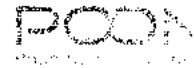




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MATTEL'S STRATEGY AFTER ITS RECALL OF PRODUCTS MADE IN CHINA

In the summer of 2007, Mattel, the largest toymaker in the US, saw its sales dip sharply when it recalled its Chinese-made toys several times. The recalls also led to public hearings in the US Congress, which significantly affected its reputation.

Like other toymakers, Mattel had been relocating its production abroad and outsourcing the manufacture of parts and components. In 2007, Mattel produced 65% of its toys in China.¹ In contrast to its competitors, however, Mattel understood the importance of quality control in the process of relocation and outsourcing. In the 1980s, it reversed its earlier strategy of outsourcing to factories in Asia by owning and operating some plants in Asia for production of its most popular products.

Nonetheless, the product recalls showed that quality control continued to be an issue. Should Mattel reassess its strategy for organising production? Should it rely more on in-house production than outsourcing? Even if it stuck to its outsourcing strategy, quality control was more difficult to control in developing economies than in developed ones. Should it revise the geographical spread of its manufacturing operation? Mattel had a choice between outsourcing to economies such as China where quality control was a serious issue and outsourcing to more developed countries with better contracting environments.

Global Toy Industry

The value of the worldwide toy market was estimated at US\$67 billion in 2006.² North America, which made up 36% of the world market, was the largest toy-consuming region in the world. At 29%, Europe was the next-largest toy-consuming region, followed by Asia at

¹ Bank, P.K.B.A. (16 October 2007) "Time for a Better Gameplan", Businessline.

² NPD Group (2007) "Toy Market in the World".

http://www.toyassociation.org/AM/Template.cfm?Section=Industry_Statistics&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=3884 (accessed 2 February 2008)

Grace Loo prepared this case under the supervision of Liu Jianguyong, Tao Zhigang and Yu Linhui for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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24% [see **Exhibit 1**]. For 2007, a 6% growth was forecasted for worldwide toy sales, with Asia (especially China and India) and Latin America (especially Brazil) as the leading regions for growth.³

The global toy industry was fad-driven, high-risk and highly competitive.⁴ Excluding some classics such as Barbie, Monopoly and Scrabble, most toys stayed on shelves for no more than a year or two. Successful toy concepts were copied rapidly by other toymakers, and toy sales were highly seasonal, with between 50% and 60% of annual sales concentrated around Christmas time. The industry was also highly fragmented. Mattel, the largest toy company in the world, captured less than 6% of the global market with its annual turnover of US\$5.65 billion.⁵

Because the market demand for toys was driven by children aged 12 and under,⁶ the toy industry was challenged by dampening birth rates in the US and northern Europe,⁷ as well as the trend of “kids getting older younger”. The toy industry also faced stiff competition from electronic entertainment such as video games as children switched from traditional entertainment such as toys to electronic entertainment at an increasingly young age.

The market environment had also become increasingly tough, with production costs (ranging from labour costs in developing countries such as China to the price of resin used for toy production)⁸ on the rise. In the manufacturing of toys, raw materials comprised 45% to 55% of the cost, labour 20%, administrative fees 20% and transportation 5%.⁹ Meanwhile, in the US—the largest toy-consuming nation in the world, where no more than 4% of the world’s children consumed 40% of the world’s toys¹⁰—toy sales increasingly took place in hyperstores such as Wal-Mart and Target. These hyperstores were reputable for using their order volume to drive prices down and even specialty toy chain stores were losing out to them. For instance, Toys“R”Us closed a good number of its stores during the mid-2000s.

As toymakers faced increasing pressure from rising production costs and hyperstores continuing to squeeze prices, the likelihood of toymakers compromising on quality increased, and safety—particularly the safety of children—became a central issue. In 2005, US emergency rooms treated more than 200,000 injuries that had been caused by toys.¹¹

Toy Manufacturing Industry in China

US toy companies began outsourcing their production to Japan after the second world war as the Japanese government designated its toy industry to be an export-oriented industry in order

³ Ibid.

⁴ Encyclopedia of American Industries (date unknown) “Games, Toys, and Children’s Vehicles”, *Reference for Business*, <http://www.referenceforbusiness.com/industries/Miscellaneous-Manufacturing/Games-Toys-Children's-Vehicles.html> (accessed 2 February 2008).

⁵ Bank, P.K.B.A. (16 October 2007) “Time for a Better Gameplan”, *Businessline*.

