



Market Snapshot UK
Baby & Children's Market 2017

Pragma View

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It is no secret that the market for children's clothing and equipment is a darling of the investment community, beloved for its scale and apparent resistance to recessionary pressures. The disregard for traditional notions of value for money, particularly on the part of new parents, has served only to make an already sweet treat even more irresistible.

In every corner of the consumer sector, our clients ask us what impact we expect from Brexit. It seems uncontroversial to anticipate a slowdown in spending in certain areas: there are undoubtedly clouds on the horizon. With inflation running at 2.7% and wage growth failing to keep up, it is no wonder that consumer spending looks weak and wobbly. The question we ask, therefore, is whether we can expect the nation's spending on children to maintain its past form, and profit from cutbacks made in more discretionary areas of spending. Industry forecasts suggest the answer is an emphatic "yes".

Euromonitor anticipates annual growth in children's clothing and footwear of 2.3% and 4.4% respectively to 2021

This represents a doubling of the growth rate witnessed between 2007 and 2016 for each category. The caveat to this, of course, is that no market forecasts anticipated what we saw in 2008.

We don't pretend to have all the answers either, but the one thing we can be relatively sure of is demand. The UK has produced an average of c.670k new babies every year since the year 2000, and this figure rises to more than 700k if we just look at the last decade. These babies need food and

clothing, and that's just the tip of an iceberg that includes everything from luxury pushchairs to baby yoga classes.

While the drivers behind volume appear robust, the evolution of market value is less clear. On the one hand, there is little evidence to suggest that the new crop of millennial parents are any less inclined to prioritise spending on their children. Indeed, one of the trends we are witnessing is the creation of the "mini-me" – the child dressed in the style of a parent – a trend that lends itself to the social media habits of the Instagram generation, and which promises a new source of growth to those retailers that can identify the most relevant lines to re-imagine for this younger audience. Mamas & Papas understands this customer group very well, and has introduced a very successful, personal shopping service, as well as Loved For Life, which refurbishes pushchairs, appealing to those who value recycling.

On the other hand, "value" has penetrated this market, which was for so long considered a sacred cow, in a way that few foresaw. Aldi has the second largest nappy brand in the country, and the supermarket seems unwilling to stop there, having introduced its own organic baby food and milk formula as well. And it is little surprise, given the runaway success of fast fashion retailers in the wider apparel market, to see that the early signs point to these same players taking increasing share in the children's segment: H&M increased its market share from 0.7% to 1.2% between 2015 and 2016.

The market continues to provide a rich source of opportunities

Whatever your views, new brands have been undeterred by the stiff competitive environment created by established players. In this paper, we include interviews with two such brands: on the apparel side, we speak to industry veteran Kate Bostock about fulfilling her long-held ambition to build her childrenswear brand, Angel & Rocket; elsewhere, we explore the growth of the charming Belle and Boo brand with co-founder Kate Shafe, considering the perennial parenting challenge of finding alternative gift options to the ubiquitous Disney franchises.

We hope you enjoy the read. If you would like to discuss our work in the sector and perspectives on its outlook, please contact me at r.fernando@pragmuk.com

Ralph Fernando
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By The Numbers

UK Baby & Children's Market Key Statistics

Global market size 2016



£158 Billion

Source: Euromonitor

UK market value 2016 (Actual)

£5.9bn

£1.4bn

Market growth per annum 2017 - 2021 (Forecast)



