TABS INDUSTRY REPORT

2016 TABS Analytics U.S. Baby Products Study

Executive summary

TABS Analytics conducted a comprehensive survey in March 2016 to understand shopping patterns within the baby needs products category. This is a $30 billion industry and TABS sought to learn where consumers are purchasing baby products and who, besides families with young children, is purchasing these products. TABS placed an emphasis on understanding how frequently consumers are purchasing from specialty channels (Toys"R"Us, Babies"R"Us) and the eCommerce channel.

Through the survey, TABS learned that roughly 20 percent of baby product purchases occur online. TABS learned that within the eCommerce channel, there are several outlets with significant sales aside from simply Amazon. Both Wal-Mart and Target had meaningful sales on their websites, and TABS survey results have never before shown that those retailers' online channels make a big difference in a consumer packaged goods (CPG) category. Babies"R"Us and Toys"R"Us, as well as Diapers.com also contributed to the size of eCommerce.

TABS discovered that within baby products, there is a correlation between a product's share of online sales, and that product's purchase frequency and price. This idea may also extend to other CPG categories.

The survey revealed that while households with young children (age 0-5) are the heaviest buyers of baby products, households without young children are responsible for 30-40 percent of purchases. Overall 37 percent of U.S. adults are shopping within this category, and those without children are still meaningful customers.

The results of the survey show that those with a higher income tend to purchase baby products more frequently than those with a lower income. Low income households are still purchasing these baby needs products, but are doing so with much less regularity than those with a higher income.

Each of these findings, and more, is discussed in the following sections of this report.

TABS Analytics 2016 U.S. Baby and Infant Needs Products Study Methodology

TABS Analytics completed its first Baby and Infant Needs Products Study in March 2016 (fielded by Toluna) to better understand buying and outlet trends in the $30 billion baby products category. The survey queried 2000 adults (18-75) and covered five baby segments, (and 28 different types within those segments):

- **Baby seat and safety products** (Car Seat, Baby Stroller, Baby Monitor, Baby/Booster Seat, Safety Gate, Car Seat/Stroller Combo, Potty Seat, Bed Rail)
- **Baby feeding needs** (Sippy Cups, Bowls/Plates/Utensils, Hard Bottles, Pacifiers, Disposable Bottles, Breast Pumps, Nursing Pads)
- **Diapers and accessories** (Baby Wipes, Disposable Diapers, Diaper Bags, Training Pants, Diaper Disposal Systems)
- **Baby formula/food** (Baby Food, Baby Drinks, Baby Formula)
- **Baby needs** (Baby Shampoo, Baby Lotion, Baby Soap, Baby Powder, Baby Ointments)

The purpose of the survey was to understand where consumers are purchasing specific segments within baby products and who was purchasing baby products. The survey was constructed with an emphasis placed on comparing FDMCD (Food, Drug, Mass, Club, Dollar) outlets with specialty and online channels. Demographically, TABS wanted to understand what effect presence of young children (age 0-5) and household income had on purchase frequency.

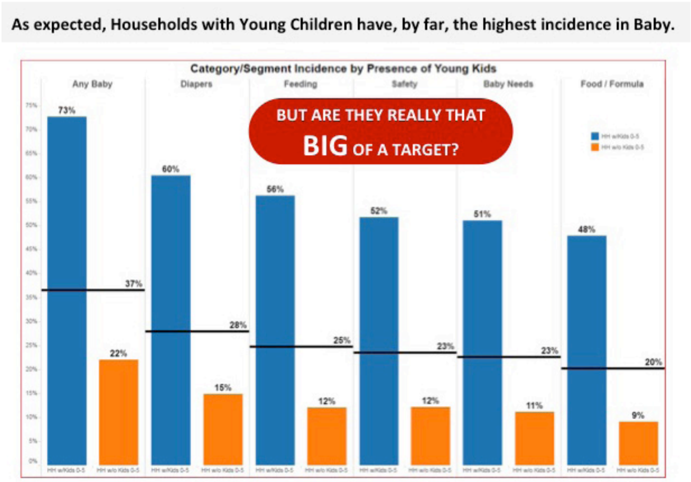
TABS has developed a reliable survey methodology for analyzing hard-to-get data, such as non-tracked sales channels. Data in these channels is often incomplete, inconsistent or both. One particularly difficult channel to analyze and model is online sales. Specialty outlets for baby products (like Toys"R"Us) can also be challenging. Using proprietary algorithms, TABS found a reliable way to track both online and specialty channel sales.

