

TABS Analytics 2017 Baby Products Study

Executive Summary

In April 2017, TABS Analytics conducted a comprehensive survey to understand shopping patterns within the baby needs products category. This is an estimated \$30 billion industry and TABS sought to examine trends regarding where consumers purchase baby products, and who, besides families with young children, is purchasing these products. A special emphasis was placed on understanding how frequently consumers purchase baby products from specialty (Toys “R” Us, Babies “R” Us) and eCommerce channels.

Key Findings

- **Double-digit decreases in penetration** – Penetration for baby products was down by double digits across all demographic groups: Age, ethnicity, region and presence of children in the home.
- **Income plays a significant factor** – Affluent consumers (those with income of \$150,000 or more) were the only group to show increases in penetration. All other income levels declined by double digits. Results point to the direct evidence of bifurcation of the consumer landscape.
 - Income of \$50,000 or less – 13%-14% purchase something in the category
 - Income of \$100,000-\$149,000 – 30%
 - Income of over \$150,000 – 57%
- **Baby products see steep decline** – While books, jewelry and sporting goods retailers have seen substantial declines in the past year, baby products have seen a 10-15% decline in purchases, with sales dropping an estimated \$3 to \$4.5 billion in 2016.
- **eCommerce grows share, slightly** – eCommerce gained 2 share points, and now accounts for more than 20% of baby product sales. Despite share gain, overall eCommerce sales declined, but less steeply than sales at brick-and-mortar retailers.
 - eCommerce share gains were seen across board: Walmart.com, Target.com, Amazon.com, and even at the now-shuttered Diapers.com. The demise of Diapers.com shows that even eCommerce share gains were not enough to offset the overall drop in sales.
- **Having children in the home doesn’t improve odds of purchasing** – 68% of households with children purchased something in the five baby segments, while 15% without young children did. But when looking at the majority of buyers in the sectors, 58% of buyers were households without children.

Methodology

For the second year, TABS Analytics conducted a survey (fielded by Toluna) of 2,000 individuals age 18 and older, to gauge their shopping patterns for five core baby segments (with 28 different types of products 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 survey examined the outlets – mass market, specialty and online – at which purchases were made, as well as key demographics, including income level and presence of young children (ages 0 to 5).

In comparing the survey, year-over-year, it is important to note that the 2016 data oversampled households with young children (29% vs. 14% in 2017). The restated 2016 and weighted 2017 results still overstate households with young children, but it has been balanced to the national average on age, gender and income.

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) also can 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 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.

Higher Income = Higher Penetration

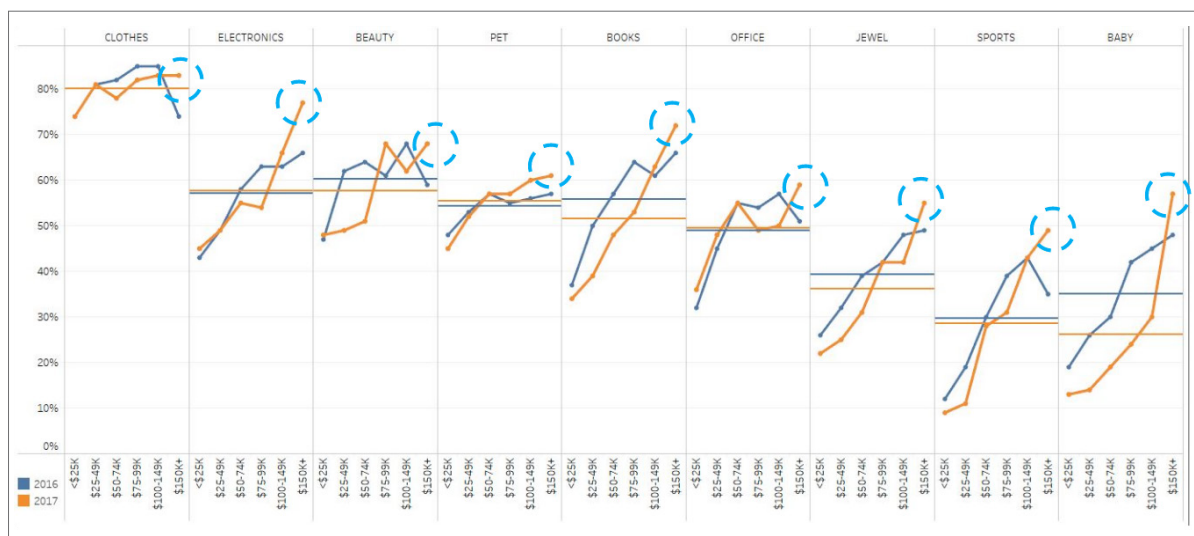
	Incidence within Group		INDEX vs. 100	% of Buyers
	2016	2017		
<\$25K	19%	13%	-33	11%
\$25-49K	26%	14%	-44	15%
\$50-74K	30%	19%	-37	18%
\$75-99K	42%	24%	-42	11%
\$100-149K	45%	30%	-35	17%
\$150K+	48%	57%	9	24%
MEN	33%	23%	-31	53%
WOMEN	32%	22%	-33	47%
18-24	41%	30%	-25	12%
25-34	55%	49%	-10	31%
35-44	45%	39%	-14	29%
45-54	17%	15%	-9	16%
55-64	12%	10%	-16	9%
65-74	10%	3%	-66	2%
75+	4%	5%	30	1%

Across virtually all demographics – age, ethnicity, region of the country and presence of children in the household – penetration for baby products was down by double digits. Only one group – individuals with incomes over \$150,000 – showed a higher penetration.

Of these high-income individuals, which represent about a quarter of all buyers, 57 percent made at least one purchase of baby products during the past year. Compare this to the lowest income brackets, where only 13% to 14% of those under \$50,000 made a baby purchase. Purchase incidences do continue to rise with income, from 19% for those with incomes of \$50,000 to \$74,000, to 30% for incomes of \$100,000 to \$149,000.

The trend of higher penetration in the higher income brackets is not exclusive to the baby sector. In fact, it transcends the other eight core retail sectors: clothes, electronics, beauty, pet, books, office, jewelry and sporting goods. Even though there is income disparity in all sectors, for

baby this disparity is particularly pronounced. The consistency of these results suggests that individuals with higher discretionary income are more likely to make purchases in all retail sectors.

