		X	X			Private
Nyamakop Games (Pty) Ltd	X							Private
Scientastic Inventions CC t/a Experilab	X		X	X		1 online store		Private
KwaZulu-Natal								
AMIC Trading (Pty) Ltd t/a Toys R Us / Babies R Us / Reggies			X			53 Toys R Us (incorporating Babies R Us and Reggies)	700	Private
Fairy Tales Boutiques (Pty) Ltd t/a Baby City			X			33 Baby City	390	Private
Global Toys (Pty) Ltd t/a ToyZone			X			17 ToyZone	110	Private
Western Cape								
Balisti Studios (Pty) Ltd	X							Private

Company	Manufacture	Wholesale	Retail	Import	Export	Stores	Employees	Shareholder Type
Colour Me (Pty) Ltd	X	X	X				2	Private
Formula D (Pty) Ltd	X						17	Private
Free Lives (Pty) Ltd	X							Private
Fuzzy Logic (Pty) Ltd	X						25	Private
JB Furniture Manufacturers CC t/a Stumped Wooden Toys	X						15	Private
K Martin t/a Happy Blocks & Toys			X			1 online store	1	Private
Melbro Retail (Pty) Ltd t/a The Crazy Store			X	X	X	476 The Crazy Store	2,500 (Group)	Private
Pegasus Toys CC		X		X			3	Private
Prima Toy and Leisure Trading (Pty) Ltd		X		X	X		40	Private
QCF Design (Pty) Ltd	X						10	Private
Sea Monster Entertainment (Pty) Ltd t/a Sea Monster	X						41	Private
Solarpop Distribution (Pty) Ltd		X		X			31	Private
T Lombard t/a Toy Planet			X			3 Toy Planet		Private
Toy Kingdom (Pty) Ltd			X	X	X	23 Toy Kingdom	429	Private