CLOTHING

+2.3%



FOOTWEAR

+4.4%

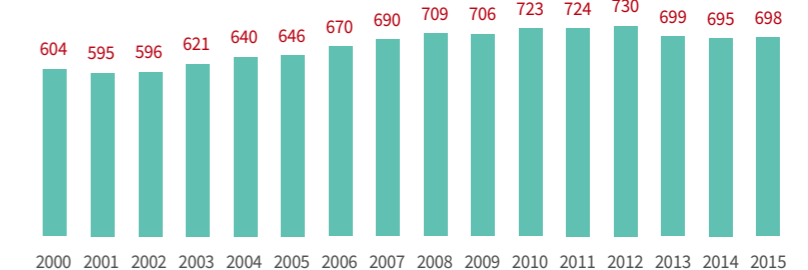
Source: Euromonitor

Average number of births per annum since 2000

More than 670,000



UK birth rate



Source: ONS

Source: ONS

Women with at least one child by the age of 30

82%



1976

68%



1986

58%



1996

52%



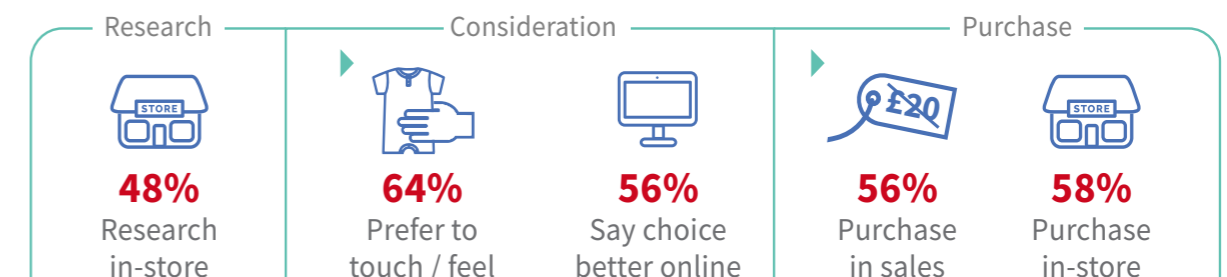
2006

52%



2016

Customer purchase journey



Source: Pragmarket

Expert Interview

Kate Shafe Owner, Belle & Boo



We're hoping to be the next Beatrix Potter

The children's market is fiercely competitive. How do you differentiate yourselves?

There are thousands of children's brands but very few become household names like Beatrix Potter or Christopher Robin. I think Belle & Boo has the opportunity to become a memorable part of childhood. Belle & Boo offers a nostalgic counterpoint. Parents are proud to put Belle & Boo up in the bedroom, to have it in the bathroom, to have the tea towel in the kitchen.

It reminds them of what it's meant to be, to be a child

And I think the other key difference is that it has relevance with every corner of the globe. Although our brand feels British, people buy from as far afield as Japan, Australia, New Zealand and then as close to home as Germany and France. 40% of our sales come from overseas.

Where did the idea for Belle & Boo come from?

The business is currently owned by myself, Mandy Sutcliffe who is the illustrator behind Belle & Boo, and my husband, Patrick. My background is in design but I was also the marketing director for a London design agency. Their key clients were Disney and Warner Brothers so I had quite a bit of experience working with characters.

There was no huge start-up investment. The business grew by word of mouth and we managed the operational side of the business from home. Eventually, we needed a bigger space so we moved to Bristol which is where we're now based. Today the brand can be found across collections of homewares, stationery, children's books, framed prints and wall stickers. We're predominantly aimed at little girls between the ages of 2 and 7. The brand does appeal to boys too, but under the age of 3.

What is the focus of your brand?

The current focus is around cute characters. Belle, a little girl, and her bunny companion, Boo. Currently we have five picture books, two craft books, five activity books and we built the world of Belle & Boo with licensing partners that are experts in their fields of china, melamine and clothing. At one point, we worked with sixteen licensing partners which in itself brings challenges, but today we work with five. To be successful at licensing you need to have mass appeal.

How do you get feedback from your customers?

We're socially active. We have 30,000 Instagram followers and 28,000 Facebook followers and people talk to us via those channels. We also do surveys but people also get in touch with us directly to say how so pleased they are to have discovered Belle & Boo.

What's the profile of your core customer?

They're all ABC1s but I would characterise them as customers that wish to break free of mass market brands and are looking for nostalgia. We classify our customers into three segments which we call Charlotte, Kirsty and Rosemary. Charlotte is the high net worth individual who's very time pressured but wants an authentic, premium product with minimal effort. Then there's Kirsty who works around school hours with the time to buy the Belle & Boo craft book and will create a beautiful Belle & Boo tent in the garden. And then we have a lot of grandparents (Rosemary) who buy from us because Mandy's artwork reminds them of the illustrations from their childhood.

Where do you see Belle & Boo going in the next few years?

We have ambition of growing our turnover to £3m. We feel we need to have more of a physical presence, which we're discussing at the moment, but we want to be much more than a shop.

We have the opportunity to offer our values in a physical space where parents can go with their children

But we also have the vision to grow more properties under the world of Belle & Boo. Mandy is currently working on a new property called the Little Dancers which is going to begin life as a book and is about five children united by their love of ballet. Interestingly we are launching that with a book deal with Pan McMillan in the US.

