

**An Environmental Scan of Children's Interactive Media
from 2000 to 2002**

An executive summary prepared for
MARKLE FOUNDATION

by Just Kid Inc.

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I. Introduction and Objectives

In April 2002, the Markle Foundation commissioned an in-depth scan of the children's interactive media environment. The objectives of this scan were: (1) To create a highly strategic and practical analysis of trends, actors and forces at work in the children's interactive media space over the past 18-24 months; and, (2) To offer a better understanding of how those trends and forces are impacting the lives of children between the ages of two and twelve. The Markle Foundation intends to use this analysis to help guide its thinking on ways in which the power and growing accessibility of this dynamic new medium can be leveraged to improve children's lives.

Interactive media, for the purposes of this scan, was defined as "content intended for mass communication through a vehicle which allows for and responds to input from the audience or user." This excludes traditional media vehicles like TV, print, and outdoor, as well as interactive technologies without original content such as e-mail and two-way paging. At the heart of this analysis are kid-centric web destinations, software applications, video games, and content-rich interactive toy products used informally by children (i.e., home and other personal use). The scan does not include school- or curriculum-focused media.

II. Approach and Methods

This analysis was based on the following three bodies of information:

1. An analysis of Just Kid Inc.'s proprietary quantitative studies which provide an in-depth look at kids' behaviors and underlying emotional and psychological needs. Several customized tabulations of these data were created for the purposes of this analysis that give insight into the effects heavy interactive media consumption has on kids' behavior and emotions.
2. Extensive interviews and written reports from a wide panel of senior interactive media professionals. These interviewees provided the invaluable perspective of individuals who had been directly involved in interactive media's most notable successes and failures over the last two years and their underlying drivers (see end for a complete listing of these individuals).
3. An exhaustive literature search encompassing trade journals, published reports and studies, data sources provided by the government, publicly available sales data, and articles from the mainstream press.

Beyond the desire to ground this environmental scan in professional expertise and reliable secondary research, the most important guiding principle of the analysis was to adopt a kid perspective throughout the entire scan. It is the fundamental belief of Just Kid Inc. that the most important predictor of the success or failure of any product for kids is not the technology it employs or the size and clout of its producers or distributors. Rather, it is the degree to which the fundamental needs and desires of kids are addressed in a unique and powerful way. Consequently, the entry point of this analysis was not the technology, the platforms, or the companies that populate the kids' interactive media landscape. Instead, the scan began with an

exploration of the timeless and timely needs of two to twelve year olds. The resulting need-state model became a central lens through which the momentous developments in the interactive media landscape over the last two years were explained and evaluated.

III. Establishing a Framework for Understanding Kids

How does one get a handle on what appears to be the ever-evolving, ever-changing world of kids? Last year at this time, an animated cartoon character called Pokemon was all the rage with kids. Today, Pokemon is regarded as ancient history, and Sponge Bob Square Pants has ascended as kids' all-time favorite. Given the lightening speed of changes in kid preferences for music, television, fashion, and celebrities, evident to even the casual kid observer, can one really conclude that there is anything about kids which could be described as "timeless"?

The answer is an emphatic "yes." Research across a variety of disciplines including psychology, anthropology, and marketing clearly indicates that kids are governed by a defined set of core needs. While ways in which these needs are fulfilled may constantly change, the needs themselves do not. Furthermore, those kid products and services that recognize and effectively tap into these needs tend to be those, which achieve the most impressive marketplace success and staying power. As evidence of this, consider ever-green properties like Mickey Mouse, the Flintstones, Barbie, GI-Joe and even Scooby Doo. Each of these characters is more than thirty years old, yet each continues to demonstrate tremendous staying power with America's youth because of its ability to tap into one or more of these timeless kid needs.

We believe that understanding these timeless needs provides an invaluable tool to understanding kids as well as many of the successes and failures that have occurred in the kids' interactive media arena. What follows is an examination of four dominant themes that govern most of kids' fundamental emotional needs. Countless research studies have indicated these supersede all other (non-physical) needs.

Four Timeless Themes of Childhood

Theme 1: Attachment / Separation –a child's fluctuation between safety/dependence and exploration/independence.

People sometimes make the assumption that one of the things kids want most is to be older. This is only partially true. While most kids do, in fact, dream of the day when they will be able to do things like drive a car, fly to outer space, or have a boyfriend or girlfriend, they also express real ambivalence about other aspects of aging which are much less enticing. According to both the 2001 Nickelodeon/Yankelovich Youth Monitor and the Just Kid Inc. Kid Id study, when asked to choose between being their age or being another age (older or younger), the majority of kids and tweens choose the former (67% of the 9-11 year-olds and 61% of 6-8 year olds).

Leaving the safety and security of the home and parents who are infinitely loving and forgiving and coping with things like peer approval, school, and social acceptance are real worries for most kids. Most kids look with great trepidation and uncertainty on life as a middle or high school student. The net result of this is that most kids fluctuate continuously between the need for “attachment” to the safe, secure, familiar world of home and parents, and the far more exciting but far more risky world outside the home. This theme is clearly evident in any number of current research studies. In Just Kid Inc.’s Kid Id Study, for example, when 6-12 year-olds were asked what fun really means to them their responses included both “doing things with my family” (74%) and “having new and exciting adventures” (71%). As well, 63% of kids affirm they “always or sometimes worry about their parents getting divorced or separated,” while at the same time 68% of them “daydream a lot about being independent from grown-ups”.

