



## Mattel Recalls 2007

### Communication Implications for Quality Control, Outsourcing, and Consumer Relations

[ABSTRACT]

In August 2007, America's largest toy manufacturer announced the first of what would become five recalls involving 21 million toys—most of which were manufactured in China. This case study and teaching note examine a corporate response to a global crisis and consider the unique communications challenges facing a corporation that operates in an international, cross-cultural arena. The teaching note critiques the response's suitability to the level and impact of the crisis and recommends alternatives. It illustrates that communicators should be cognizant of their international stakeholders and should proactively manage global issues of public concern such as outsourcing and product safety. An example would be that to avert future recalls, Mattel should work closely with its Chinese suppliers and government agencies to implement realistic quality control solutions for which it can be held accountable. The company must reassure stakeholders that outsourcing to China does not mean sacrificing quality. Regaining consumer confidence and controlling the dissemination of product safety information requires strong corporate communicators who can delicately and deliberately balance complex relationships.

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## **1. Overview:**

During the summer and fall of 2007, international toy giant Mattel and childhood favorites Barbie® and Elmo® dominated media headlines for weeks. Reports talked not of Christmas sneak previews or of rising sales, but of recalls, lead poisoning, and deadly magnets. In total, an excess of 21 million toys were pulled from shelves in little over a month, either because they were coated in toxic lead paint or contained small, poorly designed magnets, just the right size to be swallowed by curious kids.

The voluntary recalls offered Mattel the opportunity to become a model of effective short-term crisis communication strategy. Working with the Consumer Product Safety Commission to execute the communication component of the recall at an accelerated pace, Mattel placed notifications in 20 languages on its website, sent personal letters to its entire customer database, sent letters and posters to its retailers, manned a hotline, placed full page ads in major newspapers, and worked closely with the media.

However, the CPSC's subsequent revelation that Mattel first suspected lead contamination in early June, a good two months before it announced the first of four recalls on August 4, has overshadowed much of what the company claims it did right. The disclosure calls into question Mattel's prioritization of its customer's interests and the quality of its products over its business interests. According to CPSC regulations, companies must report suspected safety issues within 24 hours of detection, although companies do not often comply. For example, in 2001, Mattel waited more than three years to announce a Power Wheels® defect. Six years later, consumers and investors may question why the company still fails to comply with federal reporting regulations and why it still lacks the processes and infrastructure to prevent such crises from recurring.

Adding to the controversy surrounding Mattel's recalls is that the products were manufactured in China, a country recently under fire for exporting contaminated products such as pet food and toothpaste. In light of this, the Mattel case provides a unique opportunity to explore quality control, product safety and reporting regulations in the context of a larger, global issue: outsourcing manufacturing to developing countries. Not only must Mattel regain the trust of consumers, investors, and regulators through transparent corporate communication and commitment to real change, but it must also regain the trust of the international community.

## **2. Company History:**

An in-depth look into Mattel's corporate history provides context for its current quality control and recall issues. This section explores the company's beginnings, products, accolades, and financial performance.

### **2.1 Beginnings**

For more than 60 years, this El Segundo, California-based company has entertained children with household brands such as Ken®, She-ra®, Tickle Me Elmo® and the Cabbage Patch Kids®. The corporation went public in 1960, listed on the New York and Pacific Coast Stock Exchange in 1963, and joined the Fortune 500 in 1965 with sales topping \$100 million.<sup>1</sup> Over the years, Mattel has acquired big-name brands such as Fisher-Price® (merger, 1993) and Tyco Toys® (merger,

1997) and obtained lucrative licensing rights to Disney® (1988) and Nickelodeon® (1996).<sup>i 2</sup>

In 1965, Mattel also entered the educational preschool toys market with the See 'N Say® talking toy. Three years later, the company launched its "World of the Young" acquisition strategy. First came Monogram Models, followed by Metaframe (pet products), Turco (playground equipment) and Ringling Brothers and Barnum & Bailey Circus. Mattel also dabbled in film.

## 2.2 Reorganization as Mattel, Inc.

In 1972, 12 years after it went public, Mattel reorganized as Mattel, Inc., a parent company with seven subsidiaries. By 1983 and after an unsuccessful foray into the electronic games market, the company reported a loss of \$394 million from its non-toy lines. In 1984, the company made the strategic decision to close all non-toy related subsidiaries, dedicating itself 100 percent to the design and manufacture of children's toys.<sup>3</sup>

## 2.3 Products

Mattel currently manufactures more than 800 million toys annually,<sup>4</sup> targeting four audiences: infant/preschoolers (26 types of toys), girls (63 types), boys (36 types) and grown-ups/parents (22 types). Brands for infants and preschoolers include Dora the Explorer® and Fisher-Price®.<sup>ii</sup> Major brands for girls include Barbie® (1959) and American Girls®.<sup>iii</sup> Boys' toys include Hotwheels® and ESPN Toys®.<sup>iv</sup>

Producing around 5,000 new toys a year,<sup>5</sup> Mattel created some of the twentieth century's biggest toy hits. When Tickle Me Elmo® hit shelves in 1996, it sold more than \$100 million in its first year and \$200 million in its second. In a 2007 ranking of holiday toys conducted by *Consumer Reports Magazine*, Mattel's Hot Wheels® Racing Timer came in the top four.<sup>6</sup> And the dolls stack up well too. The Barbie® as Princess Rosella doll, Disney's High School Musical® dolls, and Barbie Girls®—an MP3 player that links up with a virtual online world—were ranked holiday all-stars in 2007 by *Toy Wishes Magazine*.<sup>7</sup>

## 2.4 Accolades for Ethics

For more than 20 years, Mattel has incorporated social responsibility into its business practices. In 2007, *Business Ethics* magazine ranked Mattel number 92 of the top 100 Best Corporate Citizens, a list drawn from the country's largest 1,000 publicly listed companies.<sup>8</sup> The article praised Mattel for its Global Manufacturing Principles (GMP), a set of externally monitored ethical manufacturing standards first adopted in 1997. These principles require Mattel's supply chain partners to uphold its stringent standards for safe working conditions, employee health, fair wages, and environmental consciousness. To date, Mattel remains one of the only toy companies to have such checks in place.

The company also publishes an annual corporate social responsibility report for investors and claims that its product safety regulations either meet or exceed those set by the CPSC.<sup>9</sup> Likewise, Mattel prioritizes philanthropic work that benefits children. In 1978 it launched Mattel's Children's

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<sup>ii</sup> Acquisition: Aviva Sports® (1991). Licensing: Harry Potter® (2000) and Barney® (2001)

<sup>ii</sup> Also Barney®, Blues Clues®, Sesame Street® and Winnie the Pooh®.

<sup>iii</sup> Also Diva Starz®, Kelly®, Loving Family®, Kitchen Play® and Polly Pocket®.

<sup>iv</sup> Also Nickelodeon's Avatar® and Matchbox®.

