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Mattel Case

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Executive Summary

Mattel is the largest toy company according revenue in the world. It was founded on 1945, and its produce includes Fisher Price, Barbie and so on. However, the company recalled millions of toys because of the potential problems with the toys made in China. The problems were the damage color paint that exceeds the Federal limit and the strong small magnets. Those problems could be a potential damage to children.

By the end of 2007, Mattel had recalled more than 21 million toys from 43 international markets. Costs were estimated more than \$20m, and the stock price fell 30% in five months by December 2007. The costs include direct cost and indirect cost.

Because of those problems, Mattel met two different issues: dangerous production methods among its suppliers in China, and potential hazards from its own design flaws. How to deal with the issues is very important for the trust and trustworthiness.

However, Mattel has been praised for its handling of the failure, notably for its prompt and efficient immediate response. The sales of Mattel grew 6% in the end of 2007 and seem that the recall crisis did not damage too much of the company's reputation.

Meantime, what they seemed to do particularly well was alert consumers promptly and clearly, as well as engaging openly and candidly with the media. Unusually, they took part of the blame themselves and apologized – a statement of integrity all the more courageous, given the threat of law suits (several have been filed). This honest and contrite stance has been widely commended as refreshing and genuinely responsible.

Company Overview

The company with the philosophy is to become “the world’s premier toy brands --- today and tomorrow.” Mattel Company is the largest toy developing company which is engaged in designing, manufacturing and selling of toys and family products across the world.

Matson and Elliot Handler have founded the company in 1944. From their names the company got its name “Mattel”. It is headquartered in El Segundo, California and the company has 27,000 employees¹.

Products

Mattel Company develops and markets its toy in US market through its three divisions:

- a) Mattel Girls & Boys Brands
- b) US Fisher-Price Brands US, and
- c) American Girl Brands.

The Mattel Girls & Boys Brands US division includes the company’s famous brands such as

- a) Barbie: Barbie includes Barbie fashion dolls and accessories
- b) Wheels: Wheels comprises of Hot Wheels, Battle Force 5, Tyco R/C brands, and Matchbox Speed Racer.

In addition, the segment’s other girls brands include Little Mommy, Disney Classics, and High School Musical; and entertainment brands include CARS, Radica, Toy Story, Speed Racer, Batman, and Kung Fu Panda products.

¹ <http://www.marketlineinfo.com.arktos.nyit.edu/library/DisplayContent.aspx?R=07512FFD-FF7B-47F6-98FE-6260A6CFFE32&N=4294843166>

What did Mattel do to reveal the problems to the public?

Mattel recalled almost one million Chinese-made toys because of potential hazards from parts of the toys which were colored using lead-based paint on Aug 2, 2007. Until August 14, Mattel had already recalled more than 18 million products because the toys might pose a danger to children.

On September, Mattel's Executive Vice-President said Mattel took full responsibility for those recalls and apologized to all their customers and also mentioned that the recalled products were the result of a design flaw in Mattel's design, not through a manufacturing flaw in China's manufacturers. One year later, Mattel had recalled a total of 21 million toys from China.

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.

* The CPSC is a federal agency that monitors the safety of 5,000 products.

Executives Thinking

This case has a managerial malpractice wherein the Mattel executives focused on cost leverage offered by offshoring practices which leaves the necessary safeguards to avoid unnecessary risk exposure. They thought of saving more money by outsourcing. But because of the outsourcing, they were not able to do the necessary checkups if there were any problems involved and just left it to the subcontractors.

Because of the pressure from Mattel in reducing costs, the subcontractors had to cope up with the pressures of reduced costs. The subcontractors used unapproved suppliers even though Mattel gave them a list of paint suppliers that were following the legal limit. When the subcontractors failed to comply with product specifications, Mattel does not get any notice. This is one reason why Mattel did not know about the quality problems and what is worse is that they did not know the size of the problems that they were about to face.

Because of the executives' decisions trying to cut costs, they gave up their quality to get the low cost desired which gave a high risk of product failure.