Even more telling, is the timeless appeal of products and services that recognize these dueling desires for attachment and separation that so many kids have, and give them the courage and a model of how to effectively cope with it. Classic movies like *The Wizard of Oz*, popular TV shows like *The Simpsons*, and hot new releases like *The Lord of The Rings* all incorporate storylines in which the protagonist starts out in the security of home and family, has an independent adventure, and then safely returns home.

Theme #2: The Attainment of Power –the need to control one’s life and exert one’s will over people and objects

It is important to remember that most kids spend the majority of their time being told what to do and how to do it by the numerous adults and bigger kids who populate their world. They don’t have a lot of power (either physically or in terms of influence over the people and events in their world) and have no real prospect changing the situation anytime soon. The result is a deep-seeded yearning for power, and a timeless desire for things that can enhance what little power they can have over people and objects.

This need for power helps explain the timeless appeal of action figures like GI-Joe and super-heroes like Spiderman, all of which give kids a way of fantasizing about being extraordinarily powerful. It also helps explain things like kids’ love of collectibles and money, the former of which imbues a child with “the power of stuff,” and the latter of which give kids the power of getting what they want when they want it. This desire is also expressed by kids when asked what they like to do when playing games. Some 93% mention “winning”, 85% like to “create and build things,” and 82% like the idea of “organizing people or things” (Just Kid Inc. Kid Id study, 2001).

Theme #3: Social Interaction –the acquisition of social values, learning social roles, and building relationships with others.

This theme, and its ancillary needs, flows out of the anxiety most kids feel as they attempt to find their place in a world of friends and peers as well as the enormous value

kids place on these relationships. As adults, we sometimes forget how unforgiving kids can be to one another on the playground, on the phone, or even in chat rooms. One serious social slip-up can take years for a child to recover. Nonetheless, the emphasis and priority kids place on their peer group is second only to that placed on their immediate family.

The advent of a new generation of toys offering kids dozens of new opportunities for solitary pleasure (i.e., computers, video games, etc.) has done nothing to dampen this passion for person-to-person friendships and relationships. Kids still love talking on the phone, sharing secrets, and playing with others. And they use modern technology to facilitate social relationships. In fact, when asked what fun really means to them, 6-12 year-olds most frequently (86%) respond: “being with friends” (Just Kid Inc. Kid Id study, 2001).

The net of this is a timeless and irrepressible need on the part of kids for products that can either enhance the time they spend with other kids or help kids cope and surmount the enormous pressure they feel to fit in socially. Mattel’s billion-dollar Barbie brand is one example that has allowed young girls to try on new social roles without risk. As well, the enormous popularity of chat rooms – which give kids anonymous access to others anytime of day – allows kids to hone their social skills without risk of embarrassment.

Theme #4: Mastery & Learning –the drive to achieve through the attainment of skills and knowledge

Kids don’t learn because adults tell them to. They learn because they have an innate, powerful desire to do so on their own. Children report daydreaming about “being smart” more than anything else, including meeting a famous person, being popular, being good looking, being rich, falling in love, getting married, and having a boyfriend/girlfriend (Just Kid Inc. Kid Id study, 2001). Additionally, when asked what is important in their lives, the greatest numbers of kids (96%) say: “to do well in school” (Just Kid Inc. Kid Id study, 2001). Three out of four 6-11 year olds agree that “I wish there was a quicker and easier way to making myself smart” according to the 2001 Nickelodeon/Yankelovich Youth Monitor.

Products and services that facilitate kids’ ability to acquire skills and knowledge have the ability to be very popular among kids. Video games do this very well, because they constantly present kids with the challenge of a new level of mastery. They “grow” with a child as they develop and refine their skills and knowledge.

Taken as a whole, these four need-states provide an extremely powerful tool for assessing the level of kid appeal of any product, including those within the interactive media field. Given the kid-centric orientation of this environmental scan, we will be returning to these four themes throughout our analysis and asking ourselves to what extent the creators of the various winning

and losing interactive media products grounded their offerings in one or more of these need-states.

IV. Eight Meta-Trends Affecting Children's Interactive Media

The last two years have witnessed numerous changes in the kid interactive media landscape. Based on the analysis of primary and secondary data, the opinions of industry insiders that were interviewed for this scan, and the correlation of those findings with kids' needs which are so vital to the success or failure of any kid product, Just Kid Inc. offers the following eight meta-trends as a means of understanding the most profound changes in the children's interactive media space that in the past 18-24 months have been most seminal.

1. The Evaporation of Venture Capital AND Kid Marketing Dollars as a Revenue Source to the Interactive Media Industry

The diminished flow of venture capital into the interactive media arena is a vitally important trend that has had a profound impact on the industry. This loss of revenue has been well documented in financial and mainstream publications. But perhaps as or more important, and far less publicized, has been the diminished flow of marketing dollars into the interactive media arena from consumer goods companies seeking new and innovative ways of reaching kids.