Foundation, a partnership with nonprofits to fund children's projects using a percentage of pre-tax profits.<sup>10</sup>

## **2. 5 Financial Performance and Annual Report (2006)<sup>11</sup>**

As the world's largest toy manufacturer, Mattel has consistently performed well financially. From 2005 to 2006, for example, Mattel maintained the sales and profit growth depicted in Table 1:

|                                       | <b>2005</b>    | <b>2006</b>     | <b>Increase</b> |
|---------------------------------------|----------------|-----------------|-----------------|
| Net Sales                             | \$5.18 billion | \$5.65 billion  | 9 percent %     |
| Net Income                            | \$417 million  | \$592.9 million | \$175.9 million |
| Cost of Sales                         | \$2.81 billion | \$3.04 billion  | \$232.2 million |
| Product Costs                         | \$2.21 billion | \$2.42 billion  | \$204.9 million |
| Gross Profit<br>(as a % of net sales) | 45.8 percent   | 46.2 percent    | .4 percent      |

<http://www.shareholder.com/mattel/annual.cfm>, Annual Reports: 2005 and 2006

According to its 2006 annual report, Mattel plans to maintain long-term business growth by reinvigorating the Barbie® brand, maintaining growth across core brands and non-traditional brands, and implementing Lean supply chain initiatives to improve manufacturing, distribution, and sales.<sup>12</sup>

## **3. Toy Safety in the United States**

Toy safety in the United States is monitored by the CPSC. Although corporations are expected to comply with its standards and regulations, they are encouraged to adopt more stringent regulations of their own, as has Mattel. This section explores both the CPSC's standards and Mattel's independent standards.

### **3. 1 Consumer Product Safety Commission (CPSC) Standards**

Congress established the CPSC as part of the Consumer Product Safety Act in 1972. Regulating more than 5,000 consumer products ranging from lawn movers to children's toys, this independent federal agency protects the public from unreasonable injury and death.<sup>13</sup> Food, drugs, firearms, cars and motorcycles lie outside its jurisdiction. In 2007, the CPSC negotiated 472 cooperative and voluntary recalls involving almost 110 million products.<sup>14</sup> Approximately 21 million of these products were toys from Mattel.

The CPSC has many responsibilities. It develops, issues and enforces voluntary and mandatory industry standards. It can recall products and oversee repairs. It can ban consumer products proven to be so dangerous that no industry standard could realistically protect the public. The CPSC also inspects suspicious products and researches new hazards. It is responsible for communicating its findings to the media.<sup>15</sup> Using the CPSC's website or toll-free hotline, consumers can not only gather product safety information, but also report unsafe products.

Toy companies like Mattel and their foreign suppliers are expected to follow the CPSC's regulations and recall protocol. One of the most important regulations stipulates that a company must report a suspected defect or harmful product within 24 hours of discovery.<sup>16</sup> Unfortunately,

companies often ignore this regulation. For instance, Mattel failed to comply during its recall of Power Wheels® in 1998 and again with the recalls in 2007.

Other regulations are specific to substances and materials. One example of a harmful substance is lead, which can cause neurological damage, learning disabilities and hearing problems in children when ingested. To prevent such devastating consequences, the CPSC requires all American manufacturers, suppliers, importers, and retailers to abide by the provisions of the Federal Hazardous Substances Act (FHSA), which bans all children's toys containing hazardous amounts of lead.<sup>17</sup> The CPSC strengthened its guidelines in 1977 by lowering permissible lead levels from .5 percent to .06 percent to comply with the Lead Based Paint Poisoning Prevention Act.<sup>18</sup>

Other regulations apply to specific toy parts. In 1995, the CPSC applied the Child Safety Protection Act (CSPA) to all products sold in the United States.<sup>19</sup> The CSPA tightened restrictions on small parts and balls in children's toys to reduce choking deaths.

If a company disregards these guidelines, the CPSC can seek civil penalties in court. In 2007, it recovered a total of \$2.75 million in fines from companies that failed to report hazards within the 24-hour limit. Of this amount, \$975,000 was meted to Mattel alone for a defect in Fisher-Price's® Little People Animal Sounds Farm.<sup>20</sup> In 2001, Mattel paid \$1.1 million—almost half of the total fines issued in 2007—for waiting more than three years to report a Power Wheel's® fire hazard.

Many experts, including Pamela Gilbert, a former CPSC executive director, disparage the CPSC's penalties as too soft to deter large corporations from violating product safety laws.<sup>21</sup> Others add that the CPSC is weak and lacks funding to enforce its mostly voluntary regulations. Moreover, the CPSC does not have pre-market jurisdiction, which means it cannot test products before they hit stores shelves.<sup>22</sup> Under pressure to respond, Congress is deliberating to increase the maximum monetary fee that can be slapped on companies.

### **3. 2 Mattel's Independent Standards**

Despite past fines, Mattel asserts it abides by CPSC regulations and follows its own Code of Conduct and Global Manufacturing Principles.<sup>23</sup> An excerpt from its Code of Conduct on product quality and safety, adopted in 2003, reads:

"Mattel's reputation for product quality and safety is among its most valuable assets...Children's health, safety and well-being are our primary concern. We could damage our consumers' trust if we sell products that do not meet our standards. Our commitment to product quality and safety is an integral part of the design, manufacturing, testing and distribution processes. We will meet or exceed legal requirements and industry standards for product quality and safety. We strive to meet or exceed the expectations of our customers and consumers. Any compromise to product safety or quality must be immediately reported to Worldwide Quality Assurance."<sup>24</sup>

To meet this commitment, Mattel conducts periodic checks of toys pulled off production lines; new supplies, such as paint, are tested upon arrival.<sup>25</sup> Mattel has also set up testing laboratories for some of its contractors. Ironically, Mattel had built a lab for the supplier culpable in the 2007 lead paint

crisis, suggesting that, "Even with regular inspections, breaches of codes of conduct in the supply chain become almost an inevitability."<sup>26</sup>

Some toy analysts are reluctant to blame the toy giant for the lead paint crisis. "If something like this can happen to Mattel, which has some of the most stringent standards in the industry, what does that mean for the others manufacturers of such products?" argues Richard Welford of *CSR Asia Weekly*.<sup>27</sup> "The recall is particularly alarming since Mattel, known for its strict quality controls, is considered a role model in the toy industry for how it operates in China," adds the Associated Press.<sup>28</sup> In fact, just weeks before the August recalls, Mattel was one of only two toy companies to allow the *New York Times* to visit its China plants. The *New York Times* article published on July 26, 2007, commended Mattel's product safety inspection procedures, which it maintained had improved since the Power Wheels® recall.

#### **4. Issues in Outsourcing to China:**

The movement of manufacturing to developing countries such as China, where corruption is widespread and regulations are difficult to enforce, has arguably contributed to recent recall crises. This section looks at China's role as toy supplier to the world and to Mattel. It also analyzes the challenges of quality control and international communication.

#### **4.1 China as the World's Workshop**

Approximately 80 percent of toys bought in the UNITED STATES today<sup>29</sup> are manufactured in factories scattered up and down China's east coast. Although American companies may own several factories in China, writes *Atlantic Monthly* reporter James Fallows in his article "China Makes, The World Takes," they mostly commission manufacturing to local subcontractors.<sup>30</sup>

The region with the largest production capacity is Guangdong province in southeastern China. In 2005, more than 5,000 manufacturers in Guangdong exported almost USD\$12 billion in plush, electronic, and plastic toys (see Table 2). The next largest exporters are Zhejiang, Jiangsu, Shanghai, Shandong, and Fujian provinces, which collectively exported more than USD\$2.8 billion in toys that same year. Of that amount, the China Toy Association estimates that an estimated USD\$6.5 billion in toys was exported to the UNITED STATES, with Germany and Holland placing second and third (see Table 3).