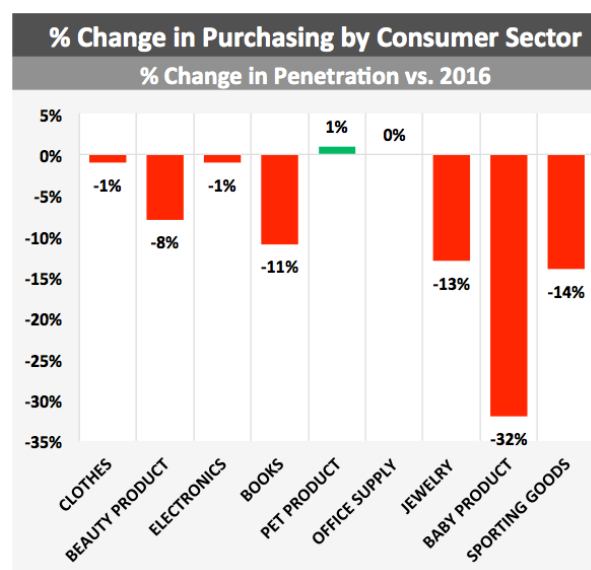
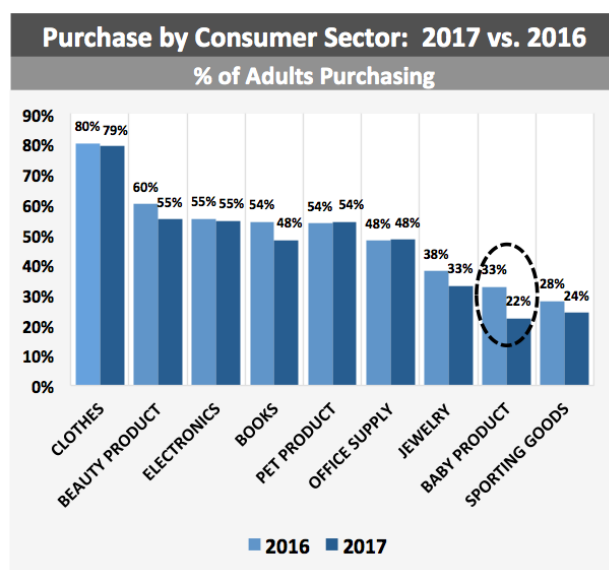


Baby Product Sales Drop Dramatically

To get a sense of the overall retail landscape, we wanted to benchmark the baby sector against the other sectors in terms of overall consumer purchases. Shown in the chart below, several categories – clothes, beauty, electronics, pet and office supply – remained relatively stable in terms of the percent of adults making purchases from 2016 to 2017.

A few categories – books, jewelry and sporting goods – experienced measurable declines of between 4 and 6 percentage points. These declines were expected, as there are noticeable weaknesses in those sectors, particularly as consumers move to eBooks and the sporting goods market experienced upheaval as a result of Sports Authority's bankruptcy.

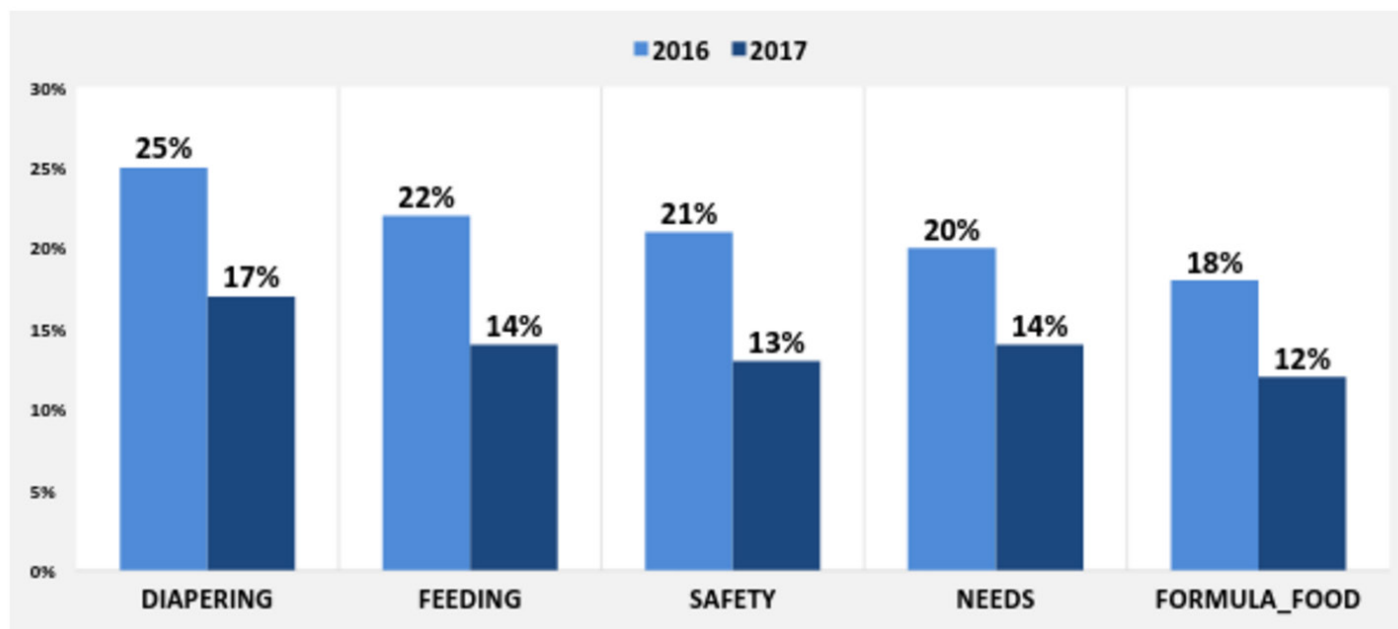
But nowhere were declines as pronounced as in the baby product market, where we witnessed a 10% to 15% year-over-year drop. In the \$30 billion baby sector, this translates into a decline of an estimate \$3 billion to \$4.5 billion in sales in just 12 months.



Looking at the demographics we highlighted above, it's not surprising that baby products was the biggest loser, since consumers in almost every age, income level, race and geographic area reported scaling back purchases over the past year.