There are so many options available to brands these days other than opening your own stores...

Very much so. This year we are doing many more consumer shows like the Baby Show and they're enjoying having Belle & Boo on board so much that we have created Belle & Boo reading zones in the space. We bring the brand to life. Visitors go along, hear stories, see the product and the children engage and do colouring and craft. It's a low cost way to get the brand out to new customers.

Are there any other brands or retailers you admire?

Yes, most of them are quite small, probably except for Happy Jackson. I admire how they've taken a concept which appeals across the board. Then there's a brand called Lucky Boy Sunday, a really beautiful luxury knitted art toys and soft furnishings brand with very quirky characters. It's honest, with integrity. There's also an online retailer called Wicked Uncle that has totally found a gap in the market. It's aimed at the kind of man who suddenly realises that it's little Johnny's birthday and needs a last-minute gift. The site's navigation is brilliant.

Have you seen much change in the market over the time that you've been operating?

We've changed as our customer has changed and in marketing we certainly have to work harder.

I have noticed that customers are becoming less resistant to big brands

Retailers like Primark are now offering product range, quality, price and artwork in our space. And I think today children spend less and less time at home as they're off doing clubs left, right and centre so you have to remind parents more about the importance of low-tech

family-oriented playtime. So we've brought out products such as paper kit and we now have a Belle's dolls house kit, a pirate kit and dress up dolls – all products that you have to use with your child. Certain products like wall stickers have become more popular now and I think that's partly because fewer people are buying new homes and decorating has become more important.

Do you think there are things you can do to try and encourage high levels of loyalty?

We're working on a Belle & Boo kids' club. You'll sign in your child and throughout the year they will receive gifts, and parents will be rewarded when they buy from us.

Have you ever considered the bigger retailers as a route to market for your brand?

The problem we find with bigger retailers is there doesn't seem to be a connection with the buying department. If you take just a duvet and put it on a shelf with loads of



Expert Interview

Kate Shafe (continued)

other children's character brands, people don't know it well enough. It will get lost. So, Belle & Boo went into a department store with a duvet, but it sat on a shelf with no explanation about it. That's why we've been more successful in smaller independents where we can create a Belle & Boo backdrop - the story, the event.

We're trying to build a business that doesn't rely on the big retailers. We need to show that the business is successful without that channel

How many independents do you sell into at the moment?

Over 300. We're also in over 20 countries. Overseas retailers often approach us because their customers keep asking them whether they're going to stock our range.

How do you attract new customers?

We've just engaged with an agency to try and help us with social media and we're really drilling down into what customers are coming to Belle & Boo for, where else they're shopping, what they've recently put in their basket that might be similar. We've also got four baby shows planned this year. We're also looking at a programme with schools and nurseries where we can send them our books and gift bags.

What are the biggest questions facing your business?

Do we become a high-street business or do we need to look at our product range? Also, we're looking at our product mix and marketing, all the challenges that every business like us has. The one thing we have that other businesses might not is a beautiful brand that is much loved by anybody who finds it.



Ones to Watch

Industry Trends



Eco-friendliness

The developments in eco-friendly and biodegradable nappies (diapers) is spurring growth in the market, as eco-conscious millennials drive parenting ideals.

There are a number of options on the market, from biodegradable disposable nappies to reusable nappies, and hybrids in between. Effort has been put in to developing design and fit to create a reliable product, banishing the image of a loosely held together cloth nappy from years gone by.

The driver behind innovation in this product category is primarily eco-consciousness. Biodegradable nappies will now disappear in 6 years as opposed to 500 years for standard nappies. For reusable nappies, the argument is often around reducing landfill, although there is a debate about the amount of carbon emissions and water usage from the many cycles of laundry.

Interestingly, there is even a service market that has grown up around the trend. In New York, where washers and dryers are not a staple of every home, there are several delivery services, such as Diaper Kind and Nature's Premiere, that pick up dirty reusable nappies on a weekly basis for laundering.

Another driver behind eco-friendly nappies is the concern about exposing babies to unnecessary chemicals, which is often why companies in this space (such as Jessica Alba's Honest Company and Emma Bunton's Kit and Kin) have expanded into sensitive and organic skincare products. The absorbent polymers that take so long to biodegrade are also petroleum based, which many feel is too harsh to be so close to a baby's skin. While no evidence suggests that these polymers are harmful, there is a desire for entirely natural toiletries to protect sensitive skin.