Importantly, TABS corroborated survey results with syndicated and panel data to ensure validity. TABS also validated the data internally, making sure that participants responded consistently throughout the survey. Finally, TABS made sure that areas of known overstatement and understatement would not affect the results.

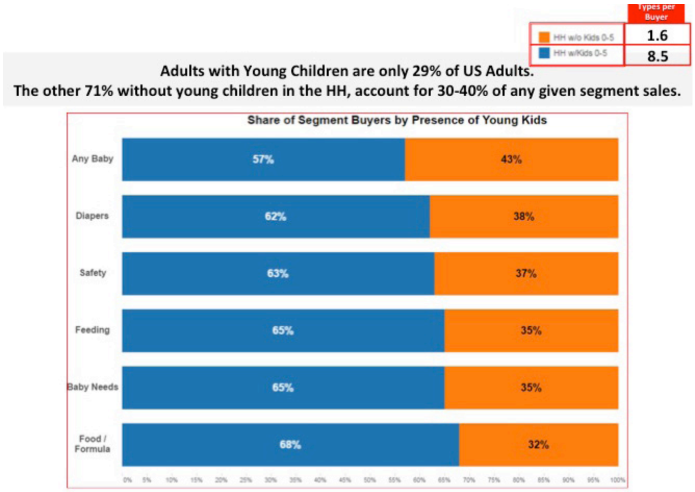
Who's Buying – It's Not Entirely Who You Think It Is

As would be expected, the largest buying group in the category is households with young children. At least 73 percent of adults within this group bought a baby product at least once in the last 12 months (incidence). Only 22 percent of adults without young children bought within the category. Within all segments, Diapers (60 percent) and Feeding (56 percent) showed the highest purchase incidence.

However, given that adults without young children make up 71 percent of the U.S. population, 22 percent of that group is a significant number of people. Overall, 43 percent of purchasers of baby products are adults who do not have young children. Within the various segments, between 32 and 38 percent of purchasers do not have young children. The two highest-performing segments for households without children were diapers (38 percent) and safety (37 percent).



Adults with young children in the household are still the heaviest buyers, though. On average, adults with children buy 8.5 different types in a given year, while adults without children only purchase 1.6 types per year. But why are adults without children still purchasing? The explanation for this is not entirely clear from the research and further analysis is needed. But possible explanations could be: gift-giving, single parents, relatives and friends buying for families with children, cross usage of products (baby needs, food, etc.) by non-infant households or even something else.



The important takeaway is that households with children aren't the only target group for baby products. While adults without young children only buy one or two types per year, marketers should not forget this demographic. Adults with young children in the household will always be the go-to market, but TABS believes that there is money to be made by a manufacturer or retailer that can consistently draw in adults who do not have children. Strategies and tactics need to be in place that will also cover consumers in households without young children.

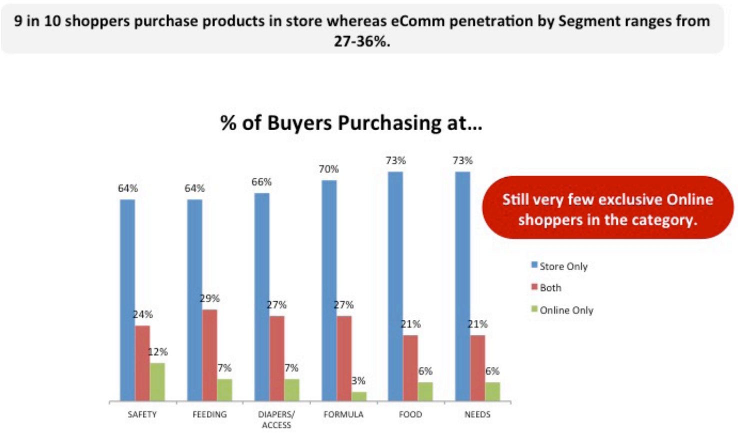
In the Baby Category – eComm is a Contender