In the late 90's, large portions of marketing budgets of kid brands like Froot Loops cereal and GI Joe were being directed away from traditional media like television and print and into emerging interactive kid vehicles based on the Internet. These marketing dollars were being spent in two ways. First, companies like General Mills, Kraft, and Hasbro were spending large sums of money on the creation of individual web sites for each of their major kid brands. The vision was that all a child had to do was type "Lucky Charms" into their browser, and they would be connected to a whole world of everything marshmallow. The brand relationship would be strengthened, the child would request more Lucky Charms, and sales would grow. Similarly, companies were using portions of their marketing budgets to create advertisements on other web destinations claiming to have high kid traffic. Banner ads, for instance, were thought to drive traffic to home pages and/or encourage participation in promotions and ultimately grow revenue.

Corporate advertising budget allocation for interactive advertising dramatically decreased over the last two years. For example, Kellogg spending on interactive advertising decreased from \$9 million in 1999, to \$4 million in 2000, to \$1 million in 2002. In the first quarter of 2000 the Kid Industry Group (a group of companies created by Nielsen representing various kid marketing sectors) was spending approximately \$8.8 million on Internet media. In the first quarter of 2001 that spending decreased to \$5 million, and in the first quarter of 2002, spending continued to decrease to \$4.3 million. Total expenditure on creating and sustaining kid web sites also dramatically decreased over the past two years. In 1997, General Mills had seven dedicated brand web sites; in 2002 they have none. The same is true for many of the leading manufacturers of kid products.

The two major reasons for the dramatic decline –and in some cases complete evaporation– of funding for interactive media products have been: (1) Media planners’ difficulty proving the business impact of interactive media; and, (2) Children not visiting the consumer package goods sites because of the abundance of other web destinations with far with greater appeal. From a child’s perspective, why would I go to FrootLoops.com when I could go to ZoogDisney.com or Nick.com? As a result, the perception of interactive media has undergone a fundamental shift among both buyers and sellers of kid media space. Whereas two or more years ago, interactive media was regarded as a core advertising vehicle or marketing space warranting significant financial investment, today interactive media has become: (1) a “reach extender” to a media buy of traditional vehicles; (2) a “pot sweetener” for the sellers of children’s media who want to encourage buyers to use their media services; (3) a place to support small promotional events that do not warrant traditional media; and/or (4) the first thing that is eliminated when the budget is reduced.

This reduced investment from the kid marketing community has been felt on two levels within the interactive media world. First, big and small entertainment companies offering kid-directed web destinations whose business model depended heavily on kid marketing dollars for consumer package goods are finding it difficult to turn a profit or survive. Second, a whole host of companies offering web creative and production services are struggling to make up the lost revenue of the reduced corporate investment in brand-specific web sites.

2. The Commercial Success of LeapFrog’s LeapPad

LeapFrog’s interactive storybook, LeapPad, released in 1999, was the best-selling educational toy for 2000 and 2001. It has won more than twenty industry awards. Consumers and industry experts are already well aware of the success of LeapPad in the interactive media space. What is less well documented is *why* the product has had such astonishing commercial success. Our interviews with industry experts and the kid-centric need-state model point to the following seven major reasons for LeapPad’s success:

1. LeapFrog adhered to a single purchase dynamic model with LeapPad. It is clearly a *parent-driven* children’s product designed with sensitivity to children’s needs. It avoided the pitfall many children’s products do not – trying to please both kids and parents without focusing efforts on creating one “passionate advocate” in the home.
2. LeapFrog had a superb understanding of its target’s (i.e., a parent’s) needs and addressed them with LeapPad. It focused on appeasing parents’ anxieties over their children’s academic performance and appealing to their desire to give their child a head start.
3. LeapPad had a product development path that included formative research and frequent iterative research with children. Many children’s interactive software product move from product concept to product manufacturing without conducting in-depth formative or iterative consumer research leading to products that do not appropriately address the user’s (or target’s) true needs and desires.

4. LeapPad offered a product form that matched established play patterns. Kids could use LeapPad at the same time and place as a traditional book. It did not require being connected to a computer, for instance, which violates the normal habits of the way children (and their parents) engage in reading.
5. LeapPad achieved pricing and distribution success. It was more expensive than a book, but in line with the typical price of a learning aid. The cost was not too much for a parent or grandparent to spend on giving his/her child or grandchild an academic head start. LeapPad also was not limited to the shelves of specialty retailers, but made it to the “big four”: Wal-Mart, Toys ‘R’ Us, Target, and K-Mart, making it easy for the average consumer to find. This distribution was secured in part by tapping into relationships established with the risk-averse retail buyers by a senior member of the LeapPad team during his prior tenure at Mattel and Sega.
6. There was a substantial media investment in LeapPad as well as a product migration path for the brand. LeapPad had advertising support in the form of parent-focused TV and print advertising. Additionally, LeapPad offered a product migration path in response to the recognition that kids get tired of products very rapidly and winning kid products require the up-front development of a pipeline of line extensions and product news events.
7. LeapFrog understood the power of licensed property tie-ins to increase a product’s appeal to the consumer. Given that parents were the true market target of LeapPad, LeapFrog chose to use parent-familiar properties such as Richard Scary characters and Disney’s Winnie the Pooh.