Finally, and more frivolously, cloth nappies look quite cool! They are easy to co-ordinate with outfits and mark you out as an open-minded kind of parent, injecting just a little bit of fun into what can be the less glamorous side of parenting.

Ones to Watch Industry Trends (continued)

JOOLZ POSITIVE DESIGN



Create your own unique design

Choose from the Joolz Day² or Joolz Geo² models and check the available collections.



Customisation – PYO (Pick Your Own)

Another growing trend in the children's market is personalisation – from furniture and pushchair design, to services offered. As with clothing, millennial parents are pushing the boundaries of what is expected from categories previously related to 'comfort' and design. While safety and security remain top priorities for millennial parents, when it comes to furniture and pushchair purchase decisions, they are taking an increasing interest in the design and look.

Pushchairs have become a fashion statement, and a number of new companies have entered the market, with safety, quality and design at the heart of their proposition. Some companies, such as Joolz Day 2, Quinny Zap and German-engineered Teutonia, have pushed the envelope further, by putting the design process in the hands of the parents, allowing them to customise different aspects such as colour, type of chassis, wheel type, sun canopy, seat cover and pushchair handles.

Brands are delivering this through enhanced service propositions - either in person, through personal shopping services in stores or online via flexible web tools.

From Superheroes to Fashion Heroes

Childrenswear has evolved from comfort dressing to a more fashion-led proposition. Retailers across the value spectrum have invested in the 'mini-me' trend. Millennial parents with increased disposable incomes, opting for smaller family sizes and heavily influenced by celebrity trends, provide the greatest fuel for 'fashionising' childrenswear. Parents, more than ever before, want their children dressed in a manner that emulates their own style. This, coupled with the fact that children are growing up faster than before, and beginning to develop their own sense of identity at an earlier age, has led to a rejection of clothing lines featuring much-loved TV, cartoon and gaming characters.

So it hardly comes as a surprise that the competition in children's clothing is heating up. The segment which has seen a lot of activity recently is online premium wear. In 2016, Babyshop acquired Alexandalex to form the Luxury Kids Group, a premium children's retailer which is expected to turnover EUR 40 million in FY16. Farfetch has launched its childrenswear division in March 2016 and has grown from 9 brands to over 70. Last but not least, Childrensalon, the 'mom-and-pop' store in Tunbridge Wells, has become an online behemoth stocking over 280 luxury designer brands online.



Empowered Playtime

Crowdfunding and social media outrage have been the driving forces behind a new trend in children's toys that seeks to challenge large toy manufacturers' lack of inclusive toys and positive role models, particularly for girls.

While large toy manufacturers are taking some steps to update their approach (i.e. 'normal' proportioned Barbie), many feel that the steps are too slow or miss the mark, and have decided to take their own action. Kickstarter has nurtured many notable independent toymakers, connecting them directly with consumer demand.

Goldieblox began on Kickstarter, with its idea for construction sets for girls. Having far surpassed its funding goal, it has successfully grown a wide portfolio of toys and digital media that are based on the integration of storytelling and STEM (Science, Technology, Engineering and Math) principles. Similarly, Lammily Doll also started on Kickstarter, designing fashion dolls with normal human body proportions for both boys and girls, aiming to provide a positive, relatable body image. Ikuzi Dolls (also a Kickstarter baby) challenge another well-established bias in the toy industry, designing dolls to resemble all kinds of girls; ranging from dark to light brown complexion.

Other toys disrupting the 'pink aisle' are NOOKS gender-neutral dollhouses, designed in Finland and a world away from pink bows and picket fences. They are made from wood and are built as sets of interconnected modules to encourage imaginative play.

Another thing coming out of Kickstarter is much smaller, but shares similarly large societal aims. 'Larger Fears' is a children's book aiming to tackle contemporary issues of gender, race, politics and sexuality from a first-person perspective.