**Table 2: Chinese Toy Exports 2005**

| <b>Region</b> | <b>Total # of Manufacturers</b> | <b>Main Export Category</b>               | <b>Export Value in 2005</b> |
|---------------|---------------------------------|-------------------------------------------|-----------------------------|
| Guangdong     | > 5,000                         | Plush toys, electronic toys, plastic toys | \$11.934 billion            |
| Jiangsu       | > 700                           | Plush toys                                | \$850 million               |
| Zhejiang      | > 1,000                         | Wooden toys, baby bicycles                | \$871 million               |
| Shanghai      | > 700                           | Baby bicycles, strollers                  | \$549 million               |
| Shandong      | > 550                           | Plush toys                                | \$367 million               |
| Fujian        | > 500                           | Electronic toys, plastic toys             | \$226 million               |

**Table 3: China 2006 Main Export Destinations**

Unit: USD\$

| Rank | Destination | Export value  |
|------|-------------|---------------|
| 1    | USA         | 6,553,321,398 |
| 2    | Germany     | 1,469,936,169 |
| 3    | Holland     | 1,055,340,703 |
| 4    | England     | 1,040,271,120 |
| 5    | Japan       | 718,578,989   |
| 6    | France      | 230,893,819   |
| 7    | Russia      | 216,180,371   |
| 8    | Australia   | 213,071,333   |

[http://www.toy-cta.org/en/Introduction\\_3.asp](http://www.toy-cta.org/en/Introduction_3.asp)

## 4.2 Quality Control Challenges and Implications

Controlling the quality of products manufactured overseas remains a continual problem. For example, 177 recalls in the United States post-2006 have involved products manufactured in China. This is perhaps due to challenging operational and cultural differences.

"It is not easy to find the right factory, work out the right manufacturing system, ensure the right supply of parts and raw materials, impose the right quality standard, and develop the right relationships of trust and reliability," writes Fallows. He likens the supply chain to intellectual property in importance and writes that companies that have found a good chain will not divulge it to competitors.<sup>31</sup> In an interview with the *New York Times*, Dane Chamorro, regional director of global consulting company Control Risks, says that, "The samples you get are always fantastic; but once they rope you in they can cut back. And a lot of Chinese companies will do anything to cut costs."<sup>32</sup> Andy Switky, managing director of California design firm IDEO, describes the general Chinese mentality as "happy with crappy," which makes it harder for Chinese suppliers to fully incorporate western quality control standards.<sup>33</sup>

But some experts argue that corporations cannot possibly be held 100 percent accountable for slip-ups when hundreds of suppliers and thousands of employees are involved. Others say it is impossible for a company to test every batch of toys produced. The most a company can do is pick its suppliers carefully, strengthen communication, consistently implement rigorous inspections, and threaten to cease business with companies that fail to comply.

## 4.3 Mattel's China Operations

Mattel has a long history in China, where it has manufactured toys for 25 years.<sup>34</sup> The company owns five factories<sup>35</sup> and outsources 50 percent of production to third-party manufacturers<sup>36</sup> subject to quality control inspections. Together, these factories produce 65 percent of Mattel's toys.

In recent years, Mattel has transferred a greater portion of testing responsibility to manufacturers themselves. One example is batch testing. Ten to 15 years ago, Mattel conducted the inspections itself. Now, to reduce costs, the company outsources testing to suppliers and manufacturers. But industry experts fear these contractors will cover up and cut corners.<sup>37</sup>

These experts also claim Mattel is inextricably tied to China. In a *Washington Post* article, Eric Johnson, a management professor at Dartmouth College and a specialist on the U.S.-China toy



industry, says that Mattel is "dependent on Chinese industrial capacity for its toys...They have significant investment of their own capital...and don't want to lose it."<sup>38</sup> Coupling Mattel's dependence with its plans to expand into China's lucrative consumer market, Johnson concludes Mattel has a vested interest in maintaining good relations with China.

#### **4.4 Managing International Communication**

Managing complex international relationships during calm times and crises is a key communications challenge for corporations such as Mattel. For instance, the job involves being able to "sensitize managements and host governments to the mutual benefits of multinational capital, technology, and management-skills-providing jobs."<sup>39</sup> Additionally, corporate communicators must cultivate cross-cultural relationships based on respect for equals.<sup>40</sup> They must convince host countries that their goals are not imperialist and exploitative.<sup>41</sup> And because a company's reputation may be affected by its suppliers' business practices, corporate directives should be clearly communicated to suppliers at all times.

There are several trade groups that facilitate communication between China and the West. One Chinese organization that lobbies the Chinese government on toy industry interests is The China Toy Association, which works with the China National Standard Committee to revise toy safety standards, maintains communication with international media, and organizes international toy fairs and trade shows. The Toy Industry Association (TIA) likewise mediates conflict between China and its Western partners during times of crisis, while tactfully asserting the need for change, as it did during a toy safety conference held in Guangzhou, China, on November 15, 2007.

Industry experts claim both Chinese and American companies must increase collaboration. But ultimately American importers are responsible for the quality of imported goods.<sup>v</sup>

### **5. Mattel's Recall History:**

Of the three billion toys sold in the United States each year, less than one percent is recalled.<sup>42</sup> But even just one recall can be incredibly damaging. It harms a company through lost sales, damaged reputation, diversion of resources, costly customer support, and the threat and expense of litigation.<sup>43</sup> It is clearly a crisis to avoid. Yet in spite of quality control efforts, Mattel has suffered 36 recalls since 1998 and two formal CPSC admonishments.<sup>44</sup> This section reviews Mattel's most controversial recall prior to 2007.

#### **5.1 Power Wheels® Product Recall 1998-2001**

The Power Wheels® crisis began in 1995 when parents began filing consumer complaints with the CPSC.<sup>vi</sup> In total, parents reported 71 accidents involving faulty brakes, 116 fires due to faulty electrical wiring, and 1,800 incidents of overheating, short-circuiting, or melting. Nine children suffered burn injuries.<sup>45</sup> In response, the CPSC independently investigated the ride-on toy vehicle from 1995 to 1998. The inquiry revealed that the affected models were manufactured as early as 1986, and although Mattel was aware of complaints, it neglected to file a CPSC report for more than three years.<sup>46</sup>

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<sup>v</sup> Statement made by Erin Ennis, vice president of the U.S.-China Business Council.

<sup>vi</sup> Mattel acquired Power Wheels from Kransco in 1994. The faulty products were on the market as early as 1984.

Even after the CPSC stepped in, Mattel was uncooperative and refused to admit any wrongdoing. Anne Brown, the CPSC's then chairwoman, told the *Wall Street Journal* that, "They didn't want to do a recall...It took way too long."<sup>47</sup> And Pamela Gilbert, the CPSC's executive director at the time, added that, "Mattel was uncooperative in giving key documents over to them during the investigation."<sup>48</sup> In the end, the CPSC forced Mattel to implement a recall; however, the toymaker continued to blame consumers who it claimed improperly used or tampered with the toys.<sup>49</sup> Mattel also strongly stated that the 24-hour reporting regulation was unreasonable and that it preferred to conduct an internal investigation before reporting to the public.<sup>50</sup>

## **6. The Competitive Environment and Competitor Recalls:**

Though less than one percent of toys manufactured per year are ever recalled, a high profile recall can result in industry-wide profit loss; this means that competitors are likewise affected.<sup>51</sup> This section first overviews the American toy industry and then examines three of Mattel's competitors.