3. A Failure To Create Educational Interactive Media Products that Achieve “Must Have” Status *With Kids*

There has been “fallout” in and around the educational software market within the last 24 months. Major players in the educational software arena have faced financial difficulties. For example, LearningSmith folded in 1999, the Store of Knowledge and Zany Brainy filed for Chapter 11 bankruptcy protection and Humongous Entertainment laid off 40% of its workforce in the winter of 2001-2002. The Learning Company’s market value has gone from \$500 million several years ago to \$50 million today, and Sesame Workshop has reduced its on-line staffing from 40 persons two years ago to only four employees today.

Industry experts have offered several explanations as to why the educational software and broader “edutainment” communities are struggling. They cite: (1) the destructive effects of consolidation (e.g., small, talented boutique companies making good products being “destroyed” during acquisition, (2) computers being expensive and becoming obsolete too rapidly, (3) product development dollars going to new entities like LeapPad, and (4) limited shelf space and budget constraints making publishers of educational software afraid to innovate. This scan identified the following three additional reasons why the educational software market is not thriving, many of which stem from an inadequate understanding on the part of the industry of kids’ true needs in this marketplace segment.

- First, the novelty of interactive technology has worn off. Consumers (namely, children) are no longer impressed by the technology itself and demand bug-free, simple, high quality design and engaging interactive experiences. Many interactive software products, including educational ones, are not able to adequately meet these consumer demands.
- Second, the children's software industry has failed to recognize the true motivations and benefits that drive a child's desire to learn and how these evolve as the child gets older. In pre-school, children are quite happy learning letters, numbers, spelling, etc. But as they get older the things they want and need to learn include information on their personal interests (such as dancing or dinosaurs), social rituals, skills with can have "badge value" among their peers, and how to avoid potentially dangerous situations. Children's reasons for wanting to learn things also change over time. Parental approval and the wish to master the skills that older children possess often motivate preschoolers. During elementary school and beyond, the benefits of learning new things include social standing, power, self-esteem, personal safety, and parental and teacher approval. The continued abundance of "drill and kill" software applications targeting older kids suggests many software providers have not fully recognized and internalized these evolving needs.
- Finally, the educational software industry has failed to accurately appraise the strength of the competitive set during the times of the day that kids might use their products (i.e., after school and on weekends). After a long day at school, kids have a desire to learn on their own terms, not as educators might teach them. And they have the ability to go to Yahoo!igans and link to a fun site where they can learn about their favorite pop singers, for example. This is much more appealing to them than engaging in school-like learning.

4. Kids' Definition of the Web as a Practical Tool for Collecting Information and Enhancing Social Connections Rather than a Source of Entertainment

Kids today cite easy access to an abundance of information as the number one benefit of the Internet. The second most commonly referenced benefit of the Internet is helping people stay connected to others. Kids rarely mention entertainment as a key benefit of the Internet.

Why has the Internet continued to fade as an entertainment destination over the last two years? This scan suggests there are three key reasons. First, kids have access to other interactive media platforms that deliver a superior entertainment experience (i.e., video game consoles and handheld systems). Second, the burst of the technology bubble has left children with fewer options of entertaining web sites targeted to them. The content being developed for children's sites is most often an extension of what they see on television, rather than anything original, new or surprising. Third, the novelty of the Internet has worn off. They are no longer impressed by the presence of games on a website, for instance. Children are now using the Internet in ways that meet their needs.

None of this should suggest that kids' overall value and appreciation of the Internet is falling. On the contrary, it has become a vital, expected part of their lives. Three of the four themes of

childhood described earlier in this document are delivered through the web-based activities most frequently engaged in by kids. The mastery/learning need is met by offering children a tool to gather the information they desire. The social connection need is met by allowing children to communicate with others around the clock and around the globe. The attainment of power need is also met because children can obtain the information they want, on demand. Children are also given a voice on the Internet, a way of expressing their thoughts and feelings regarding a particular topic or event anonymously, taking the focus off their age or physical appearance.

5. A Dearth of Successful New Products Outside of the Video Game Segment

With the exception of NeoPets, there are no new destinations on the list of the top twenty web sites that children prefer in the past 18-24 months (KidSay/Just Kid Inc. TrendTracker, January 2002). Additionally, none of the dozens of interactive toys introduced in the last 18-24 months have made it onto the list of top ten selling toys (NPD, 2001). Even the video game industry's top sellers are new iterations of established titles (e.g., the Sims, Pokemon, and Mario Brothers).

Industry experts blame the recession and evaporation of venture capital funding leading to a decline in research and development as the reasons companies are not innovating and taking risks to develop successful new products. Tight shelf space, distribution bottlenecks, and the decline in consumer spending are also commonly voiced explanations for the dearth of major successes in the children's interactive media industry. Here again, however, this environmental scan identified several other less well publicized issues, many of which tie back to a fundamental lack of understanding of the needs, wants, and wishes of kids. These include the following:

- The new product concept development process is rooted in the platform/technology rather than the identification of kid needs.
- Developers have failed to understand and work within traditional play patterns.
- There is an assumption that access to a hot licensed property will translate to an automatic kid win.
- Business models that don't allow for consumer media support of the launch.
- There is limited thought on how the product will be sustained over time (e.g., a product migration path as a part of the new product development process).