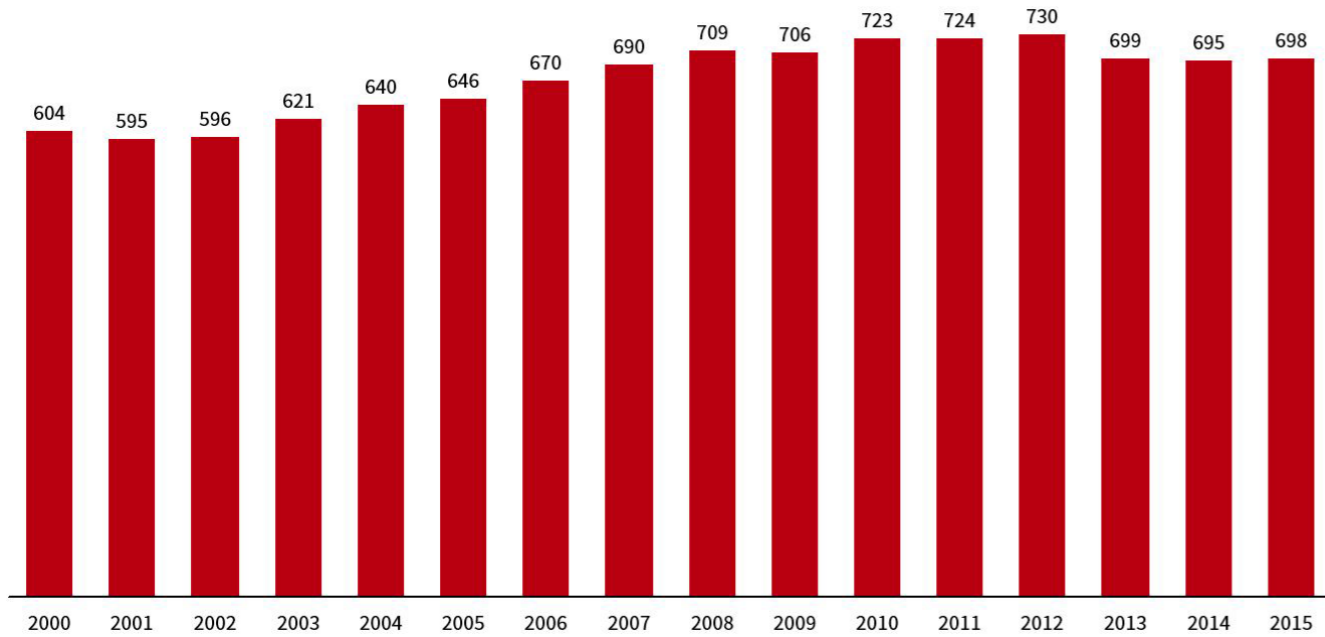
Market Trends

Supporting Data

The UK birth rate peaked in 2012 and remains steady

UK Live Births 2000-2015 (000's)