Mattel Recall Issues and costs

In Mattel's case, Mattel's company recalled most of their products made in China. Recalls are costly to a company because they often entail replacing the recalled product or paying for damage caused by use, although possibly less costly than consequential costs caused by damage to brand name and reduced trust in the manufacturer.

There is always having some costs involved in conducting a product recall. Many of these costs vary greatly depending on factors, such as the type of product being recalled, the cost and price-point of the product, the number of units recalled the geographic location of the companies involved. In 2007, Mattel recalled more than 21 million toys made in China, so what were the costs of Mattel Company?

Direct Cost

First, for all the recall company, there is a cost of implementing. This includes administration, shipping items back from retailers and consumers, and also includes the cost of fixing and replacing the product. The more successful recall is in locating items, the higher the cost to manufacturers.

Second, when the manufactures recalling product meanwhile they also face losing sales. Manufactures lose the margin on returned items, the sale of which must be reversed or otherwise reflected in financial statements, as well as any projected sales of the recalled product. The more product-units returned, the lower the revenue recognized, which again creates an incentive for companies to limit recall effectiveness.

The direct costs of a recall increase with the effectiveness of the Mattel's company recall. In other words, companies incur higher costs the more successful they are in recovering the defective products.

Indirect Cost

The indirect cost is like the financial impacts, such as: penalty, the cost of the product liability lawsuits, etc.

Penalty is from the government, "This penalty should serve notice to toymakers that CPSC is committed to the safety of children, to reducing their exposure to lead and to the implementation of the Consumer Product Safety Improvement Act," Thomas Moore, acting chairman of the commission, said in a statement.⁽¹⁾ The CPSC of American can now impose fines of \$100,000 up to \$15 million for failing to report potential product safety violations or defects. While these amounts are significantly higher than previous fines, for most large companies, but the fines imposed for particularly egregious violations will carry a relatively minor financial burden.

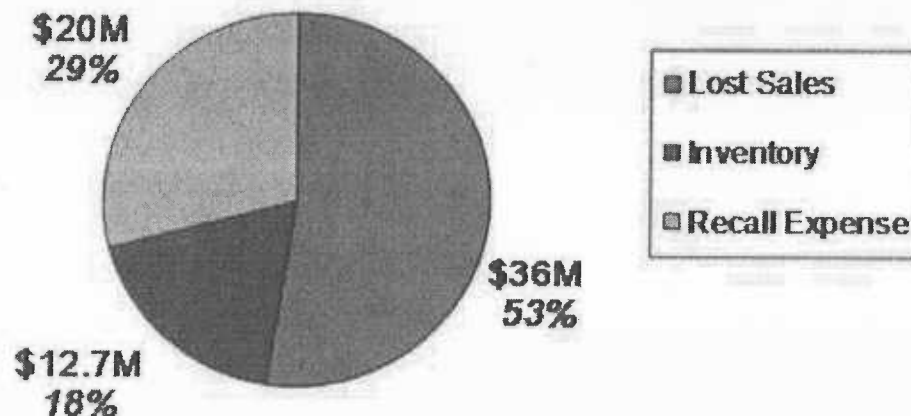
Second is about the product liability lawsuits. This cost is easy for Mattel's company to quantify, but it hard for other company to analyze. The company should to protect the customer to reduce the lawsuits, particular the class-action lawsuits. Using data in the CPSC Revised Injury Cost Model, published by the Public Services Research Institute, US companies spend a

combined total of more than \$2 billion a year in defense of consumer-product related lawsuits. These costs do not include the cost of settlements or jury awards, which can average \$600,000 to \$800,000 each.

Third, category of indirect costs is that maybe they will lose their future. Reputation effects will impact the sale quantity. In the case, Mattel also need to discuss how they should fixed problems and prevent them in the future.

In the fall of 2007, Mattel faced several recalls in a short period of time due to lose magnets and lead paint violations. Even though the fraction of Mattel's products that were affected was very small, the company suffered significant impact on its stock price. Given that Mattel had \$5.5 billion in annual sales at the time, and that the then-current direct recall costs were only \$69 million, something else must have been driving the bulk of the impact.

