

TOY RECALLS: 2007 MATTEL, INC. CASE STUDY ANALYSIS

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**TABLE OF CONTENTS**

INTRODUCTION ..... 1

    Toy Recalls: Design vs. Manufacturing Flaws in a Global Supply Chain ..... 1

2007 MATTEL, INC. RECALL ..... 2

TOY RECALLS: STAKEHOLDERS ..... 4

    Consumers: Parents and Children ..... 4

    Toy Company and Partners ..... 4

    Consumer Product Safety Commission ..... 4

PROPER COMMUNICATION: MATTEL’S STRENGTHS AND WEAKNESSES ..... 5

COMMUNICATION BEST PRACTICES ..... 6

    News Releases ..... 6

    Video News Releases ..... 7

    Posters ..... 7

    Social Media ..... 7

SEVEN RECALL TIPS ..... 7

CONCLUSION ..... 8

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## INTRODUCTION

This report examines the nature of supply chain management specifically related to toy recalls. There are several purposes encompassing this topic in this report. The first is to provide background information on supply chain management with regards to the toy industry. Several complex facets within the process of designing, producing and distributing toys contribute to the potential for recalls and mismanagement. Secondly, this report will identify key stakeholders when a recall occurs. This includes the customer base, predominantly families, the company and their manufacturing partners, and finally the United States Consumer Product Safety Commission (CPSC). Thirdly, this report will review the proper and necessary communication strategies of a toy recall. Finally, the report concludes with seven successful recall tips for managers to consider and establish.

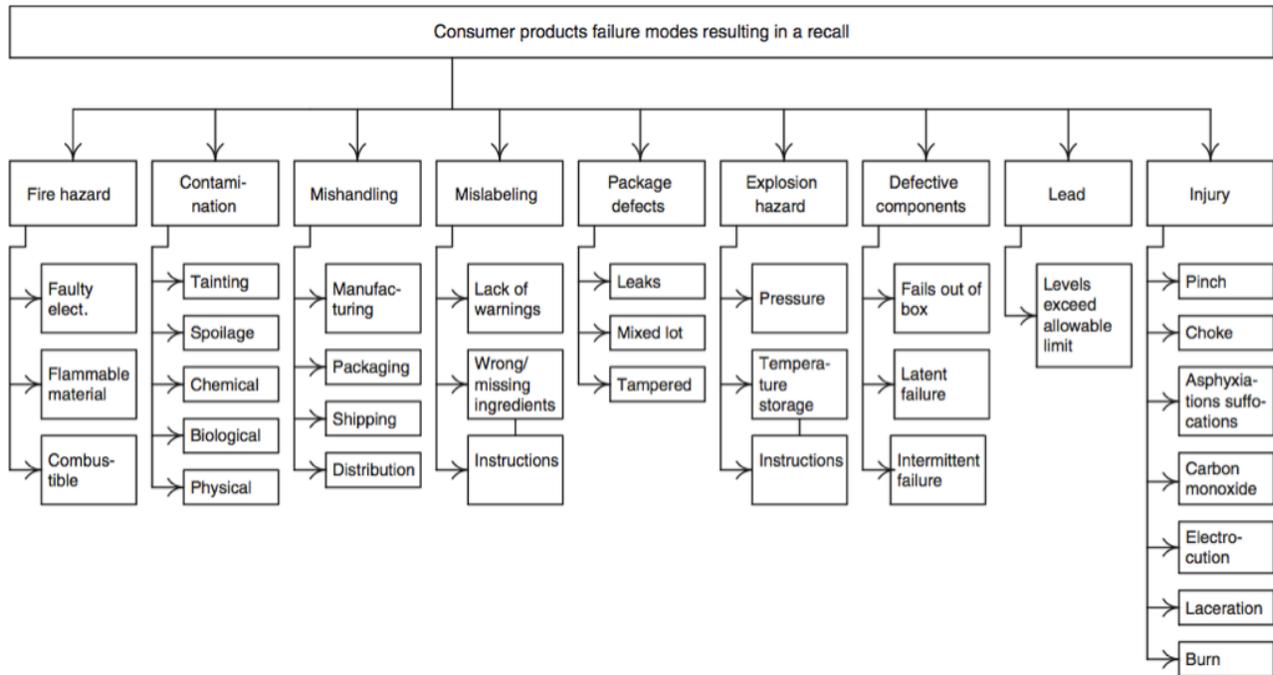
### *Toy Recalls: Design vs. Manufacturing Flaws in a Global Supply Chain*

Gilbert and Wisner write “the world is now considered flat, meaning that people, goods and ideas can and do move freely across the world” (33). In the last twenty years, the United States toy industry has greatly expanded by moving most manufacturing processes to other parts of the world where labor is less expensive. These global supply chains give managers a new set of challenges supervising the product flow between several locations from one location. The CPSC Recall Handbook puts it simply saying, “No company likes to recall one of its products, but when a safety problem makes a product recall necessary to prevent injuries and save lives, it benefits everyone to move quickly and effectively” (2).