Declines occurred in all segments of the baby sector, as well, with diapering, feeding and safety each dropping 8 percentage points and baby needs and food/formula dropping 6 percentage points.

We believe that these changes in the baby sector are a microcosm of the major shifts we are seeing in retail overall, in politics and the economy



A Detailed Look at Purchasing by Segment

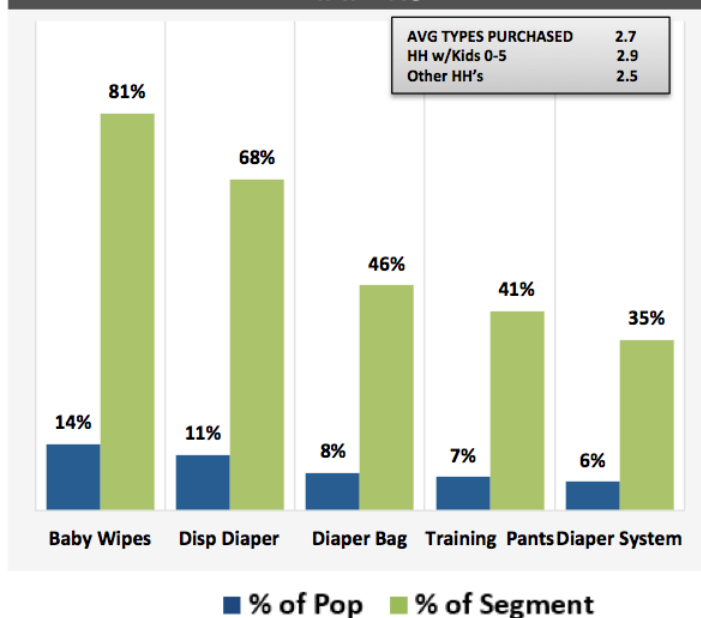
The highest penetration levels are in products with broad appeal, such as wipes, disposable diapers, toddler feeding and cups. While purchasing by the overall population may be small, once in the segment, there is a greater percentage of other types purchased by consumers.

What is interesting is that there's not a great disparity in the amount of products in each segment purchased by households with young children or those without. Households with young children are only about 10% to 15% higher.

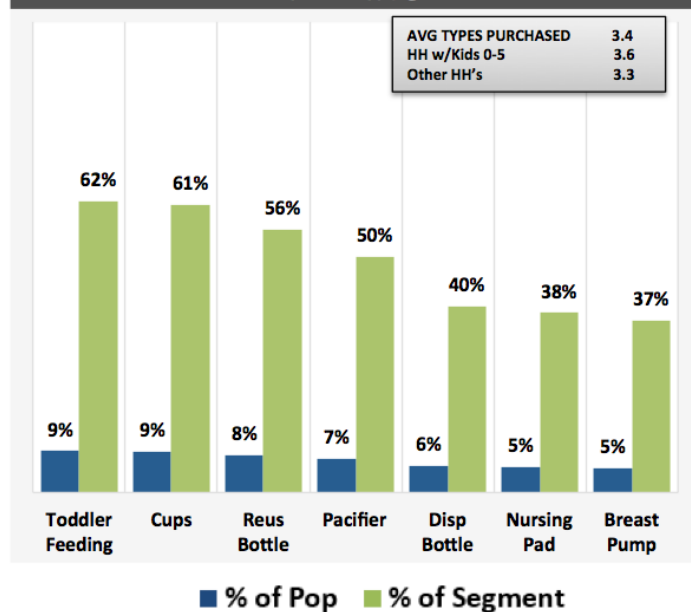
Once in a segment, there is a high number of other types purchased by consumers. This cross purchasing is higher with household with young kids, obviously, but only about 10-15% higher.

Shown below are the percentages of the overall population purchasing a particular product within a segment and the percent of those who are already in the segment purchasing a certain product.

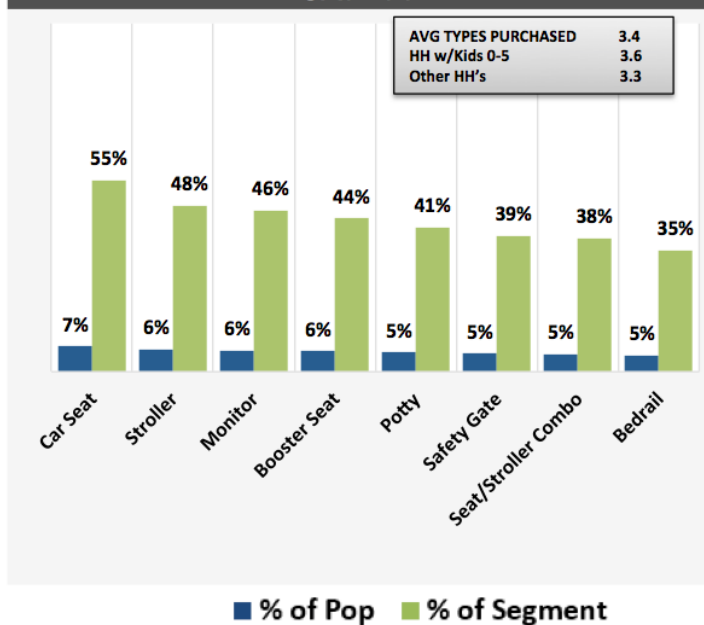
DIAPERS



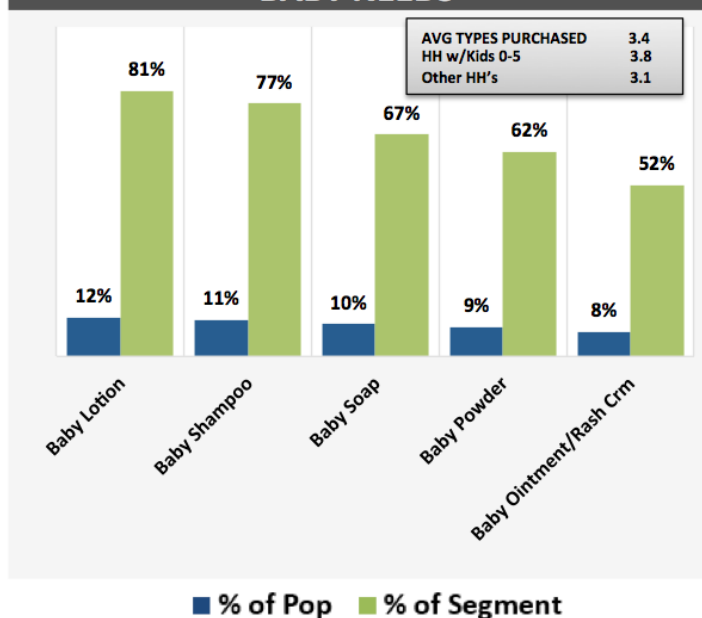
FEEDING



SAFETY



BABY NEEDS



eCommerce Share Grows, But Sales Decline

Overall, online retailers – including Walmart.com, Target.com, Amazon.com and Diapers.com – saw about a 2% increase in share of mentions in almost all segments, at the expense of specialty outlets, like Babies “R” Us, Toys “R” Us, Buy Buy Baby and department stores.