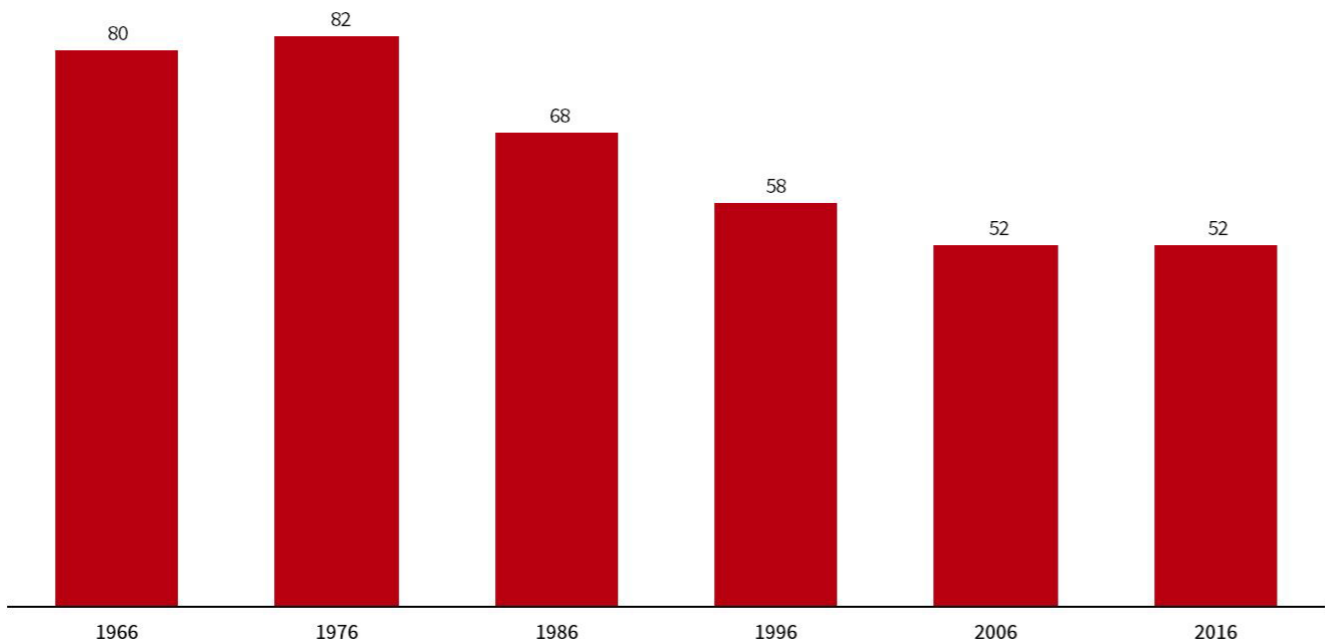
Source: ONS



Women are having children later in life

Proportion of UK Women with One Or More Children by the Age of 30 1966-2016 (%)

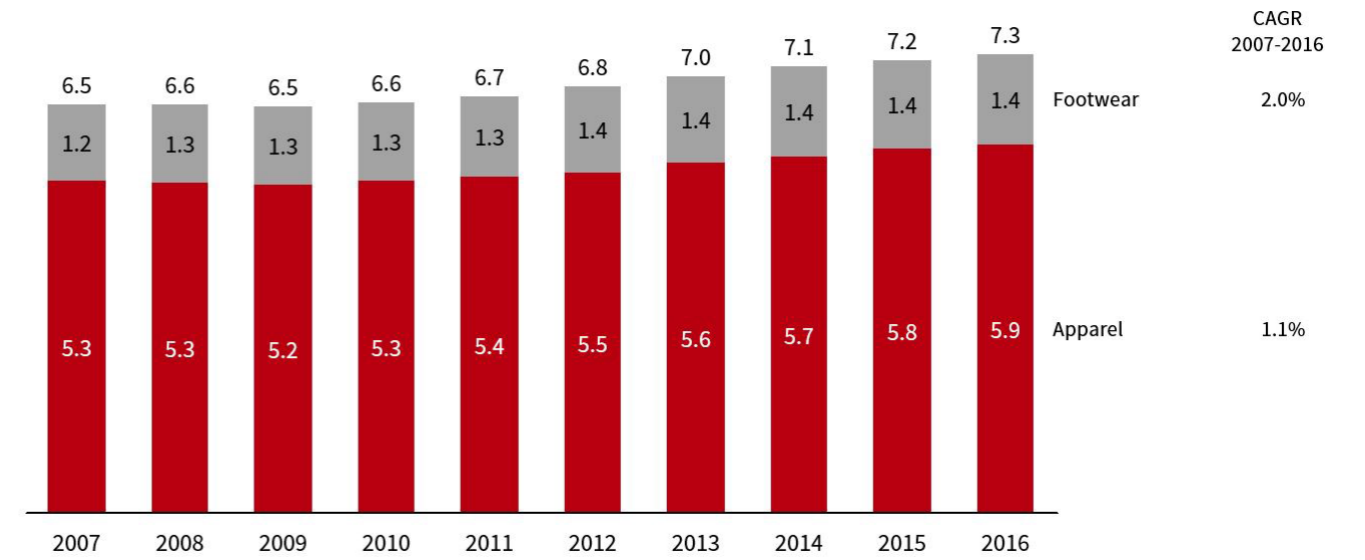
Source: ONS



The market for children's clothing has grown robustly...