Costs of Mattel's 2007 Toy Recalls, Through Q3 2007



Source: <http://wemakeitsafer.typepad.com/.a/6a00e5536f06d2883400e554bcc5348833-pi>

Mattel Company spent about 20 million to recall their products. It totaled to 30 million in total to Mattel including recall costs, lawsuits and firm penalties. Most of the recall cost was from Fisher-Price toys made with lead paint in china.

Therefore, for all the company, safety and health product is the best way to save cost.

Factors that were included in the decision making process

Even though it was not their fault entirely for the problems, they still accepted that it was their own fault. When they accepted it there were thoughts to think about.

One was if they will be able to control all the faulty products. What they did was inform the federal agency that oversees toy problems and product safety. They did a 100 page crisis plan that they know they had a faulty product and their product recall was in their control.

The second one was that they had to reveal it to the public because their faulty products were dangerous especially to children. Mattel immediately called reporters and sent out emails with a press recall release. Mattel answered almost 300 media requests. They also went to newspapers and TV ads to inform the people about the product recall. Websites were updated regularly for the crisis response.

They tried their best to inform everyone about the product recall so that no one will be harmed as there were so many products that were recalled. They did their best to be open so that people will believe them.

After recall, what decisions and situations were there to face

- a) Whether to stop or to continue the production of some high risk potential toys

This means give up or sell some toy brand or model with high risk potential danger. As the recall issue happened again and again after 2007, the Mattel company hardly dealt with their potential design problem well. Giving up the production of problem brand or model was the quickest way to clear the recall issue in front of Mattel. But by doing so, there was a problem of how to identify the high risk potential toys, and which brand or model should be given up. Another important problem that it will decrease the market share and products variety a lot, that's same as weaken the company strength

- b) Improvement on current strategies:

This means Mattel keeps their original strategy, but focus on the recall problem doing some improvement on the monitoring and R&D (research and develop) part. Mattel is the biggest toymaker, it has successful business model on financial, manufacture and marketing

strategy. The recall problem could be corrected by management by improving R&D, if so, that would be a suitable alternative, and they just need some investment and time.

c) Shifting manufacturing plants to different locations and other developing nations

This means move the manufacture factories out of China to other developing countries such as India, Indonesia and Malaysia, in order to change to customers' image that Mattel's products are low quality as "Made in China", and decrease the manufacture cost. But this decision would have wasted too much time in seeking new suitable vendors. Mattel also need pay much attention on adaption problem in a different environment such as manufacture process training, vendor's communication and culture adaption. Maybe Mattel should take at least five years to reach the economic effect as well as the Chinese existing level.

To avoid this issue in the future what managers in Mattel did, they raised the investment in the R&D and set a special R&D department to do research on how to avoid design flaw. As compared with the investment of Mattel put in royalties and advertising, the R&D part is low. Besides, in the following years after 2007, there are also design problem recalls issue happen, so Mattel did not pay enough attention on the products design. The special R&D department will do the research and experiment for all products in order to double check the products' safety standard and avoiding potential hazard. The development of experiment list will depend on the all prior recall issue problem, and then enhance the pilot project by doing research on potential hazard of toys. This R&D department should be accredited as certification departments that certificate every Mattel's products before it go to market.

Conclusion

Mattel is the biggest toymaker today, it has compelling obligation on the toy safety and relevant social responsibility. Mattel handled the crisis exactly the way textbooks tell corporations to handle reputation-damaging incidents. With their experience with recalls, the company smoothly executed all aspects of their crisis management plan. They broke the bad news themselves. They told the truth. They apologized publicly, and took immediate action to fix the problem. By accepting all the blame, Mattel was able to continue forward and focus on setting things right – not on whose fault it is. This also allowed consumers to see that Mattel is dependable and the one who is responsible for fixing the problem.

References:

1: ^ Singer, Natasha (May 1, 2010). "Children's Tylenol and Other Drugs Recalled". *The New York Times*. <http://www.nytimes.com/2010/05/02/business/02drug.html?src=busln>. Retrieved May 3, 2010.