

Mattel Recalls 2007



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

2007 Product Recalls

- **Products Recalled Include:**

- Thomas the Tank
- Pet food
- Toothpaste
- Mattel toys



- **These Recalls Have Created Concern Over:**

- Toy safety and product safety
- Quality control when outsourcing to China
- Toy safety inspection processes

Why Choose Mattel?

The Barbie logo is written in a pink, cursive font with a small 'TM' trademark symbol at the end.

- **Five Recalls in 2007:**
 - Involved over 21 million toys, most made in China
 - Due to lead paint, poorly designed magnets
- **Top Toy Company:**
 - Manufactures over 800 million toys annually (Disney, Harry Potter, Fisher Price, Barbie)
- **Made in China:**
 - 65 percent of its toys are manufactured in China
 - Owns 5 Chinese factories
- **Toy Inspection Systems:**
 - “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.” - AP
- **Socially Responsible:**
 - 1997: Global Manufacturing Principles - ethical standards at factories
 - 2007 Top 100 Best Corporate Citizens (Mattel #92)



CPSC Toy Safety Standards

- The CPSC is a federal agency that monitors the safety of 5,000 products.
- Suggests standards. Companies are expected to comply.
- The CPSC can inspect, monitor, prosecute and fine, but its budget is limited.
- **Key regulation:** companies must report a defect/recall within 24 hours of discovery.
- **Key regulation:** stipulates legal lead toxicity levels



Mattel's Safety Standards

Mattel's website states that:

- *“Children’s health, safety and well-being are our primary concern.”*
- *“We could damage our consumer’s trust if we sell products that do not meet our standards.”*
- *“We will meet or exceed legal requirements and industry standards for product quality and safety.”*

Outsourcing to China

- **The Chinese Toy Industry:**
 - 80 percent of U.S. toys are made in China
 - \$6.5 billion in toys are exported to the U.S. from China annually
 - 65 percent of Mattel's toys are made in China
- **Quality Control Challenges Unique to China:**
 - Supply chain likened to “intellectual property.”
 - Chinese “happy with crappy” mentality
- **China Recalls:**
 - 177 recalls since 2006 were of products made in China



Out-sourcing to China (cont)

- **Inspections:**

- Mattel often outsources “batch testing” to factories themselves
- Mattel helps contractors build inspection facilities.
- Reality: can’t check all



General Recall Facts

3 billion toys are sold per year in the U.S.
< 1% are recalled

- **Recall Effects:**
 - lost sales, damaged reputation, diversion of resources, increased customer support, threat and expense of litigation
- **Mattel's Rep:** 36 recalls since 1998



Recall Information
Lead Paint Violation Recall

Power Wheels Recall: 1998-2001

- Involved 10 million ride-on toy vehicles: Fires, electrical malfunctions
- CPSC mandated the recall after conducting inspections from '95 to '98
- Mattel was “investigating,” but didn’t comply with the 24-hour CPSC regulation
- Mattel said CPSC timeline “unreasonable.” Needed to conduct an internal investigation first.
- Fined \$1.1 million by CPSC in 2001



Mattel Recall Timeline 2007

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.
Aug. 14	Mattel voluntarily recalls 17.4 mill products with loose magnets.
Sept. 4	Mattel voluntarily recalls 850,000 toys with lead paint.
Oct. 25	Mattel voluntary recalls Go Diego Go! Rescue Boats coated in paint containing hazardous levels of lead.
Nov. 6	Mattel voluntarily recalls 155,000 toys manufactured in Mexico because of choking hazards.

Mattel's Recall Tactics

- **The Good:**

- Worked with the CPSC to launch an external media blitz
- CEO Eckert apologized to parents in a video posted on website
- New Corporate Responsibility organization
- New three-point safety check system

- **The Bad:**

- Delayed reporting to the CPSC: 1.5 months
- Prematurely shifted blame to China



Mattel's Response Explained: SCCT

- **What is SCCT?**

- Each crisis is unique and requires a unique response

- **How do you apply SCCT?**

- Assess the reputational threat of a particular crisis and apply the appropriate response strategies:
 - “Victim” - low reputational threat (*Use denial strategy*)
 - “Accidental” - moderate reputational threat (*Use diminishing strategy*)
 - “Preventable” - high reputational threat (*Use rebuilding strategy*)

Applying SCCT to Mattel

Recalls were a preventable crisis:
requires *rebuilding* strategies

- **The Good:**

- Mortification: The CEO publicly apologized on television and online
- Compensation: Mattel offered coupons
- Mattel highlighted its stringent inspection process and how it will improve going forward

- **The Bad:**

- Denial tactic: shifted blame to China
- Diminishing tactic: said media and government overly magnified the crisis

Discussion Questions

- Assume that Mattel's crisis is high level and requires "rebuilding" strategy. Did Mattel appropriately apply this strategy? If not, what should it have done differently?
- How can Mattel redirect negative media attention to ensure the recall crisis turns into a competitive advantage?
- Suppose that in 2008 a Mattel manufacturer operating in China is found to be using lead paint. How should Mattel respond from a corporate crisis communication standpoint?