While this trend may cause some to think that sales are shifting to online retailers, we challenge that assumption. Even though baby shares have increased, we continue to remain skeptical about the ongoing viability of online sales, especially in grocery. The demise of Diapers.com – which showed small, but positive, momentum across all product segments – is a clear indicator that online may be a continued struggle for baby as well.

From our study, you can see that even though eCommerce shares have grown, online sales have declined, albeit not as much as other channels. We believe this signals something bigger at play, particularly the disparity at higher income levels, which has a depressing effect on the overall retail environment. Consumers now prefer to spend more on electronics – think iPhones, apps, etc. – than they did five years ago, and as a result they are shifting their dollars away from other sectors, which are feeling the pain.

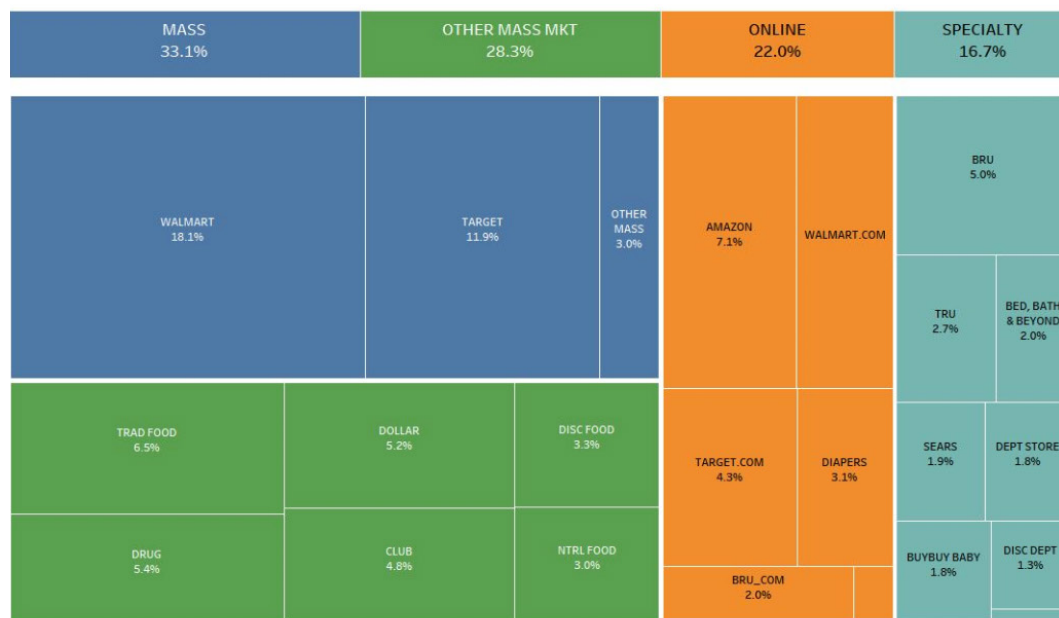
Now let’s look more closely at each baby segment:

Diapers

Online purchasing share grew 2 percentage points, up to 22.1% from 20.1% in 2016. Of note was the 1.1 percentage points increase in diaper sales at Target.com. Specialty dropped overall by 2.3 percentage points with the biggest loser there being Babies “R” Us.

DIAPERS CHARTS

	2016	2017	Chg
Mass Merchant	33.0%	33.1%	0.1
WALMART	17.6%	18.1%	0.5
TARGET	13.0%	11.9%	(1.1)
OTHERMASS	2.4%	3.0%	0.7
Other Mass Mkt	27.9%	28.3%	0.4
TRADFOOD	6.5%	6.5%	0.0
DISCFOOD	2.0%	3.3%	1.2
NTRLFOOD	3.9%	3.0%	(0.9)
DRUG	5.4%	5.4%	0.1
CLUB	5.2%	4.8%	(0.4)
DOLLAR	5.0%	5.2%	0.3
Online	20.1%	22.1%	2.0
AMAZON	7.2%	7.1%	(0.1)
DIAPERS	2.8%	3.1%	0.2
WALMART_COM	4.2%	5.1%	0.9
TARGET_COM	3.2%	4.3%	1.1
BRU_COM	2.3%	2.0%	(0.4)
OTHER ONLINE	0.3%	0.5%	0.2
Specialty	19.0%	16.7%	(2.3)
BRU	6.5%	5.0%	(1.4)
TRU	3.3%	2.7%	(0.6)
DEPT	1.6%	1.8%	0.2
BEDBATH	1.6%	2.0%	0.4
SEARS	2.4%	1.9%	(0.5)
BUYBUY	2.4%	1.8%	(0.7)
DISCOUNT DEPT	1.1%	1.3%	0.1
OTHER STORE	0.1%	0.2%	0.1