### **6.1 Toy Industry Overview**

In the United States alone, approximately three billion toys are sold per year,<sup>52</sup> amounting to an estimated USD\$22 billion<sup>53</sup> in annual sales. And these numbers are growing. According to Table 4, annual toy sales for the period of July 2006 to June 2007 rose to USD\$22.5 billion dollars from USD\$22.1 billion the previous year.

**Table 4: State of the Toy Industry: 05-06 and 06-07:**

| <b>Category</b>                | <b>July '05-<br/>June'06 (USD)</b> | <b>July '06-June<br/>'07 (USD)</b> | <b>%<br/>change</b> |
|--------------------------------|------------------------------------|------------------------------------|---------------------|
| Action figures and accessories | 1.3 billion                        | 1.2 billion                        | -7                  |
| Arts & Crafts                  | 2.5 billion                        | 2.7 billion                        | 8                   |
| Building Sets                  | 686.8 million                      | 684.3 million                      | 0                   |
| Dolls                          | 2.7 billion                        | 2.7 billion                        | 1                   |
| Games and Puzzles              | 2.4 billion                        | 2.4 billion                        | 0                   |
| Infant/Preschool               | 3.2 billion                        | 3.3 billion                        | 4                   |
| Youth Electronics              | 962.1 million                      | 1.1 billion                        | 17                  |
| Outdoor & Sports Toys          | 2.9 billion                        | 2.8 billion                        | -5                  |
| Plush                          | 1.3 billion                        | 1.4 billion                        | 3                   |
| Vehicles                       | 2.0 billion                        | 2.2 billion                        | 9                   |
| All other Toys                 | 2.1 billion                        | 2.0 billion                        | -4                  |
| <b>TOTAL</b>                   | <b>USD 22.1 billion</b>            | <b>USD 22.5 billion</b>            | <b>2</b>            |

"State of the Industry Report," [http://www.toyassociation.org/AM/Template.cfm?Section=Industry\\_Statistics](http://www.toyassociation.org/AM/Template.cfm?Section=Industry_Statistics), accessed November 26, 2007, sourced from The NPD Group / Consumer Panel Tracking

## 6.2 MGA, Hasbro, and JAKKS

In addition to Mattel, heavyweights in the toy industry include MGA Entertainment, Hasbro, Inc., JAKKS Pacific, Inc., Bandai, Lego, and Leap Frog. The first three are major competitors of Mattel's who also struggle with recalls and the challenges of operating a socially responsible business.

MGA is perhaps most well known for its sassy, street-savvy Bratz™ dolls, one of Barbie®'s biggest rivals. "Barbie has taken a tumble from her pedestal," reports the *International Herald Tribune*. "Once thought of as unbeatable in the doll market, Mattel's Barbie has been kicked to the curb this season by its big-lipped, big-headed competitor: Bratz dolls...These urban dolls with their up-to-the-minute fashion accessories and their ephemeral cool factor are becoming must-haves for girls this year." The journal quotes Sharon Korbeck, editorial director of *Toy Shop Magazine*, who adds, "They are very edgy. Barbie will never be edgy."<sup>54</sup>

Hasbro and Mattel share many similarities. For instance, Hasbro owns numerous brands—117 in total—including Milton Bradley®, Parker Brothers®, G.I. Joe®, and i-Dog®.<sup>55</sup> Similarly, the toymaker's corporate communications emphasize ethics and environmental awareness. On its website for example, Hasbro asserts that over the past seven years it has reduced greenhouse gas emissions at its U.S. facilities by 39 percent and has begun recycling 84 percent of generated waste at its 31 international locations.<sup>56</sup> To monitor corporate social responsibility and its business in Asia, Hasbro established a committee to review the company's transparency, environmental stewardship, and Far East Code of Conduct.<sup>57</sup> It also monitors its vendors to ensure factories comply with international workplace fairness and product safety regulations.<sup>58</sup> In 1993, the company implemented Global Business Ethics Principles. It is also a founding member of the International Council of Toy Industries CARE program.

Like Mattel, Hasbro is also prone to recalls. Since 1990, it has experienced 21 recalls (compared to Mattel having 36 since 1998), all of which are posted on its website.<sup>59</sup> Most recalls resulted from poor design features (e.g. Playskool® Klackeroo's choking hazard), risk of impact injuries (e.g. Super Soaker Monster Rocket), and food allergies (e.g. milk, wheat, and eggs in EASY-BAKE ovens). None were attributed to shortcuts in the manufacturing process.

A third competitor is JAKKS Pacific Co. This top-five toy company has manufactured children's toys, games, and leisure products since 1995.<sup>vii</sup> Its 17 product categories include action figures, water toys, sports toys, dolls, and role-play toys. Its brands include Play Along® and Flying Colors®.<sup>60</sup> JAKKS Pacific also licenses products from Disney and Nickelodeon.<sup>viii</sup>

Unlike Mattel, all of JAKKS Pacific's products are manufactured overseas, where the Hong Kong division, JAKKS Pacific, Ltd, oversees production.<sup>61</sup> However, a search of its website revealed little information about outsourcing practices and recall history. Moreover, there is no dedicated recall page. Only by searching the CPSC website for recalls by company does one find three recent incidences: one in July 2002, one in July 2002, and one February 2007.<sup>62</sup>

## 6.3 Financial Impacts on Competitors

A recall affects not only the culpable corporation's stock prices, but also the industry as a whole. For example, during the worst of Mattel's recalls in 2007, Hasbro's and JAKKS Pacific's

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<sup>vii</sup> And from 2000 to 2002, Forbes magazine ranked JAKKS a top 200 small U.S. company.

<sup>viii</sup> Also, Creative Designs International™ and Road Champs®

stock prices dropped as well.<sup>ix63</sup> Fortunately, both companies managed to bounce back, with closing prices on December 31 at \$25.58 and \$23.61,<sup>x</sup> and both outperformed Mattel in 2007.

## **7. Mattel Product Recalls 2007:**

The previous five sections provide context for Mattel’s four voluntary recalls that began in August 2007 just weeks after American toymaker RC2 recalled 1.5 million toy trains coated in toxic Chinese lead paint. Adding to the controversy was that fact that all of Mattel’s recalled products, like RC2’s, were manufactured in China. Knowing it had to act fast, Mattel partnered with its old adversary, the CPSC, to implement a global crisis communication campaign. This section outlines the strengths and weaknesses of Mattel’s communications strategy and also the responses of its affected publics, such as competitors, investors, parents, and the government.

### **7.1 Recall Timeline**

To understand Mattel’s communications strategy, it is helpful to review the events that transpired during the recall period. According to Table 5 below, the recalls started in August and continued into November, just in time for the holidays. As the holiday season is the most lucrative for toy companies, the third and fourth quarters of each fiscal year usually bring in the most sales.<sup>64</sup> Therefore, a fast and transparent corporate response was imperative.