A company has the responsibility to find the source of a toy recall. Toys fall under the broad category of consumer products. Figure 1-1, a tree diagram by Kumar and Schmitz in the International Journal of Production Research, demonstrates all possible sources of recalls. Toy recalls fall under two broad recall categories: design flaws and manufacturing flaws. Distinguishing between design and manufacturing flaws helps determine the path to necessary solutions.

Design flaws include “such things as the use of small detachable parts...that can lead to strangulation or entrapment” (Beamish and Bapuji 202). These defects can “stem from structural product flaws and may indeed be present prior to manufacturing” (Hora, Bapuji and Roth 768). Manufacturing issues “include the use of toxic chemicals...faulty assembly, or substandard parts” (Beamish and Bapuji 202). Hora, Bapuji and Roth elaborate writing “manufacturing defects are related to raw materials or any aspect of the production process” (768).

The blame for each type of recall problem typically falls on distinct portions of a company. If a design flaw, the problem lies with the toy company itself in the United States. If a manufacturing defect, the problem lies with toy manufacturers abroad. Traceability in design flaws can be more difficult to detect than manufacturing issues, and thus, increase the time from the first product sold and the recall itself (Hora, Bapuji and Roth 770).



**FIGURE 1-1. Determining source of recall flow chart (Kumer and Schmitz 247)**

## 2007 MATTEL, INC. RECALL

Mattel, Inc., one of the world’s largest toy companies, established a voluntary code of conduct entitled the Global Manufacturing Principles (GMP) in November of 1997. The code affected its production facilities and contract manufacturers, covering major issues at the time including “wages and hours, child labor...legal and ethical business practices, product safety and product quality...” (Sethi et. al 484). With the company headquartered in El Segundo California, the company produces “approximately 800 million toys each year...[two thirds of which] are made in China” and sells its products to more than 150 countries (Gilbert and Wisner 34). The company had “revenues of almost \$6 billion” in 2007 (Gilbert and Wisner 34). From the outside, Mattel, Inc. seemed at peak performance.

Mattel had still been dealing with a recall of Polly Pocket products in 2006 when the public received the first announcement concerning the Mattel recalls of 2007, one of the most famous toy recalls in history. At the beginning of July 2007, one of Mattel’s European retailers found lead on some of their products. On July 18, in an interview with the New York Times, Mattel was in the process of determining if they had a “widespread lead paint problem or if the European case was an anomaly” (Story). On August 2, 2007, Mattel, Inc. announced the recall of nearly one million products. The CPSC issued the voluntary recall information on their website, listing a variety of toys including many Sesame Street and Dora the Explorer products. Initially, the problem centered on the use of paint with excessive levels of lead on the toys, all from the Chinese manufacturer Lee Der Industrial Co. Following the recall announcement, Lee Der co-owner, Cheung Shu-hung committed suicide. Louise Story of the New York Times reported, “Mattel requires the factories it contracts with to use paint and other materials provided

by certified suppliers...they did not know if the contract manufacturer substituted paint from the noncertified supplier or if the certified supplier caused the problem”.

After a series of three more additional recalls through October of that year, ultimately Mattel, Inc. recalled 19.6 million toys globally, 11.7 million of which were in the United States (Thottam). Of those recalled items, 2.2 million were “sprayed with unsafe lead paint” and the remainder “contained small (0.125 in.) magnets that were not firmly attached” (Gilbert and Wisner 33). At the time of the recall, any paint with a lead content greater than 600 parts per million was illegal. The Mattel toys being investigated “had surface coatings tested at more than 10,000 ppm lead” (Gilbert and Wisner 41). Unlike the products containing lead paint, Mattel, Inc. sold the products with faulty magnets “as early as 2003” (“NBCNews.com”). These magnets, once swallowed, could “come together with force enough to tear through the intestines of a young child” (Thottam). According to Gilbert and Wisner, “Mattel spent more than 50,000 labor hours investigating the toy recalls...[and] reduced gross profits in 2007 an estimated \$71 million” (35). The company lost more than millions of dollars. The recall tarnished their public image, and caused tension between Chinese and American branches of Mattel, Inc.