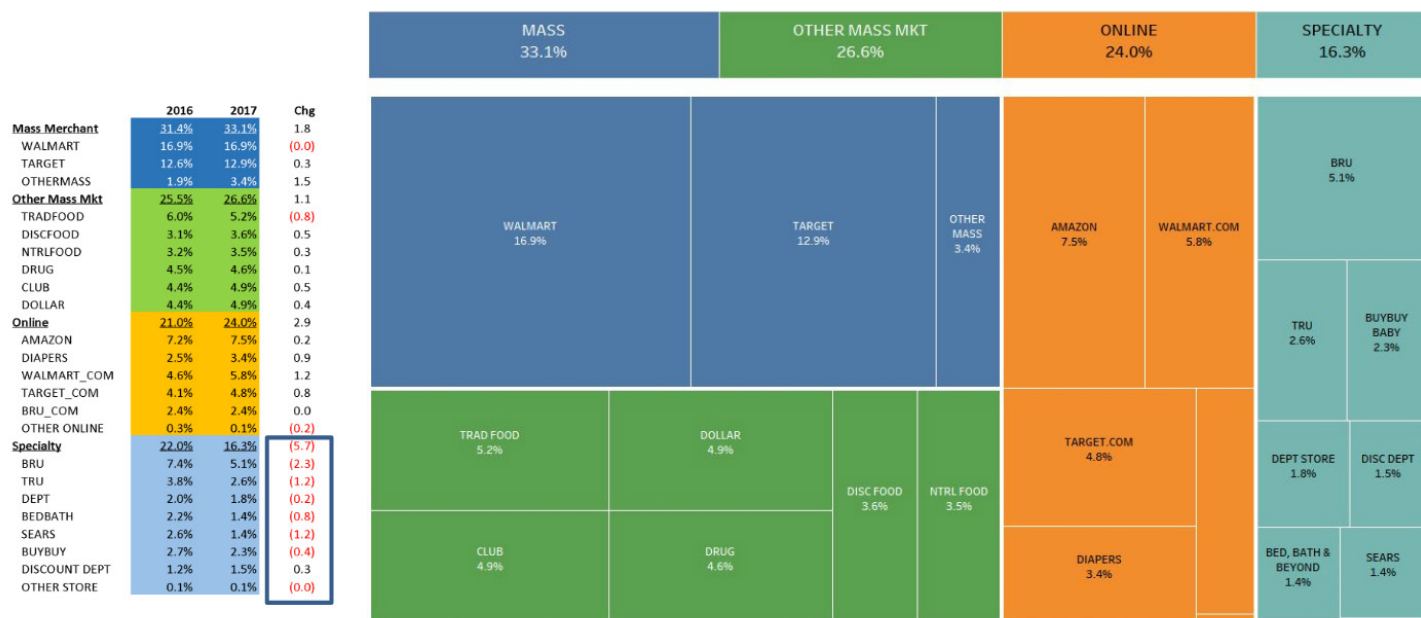


Feeding

Specialty retailers, where consumers would often purchase feeding products, such as sippy cups, bowls/plates/utensils, bottles, pacifiers, breast pumps and nursing pads, saw a sharp decline of 5.7 percentage points year-over-year. Some of the share shifted to online and mass merchant, which grew 2.9 and 1.8 percentage points respectively.

Of note is that Target has made baby a priority, adding signature categories. However, the efforts have not translated into major brick-and-mortar store sales growth, which was relatively flat at .3% from 2016.

FEEDING CHARTS

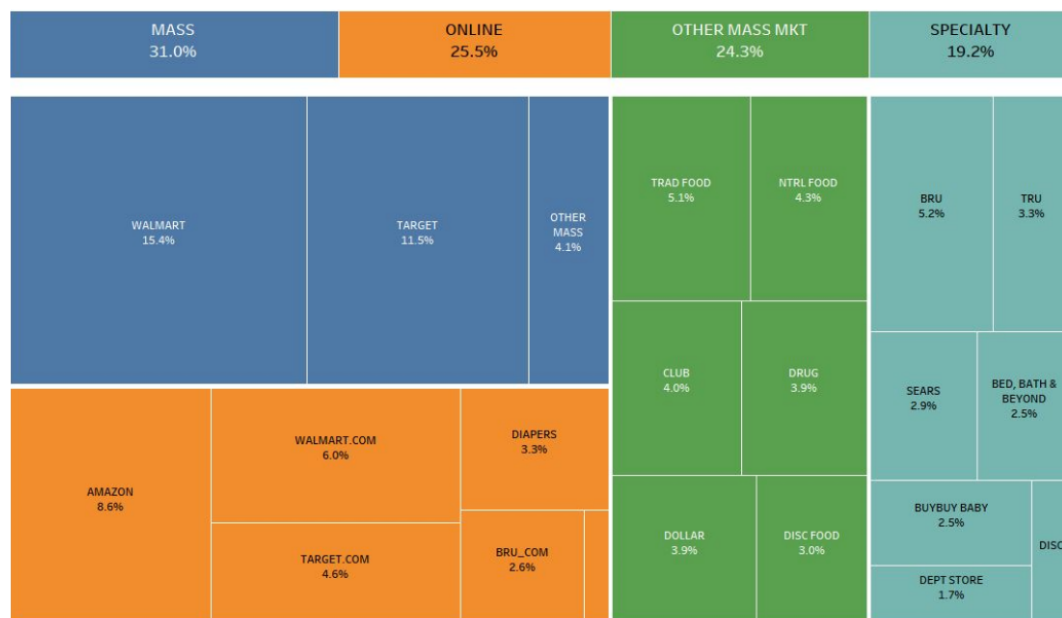


Safety

Online is the #2 channel for safety products, where the average prices of products are higher than other baby sectors. Again, specialty saw a decline - of 3.3 percentage points - as did mass merchants, which were down 1 percentage point.

SAFETY CHARTS

	2016	2017	Chg
Mass Merchant	32.1%	31.0%	(1.0)
WALMART	16.8%	15.4%	(1.4)
TARGET	12.2%	11.5%	(0.7)
OTHERMASS	3.1%	4.1%	1.1
Other Mass Mkt	22.0%	24.3%	2.3
TRADFOOD	3.8%	5.1%	1.3
DISCFOOD	3.1%	3.0%	(0.1)
NTRLFOOD	3.8%	4.3%	0.5
DRUG	3.5%	3.9%	0.5
CLUB	4.5%	4.0%	(0.5)
DOLLAR	3.4%	3.9%	0.5
Online	23.5%	25.5%	2.0
AMAZON	7.4%	8.6%	1.2
DIAPERS	2.8%	3.3%	0.5
WALMART_COM	5.5%	6.0%	0.6
TARGET_COM	4.3%	4.6%	0.3
BRU_COM	3.2%	2.6%	(0.6)
OTHER ONLINE	0.3%	0.5%	0.1
Specialty	22.5%	19.2%	(3.3)
BRU	7.7%	5.2%	(2.5)
TRU	3.6%	3.3%	(0.2)
DEPT	2.6%	1.7%	(0.8)
BEDBATH	1.9%	2.5%	0.6
SEARS	2.5%	2.9%	0.3
BUYBUY	2.8%	2.5%	(0.4)
DISCOUNT DEPT	0.9%	1.0%	0.2
OTHER STORE	0.5%	0.0%	(0.5)