**Table 5: Recall Timeline June-November 2007**

| <b>Date</b>  | <b>Event</b>                                                                                                                                                   |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| June 8       | Mattel is first alerted to possible lead paint contamination.                                                                                                  |
| June 9       | The CPSC deadline for Mattel to report the problem.                                                                                                            |
| June 10      | CPSC deadline passes; Mattel fails to act.                                                                                                                     |
| July 26      | Mattel files full recall report with CPSC.                                                                                                                     |
| August 2     | Mattel voluntarily recalls 1.5 million Fisher-Price® toys that are supposedly coated in paint containing dangerously high levels of lead.                      |
| August 7     | Mattel identifies a Chinese factory as the source of the contamination scandal.                                                                                |
| August 14    | Mattel voluntarily recalls a further 17.4 million products containing loose magnets easy for children to swallow (Mattel Play Sets and Barbie® Doll & Tanner). |
| September 4  | Mattel voluntarily recalls another 850,000 toys due to lead paint contamination (Barbie® Accessory Sets, It's a Big Big World™ and GeoTrax™ Engines).          |
| September 11 | CEO Robert A. Eckert publishes an opinion statement in the <i>Wall Street Journal</i> .                                                                        |
| September 21 | Mattel's Vice President Thomas Debrowski apologizes to China for blaming Chinese suppliers for the Mattel recalls.                                             |
| October 25   | Mattel voluntary recalls Go Diego Go!™ Rescue Boats coated in paint containing hazardous levels of lead.                                                       |
| November 6   | Mattel voluntarily recalls 155,000 Laugh & Learn™ and Learning Kitchen™ toys, manufactured in Mexico, due to a choking hazard.                                 |

<sup>ix</sup> Mattel's stock dropped as much as 25 percent during the worst of the recalls.

<sup>x</sup> Mattel’s stock value closed at \$19.04 on December 31.

## 7.2 Mattel's Response: Successful External Communication

On July 26, 2007 Mattel issued an official recall report to the CPSC. The regulatory agency agreed to help the toymaker alert the public. Together, they implemented the CPSC's "fast track" program<sup>65</sup> to communicate with parents and retailers using a mix of print, electronic and new media. The tactics are outlined in Table 6:

**Table 6: "Fast Track" Tactics**

| Mattel's "Fast Track" Recall Tactics |                                                                                                                                                              |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1                                    | Staffed its call center, created a CPSC-approved script                                                                                                      |
| 2                                    | Created a recall portion of its website                                                                                                                      |
| 3                                    | Sent notifications and posters to retailers                                                                                                                  |
| 4                                    | Gave retailers advance notice of recall so they could remove products from shelves even before logistics of recall had been finalized                        |
| 5                                    | Sent news releases to media                                                                                                                                  |
| 6                                    | Started a toll-free, multi-lingual interactive voice response phone line to assist callers to determine if their product is an affected one                  |
| 7                                    | Launched a web-based recall identification tool on its website in more than 20 languages.                                                                    |
| 8                                    | CEO video posted on website                                                                                                                                  |
| 9                                    | Allowed customers to register a product for recall online or over the phone                                                                                  |
| 10                                   | Mailed recall notification letters to customers who were in their customer relations database due to past recalls                                            |
| 11                                   | Ran full page ads in newspapers on August 14 and September 5: USA Today, The New York Times, The Los Angeles Times, The Chicago Tribune, the Washington Post |
| 12                                   | Conducted print, online and television satellite interview                                                                                                   |
| 13                                   | Posted ads on websites frequented by parents, such as Yahoo!, Disney, Nickelodeon, and The Cartoon Network                                                   |
| 14                                   | Offered customers prepaid postage labels so that they could return the products                                                                              |
| 15                                   | Compensate customers with vouchers equal to or greater than the retail price plus tax                                                                        |

As online communications facilitate quick and controlled corporate responses, Mattel's website played a leading tactical role. For example, the company posted a video of CEO Robert Eckert addressing parental concerns over the safety of Mattel's products.<sup>66</sup> His comments reinforced several key points.

1. He stressed the company's *commitment to children*. Eckert said, "Nothing is more important than the safety of children...we are confident our toys are the safest ever."
2. He emphasized the company's *dedication to open communication* with the public. "There's always room to be better...we are communicating frequently and openly."
3. He *assuaged parents' fears* over the company's inspections systems, saying that, "All paint must be tested before it is used on toys, no exceptions. We've significantly increased testing and unannounced inspections at every stage of production...we are testing every production run of finished toys to ensure compliance before they reach consumers."
4. He then *praised Mattel's new three-point check system*, which he claimed had been followed by other toy companies.

5. Finally, he *reported* that Mattel had had *no further lead paint problems*, claiming success for the tighter inspection systems implemented after the August crisis.

Recurring themes included trust and child safety. Eckert personally thanked parents for putting trust in Mattel and reiterates that child safety is Mattel's number one priority.

The website also answered parent questions in a section called "What We're Doing and What You Need to Know." Queries such as "Are toys safe for the holidays?" and "How can I trust that Mattel's products are safe?" reinforced the themes of safety, commitment, and trust stressed in Eckert's video. A new topic that arose was parental self-efficacy, for example "What can I do, as a parent, to ensure my child's safety?"<sup>67</sup> A page titled "Tips for Safe Toys This Holiday" guided holiday buying. What Mattel noticeably did not do, as it did during the Power Wheels® incident, was place blame on consumers.<sup>68</sup>

### 7.3 Mattel's Response: Internal Reorganization

Besides executing an external information blitz, Mattel reorganized internal operations to emphasize commitment to product safety. In the weeks following the recalls, Mattel established a **corporate responsibility division** to report to Eckert. The group, consisting of 500 employees worldwide, would monitor domestic and international vendor and manufacturer adherence to Mattel's toy safety standards. Eckert also announced a new **Product Integrity Policy and Audit**, "a function that will combine an internal audit organization and an independent audit organization to monitor Mattel and vendor facilities' compliance with Mattel's product integrity standards."<sup>69</sup> The company also instituted a **three-point safety check system**:

1. Mattel will only use paint from certified suppliers. Every single batch of paint at every single vendor will be tested. Paint that doesn't pass will be discarded without exception.
2. Mattel will increase unannounced testing and inspections at every stage of the manufacturing process.
3. Mattel will test finished toys from every single production run to ensure they meet accepted lead levels before being shipped to stores.<sup>70</sup>

Eckert attested to this system's success in an opinion piece he published in the New York Times:

Mattel is conducting a thorough investigation, combing through our products to ensure that we identify and recall any product affected by lead paint, no matter how tiny the area...For example, we identified lead paint on the headlights of a three-inch train car - and we recalled it. If there is a needle in the proverbial haystack, we aim to find it. I encourage other companies to do the same."<sup>71</sup>

To reinforce this commitment, Mattel plans to apply American standards of lead toxicity levels to European Union countries, even if local EU standards are not as high.<sup>72</sup>

Analysts remain upbeat about Mattel's future. In a research report from the Bank of America, analyst Michael Savner estimates the total cost of the recalls at an "insignificant" USD\$24 million. Others predict that as Mattel advertises tighter testing regulations, parents will continue to buy its toys.<sup>73</sup> For example, though approximately 2.4 million defective Polly Pocket™ dolls were recalled in November 2006, Polly Pocket™ sales did not fall. The brand weathered on, and Mattel

even expanded the line.<sup>74</sup> And if other toy companies disclose similar defects during the next few months, Mattel might be praised for getting the word out first.<sup>75</sup>

### 7.4 Mattel's Response: Shortcomings

Mattel’s successful responses do not completely deflect its errors. Firstly, the toymaker has on several occasions failed to comply with CPSC reporting requirements. Though Mattel was alerted to the Fisher-Price® paint contamination on June 8, it did not file a full report with the CPSC until July 26, more than a month and a half later.