Mattel, Inc. followed the necessary steps required by the CPSC to report the recall. They used several media platforms, including a video apology to parents from CEO Robert Eckert on the company’s and Yahoo’s Web sites, full-page ads in the *New York Times* and *Wall Street Journal* as well as the announcement on the CPSC website. Certainly, 2007 was a year to remember, not just for the Mattel, Inc. toy recall, but also for recalls in general (See Figure 1-2).

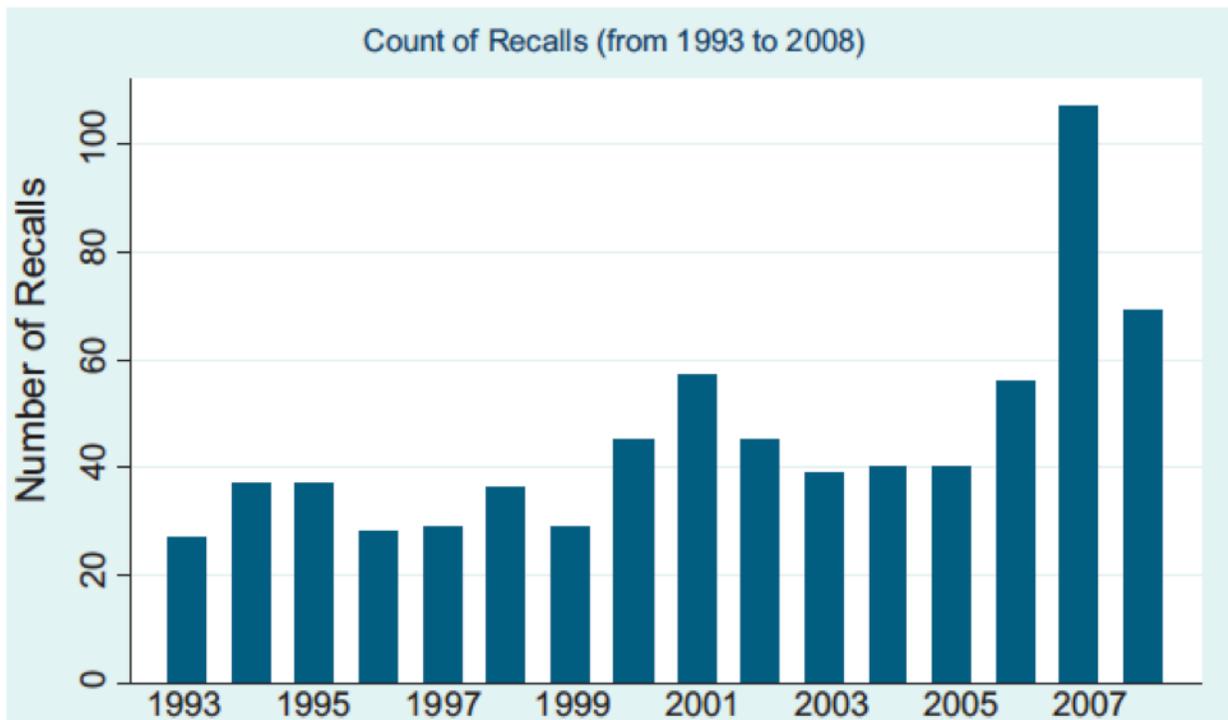


FIGURE 1-2. Annual number of toy recalls (Hora, Bapuji and Roth 771)

## TOY RECALLS: STAKEHOLDERS

### *Consumers: Parents and Children*

Toy companies, such as Mattel, Inc., need to recognize that “children have the right to be safe from injury when they play with toys [and parents] have the first duty to assure their safety, but most parents are not capable of judging the safety or danger of a toy designed for their child” (Gilbert and Wisner 41). At a young age, a child’s development level is still growing. Thus, they learn from making mistakes. Some mistakes can have grave consequences unbeknownst to the child or parents, especially if the injury or death is related to a purchased product whose design and assembly is outside of their control. Mattel, Inc. ultimately bears the final responsibility of its product and the “customers are not morally responsible for the actions of those from whom they buy” (Gilbert and Wisner 42).