6. The Decline of the Research Function within the Interactive Media Arena

According to industry experts, the type and amount of research conducted in the kids' interactive media arena varies widely by company. In general, however, all agree that child testing is not done frequently or well enough. Prior to the last two years, there was some but insufficient applied research being conducted with children to inform product design. Today, experts in the field argue that there is almost no product development research being done at all. The overall percentage of the production budget dedicated to all forms of such research is often less than 5%. When research is conducted, product managers may only look for what they want to see to keep the project on schedule and on budget. Research professionals are rarely involved in the design

process because decisions are made based on cost of goods, product margins, manufacturing issues and hitting scheduled release dates (e.g., absolutely must be on the shelf for Christmas or back-to-school).

Increasingly, companies making educational interactive media products are saving money by buying credibility in the form of a “stamp of approval” from an academic institution or individual instead of employing a full-time, in-house researcher with child and interactive design expertise. Frequently, educational interactive media toy companies also refer to existing academic research to give their product a perceived value, but most often the basic research is misinterpreted or misapplied (e.g., the “Mozart effect” which has recently been disputed as having significant effects on the development of children’s cognitive skills).

There is, however, some indication that the success of LeapFrog’s LeapPad has been a wakeup call to other companies developing interactive media for preschoolers. VTech and Fisher-Price have increased their research budgets in the last few months with a goal of doing more product development child testing with experienced researcher/designers of interactive media.

7. Accelerated Growth of the Video Game Arena and Expansion into New Platforms

In 2001, video games sales were up 43%, console sales rose 8.3% in unit sales, total sales of video games approached \$6 billion (up from \$5.4 billion in 2000, and now exceeding U.S. sales of movie tickets) and projections are for a doubling of sales by 2004 (NPD, 2001). Some 94% of all 4th - 7th graders say they often or sometimes play video games (Just Kid Inc. Kid Id study, 2001). When asked what one toy or thing they most like to play with, the top three answers for boys and girls are video game-related (KidSay/Just Kid Inc. TrendTracker, January 2002). The success of this industry is unparalleled and shows only signs of continued growth.

The drivers of this success are crucial to understand. First and foremost, all four themes of childhood are addressed with video games. The attachment/separation theme is addressed as the player is transported to another world, safely has an adventure and returns home again. The attainment of power theme is expressed as the child is imbued with super-human power to do amazing things in adventure and role-playing games. The theme of social connection is addressed with video games because kids are most often playing with others and the game facilitates the development of skills that have social currency within peer relationships. Children also experience mastery and partake in age-appropriate learning as they discover how to play a variety of games, master different moves, navigate various “worlds” and move on to a higher levels with increasing challenge.

Other important aspects of the appeal of video games are that, unlike other household electronics/media vehicles, kids do not have to share the video game console with parents. Kids know that the gaming console (or handheld device) is *theirs*; it appeals to a real sense of ownership that kids so crave. This is also appealing to parents who enjoy not having their kids dominate the family computer. Secondly, unlike software games developed to run on a PC, handheld video games have the appeal of mobility, allowing children to play anywhere there is a

TV or monitor (or handheld device) and anytime. Lastly, current and future gaming on-line means that kids will be faced with connection and timing issues. Consoles and handheld systems allow a child to play uninterrupted and without technical glitches for hours on end – another highly appealing proposition. After all, who wants to be disconnected moments before reaching the next important level after putting in so much “work”?

Developers of video games say that “the name of the game is the game.” Technology is an indispensable part of the success formula, but the final criterion of success within the industry is how much fun the game is to play and how effectively the game executes the levels of difficulty. Knowing this, the gaming industry is able to use a razorblade pricing model, meaning that they sell the base unit at a loss and make money on the actual games themselves. The industry has excellent distribution and advertising, and consumers are willing to pay for game after game because they are engaging, challenging and entertaining and have been tested for years before their introduction.

Companies creating video games have the willingness and ability to take chances because they keep a steady flow of new titles constantly coming onto the market that translates into an on-going revenue stream. The philosophy of companies making computer games is that 80% of the new releases will be variations of a tried-and-true formula (or safe bets), the other 20% must push the gaming envelope – even if the success model for those forays is not proven. While the failure rate is higher among that 20%, this risk-taking approach is also where the most revolutionary successes have been born.

The video game industry is an important industry to watch because (1) many of the kid marketers that used to invest in the Internet are moving their funds to video games for product placement and promotional tie-ins, and (2) the industry is taking revolutionary steps to modify their gaming consoles to even better meet kids’ needs. In the future young people will be able to use their consoles to compete against others around the world (using broadband access); they can already do other things like listen to music and watch DVD’s.

8. Consolidation leading to the Disappearance of the “Mavericks”

“Mavericks,” risk-takers and visionaries who were inspired by the possibilities of interactive technology became a key driving force in the inception of this industry and its most notable early achievements. These mavericks, with the assistance of venture capital funds, had the opportunity to create products, technologies, and businesses; attaining incredible wealth in the process. The mavericks were unfettered and had the ability to lead and create without the constraints and bureaucracy found in large corporations. True, they were not always the most business-savvy, and many had trouble either creating or sustaining the kind of profit margins that could allow them to compete with larger companies. But their intellectual property was in high demand and a crucial driver of innovation and growth.