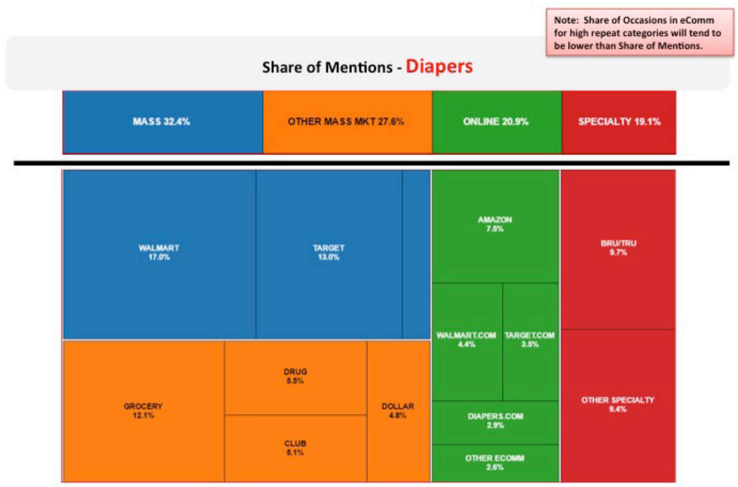
Although brick and mortar stores still dominate in the baby category (as they do in most consumer packaged goods categories), eComm is growing and now makes up on average 27 percent of incidence. This trend bodes particularly well for brick and mortar players who have an eComm presence, such as Target and Wal-Mart. As the chart notes, online-only incidence is still relatively low for baby, with the only segment above 10 percent being safety.

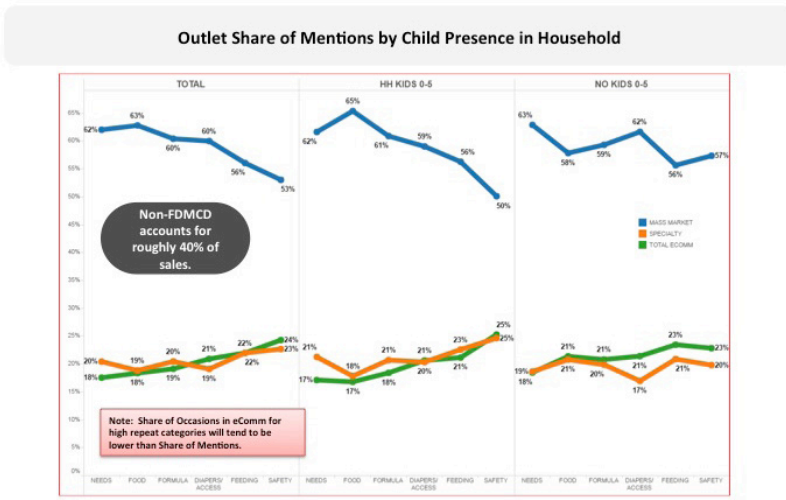
That said, a look at share of mentions (a measure that is highly correlated to actual market share) shows that online shares run between 18 and 20 percent of total baby sales. The second chart shows sales estimates for diapers – the highest online share of all the segments.

Note that the brick and mortar shares for Walmart, Target and Toys”R”Us/Babies”R”Us account for about 50 percent of the total diaper segment sales (and baby category sales too). But, the eComm share is definitely the highest of all the products studies TABS has ever done. Both Walmart and Target’s online sales are close to each other as Target usually appeals to more upscale consumers who, in this case, are buying baby products online.

Overall the traditional FDMCD (Food, Drug, Mass, Club, Dollar) channels still account for roughly 60 percent of sales. But the online and specialty channels matter a great deal for baby products. It’s worth noting that across all five segments in the survey, online share is higher than the specialty outlet share for adults with young children.

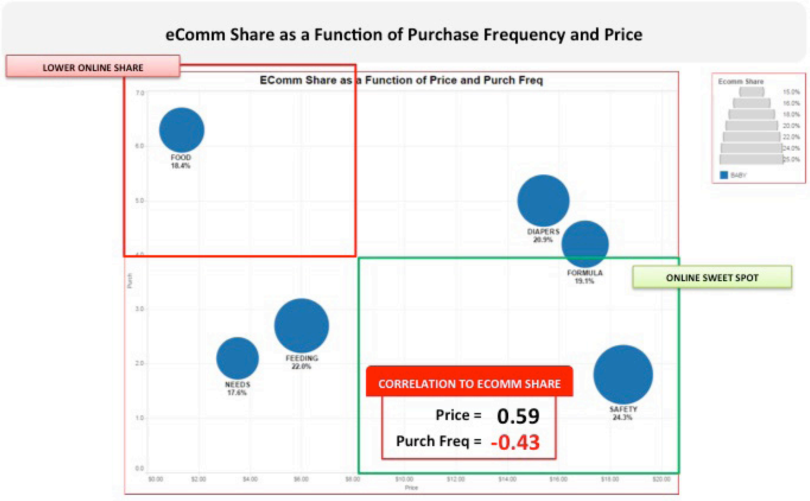






Price and Online Sales – A Strong Correlation?