### *Toy Company and Partners*

No company ever wants to experience a product recall, “especially those involving adverse media publicity and a negative effect on stock price for publicly held companies...[it can create] permanent damage to the product brand, [reduce] profits, and [lower the] reputation and goodwill with consumers” (Kumar and Schmitz 235). Product liability prevention falls in the hands of many different roles in a company, not just the manufacturing plant or the original toy designer. Easy traceability and an established recall plan are essential to managing recall risk. Kumar and Schmitz developed an analytical framework companies can use to deal with recalls. The DMAIC approach is an acronym for, “Define, Measure, Analyze, Improve and Control...[using the theory that] the output is a function of all the inputs” (238). The challenge comes in controlling costs while maintaining quality.

Even with preparation, an ethical dimension comes into play with consumer product recalls. For example, with Mattel, Inc., “the ethical issue here [was] whether Mattel caused or allowed a toy designed for young children to be sold that could [have reasonably been] expected to harm some of these children” (Gilbert and Wisner 39). Furthermore, Gilbert and Wisner expand the ethical obligation to “consider the results of the design and the subsequent use of the toy by the child for whom it is designed” even if the current toy design could create the greatest good for the greatest number (40). Toy companies and their manufacturing partners bear a duty to sell safe products.

No matter what strategy is in place, managers need “to strengthen their control and inspection systems so that product defects are identified in-house rather than brought to the notice of the company by outsiders, following incidents of harm to consumers” (Hora, Bapuji and Roth 775). The stakes are high if priorities shift from consumer safety to shareholder concerns and profit.

### *Consumer Product Safety Commission*

The United States Consumer Product Safety Commission (CPSC) provides an easily accessible Recall Handbook on their website intended for “companies that manufacture, import, distribute, retail or otherwise sell consumer products” (5). This handbook clearly lays out the crucial steps of administering a recall. The CPSC then must conduct a thorough investigation and assist the

company involved with proper handling mechanisms. Every recall thus takes time and energy on behalf of the employees of the CPSC. Furthermore, if issues arise they did not predict, then they will need to make adjustments to policies, procedures and legal measures.

## **PROPER COMMUNICATION: MATTEL'S STRENGTHS AND WEAKNESSES**

Communication is essential in recalls and the Mattel case is no exception. In the 2007 Mattel Inc. recall, Casey and Xamiska write, "...Mattel quickly identified both the manufacturer and the paint vendor...". Robert Eckert, the Chief Executive Officer, blamed the Chinese subcontractor who used paint from a non-authorized third-party provider. (Thottam). On August 14<sup>th</sup>, 2007, Eckert released an apology video addressing parents stating, "I can't change what has happened in the past, but I can change how we work in the future" (Casey Xamiska). In likely his best move throughout the entire recall process, he connected with parents by sympathizing with them explaining his experience as a father of four. He extended his concern by clearly demonstrating an understanding of their fears and concerns. He explained the company's process moving forward, to ensure a recall like this one would not happen again.

On September 14, 2007, Thomas Debrowski, Mattel's Executive Vice President of worldwide operations, met with the Chinese product safety chief Li Changjiang. In this meeting, Debrowski told Changjiang, "Our reputation has been damaged lately by these recalls. And Mattel takes full responsibility for these recalls and apologizes personally to you, the Chinese people, and all of the customers who received the toys" (Thottam). In the previous month, the CEO had blamed the Chinese and now, the Executive Vice President was removing all the blame and offering the Chinese an apology. Though this apology gave mixed signals to consumers, it was a good move by Mattel, who depends on China for 65% of its toy production.

As stated previously, of the 19.6 million recalled toys, only 2.2 million results from non-authorized lead paint from Chinese facilities. The other 17.4 million recalled toys were made with strong magnets that were harmful to children, causing intestinal tears. Mattel attempted to mend bridges with the apology, considering roughly 11.6% of the recalled toys were due to the mismanagement and miscommunication between the corporate offices and the Chinese manufacturing facilities. The majority of the recalled toys stemmed from design flaws, rooted back to toy designers at Mattel Inc.

As Mattel's seventeenth recall in ten years, this case impacted families, employees, investors, and the general public. After such a long period of time, it becomes hard for a company to regain consumer faith in their product. It is important to take actions to fix the problem and use the best communication outlets to reach those impacted. Mattel's mixed signals in the months following the initial recall created a hazy situation consumers tried to interpret.