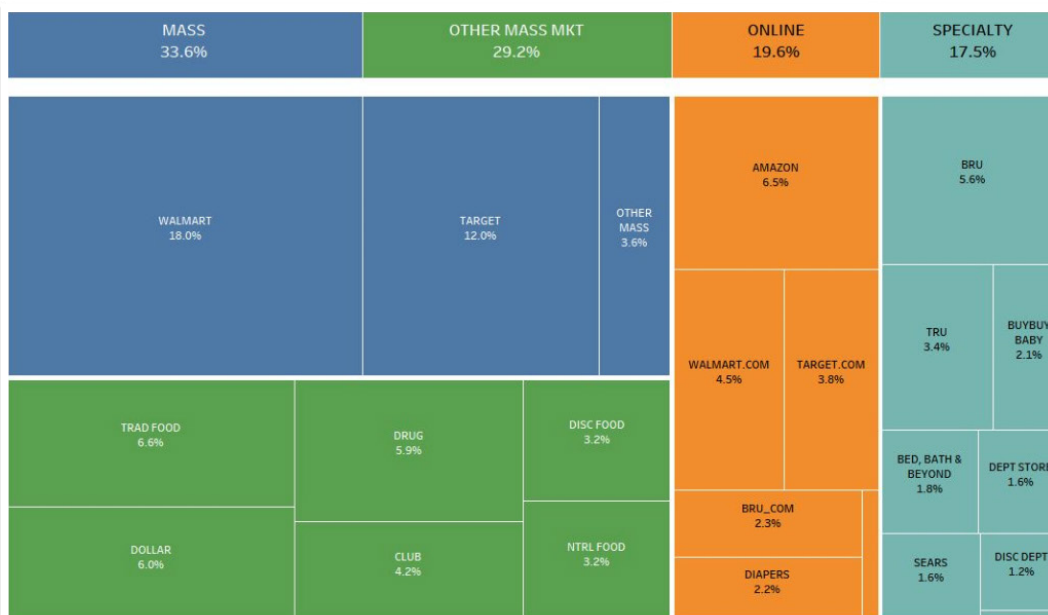


Baby Needs

The biggest increase in share for baby needs – such as shampoo, lotion, soap, powder and ointments – was in the online market, which grew 2.8 percentage points since 2016. Other notable growth in this segment occurred within the discount food market, which includes retailers like Aldi and Save-a-lot.

BABY NEEDS CHARTS

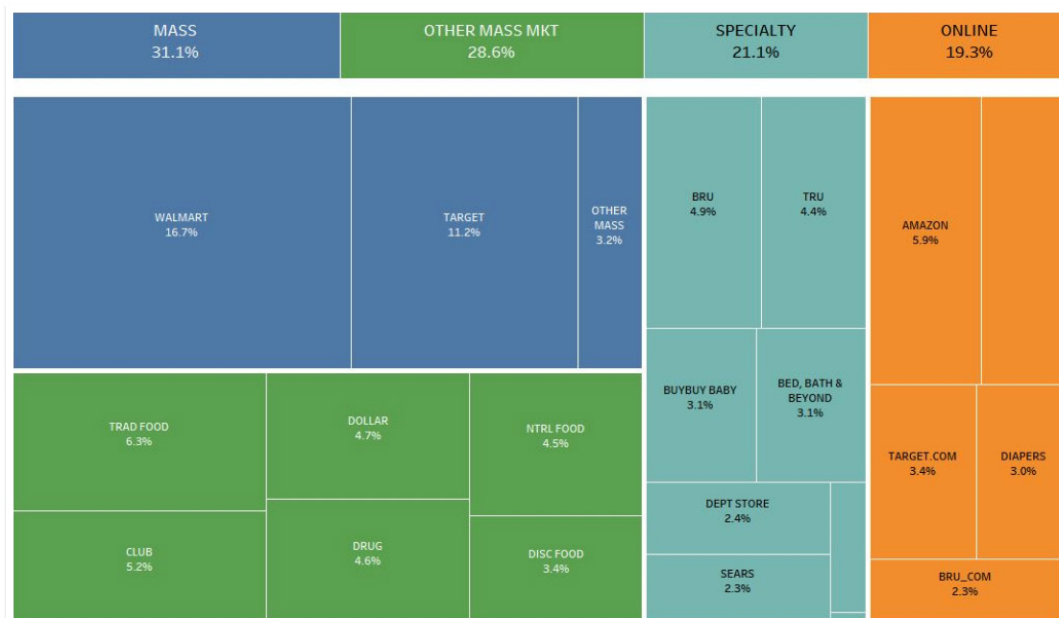
	2016	2017	Chg
Mass Merchant	35.1%	33.6%	(1.5)
WALMART	18.6%	18.0%	(0.6)
TARGET	13.9%	12.0%	(1.9)
OTHERMASS	2.6%	3.6%	1.0
Other Mass Mkt	27.5%	29.2%	1.7
TRADFOOD	7.1%	6.6%	(0.5)
DISCFOOD	1.8%	3.2%	1.5
NTRLFOOD	2.8%	3.2%	0.4
DRUG	6.7%	5.9%	(0.7)
CLUB	4.4%	4.2%	(0.2)
DOLLAR	4.8%	6.0%	1.2
Online	16.8%	19.6%	2.8
AMAZON	5.8%	6.5%	0.6
DIAPERS	1.6%	2.2%	0.6
WALMART_COM	3.6%	4.5%	0.8
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SEARS	2.4%	1.6%	(0.8)
BUYBUY	2.3%	2.1%	(0.1)
DISCOUNT DEPT	1.8%	1.2%	(0.7)
OTHER STORE	0.2%	0.2%	(0.0)