Based on the information attained from the baby products survey, and other surveys TABS has done, there appears to be a strong correlation between eComm sales, and price and purchase frequency. The segment with the highest online share, Safety, also has the lowest purchase frequency. But a segment with a much higher purchase frequency, Baby Food Products, has a much lower share of online sales. In this chart, price goes left to right, lowest to highest, and purchase frequency goes bottom to top lowest to highest. TABS estimates that the area where CPG products are most likely to succeed online is in the green box on the lower right, where products are more expensive and purchased less frequently. At the top left, the red box is where products are purchased more frequently and are less expensive. This box contains food, which has a low share of online sales.



These findings are further corroborated when you look at other CPG categories along with baby products. It is easy to see how low food and beverage consumables online sales are compared to some of the higher priced categories like cosmetics, vitamins and baby products. This correlation helps to explain why Wal-Mart does not have a very high share of online sales since 70 percent of its sales are consumables and other packaged goods.

Income skew and what it means for Target

Across all types, there is a noticeable pattern when charting purchase incidence relative to purchaser income. The lowest income level is -$25,000 and the highest is $125,000+ with four income breaks in between. Most product types tracked hit a peak at the $100-125,000 income bracket and then dip. But every single type has a much higher purchase incidence as the income bracket increases. That variance is on average two to one. This means that higher income purchasers purchase twice as many baby products in a given year than people with lower income.

Baby formula and food showed the highest skew toward higher income adults. Baby Needs showed the flattest incidence. A possible explanation for a lower income skew in Baby Needs may be that a lot of those products such as shampoos and lotions, are often purchased for non-baby use.

The reason for this income skew is unclear. But what is clear is that this income skew explains why Target is so close to Wal-Mart in share of mentions across all segments. Target is only 20 to 30 percent behind Wal-Mart for a given segment. But in any other CPG category, Wal-Mart has a 2.5 to 3 times higher share of mentions than Target. Target's shopper demographic includes more high income shoppers than Wal-Mart. So if those with a higher income buy more baby products, then they're more likely to shop at Target. That puts Target in a much more competitive position for baby products. This would also explain why recently Target referred to baby products as a high priority category.

Implications for Manufacturers and Retailers

Those involved in the baby products industry need to think beyond young moms. Up to 40 percent of purchasers don't have young children in the household – they're caregivers, buying gifts, separated parents, etc. For retailers in particular, the baby category should be thought of as a more mainstream category and not a specialty niche since overall category penetration is 37 percent. Second, upper-income buyers drive more sales, as they over-index in purchases. They spend a lot more money on baby products relative to their purchaser share. For retailers like Target, this higher-income skew bodes well. So, if Wal-Mart wants to widen the gap between itself and Target, it will need to start attracting more affluent consumers in this category. Third, the safety segment is the biggest driver in online sales. Both Walmart.com and Target.com are significant players on their own.

Recommendations:

1) Develop ways of communicating to the 40 percent of consumers that don't have young children.
2) Conduct further research into baby segments via surveys in order to understand what the growth drivers are.
3) Understand what accounts for the income skew.
4) Don't overemphasize the big three: Walmart/Target/Toys"R"Us, Babies"R"Us – they account for about 50 to 60 percent but that leaves the balance elsewhere for more sales opportunities.
5) Use findings from this survey for quick and cost-effective business and volume planning. Then use brand awareness, favorability and regular purchasing behavior to complete the buying picture.
6) Consider a separate strategy for the eComm channels of the big three, as opposed to treating them the same as their brick and mortar counterparts. (Target vs. Target.com)
7) For brick and mortar retailers with eComm aspirations should start with baby products and vitamins. These two CPG categories show the highest percent of sales online, and it's the right place to start that venture.