Under these situations, people want to know the facts, what is being done to fix the problem, and what measures are being made so that it won't happen again. Eventually, Mattel took full responsibility for the recall before the law,

"...a Mattel representative testified before a U.S. Congressional Committee in 2007, stating that the problem with small magnets embedded in some toys coming loose and

subsequently being swallowed by children was fully the result of Mattel's poor toy design and not due to a failure to adhere to manufacturing specifications by their Chinese contractors" (Gilbert and Wisner 35).

## COMMUNICATION BEST PRACTICES

In an article in *Public Relations Review*, Choi and Lin write, "...consumer involvement may influence emotions and crisis responsibility" (18). The level of involvement of any individual consumer impacts "the amount of attention and elaboration in message processing...consumers with high involvement were found to generate more counterarguments than were those consumers with low involvement" (18). In an ever growing and connected world, consumers can warp the situation. Choi and Lin write, "...in the newspapers, Chinese manufacturers were portrayed as the main culprit...more than twice as often as Mattel, whereas highly involved consumers blamed Mattel most frequently" (21). The public does not necessarily perceive the crisis in the way mass media delivers it.

Thus, the pathways for delivering information become important for the company in order to accurately release the situation. Anger and sympathy are two reoccurring consumer emotions in any recall situation. The Consumer Product Safety Commission's recall handbook offers recommendations on properly communicating recall information. They suggest companies have one spokesperson or official recall personnel to use as the go-to for communicating the situation. This gives the company an outlet to deliver consistent messages. New releases, video news releases, posters and social media are four outlets the CPSC recommends companies to use as primary communication platforms.

### *News Releases*

In most situations, one news release to the general public is necessary to minimize confusion from an initial press release issued from a company and the CPSC. Every recall statement opens by saying, "In cooperation with the U.S. Consumer Product Safety Commission (CPSC)...". Below is a list a few things the CPSC suggests to be included in news releases:

- Whether the recalling firm is the manufacturer (or importer), distributor, or retailer of the product
- If the firm is not the manufacturer, the manufacturer, including importers, of the product and the country of manufacture
- Number of recalled products manufactured, imported and/or distributed
- A description of the product, including product name, the intended consumer population (i.e. infants, children or adults), product's colors and sizes, model numbers, date codes, and tracking labels and their exact location on the product
- Concise summary of all incidents associated with circumstances giving rise to the recall, including number of incidents, damage due to incidents, injuries and deaths, including age of persons injured and killed

- Complete instructions for how to participate in the recall described in a manner that will motivate the consumer to take advantage of the remedy.

### *Video News Releases*

A video news release is the taped and visual version of a press release. The company can reach a large audience with this method. According to the CPSC Recall Handbook, “A video news release increases the chances that television news media will air information about a recall because it effectively provides news of the recall to television news producers in the form that they need”. The authors of the video news release need to script the message in a way that television producers can use.

### *Posters*

Posters are used as a way to inform the public in a concise way. They need to be short, easy to spot, include “safety” and “recall” in the heading, and include a toll free number. Font and colors need to make the poster stand out. When considering the use of posters, the company needs to consider what region or regions they will place these posters and thus, how many they will need.

### *Social Media*

Once the company creates press releases, social media is a great way to share information. The CPSC recommends press releases be shared on the company’s website as well as on Twitter, Facebook, Pinterest, Instagram, and Google +. Short and sweet summaries are especially useful for search engines and thus, to consumers looking up information on the recall.

## **SEVEN RECALL TIPS**

- Have an established recall team in place with an easy to access list of contacts when deciding next steps and collaborating with the CPSC
- Develop a manufacturing system with easy product traceability to define the recall problem as quickly as possible.
- Control costs while maintaining quality.
- Create a strong inspection system so that defected products are caught before they reach consumers.
- Establish a supply chain reversal plan to retrieve defected products from consumers.
- Be knowledgeable of current safety policies and regulations.
- Be honest and direct where addressing target audiences about what happened.

## CONCLUSION

In any recall, whether it be toys, cars, food or medicine, the companies at fault need to step up and take responsibility. The consumer should be a company's number one priority. Though as difficult as it is for any company to admit a mistake, remaining open and honest with their customers maintains a level of trustworthiness. Keeping information or lying about circumstances creates a fog of mystery and only damages a long-term relationship with consumers. The 2007 Mattel, Inc. recall of nearly 20 million toys brought perspective to not only the toy industry, but also all companies with global market reaches and global supply chains. Maintaining proper levels of product analysis will ensure safe products make it to retailers' shelves and thus, into the homes of the customer.

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