Baby Formula

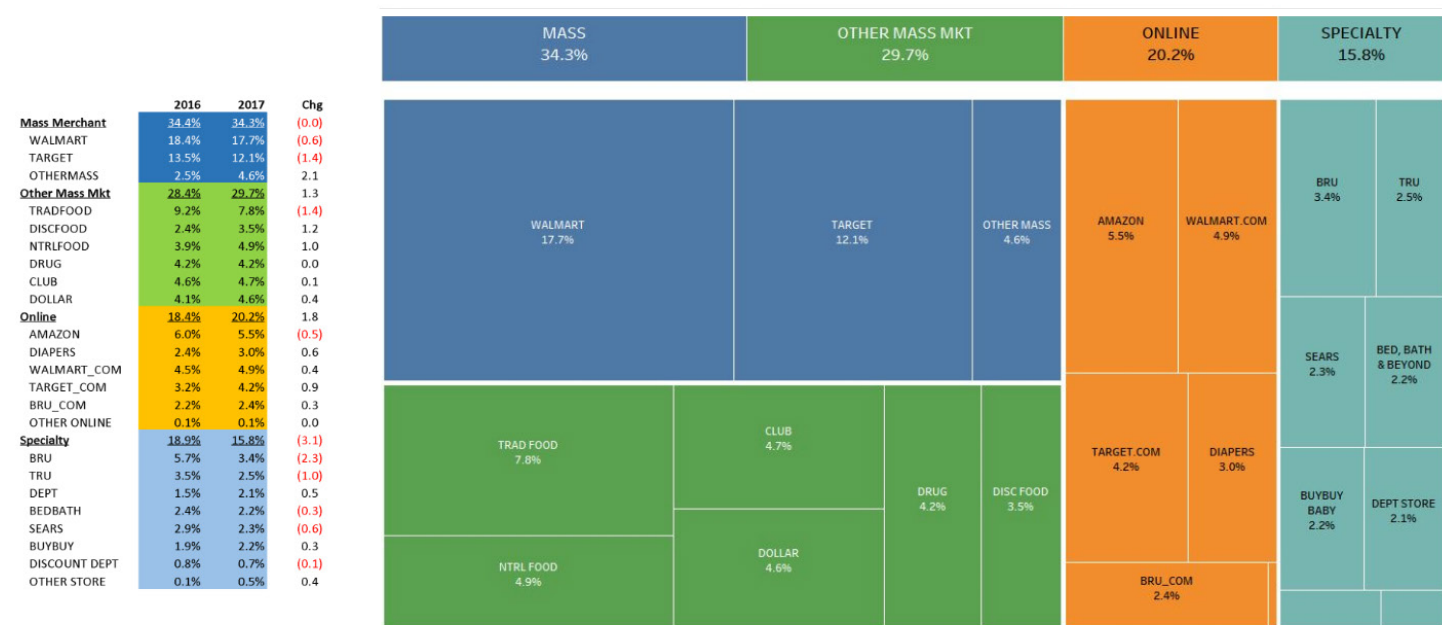
Unlike other segments, specialty gained share (.8 percentage points) in formula, which has traditionally been a traffic driver for the channel. Online, however, showed the strongest growth at 1.2 percentage points, with Target.com being the one exception.

	2016	2017	Chg
Mass Merchant	32.5%	31.1%	(1.4)
WALMART	17.8%	16.7%	(1.1)
TARGET	12.6%	11.2%	(1.4)
OTHERMASS	2.1%	3.2%	1.1
Other Mass Mkt	29.1%	28.6%	(0.5)
TRADFOOD	8.2%	6.3%	(1.9)
DISCFOOD	2.3%	3.4%	1.1
NTRLFOOD	4.8%	4.5%	(0.3)
DRUG	5.0%	4.6%	(0.4)
CLUB	5.4%	5.2%	(0.2)
DOLLAR	3.3%	4.7%	1.3
Online	18.0%	19.3%	1.2
AMAZON	5.4%	5.9%	0.5
DIAPERS	2.3%	3.0%	0.7
WALMART_COM	4.2%	4.7%	0.4
TARGET_COM	3.7%	3.4%	(0.3)
BRU_COM	2.2%	2.3%	0.0
OTHER ONLINE	0.2%	0.1%	(0.1)
Specialty	20.3%	21.1%	0.8
BRU	6.3%	4.9%	(1.4)
TRU	3.8%	4.4%	0.6
DEPT	2.0%	2.4%	0.4
BEDBATH	1.9%	3.1%	1.2
SEARS	2.9%	2.3%	(0.6)
BUYBUY	2.7%	3.1%	0.4
DISCOUNT DEPT	0.7%	0.8%	0.1
OTHER STORE	0.0%	0.1%	0.1



Baby Food

Discount food (1.2 percentage points), natural food (1 percentage point) and online (1.8 percentage points) grew share, driven by an increase at Target.com.



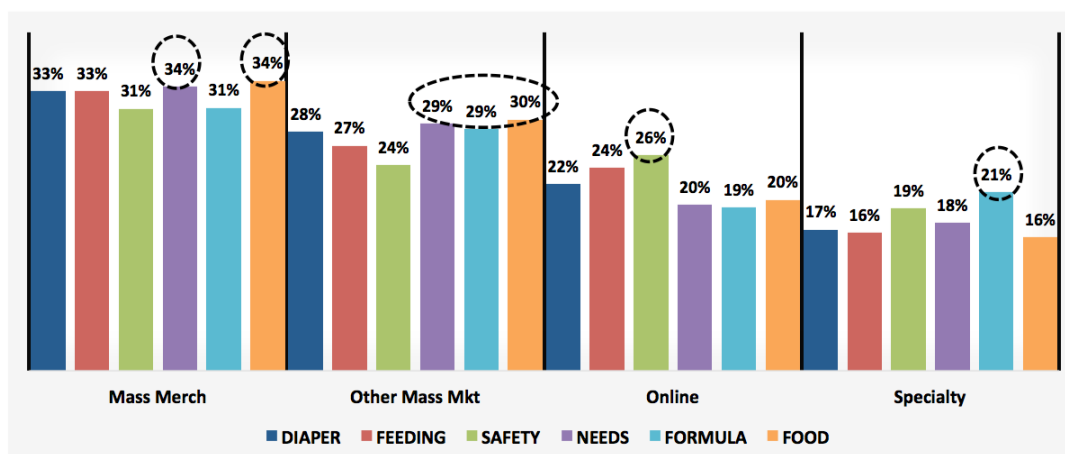
Share of Segment Mentions by Channel

While channel shares by segment tend to be fairly consistent, there are some notable differences that reflect specific channel advantages and strategies.