UK Children's Apparel and Footwear Market 2007-2016 (£bn)

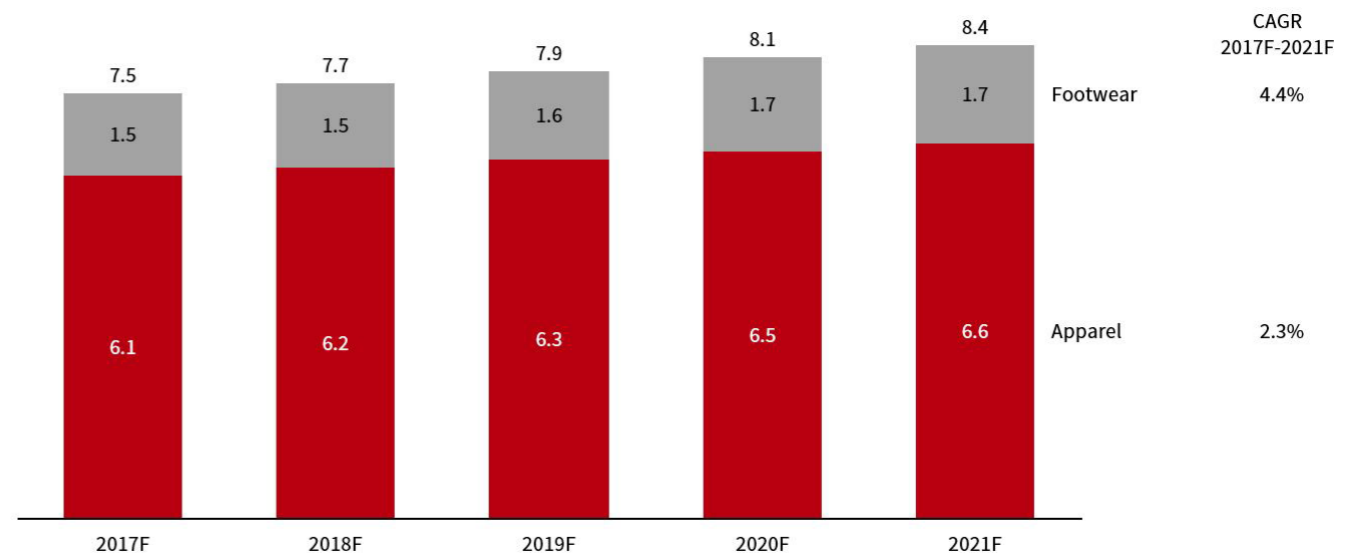
Source: Euromonitor



...and is forecast to accelerate

UK Children's Apparel and Footwear Market 2017F-2021F (£bn)

Source: Euromonitor



Expert Interview

Kate Bostock Owner, Angel & Rocket



What is the story behind Angel & Rocket?

My husband and I have strong backgrounds in retail, he in sourcing while I have been head of all clothing and general merchandise at Marks & Spencer, Head of Clothing at George and Clothing Director for Next and ASOS. When I decided to leave M&S we started our lifelong ambition to launch our own brand, Angel & Rocket. My family is all involved: my youngest son is a Designer and my eldest son is Managing Director running the Trading Business as we call it. My husband's manufacturing and sourcing business, Scantex, helps with the day to day running of the Brand, particularly on logistics and the shipping. We launched the brand for ages 3 – 10 and we introduced a baby wear range last winter.

Why did you choose to go into childrenswear?

You can have so much fun with childrenswear and that is one of the reasons why we chose it over womenswear.

It is about being different and affordable, so that the customers we are targeting not only love the brand but are happy to buy it

I am very involved with the design direction and brand personality and I have a great design team who get it! They

add their talents, always surprising me with their unique designs. I love what we do - our team work is special.

What is the essence of the Angel & Rocket brand?

People want kids to be kids; they want them to be noticed

Our brand is for kids who go places and do stuff like going to restaurants with their families and at some stage, with their friends. They travel; they go to the theatre. And therefore there is an appropriateness about how they want to dress. They are definitely quite confident children in that they want to be noticed.

Where did the name come from?

We deliberated for a number of weeks as to what to call this brand. We wanted something a little bit different and quirky. And it was actually my eldest son that came up with the two names. He was going to meet a friend in Islington one evening and he went past two pubs, one called the Angel and one called the Rocket. We get great feedback on the name. People love it.

What were the first couple of years like?

Quite challenging; buying stock and managing stock levels and making sure it was good enough. We called in a lot of favours from people we know which we are very, very grateful for. I struggle to understand how people can do it without these previous relationships. We work with manufacturers we have known throughout our careers because we trust them and we know that they are all extremely well compliant with children's standards and legislations.

In the third year it was still tough as we were still investing and not really making any money so we had to ask ourselves a few tough questions. But now we can see we are doing the right thing and there is a real appetite for the brand and we are now enjoying some profit.