Mattel's Response Explained: Issues Management

- **What is issues management?**
 - An issue is a phenomenon or trend that gains a public's attention and directly involves an organization
 - E.g. human rights or environmental sustainability
 - Can be political, social, regulatory or legislative
 - Can be potential, emerging, current, crisis and dormant level
 - Current and crisis issues place the most strain on a corporation
 - Issues managers constantly scan the environment to anticipate issues-driven crises before they break.
 - Often, corporate communicators will intervene in an issue during the potential or emerging stage

Strategically Handling an Issue

To prevent a circulating issue from becoming a crisis, corporate communicators should:

- Assess the worst that could go wrong and become the most visible
- Assess which issues would make the corporation most vulnerable and which are most urgent
- Write questions, answers and resolutions for every possible crisis scenario
- Plan what to do and what to say during the first critical hours following the start of a crisis
- Have a strategy to contain and counteract
- Influence issue-related policy in favor of the company

Mattel's Issue: Quality Control

Environmental scanning reveals that *quality control* and *outsourcing* are crucial issues. Why?

- Recalls have existed as a toy company shortcoming for decades.
- As companies move manufacturing abroad, the media, lobbyists and consumer groups have focused increasing attention on quality control.
- 60 percent of the recalls in 2007 were of products manufactured in China.
- The melamine pet food and toothpaste contamination crises in spring 2007 heightened concern over food and drugs manufactured in China.

Discussion Questions

- Has this issue been building over a long period of time?
- Did Mattel learn from past mistakes, like its handling of the Power Wheels recall? Considering its history, was Mattel's 2007 communications plan for a quality control/product safety crisis adequate?
- To avoid repeat recalls, how should Mattel handle outsourcing issues? How should it manage Chinese suppliers and contractors?



External Responses

- **Competitors:**
 - Stocks dropped, too
 - Recall and toy safety Q&A pages
 - Increased the frequency and rigor of safety checks
- **Investors:**
 - Stock value dropping
 - Lawsuits, allegations of failure to disclose recall in timely manner
- **Industry Organizations:**
 - Post additional safety info on web
 - Hotlines
 - TIA conference with Chinese toymakers in Guangzhou
 - Accreditation criteria for inspection labs
 - Facilitate int'l comm
 - Lobby for federal legislation



External Responses (cont)

- **Parents:**

- 33% will buy fewer toys this holiday
- 45% will avoid toys manufactured in China
- 68% of parents affected by recalls will avoid toys manufactured in China



- **Government:**

- Senate Appropriations Committee hearing
- House Energy and Commerce Committee hearing
- Both aim to legislate tighter restrictions on imported goods
- Global policing body
- Pelosi calls for resignation of U.S. Product Safety Regulator

Page Principle: Tell the Truth

- Mattel adapts its definition of truthfulness to match its interests at a given moment.
- By waiting over a month to make a potential toy hazard public, Mattel evaded the truth.
- Some investors suspect the reporting delay was meant to falsely bolster stock shares.
- Framed communication to make China appear culpable for the magnet recalls in order to minimize reputational damage.
- On the other hand, posting news releases and video interviews on its website kept publics informed and created a degree of transparency and honesty.

Page Principle: Prove it with Action

- Mattel has pledged action:
 - A corporate responsibility department
 - a revamped safety audit system run by third party inspectors
 - a three-point safety check system
- Now it must follow through
- Holding periodic action evaluations are recommended
- Evaluations should be made public

Page Principle: Listen to the Customer

- Mattel should improve two-way, interpersonal communication with two key customers:
 - parents
 - shopkeepers/retailers
- Corporate communication campaigns should increase interaction with consumers online: chat rooms, message boards, social media.
- Shopkeepers have the most face-to-face contact with consumers. Mattel should equip them to answer consumer questions comprehensively and accurately.

Page Principle: Manage for Tomorrow

To plan for tomorrow, Mattel should:

- Anticipate future crises by scanning domestic and international consumer watch groups and industry websites.
- Understand domestic and international markets. Be ready to circumvent any safety related issues that are brewing.
- Ensure that each country receives products held to the same safety standards. Sub-standard products should not be dumped on developing markets.
- Generate goodwill with its international customers. Understand cultural nuances.
- Ensure that *every single one* of its factories worldwide implements the three-step safety check process.

Page Principle: Conduct PR as if the Whole Company Depends on It

- An in-house communications team oversaw all communication during the recalls.
- The team consulted experts from WS (web services), AOR and localized public relations agencies operating in international markets.
- Upper management played a visible role. CEO Robert Eckert appeared on television and the website and gave media interviews.

Page Principle: A Company's True Character is Expressed by Its People

Actions in good times and bad should convey the company's character:

- Management--Eckert expressed Mattel's emphasis on family when he spoke to parents from his perspective as a father.
- Toy retailers--Can communicate Mattel's character during a crisis.
- Suppliers--Mattel should extend its corporate culture to its suppliers, demanding the same standards both at home and overseas.

Page Principle: Remain Calm, Patient and Good-Humored

- Mattel prematurely placed disproportionate blame on Chinese manufacturers.
- Mattel appeared defensive and fearful.
- In reality, by exposing flaws and coming clean early on, Mattel may fare better than its competitors.
- The panic may shift to the industry as a whole, and to other toymakers, thus alleviating Mattel's public scrutiny.

Mattel's Communication Challenges

1. To reassure parents that child safety and product safety come before the bottom line.
2. To collaborate with Chinese suppliers and government agencies to adopt realistic quality control solutions for which it can be held accountable. To communicate these actions to its stakeholders.
3. To improve international, cross-cultural communication.
4. To delicately and deliberately manage and balance its supplier, customer, governmental, media and investor relationships.