For example, online has the highest share in safety, which includes big-ticket items like car seats and strollers. But online share drops off for the lower-priced, higher velocity segments, like formula, food and baby needs, which tend to be the higher shares for the other mass market channel. This is expected since the more frequently purchased products tend to be purchased at brick-and-mortar stores.

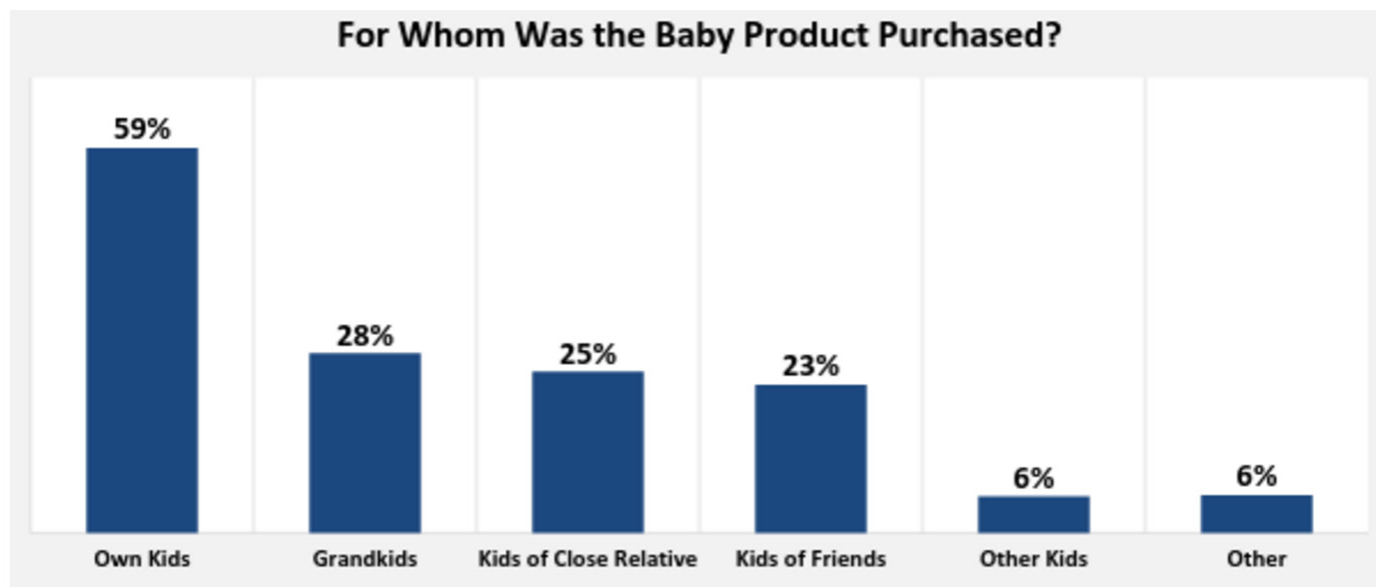
Mass merchandisers have a relatively consistent share in all segments, ranging from 31% in safety and formula, to 34 percent in baby needs and food.

In the specialty channel, formula is performing strongest.



Households with Kids Don't have a Lock on the Baby Market

Only 59% of those surveyed are purchasing products for their own children. That leaves a large group of consumers who are buying products for grandchildren, relatives, friends' children or other kids. We estimate that parents of young children represent 42% of the buyers, but account for 80% of the volume of sales.



The remaining 58% of buyers do not have children ages 0 to 5 in the home, which opens a large market of “untraditional” consumers for the baby sector.

	Incidence within Group		INDEX vs. 100	% of Buyers
	2016	2017		
KIDS 0-5	72%	68%	-6	42%
NO KIDS 0-5	20%	15%	-25	58%
WHITE	33%	22%	-35	68%
BLACK	24%	17%	-29	10%
HISP	36%	31%	-14	16%
OTHER ETHNIC	36%	27%	-27	6%
NORTHEAST	34%	29%	-17	24%
CENTRAL	28%	13%	-52	14%
SOUTH	30%	20%	-32	33%
WEST	39%	30%	-23	29%

CONCLUSIONS

- Baby products purchasing by income is a microcosm of the major shifts we see in retail, in politics, and in our economy and other Western economies. The bifurcation of the population based on income growth – resulting in inconsistent growth across most income levels – creates major disruptions and unrest.
 - More research is required into this puzzling extreme income skew. While it makes sense to have higher income purchasing for more discretionary products, diapers and food aren't generally discretionary items
- We estimate that 10% to 15% of sales – totaling \$3 billion to \$4.5 billion – potentially have been lost from the \$30 billion market in 2016.
- The lazy man's explanation is that retail weakness results from the shift to ecommerce. While online baby picked up share, purchasing in the channel was down, as well, albeit not as much.
 - Closure of Diapers.com by Amazon despite gains in share and substantial share raises serious questions about the viability of online in many consumer sectors. If they can't make money, then who can?
- Target's focus on Baby as a "signature category" doesn't seem to have paid off, as they lost share in 5 of 6 segments. Some, but not all, of the declines were offset by gains at Target.com. In fact, both Walmart and Target have made gains in eCommerce.
- Once someone buys something in the category they tend to buy a lot of other things in a short amount of time.
- Households with kids aren't the only target for baby – 58% of the buyers and 20% of the transactions are by people that have no young children; and only 6 in 10 people purchase for their own kids.

ACTIONS

- Expand marketing communication beyond traditional young mother platforms. With a high percentage of older, higher income and consumers without young children making baby purchases, there is a strong rationale for expanding brand messaging to a broader audience.
- Invest in research to understand the low penetration of baby products among lower income people. Adults without kids drive a large percentage of sales, but we see the skew for adults with young kids, as well.
- Provide compelling financial incentives for consumers to buy incremental items on the same trip once they have decided to buy one. eCommerce environments are well-suited for this strategy, because once baby items are put in an online basket, ERetailers can call out other promotional offers. But don't just say "other consumers bought this item." Offer real promotions.
- Manufacturers need to consider how much they want to invest in the Specialty channel, given declines in almost every category.
- Promotions, in general, may be one of the only ways to get discretionary purchases from non-parents, as well as increased purchases from those at lower income levels.

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