What occurred over the past two years (and in some cases before) was the “consolidation” of smaller companies with major companies such as Vivendi Universal, Viacom, Hasbro and Mattel that now control the new product development process. Industry experts agree that the

bureaucratic and “better safe than sorry” attitudes which pervade many of these large corporations have made the mavericks virtually non-existent. Many are either out of business entirely or are functioning under more risk-averse conditions within larger organizations. The result is less risk-taking and less of the kind of innovation that has the potential to truly alter the present course of the interactive media category.

V. Strategic Imperatives for Developers of Interactive Media Products for Children

Taken as a whole, these eight meta-trends offer a variety of critically important lessons for future developers of interactive media products for children. Indeed, it is Just Kid’s belief that the following should be viewed as strategic imperatives which, if consistently built into a product development and commercialization path of an interactive media product, will greatly enhance its chances of in-market success. Conversely, the history of the interactive media arena over the last two years clearly indicates that exclusion of any one of these principles may become be fatal flaw from which an interactive media product or service never recovers.

1. Choose a targeting and marketing strategy and remain true to it. There are two proven targeting and purchase dynamic models in the world of kid marketing: parent-driven kid products and kid-driven kid products. A parent-driven product is one which, while ultimately intended for use by the child, gets into the house by tapping into a parental need. In the broader world of kid products, items such as medicines, main meals, personal care products, and educational products/services fall into this category. A kid-driven product is one which gets into the home through the direct influence of the child end-user. While neither model allows one to ignore kids, parent-driven products require an absolute understanding of what a parent wants for their child, which is frequently quite different from what a child would tell you they want for themselves. The kid-driven model demands a clear and precise understanding of what the child wants and seeing to it that these needs are built into the product offering with minimal regard for parental concerns (e.g., video games). One of the most common mistakes made by aspiring kid marketers is attempting to create products which aim simultaneously to satisfy kid and parents. The reason for this is that kids and parents tend to possess a very different set of values and priorities, and attempting to create a product which blends the two usually means watering down what is really important to both. The result is a product which fails to attain “must have” status with either party.

This principle is amply demonstrated in the world of kids’ interactive media over the last two years. LeapFrog’s LeapPad is a clear example of a parent-driven kid product, whereas Nintendo’s Game Boy is a clear example of a kid-driven kid product. There are also numerous examples of products which attempted to satisfy parents and kids in a single offering and failed to achieve significant commercial success. Perhaps the most notable of these was the MaMaMedia web site, which attempted to reach out to parents with its educational overtones, and kids with a promise of unlimited possibilities for self-expression. Neither took that bait, and the site failed. Regardless of the technical

platform, the last two years' experience of the kids' interactive media arena repeatedly shows the vital importance of choosing one of the two fundamental kid targeting models and resisting the temptation to blend the two.

2. Adopt an age-based segmentation model of need-state assessment. Although all kids, regardless of their age, possess a similar set of core need-states, the way in which they seek to satisfy these needs and the benefits they associate with each vary dramatically with age. A child's desire to master and learn new skills, for example, is equally powerful at the age of six and twelve. But the kinds of skills a child wants to master at these two ages, and the underlying benefits they associate with this learning, can be entirely different. This is vital concept, and one which many of the players in the interactive media arena have failed to grasp over the last two years. Many of the learning-themed software applications, for example, have grown out of the correct assumption that all kids, regardless of age, have a powerful, innate desire to learn. But what many failed to understand was *what* kids at different ages are interested in learning about. More advanced versions of the reading and numbers software applications which may sell well for a younger audience (i.e., 2-4 year olds) are not the answer. To a ten year old, obtaining knowledge and mastering skills on topics such as social interactions, personal hobbies/interests, and issues relating to their changing bodies have far more salience and interest.

The lesson moving forward is to be certain that one's search for kid needs goes beyond a general theme which applies to all kids. It is imperative that this need be calibrated to the age of the child, and that the product delivers accordingly.

3. Don't count on advertising dollars as a part of the revenue model for established or new interactive media products. Many developers of kids' interactive media products continue to build advertising dollars (primarily from consumer package goods companies) into their business models as a key pillar of their on-going revenue model. This is a mistake. After a brief period of experimentation in the early and mid-90's, corporate advertisers and marketing dollars destined for any type of interactive media vehicle have dried up considerably. This has been most pronounced in the Internet space. Corporate expenditures on things like banner ads on Nick.com have all but ceased. While there is still a considerable amount of cross-promotion through entertainment websites, very few kid advertisers are willing to pay for this service. Web-based marketing programs tend to be freebies which major media companies use as pot-sweeteners to corporate media sales on their traditional kid vehicles like TV.

Because of this, corporations and other entities seeking to create new interactive products should not count on advertising/marketing dollars from the likes of General Mills, Kraft, and Johnson & Johnson. These companies have all conducted extensive studies on the impact of interactive advertising and found it severely lacking in business building potential vs. traditional vehicles like TV and print. Either other revenue streams must be found, or entirely new advertising opportunities must be created which are sufficiently innovative and validated to spur kid consumer package goods

companies to reevaluate their growing cynicism about interactive media as an effective kid marketing tool.