Secondly, critics accuse the toymaker of expending a disproportionate amount of effort on preserving its reputation. For example, subsequent reports revealed that Mattel misled publics to believe its Chinese suppliers and manufacturers were responsible for both the lead paint *and* the magnets, when in fact the magnet hazard was an internal Mattel design flaw. This blame-shifting backfired as China retaliated, and on September 21 Mattel's executive vice president for world-wide operations admitted to China's product safety chief that the magnet recall should not have been associated with China; he also apologized to Chinese consumers.<sup>76</sup> Critics claim such pandering to corporate interests exposes excessive investment in public relations and the bottom line.

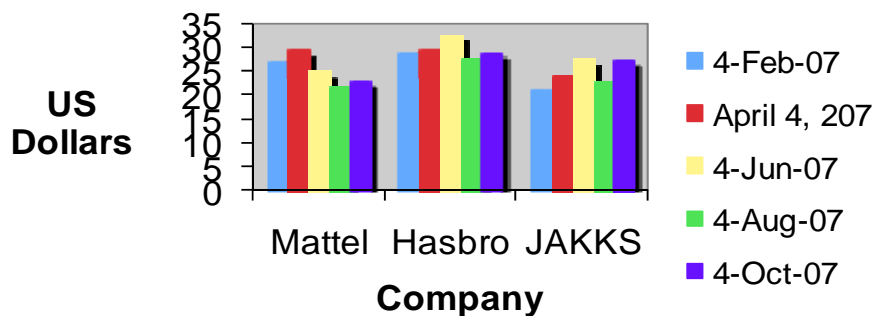
A third area where Mattel could improve is compensation. "Mattel is offering equivalent value coupons good for other Mattel products in exchange for recalled products. Given the inconvenience caused to consumers and the need to motivate them to return the affected products, this offer may not be sufficient,"<sup>77</sup> says John Quelch, a senior associate dean at the Harvard Business School.

### 7.5 Competitor Response

Due to a growing consumer backlash against toys manufactured in China, the toy industry as a whole suffered during Mattel's recall crises (see Chart 7<sup>xi</sup>). As a result, Mattel's forward-thinking competitors made their operations more transparent.

According to the chart, Hasbro's stock steadily gained value between January and July 2007, only to drop in August<sup>78</sup>—right when Mattel's recalls began. Between August and November, Hasbro's stock prices slowly recovered, with third quarter net revenues still up 18 percent compared

**Chart 7. Stock Prices 2007**



<sup>xi</sup> Data compiled from corporate websites: Mattel, JAKKS, and Hasbro.

with the third quarter of 2006 (USD\$1,039.1 million).<sup>79</sup> However, prices dipped again when Mattel announced its fifth recall on November 6, 2007. On November 6, Hasbro closed at USD\$28.46; between November 7 and 9 it dropped to USD\$25.96.

Like Mattel and Hasbro, JAKKS Pacific experienced a drop in stock prices in early August. Fortunately performance slowly rose in the third quarter and even remained stable during Mattel's November recalls. The company's third quarter report for 2007 showed a net income of USD\$47.3 million compared to USD\$40.5 million the year before.<sup>80</sup>

In response to Mattel's lead paint crisis, Hasbro implemented a question-and-answer page on its website. The questions addressed consumer concerns regarding offshore manufacturing and product safety. For example, one question highlighted Hasbro's safety and quality control checks and its independent, third party testing of all products imported from China. Hasbro also increased the number of unannounced checks imposed on Chinese factories and products before they are delivered to U.S. retailers.<sup>81</sup> JAKKS Pacific's website, on the other hand, failed to address consumer concerns about its Chinese manufacturers.

## 7.6 Industry Response

Industry groups responded to the crises by providing stakeholders with objective toy safety analysis. They also facilitated international communication and pushed for legislative change. "Our analysis of what had happened was that our toy safety standards were excellent, as they had been for years; but that the toy safety testing and inspection process had failed us," said Carter Keithley, president of TIA. "The U.S. toy industry has been very pleased with its China based manufacturers for many years. The errors that resulted in lead paint and other hazardous materials being used on children's products were the acts and omissions of a very few," which he said did not reflect the standards maintained by the "vast majority" of their manufacturers.<sup>82</sup>

To cater to consumer concerns, the TIA's website posted the slogan, "Toy safety is our top priority, year-round." For the 2007 holiday season, the group offered extra services to parents, such as a new website ([www.toyinfo.org](http://www.toyinfo.org)) and a toll-free hotline (1-888-88-4TOYS), both of which provided safety tips, advice from experts, and objective recall information.

Members of the toy industry also collaborated with the Chinese government's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) to force tighter testing protocols on Chinese manufacturers.<sup>83</sup> For example, on November 15, 2007, the TIA and the Chinese government co-hosted a toy safety conference in Guangzhou, China. Representatives from almost 300 Chinese toy manufacturers attended.<sup>xii</sup> At the conference, the TIA proposed a "conformity assessment" program to guarantee that all toys entering the United States are "in compliance with strengthened U.S. safety standards."<sup>84</sup> The projected program would include the following measures:

- Creating new procedures with the American National Standards Institute (ANSI) for sampling and testing products as they come off the production lines.
- Developing criteria to accredit testing laboratories or inspecting organizations. Only the accredited will be qualified to perform the above-mentioned conformity testing procedures.
- Drafting federal legislation that requires all toys sold in the United States to pass the revised tests to ensure they conform to safety standards.<sup>85</sup>

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<sup>xii</sup> It should be noted that there are thousands of toy manufacturers operating in China.



Industry analysts<sup>xiii</sup> said it was imperative to act immediately. If toy companies did not enforce rigorous standards then, we would expect to see more frequent recalls in the future.

### 7.7 Investor Response

Unsurprisingly, the recalls shook investor confidence, as evidenced by the company's gradually decreasing stock price during the recall period. In August, for example, Mattel's stock price continued a downward trend that had begun as early as July. The price then slowly rose in September, even after the September 4 recall was disclosed, only to later drop again (See Table 8).

In addition, a large pension fund filed a shareholder's suit against Mattel in October 2007, alleging that the company's board of directors and executives purposely delayed announcements in order to sell as many faulty products as possible and to artificially increase stock shares. They claimed that company insiders dumped shares to increase profits in the months leading up to the recall, as share prices dropped 20 percent immediately after.<sup>86</sup>

**Table 8: Mattel Stock Prices 2007**



### 7.8 Watchdog Response

The lead paint predicament extends beyond children's toys to products like jewelry and furniture. After the recalls, several groups including the Ecology Center and the Center for Health, Environment and Justice tested 1,200 children's products and found that 35 percent contained lead, while only 20 percent contained no lead. Tracey Easthope, director of the Ecology Center's Environmental Health Project, said that lead levels in 17 percent of the children's products tested would likely trigger a recall. Jewelry products rather than toys most often contained high levels of lead.<sup>87</sup>

<sup>xiii</sup> Here, Gerrick Johnson of BMO Capital Markets.

## **7.9 Parent/Consumer Response**

According to a 2007 Harris Poll, the recalls could hurt the 2007 holiday toy market. For example, an increased number of American consumers reported being wary of products manufactured in China. One-third said that they would likely buy fewer toys in December 2007, while 45 percent said they would outright avoid toys manufactured in China. Sixty-eight percent of consumers who had been directly affected by the recalls said they would also avoid toys manufactured in China during the holiday season.<sup>88</sup>

## **7.10 Government Response**

In the wake of the year's recalls, the United States government elevated the importance of product safety. This was evidenced by a string of congressional hearings (at which Mattel's leadership has testified) and the fact that Speaker of the House Nancy Pelosi called for the resignation of the U.S. Product Safety regulator in November 2007. The outcome of such activities could mean stricter regulations for toymakers.

