

**Personal & Household Goods****Toy sellers ponder reliance on China as supply problems bite**

Companies hit by delays and soaring shipping costs are rethinking production options



Alain Joly, founder of Doudou et Compagnie, plans to increase production in France © Neway Partners

Ian Johnston in London DECEMBER 11 2021

**Receive free Personal & Household Goods updates**

We'll send you a *myFT Daily Digest* email rounding up the latest Personal & Household Goods news every morning.

**Sign up**

The colourful piñatas that usually hang from the ceiling of Jennie Hogg's Cachao Toys store in London's Muswell Hill have been impossible to source this Christmas.

"My suppliers said it's too expensive bringing them over," Hogg said. Though supply chain disruptions and higher transport costs have put piñatas out of reach, "customers will still get what they need, they just need to keep an open mind," she added.

The global supply chain crunch has led retailers from grocers to toy stores to warn of product shortages and higher prices. Recent manufacturing delays in China have added to the pressure, leading some in the \$95bn global toy market to reconsider their reliance on the country.

Lego, the world's largest toymaker, said its geographical spread of manufacturing had helped it shrug off the disruption and it posted a record **first-half profit** this year. The company coped with high demand in lockdowns and pandemic supply pressures thanks to its manufacturing facilities in Europe and Mexico. This week, the Danish group announced a **\$1bn investment** in Vietnam to provide local production for neighbouring Asian markets.

China accounts for roughly 80 per cent of global toy exports but Alain Joly, founder of Doudou et Compagnie, France's leading seller of teddy bears, said problems caused by the pandemic had given a "financial reason" to increase local production.

# 80%

Proportion of global toy exports that are from China

Most of Doudou et Compagnie's products are made in Chinese factories. But in 2019 the company acquired Mailou Tradition, which manufactures high-quality soft toys in Brittany.

"We planned for 10 per cent of our production to be in France. Now, our target is 20 to 25 per cent," said Joly. It hopes to achieve this by mid-2023.

Doudou et Compagnie's French-made products will be no more than 40 per cent more expensive than high-quality toys from China and Joly believes demand for home-made teddies will be high.

The "made in France" toy movement is growing, up from 8 per cent of the French market in 2014 to 15 per cent today, according to Alain Ingberg, head of France's Association of Toy Creators and Manufacturers. "I'm not saying that everything will come back, but we'll get to 20 per cent [in five years]," he said.

Frédérique Tutt, global toys industry analyst at NPD Group, a market research company, said the "story of localisation and a will of reindustrialising the sector" was taking root elsewhere because of the shipping crisis.

Freight rates have rocketed. The cost of shipping a 40-foot container from China to the UK peaked above \$15,000 in October, almost seven times more expensive than a year earlier, according to data provider Xeneta.





Jennie Hogg in her store in London. She says customers 'need to keep an open mind' when buying gifts this Christmas © Ian Johnston/FT

Costs have edged lower but port congestion, vessel delays and container shortages persist, according to Peter Sand, chief analyst at Xeneta. “For container shipping, the arrival of Omicron is another hurdle,” he said.

Character Options, whose brands include Peppa Pig and Fireman Sam, has its toys made in subcontracted factories in China. Jerry Healy, group marketing director, said the company had taken “the bull by the horns”, ordering 95 per cent of its entire stock requirement by the end of March, two to three months earlier than usual.

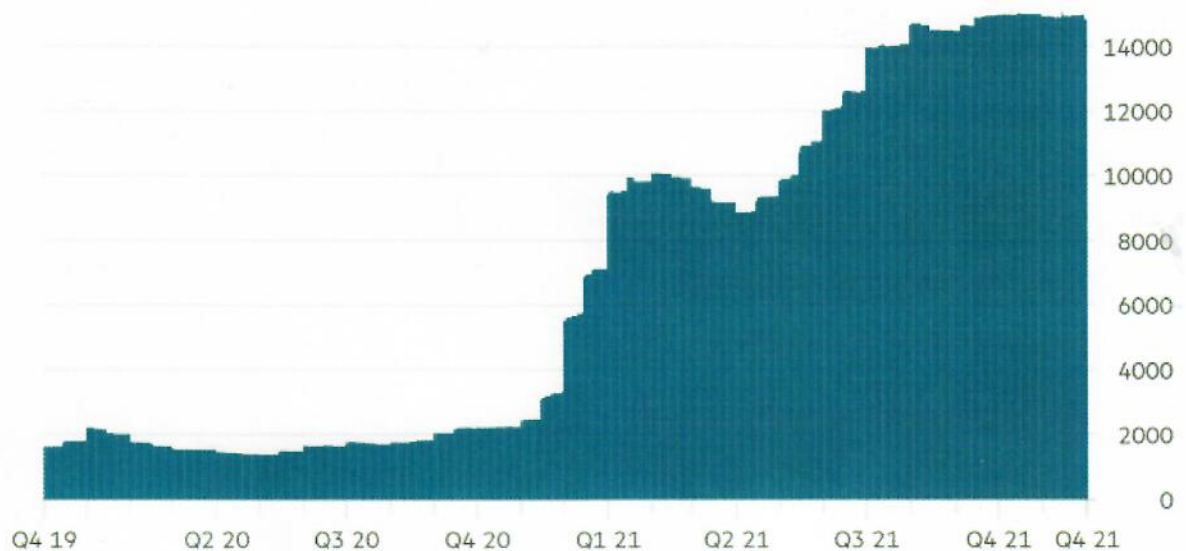
But long lead times for deliveries mean it has been unable to replace unexpectedly strong performers such as Moon Shoes — strap-on bouncy footwear branded as “trampolines for your feet”.

“That’s happened to five or six lines of toys, where we were significantly short,” said Healy. “We forecasted a number where it wasn’t big enough.”



## Short-term freight rates soar

To ship a 40-foot container from China to the UK (\$)



These rates are for short-term contracts

Source: Xeneta

© FT

Those missed opportunities equated to “a couple of million” pounds of lost revenue, he added. “We had the potential to have a fantastic year and we’ve had a pretty decent year. It could have been much better.”

At Los Angeles’ ports, where roughly 40 per cent of Chinese imports to the US arrive, about 75 container ships are waiting to dock, according to logistics group Kuehne+Nagel, with some stuck for weeks.

Ynon Kreiz, chief executive of Barbie-maker Mattel, was among business leaders to attend the White House last month to discuss the issue. In recent years, Mattel has closed factories in Asia, Canada and Mexico but it still owns some of its own factories in China, and its scale has helped it to manage supply challenges.

Smaller rivals, such as model trainmaker Hornby, which outsourced production to China in 1995, do not have such control. After supply problems hit profits, the company has diversified to several Chinese suppliers in recent years. But, with demand up 35 per cent for its Scalextric sets compared with last year, they are running short in some UK toy stores.

Still, Lyndon Davies, chief executive, said the company has no plans to repatriate

production because of high labour costs and skill shortages.

Character Options' Healy said that "if the logistics challenge was to remain, more companies will certainly look at it", though conceded "there's no quick fix". For low-margin toys retailing at less than £20, the elevated costs of local manufacturing are off-putting, he said.

But manufacturing in China is not as cheap as it was. Rising shipping, energy and raw material costs mean prices will climb further. Tutt predicts rises of as much as 12 per cent next year, especially for bulkier toys of which fewer can fit in containers.

"Retailers don't have that much leeway," she said. "It's likely they're going to pass some or all of that on to the consumer."

*Additional reporting by Harry Dempsey*

---

Copyright The Financial Times Limited 2021. All rights reserved.

---