4. Assess your competitive set as kids do; use a share-of-mind model not a technical platform. Many of the failures in the kids' interactive media arena over the last two years grew out of an artificially narrow definition of one's competitive set. To MaMaMedia, for example, the "competition" was other web destinations like Nick.com, Cartoon.com, and Ask Jeeves. But to a child, the "competition" to any given web-destination extends way beyond other web destinations to include an entire constellation of other entertainment options available to him/her during that "daypart". This includes hit TV shows on their favorite station, talking on the phone, listening to music, and hanging out with friends. Said another way, the average child does not come home and say to themselves "I think I'll play with some interactive media." They look across the entire spectrum of options available to them and pick the one that best fills their needs.

The implication and strategic imperative that flows out of this is that in assessing the quality and appeal of an interactive media product, it is not enough to have a "win" vs. other kid offerings within your platform. To consistently attract a large kid audience one must have a win vs. all other entertainment options a child has during the daypart. This orientation leads to a far higher success hurdle for interactive media developers to surmount. But doing so is a vital predictor of success.

5. Work within children's existing play patterns when considering the product's form and function. Numerous case studies over the last two years indicate that many in the interactive media arena believe that applying interactive technology to a given toy or product gives them permission to ignore the age-old play patterns a child associates with that product form. The recent Cindy Smart doll introduction offers an excellent example of this. Cindy Smart contains interactive technology which can help a child with their verbal, reading and math skills. Although a case can certainly be made that obtaining these skills is of real interest to a young (aged 2-5) girl, there is no evidence whatsoever that they are prepared to completely redefine the benefit structure and play-patterns of dolls developed over millennia to do so. To girls, dolls represent a toy capable of providing comfort, unconditional (albeit silent) love and support, and serving as a confidante for secrets and fantasies. Putting a circuit board into a doll is unlikely to change these habits and expectations. Contrast this to LeapFrog's LeapPad. In many ways, LeapPad functions in a way which is identical to a traditional book. Interactive technology serves only to enhance these existing patterns and benefit delivery.

The lesson to be carried forward from this is to make sure that interactive media product development grows out of a clear understanding of what kids play with and why. Once these patterns and expectations are defined, it is perfectly acceptable to use interactive technology to enhance these patterns. What tends to lead to failure is the

assumption that inclusion of interactive technology gives one the permission to reinvent the patterns.

6. Utilize formative and iterative research in the new product development process. Perhaps the most important conclusion to come out of this environmental scan is the vital importance of interactive media players adopting a stronger consumer perspective. Many of the failed products over the last two years have met this fate by focusing too much on the technology and not enough on the needs of kids. Even more worrisome, the extent to which the remaining players in this arena have institutionalized iterative kid research in new product development appears to be waning rather than expanding. It is alarming that even successful companies like LeapPad have all but eliminated the consumer research function within their organizations. And it comes as no surprise that the few segments of the kids' interactive media arena which are flourishing (e.g., video games and the Nick.com website) are also the entities which have chosen to make a consistent and substantial investment in kid research.

The strategic imperative here is for producers of kids' interactive media products to begin embracing two fundamental principles which govern all successful kid innovation. First, the most important predictor of success in the kids market is not the technology it incorporates, its marketing budget, or its access to major distribution channels. Rather, it is the extent to which the product grows out of and delivers on a documented, and powerful, kid or parent's need-state. All the advertising dollars, and the entire shelf space at Toys 'R' Us, is not a substitute for this. Second, the best way of insuring this is to establish a continuous, on-going link with kids throughout the development process. Best-in-class kid marketers like Hasbro and General Mills begin their new product development processes by placing calls to their consumer insights departments, not their engineers. And once underway, the process of product development tends to be guided by the needs of kids as revealed through interactive research. It is difficult to foresee widespread success in the kids' interactive media arena until these principles and the organizational changes it entails are embraced by a wider body of organizations than is currently the case.

7. Think long and hard before attempting to introduce a web-based entertainment property. Numerous research studies, kid traffic data from the Nielsen Net Ratings, and the consistent opinion of the industry experts we consulted in this project all clearly indicate that kids have stopped regarding web-based products as a place to be entertained. This is not to say they are not using the web. On the contrary, kid access to the web and usage frequency continues to grow dramatically. But what they are using it for is to enhance social connection (through things like e-mail and instant messaging) and to gather information they want or need (via places like Ask Jeeves, Amazon, and more specific web-destinations tied directly to a particular theme a child might find interesting). Sites created with the primary purpose of entertaining kids like Freezone, Alphie, and MaMaMedia have failed to attract consistently large numbers of kids. Even more popular web destinations like Nick.com appear to be drawing kids with features like chat rooms, national youth empowerment programs (e.g., the Kids

Choice Awards and the Big Help program) and access to other kid-salient information more than the sheer entertainment value of any location within the site.

This may all be tied to the current lack of widely available high bandwidth and the inability of entertainment companies to deliver on-line entertainment products which can compete with those which kids currently prefer (i.e., television and video games). But in the absence of wide-spread, in-home access to this level of technology, it is imperative that the interactive media industry either find entirely new ways of delivering entertainment to kids via the Internet using the hardware most kids have access to (i.e., out of date computers and dial-up connections) or focus their efforts on better delivery of the things kids are doing on the Internet... collecting needed information and enhancing social connections.

