

LeapFrog counting on Tag reader to jump-start sales

o Mary A.C. Fallon
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When Mike Lorion pitches LeapFrog Enterprises' new Tag reading stylus (DEMO 08) during a U.S. Education Department reading conference Monday, teachers won't have to figure out how to squeeze it into their young students' limited computing time. The handheld technology reads aloud words and images by detecting invisible coordinates on popular storybook pages, and could fit into the reading-dominated curriculum taught in 800,000 U.S. pre-kindergarten to third-grade classrooms.

The federal No Child Left Behind law made preparing young students for standardized testing a national mandate. This focus might help turn the Tag™ Reading System into the rock star product LeapFrog Enterprises needs to bounce out of a four-year financial hole. While the precise infrared camera in Tag's tip and the optical dots it reads has technology pundits buzzing, veteran computer salesperson Lorion is sure "data correlation will sell it."

For the first time, LeapFrog Enterprises is connecting its learning technology to the Internet so teachers and parents can upload reading activities from a Tag stylus and see how a child's reading activities correlate to a state's reading standards. Just as people upload and download music to Apple's iPod, Tag can easily download books as audio and upload reading activity assessments.

"We're applying technology to a problem. This is not technology looking for a problem to solve," said Lorion, president of the LeapFrog SchoolHouse division, and former head of education marketing and sales first for Apple and later for Palm.

Marketing Tag this summer to parents and schools is LeapFrog's "most significant product launch" since the company was founded in 1995, company executives tell Wall Street. LeapFrog hired TBWA Chiat Day to reinvent its advertising for Tag and its new Web-connected, learning-as-games products Leapster 2 and Didj, in an attempt to re-create 2003 glory days when its famed LeapPad reading product topped US\$330 million in sales.

Whether sales of Tag or the entire product portfolio rock, LeapFrog is rolling with a strategy to snatch back the reading market.

"Reading is where most of the money is," said Lorion, who last year had to cut 60 jobs and slice his division's budget in half.

U.S. schools this year are expected to spend \$9.36 billion on curriculum materials - 73% of which pays for printed materials to teach reading, according to Simba Information, an education market analyst firm in Stamford, CT. The source of most reading money for schools is federal Title 1 funding. Tag's biggest competitor in schools isn't toys or learning devices from Fisher-Price, Vtech, Hasbro, or Mattel, but plain old books and its own aging LeapPad.

While Lorion's team evangelizes Tag to school principals and teachers as a way bump up reading scores and "move kids from learning to read to reading to learn," LeapFrog's consumer team has convinced giant retailers Tag is it. The \$49.99 green and white consumer version is now on the shelves and the store aisles coveted store end caps and the Web sites of Wal-Mart, Toys "R" Us, Target, Fred Meyer, Meijer, barnesandnoble.com, and this fall at giant discounter Costco. Tag started selling in Australia in June and is populating European retailers this month in anticipation of the critical march toward end-of-year holiday sales.

"Despite what most expect to be a difficult economic environment for consumers this year, retailers have shown us a positive reception to our new products, Leapfrog CEO and President Jeffrey G. Katz told Wall Street analysts during the company's Q1 earnings call in June." "We have purchase orders for well over half of our expected (consumer) sales volume for the year already in-house. Frankly, that has never happened at LeapFrog before. It is a good indicator of retailer support of our new line and will help us with forecasting and manufacturing planning, which is so critical in this business. It's also frankly stimulating our confidence but the hard work, marketing to consumers, remains ahead and our ultimate sales performance will only be known as that starts to accelerate in the third and fourth quarters."

The Emeryville, CA has replaced retail versions of aging LeapPad with Tag, but schools also bought many of the 30 million LeapPads sold. Now Lorion faces the same problem he did when selling Apple's computers. Schools always have tight budgets and use learning tools and materials until they break or wear out.

"LeapPad goes away for consumers, but not for schools," Lorion said. "It's like when the Macintosh computer replaced the Apple II in retail stores but it hung on in schools for another seven years."

Yet Lorion is encouraged by early Tag sales to schools. In the first three weeks of June, the company shipped 3,500 units to schools "and I had expected 5,000 for the quarter," Lorion beams. (Eight Tag pens and books cost a school about \$1,000).

Whether old LeapPads disappear faster from schools than legacy Apple II computers did will depend largely on whether parent organizations and others advocate for technology that helps teachers easily determine where individual students are on the "learning path" to reading proficiency and improved reading test scores. William B. Chiasson, LeapFrog's chief financial officer, told analysts in June that so far school districts haven't voiced concerns about unusual budget pressures.

Learning a lesson of its past problems, LeapFrog isn't totally self-reliant when it comes to creating learning games and reading tools. Instead of taking all the risk, this generation of LeapFrog learning technology products depends more on third-party book publishers and game developers.

"Almost all of our games are developed now externally," Katz said. "That's a huge shift from a year ago when almost all were developed in-house. And we are moving that way with book development as well. Next year, the majority of our Tag books will be produced by external or third parties."

Each Tag pen, which comes pre-loaded with a library of popular books and a headset, can support 99 students because each child can log in individually by touching Tag to a slick card. LeapFrog's in-house producers help book publishers determine which of 12 activities, or play patterns, like vocabulary or letter recognition, should be included in their titles.

"We help reduce the risk of making the books too complicated," Lorion said. "And we're bringing books to life in a way authors are excited about."

He expects publishers will like the increased profit margin \$14.99 Tag-enabled books generate, and estimates the school collection to grow from 16 to 100 titles in a year or two. Lorion sees room to expand the school market from books directed at 4- to 8-year-olds to books for even younger readers and possibly to adults needing help learning languages.

While LeapFrog is counting on its new Web-connected product portfolio to return it to profitability, after 20 years of teacher conferences Lorion sets modest initial sales goals. "I'd be happy to be in 10% of the schools in the first year or two," said Lorion.

DISCLOSURE: Editor Mary Fallon and LeapFrog's Mike Lorion worked together at Palm in 2001.