For instance, on September 12, 2007, Eckert appeared before the Senate Appropriations Committee to defend Mattel's outsourcing of manufacturing to countries like China. At issue was not just Mattel's three recent recalls, but that 177 products from China have been recalled since 2006, a staggering number compared to Taiwan (12) and Mexico (6). Senator Sam Brownback argued that American consumers and legislators were fed up with defective products. Though Mattel claimed it had strict safety inspection procedures, Brownback harangued the company for willingly choosing to manufacture in a country known for low standards and corruption.<sup>89</sup>

On September 20, 2007, both the CPSC and Mattel testified at a House Energy and Commerce Committee hearing investigating lead-tainted children's toys and product recalls. Testimonies are expected to guide lawmakers in discussing tighter import and export regulations.<sup>90</sup> At the hearing, Mattel was chastised by lawmakers. The CPSC will also investigate Mattel to determine whether it should levy fines against the toymaker.

Regulations born from these deliberations could include federally mandated inspections conducted by outside parties and higher penalties for those that fail to comply. Surprisingly, the regulations may receive a warm reception from the affected companies. Industry sources cited by ABC found that Mattel and Hasbro would actually support more stringent regulations enforced by an independent, international regulatory body.<sup>91</sup>

## **8. Current Dilemma:**

In the aftermath of Mattel's repeat recalls and failure to comply with CPSC reporting requirements, Mattel has been criticized for putting the bottom line ahead of customer safety. Parents are wary of toy quality and reportedly less likely to purchase toys manufactured in China during the 2007 holiday season. Working closely with its Chinese suppliers and government agencies operating within the toy industry, Mattel is focusing on realistic quality control solutions for which it can be held accountable. The company faces challenges such as reassuring the public that outsourcing to China is not a high-risk manufacturing move, and that Chinese suppliers and the Chinese government are likewise willing to cooperate. Regaining consumer confidence and controlling the dissemination of product safety information requires strong corporate communicators who can delicately and deliberately balance supplier, customer, governmental, media, and investor relationships.

## Appendix I

**An opinion statement written by Robert A. Eckert and published in the Sept. 11, 2007 issue of the *Wall Street Journal*.**

[http://www.mattel.com/message\\_from\\_ceo.html](http://www.mattel.com/message_from_ceo.html)

What is going on at Mattel? I've heard this question many times over the course of the past few weeks as we've conducted three voluntary recalls of products, due to impermissible levels of lead in paint. I've heard from concerned parents, employees, my neighbors, former colleagues and even my own children. I think just about everyone knows we've had recalls. That's good. It means we have achieved our main goal of successfully communicating widely and openly with our many constituents.

Media coverage of the recalls, overall, has been helpful in spreading the news to consumers. Unfortunately, in some cases, opinions have been attributed to me that I've never held, let alone expressed. More seriously, the character of Mattel has been maligned. We've even been accused of being "unapologetic" by the very same newspaper in which we ran full-page ads apologizing. I apologize again.

I want to make clear where I stand and look forward to doing the same before Congress. I fully support the U.S. Consumer Products Safety Commission and the vital work that it does. We have worked closely and respectfully with the CPSC throughout this difficult period, and I applaud their prompt actions and professionalism.

As a father of four, I am intimately aware of the expectations of parents - they want safe toys, and they want assurances that those toys have been tested to make sure that they're safe. Currently, lead paint is topmost on parents' minds. I want parents to be assured that we are taking action.

To complement our many existing safeguards, we have implemented a strengthened three-stage safety check system to prevent lead in paint. First, we require that only paint from certified suppliers be used and that every single batch of paint at every single vendor be tested. If it doesn't pass, it doesn't get used. No exceptions. Second, we have significantly increased testing and unannounced inspections at every stage of the production process. Finally, finished toys from every production run must be tested for lead to ensure they are safe before reaching store shelves.

Mattel is conducting a thorough investigation, combing through our products to ensure that we identify and recall any product affected by lead paint, no matter how tiny the area. The level of detail in our findings is indicative of how intensively we are searching. For example, we identified lead paint on the headlights of a three-inch train car - and we recalled it. If there is a needle in the proverbial haystack, we aim to find it. I encourage other companies to do the same.

Our toys are overwhelmingly safe. To date, our lead-related recalls of toys produced in the past 12 months represent less than half of 1 percent of our production. I'd rather the number was zero.

As we continue our lead paint testing, it's possible that we could find more items that have parts that may not meet our specifications. Obviously, I hope we don't find anything else. But if we find any

issue, no matter how small, we will work closely with authorities world-wide to inform consumers quickly and take prompt corrective action.

There has been quite a lot of talk about toy testing in past weeks. I also want to talk about this test of Mattel as an organization, and what people can expect from us moving forward. It is my sincere pledge that we will face this challenge with integrity and reaffirm that we will do the right thing. We will embrace this test of our company and the opportunity to become better.

When I was a young man growing up in suburban Chicago, my father encouraged me to earn his trust through my actions rather than just talk about what I was going to do. Today, I tell my children "deeds, not words."

And it is on this principle that Mattel will move forward. We will earn back your trust with our deeds, not just with our words.

## Appendix II

For Immediate Release

**Contact: Mattel Corporate Communications**

310-252-4705

corporate.communications@mattel.com

**Media Statement – September 21, 2007**

Some reports of Mattel's meeting today with Chinese officials have been mischaracterized.

Since Mattel toys are sold the world over, Mattel apologized to the Chinese today just as it has wherever its toys are sold.

The U.S. Congress has focused its inquiry on lead paint, given its long history of interest in that issue. Mattel has told the Chinese, as we did the U.S. Congress, the lead-related recalls arose because a minority of manufacturers did not follow the company's rules. In fact, Chinese officials have informed Mattel they are pursuing criminal charges against several individuals connected with at least one of those manufacturers.

Mattel informed the U.S. House Energy and Commerce Committee in a letter dated September 5th (available on the Committee's website), "The magnet-related recalls account for roughly 11.7 million of the recalled toys shipped to retailers in the U.S. The magnet-related recalls do not involve lead paint or manufacturing failures by Mattel or its vendors, including vendors in China." The magnet recall was a result of Mattel having adopted a new design standard for securing magnets in toys and retroactively applying that higher standard. To the extent that the Chinese were criticized for magnet-related recalls, Mattel apologized.

Mattel has always believed and publicly stated that our toys must be safe regardless of where they are produced or by whom.

The complete text of Mattel's written statement in China earlier today is posted below.

## Appendix III

September 21, 2007

### PRESS STATEMENT OF MATTEL

Mattel is committed to working with the Chinese Government and manufacturers to promote and improve the safety of toys and other consumer products. Safety of toys is a matter of critical importance to Mattel, whether they are made in China or elsewhere around the world. Mattel has enjoyed a very successful partnership with manufacturers in China for 25 years.