8. Give serious thought to an organizational structure geared around a target audience definition, not a technical platform. Most of the interactive media companies we examined in this analysis utilize an internal organizational structure tied to a technical or delivery platform. For example, at a number of the companies we looked at, staff and resources were divided into a TV group, a film group, a publishing group, and an interactive group. On the surface, the logic of this seems obvious. But it is interesting to note how many of the best-in-class kid marketers outside the interactive media arena have chosen an organizational structure geared around the target audience. Many of the leading food companies, for example, are organized around a kids group, a seniors group, and a teen group as opposed to a cereal group, a snacks group, and a main meals group. This is reflective of their “consumer first” mentality which is so central to all that they do. Given the widespread absence of this orientation in the interactive media arena and the critical need to move away from a platform orientation to one driven by kid need-states, adopting an organizational structure along these same lines may improve the industry’s chances for future success.
9. Make sure you have the push-pull balance right in your marketing effort. To many of the companies that were covered in this analysis, “marketing” tends to be regarded as the process of making your product visible to kids by getting it on the shelves of stores that have heavy kid and parent traffic. Without question, doing this effectively is an essential element of success for any product. If a consumer can’t find your product, they will certainly be in no position to buy it. Furthermore, the task of attaining national retail visibility at key distribution points like Wal-Mart and Toys ‘R’ Us is an enormous challenge which can and should consume significant corporate resources. However, these “push” tactics are only half of the marketing equation. Equally important is the task of creating consumer demand for the product in question. Simply being able to see an item on the shelf at Toys ‘R’ Us is no guarantee that a kid or parent will want it. So it is imperative that producers of kids’ interactive media products also compliment their “push”-oriented tactics with those designed to create consumer “pull”. This can take a variety of forms ranging from advertising to public relations programs. But trying to launch a product without it is a lot like throwing a big party without sending out any invitations in the hope that passers-by will see the festivities as they go by on the street and want to come in.

List of Whiz Kids

Warren Buckleitner Ann Orr, Ed.D. and Ellen Wolock , Ed.D.	Editor of Children's Software and Interactive Media Review Senior Editor Managing Editor
Bill Caffrey	Former Chief Technology Officer at AOL (as of February 2002)
Allison Druin, Ph.D.	Professor, Institute for Advanced Computer Studies and Department of Human Development, University of Maryland; member of VTech's board of directors; founder of CHI Kids; author of numerous books and articles on kids and the development of interactive media
Stephen Gass	Former President of Sesame Workshop online
John Geilfuss	Developer of numerous kid web sites
Melva Gofney	Director of Research and Planning: Nickelodeon Online
Mark Grayson	President of All Kinds Of Minds; former CEO of Rabbit Ears Media
Peter Levitan	CEO of Active Buddy: new venture that found a way of delivering content via burgeoning instant messaging medium
Jim Margraff	Vice-President of LeapFrog Toys
Al Nilsen	Executive Vice-President Worldwide Marketing @ Sega
Rebecca Randall	Senior Vice-President of marketing at MaMaMedia
Jodell Seagrave	Director of Schwab Learning; Formerly of communities.com and Kidstar
Karyn Silfies	Founder and President of Kid Concepts; former product developer in children's interactive toys for Mattel, LeapFrog, Galoob
Elliott Soloway	Professor in the College of Engineering, School of Information, and School of Education, University of Michigan
Erik Strommen, Ph.D.	Consultant, research and design for Microsoft, Fisher-Price and VTech

Author Bios

George Carey

George Carey is the founder of Just Kid Inc. With twenty years experience in research on children's issues, product innovation, marketing strategy, and advertising, Mr. Carey has broad experience in package goods, toys and recreations, media planning and kid media usage habits. He also has extensive experience in the children's interactive media including work with Nickelodeon, Schwab Learning, Kraft Foods, and The Centers For Disease Control. Mr. Carey is also a member of multiple children's industry advisory boards and panels.

Wynne Tryee

Wynne Tryee was a co-leader of the Environmental Scan of Children's Interactive Media project for the Markle Foundation. Ms. Tryee has several years experience as a professional qualitative researcher, moderator and ethnographer and serves as Director of all Just Kid Inc. quantitative research products. She has experience leading a wide array of children's research and strategy projects for clients such as Kraft Foods Interactive Division, Frito-Lay, General Mills, Schwab Foundation for Learning, and several state anti-tobacco initiatives.

Kristin Alexander

Kristin Alexander was a co-leader of the Environmental Scan of Children's Interactive Media project for the Markle Foundation. Dr. Alexander has been a research and design consultant in the field of children's interactive media for nearly ten years, playing a major role in the research and design of Microsoft's ActiMates Learning System, as well as LeapFrog's LeapPad, the best-selling educational toy for 2000 and 2001. Dr. Alexander has applied research findings to inform the design of award-winning interactive products across media including television, toys, books, and Internet technologies. She has published articles examining the role of research in the design of children's technology and has expertise in designing social-emotional interfaces for children's interactive media. Dr. Alexander received her Ph.D. in Developmental Psychology at the University of Illinois in Urbana-Champaign.