Have you any interesting new plans?

We are opening a pop-up shop shortly in Marlow and we have trade fairs coming up. The brand is in John Lewis in Oxford Street and on their website. And next season we move into four more of their stores. And we have lots of other things up our sleeves that will be very interesting for us as we move forward. I feel that we are on a big platform now in terms of getting ourselves out there.

We are in around thirty stores in the Middle East. And we are also talking to a major fashion retailer about going into label and onto their website. We are also in three Morleys

stores and showing at the AIS Trade Fair in July and we are in discussion with a number of international retailers. We have been very careful to expand steadily. This is very important when you are establishing a brand, and that you find partners who are the right fit.

I have seen people get that wrong and then you are on the back foot and in those early stages you can't afford to take a backward step

What about your own website?

Our own website is trading very well right now. We have an industry champion working on its development.

It's great there is so much interest in your brand...

The brand has unique handwriting which is what people are looking for. Increasingly kids want to be different and they want to have their own style and their own individual

personality. And that is what we find works really well for Angel & Rocket.

We take a lot of our inspiration from men's and women's cat-walk trends rather than other childrenswear brands and that's what makes us different

We are very careful to not be too expensive and to really keep our prices as low as we can. Value for money is absolutely key!

When you look at pricing are there specific brands that are your reference points?

Jigsaw Junior, Ted Baker's kid's brand and Joules, as well as Next, the supermarkets and Mothercare, although we have a very, very different product. We focus on detail and put an awful lot of work into fit and construction and all of our prints are 100% unique because we design them ourselves.



Expert Interview

Kate Bostock Owner, Angel & Rocket (continued)

It sounds like you are inspired by the trends and not so much a slave to them?

In terms of the mini me trend - that's not what we do! We use lace fabrics from womenswear trends and from some of the leading designers who have re-launched lace patterns. We have been first to market with a number of things; we launched the scuba fabric that was fantastic for womenswear about three years ago and we put that into a little girl's dress. It was a beautiful print and it was the best seller in John Lewis instantly.

We have talked about the kind of child that wears your clothing. What about the parents - who is your customer?

They tend to shop brands like Whistles, Ted, White Company etc. We have also clearly got a John Lewis customer. We are high street because we actually want to grow this brand and create volume. We want it to be quite a big business and if we can offer something a bit different and a bit unique I think there is definitely a gap.

Have you seen any real changes in purchasing behaviour from the parents?

Yes, the internet has made things very, very different in terms of how people think about shopping and where they want to shop and how they want to shop and what they expect. It just keeps getting more and more exciting.

I think there is a real opportunity particularly at the moment for smaller brands with new ideas because that is what customers are looking for

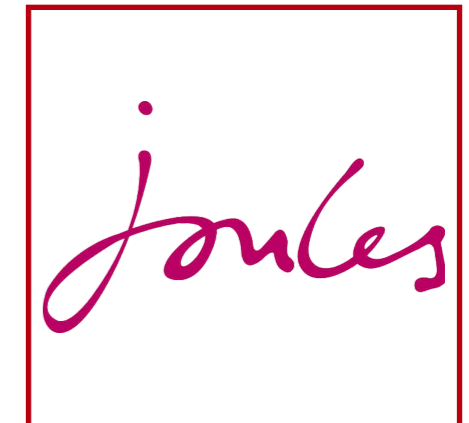
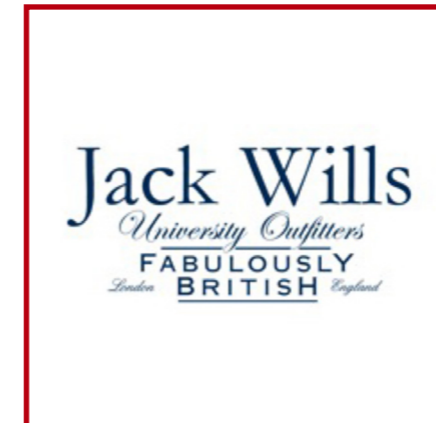
The biggest challenge is getting your brand known.

What is your ambition for the brand?

To become big and successful. I am very proud of my career to date and everything I have done and I have enjoyed it all which has been quite amazing. But I think to have something that is entirely yours that you built together as a family is so special and that is our ambition.



Who We've Worked With Baby & Children Sector



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