Mattel produces approximately 800 million toys annually. Out of these, less than 0.3% were recalled because of impermissible levels of lead contained in the paint and approximately 0.5% of the toys produced from 2003 to 2006 were recalled as a result of magnets which could become loose. The toys recalled worldwide in relation to magnet issues were 17.4 million pieces, and the toys recalled in connection with impermissible levels of lead in paint were 2.2 million pieces. The magnet related recalls were due to emerging issues concerning design and this has nothing to do with whether the toys were manufactured in China. Mattel does not hold Chinese manufacturers responsible for the design in relation to the recalled magnet toys. Mattel has since changed the relevant design in January this year to effectively lock in the small magnets in the toys so that they cannot be easily detached.

Mattel is committed to applying the highest standards of safety for its products. Consistent with this, Mattel's lead-related recalls were overly inclusive, including toys that may not have had lead in paint in excess of the U.S. standards. Subsequent testing indicated that some of the recalled toys did not fail the U.S. standards. Mattel also applied the same high standards to recalls of its products in the EU and other countries despite the fact that some of these products may have met local safety standards.

## Appendix IV

### SCCT Crisis Response Strategies<sup>92</sup>

1. Deny Strategies:
  - a. Attack the accuser: Crisis manager confronts the person or group claiming something is wrong with the organization. "The organization threatened to sue the people who claim a crisis occurred."
  - b. Denial: Crisis manager asserts that there is no crisis. "The organization said that no crisis event occurred."
  - c. Scapegoat: Crisis manager blames some person or group outside the organization for the crisis. "The organization blamed the supplier for the crisis."
2. Diminish Strategies
  - a. Excuse: Crisis manager minimizes organizational responsibility by denying intent to do harm and/or claiming inability to control the events that triggered the crisis. "The organization said it did not intend for the crisis to occur and that accidents happen as part of the operation of any organization."
  - b. Justification: Crisis manager minimizes the perceived damage cause by the crisis. "The organization said the damage and injuries from the crisis were very minor."
3. Rebuild Strategies:
  - a. Compensation: Crisis manager offers money or other gifts to victims. "The organization offered money and products as compensation."
  - b. Apology: Crisis manager indicates the organization takes full responsibility for the crisis and asks stakeholders for forgiveness. "The organization publicly accepted full responsibility for the crisis and asked stakeholders to forgive the mistake."
4. Reinforcing Strategies:
  - a. Bolstering: Tell stakeholders about the past good works of the organization: "The organization restated its recent work to improve K-12 education."
  - b. Ingratiation: Crisis manager praises stakeholders: "The organization thanked stakeholders for their help."

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- <sup>1</sup> Company History, [http://www.mattel.com/about\\_us/history](http://www.mattel.com/about_us/history), accessed November 17, 2007
- <sup>2</sup> Ibid.
- <sup>3</sup> Ibid.
- <sup>4</sup> Media Statement, September 21, 2007, <http://www.shareholder.com/mattel/downloads/09-21-07%20China%20Meeting%20Media%20Statement.pdf>, accessed November 29, 2007
- <sup>5</sup> Barboza, David. "Toymaking in China, Mattel's Way," *New York Times*, July 19, 2007, <http://www.nytimes.com/2007/07/26/business/26toy.html>
- <sup>6</sup> "Hot Toys 2007," November 2007, <http://www.consumerreports.org/cro/babies-kids/resource-center/shopping/hot-toys-2007/overview/hot-toys-2007-ov.htm>, accessed on November 29, 2007
- <sup>7</sup> "Toy Wishes Holiday 2007 All Stars," *Toy Wishes Magazine*, <http://www.toywishes.com/new08/pr/Tw07AllStarrelease.pdf>
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- <sup>9</sup> Corporate Social Responsibility, [http://www.mattel.com/about\\_us/Corp\\_Responsibility](http://www.mattel.com/about_us/Corp_Responsibility)
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- <sup>11</sup> Corporate Information, Hasbro, <http://phx.corporate-ir.net/phoenix.zhtml?c=68329&p=irol-news>
- <sup>12</sup> Ibid.
- <sup>13</sup> "Who We Are, What We Do," <http://www.cpsc.gov/pr/whoweare.html>, accessed on November 4, 2007
- <sup>14</sup> "2007 Performance and Accountability Report," <http://www.cpsc.gov/2007par.pdf>
- <sup>15</sup> "Who We Are, What We Do," <http://www.cpsc.gov/pr/whoweare.html>, accessed on November 4, 2007
- <sup>16</sup> Section 15 (b) of the Consumer Product Safety Act, <http://www.cpsc.gov/businfo/unreg.html>
- <sup>17</sup> "Guidance for Lead in Consumer Products," <http://www.cpsc.gov/businfo/leadguid.html>
- <sup>18</sup> "CPSC Announces Final Ban On Lead-Containing Paint," September 2, 1997, <http://www.cpsc.gov/CPSCPUB/PREREL/prhtml77/77096.html>, accessed on November 4, 2007
- <sup>19</sup> "For Kids' Sake: Think Toy Safety," <http://www.cpsc.gov/CPSCPUB/PUBS/281.html>
- <sup>20</sup> O'Donnell, Jayne, "Mattel Recalls More Toys For Lead," *USA Today*, September 4, 2007, [http://www.usatoday.com/money/industries/manufacturing/2007-09-04-mattel-toy-recall-lead\\_N.htm](http://www.usatoday.com/money/industries/manufacturing/2007-09-04-mattel-toy-recall-lead_N.htm)
- <sup>21</sup> Ibid.



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<sup>22</sup>Kavilanz, Parija B., "Blame U.S. Companies for Bad Chinese Goods," *CNNmoney.com*, August 14, 2007, [http://money.cnn.com/2007/08/14/news/companies/china\\_recalls/index.htm](http://money.cnn.com/2007/08/14/news/companies/china_recalls/index.htm)

<sup>23</sup> "About Us, Product Safety," [http://www.mattel.com/about\\_us/Corp\\_Responsibility/cr\\_productsafety.asp](http://www.mattel.com/about_us/Corp_Responsibility/cr_productsafety.asp)

<sup>24</sup> "Code of Conduct," [http://www.mattel.com/about\\_us/Corp\\_Governance/ethics.asp](http://www.mattel.com/about_us/Corp_Governance/ethics.asp)

<sup>25</sup> Barboza, David, "Toymaking in China, Mattel's Way," *New York Times*, July 26, 2007, <http://www.nytimes.com/2007/07/26/business/26toy.html>, accessed on November 11, 2007

<sup>26</sup> "The Stories Behind the Mattel Recall," *CSR ASia Weekly*, Vol.3 Week 32, August 8, 2007, <http://www.csr-asia.com/upload/csrsiaweeklyvol3week32.pdf>

<sup>27</sup> Ibid.

<sup>28</sup> Associated Press, "Fisher Price recalls 1M toys," *CNN.com*, August 1, 2007, <http://edition.cnn.com/2007/US/08/01/toy.recall.ap/index.html>

<sup>29</sup> "The Stories Behind the Mattel Recall," *CSR Asia Weekly*, Vol.3 Week 32, August 8, 2007, <http://www.csr-asia.com/upload/csrsiaweeklyvol3week32.pdf>

<sup>30</sup> Fallows, James, "China Makes, The World Takes," *The Atlantic Monthly*, July/Aug 2007, pg 48-72.

<sup>31</sup> Ibid.

<sup>32</sup> Barboza, David, "Toymaking in China, Mattel's Way," *New York Times*, July 26, 2007, <http://www.nytimes.com/2007/07/26/business/26toy.html>, accessed on November 11, 2007

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