⁶ First Research Inc (5 November 2007) “Toy Manufacture”.

<http://www.marketresearch.com/product/display.asp?productid=1601017&SID=52793534-406051586-454446012> (accessed 28 January 2008)

⁷ Johnson, E. (2001) “Learning from Toys: Lessons in Managing Supply Chain Risk from the Toy Industry”, *California Management Review*, 43 (3), pp. 106–124.

⁸ Brush, M. (2004) “Toying with Profits in the Toy Sector”, *InvestorIdeas.com*, http://www.plushcollectible.com/Companies/WildHeart/News/Toy_Sector.asp (accessed 2 February 2008).

⁹ Dongguan Ribao (18 November 2008) “Wanju Changye Guodong, Zizhu Changye shi Dryi Suanze”.

http://news.news111.com.cn/2008-11/18/content_168208.htm (accessed 9 December 2008)

¹⁰ Archer, M. (28 January 2007) “Real Toy Story” Reveals Dark Side of Toy Industry”, *USA Today*.

http://www.usatoday.com/money/books/reviews/2007-01-28-toy-usat_x.htm (accessed 2 February 2008).

¹¹ Goldman, A. (23 September 2007) “Think Outside Toy Box to Find Hazards”, *LA Times*.

<http://articles.latimes.com/2007/sep/23/business/fi-kidrisk23> (accessed 6 August 2008)

to earn foreign exchange for the purchasing of food and other imports.¹² Production outsourcing to other Asian countries such as Korea and Taiwan followed, with Hong Kong becoming a major toy manufacturing centre during the 1960s. In the 1980s, upon the opening-up of the mainland Chinese economy, manufacturing activities in Hong Kong began to shift to China and, over the next decade, China slowly established itself as a major toy-manufacturing centre. Between 1992 and 2006, its share of US toy imports increased dramatically from 41% to 86%,¹³ translating to some US\$22.6 billion worth of toys.¹⁴

Guangdong in southern China was a major toy-manufacturing province, where some 5,000 factories were responsible for about 80% of China's toy exports.¹⁵ A number of factors accounted for the flourishing of the toy-manufacturing industry in Guangdong. Wages were low and the province enjoyed the geographic advantage of being close to Hong Kong, which played the role of middleman between Western toy companies and Chinese manufacturers. Though manufacturing activities had hollowed out in Hong Kong since the 1980s, the city remained a service centre for the toy industry through activities such as design, product development, marketing and packaging.¹⁶ Geographical advantage and cheap labour aside, China's long history of toy manufacturing had bred an auxiliary industry that played a critical role in supporting toy manufacturers. This auxiliary industry provided packaging, pigment, specialised plants for different toy-manufacturing materials, and processes from casts, injection-mould plastic and flurry material to the assembly of plush toys, enabling toy manufacturers to respond swiftly to market demand and produce high-quality end products.¹⁷ "This supply chain is very important and the toy products keep changing so fast", said Lawrence Chen, chairman of the Hong Kong Toys Council. "Without a good supply chain, it's almost impossible to continue to make good toys."¹⁸ Nonetheless, China's toy industry focused mostly on material processing, with relatively little manufacturing of high-technology toys or value-added products.¹⁹

Mattel, Inc

History

California-based Mattel was the largest toy company in the world, and its business activities included the design, manufacturing and marketing of toys. In 2006, its sales volume amounted to 800 million toys and an annual turnover of US\$5.65 billion.²⁰ Its core products included Barbie fashion dolls, Hot Wheels die-cast vehicles, and Fisher-Price preschool toys.

Mattel was started in California by Harold Matson and Elliot Handler in 1945, when they began producing dollhouse furniture out of a converted garage.²¹ By 1952, sales had risen to

¹² Japan External Trade Organization (2005) "Japan's Toy Industry", Market Reports, http://www.jetro.go.jp/en/market/report/pdf/2005_05_r.pdf (accessed 4 February 2008).

¹³ Bapat, H., Beaman, P.W. and Laplume, A. (November 2007) "Toy Import and Recall Level: Is There a Connection?", Asia Pacific Foundation of Canada, Research Reports, <http://www.asiapacific.ca/analyses/pubs/pdfs/rr/2007/uvirecalls.pdf> (accessed 28 January 2008)

¹⁴ Mehta, M. (16 October 2007) "China's Loss, Malaysia's Gain", *Malaysian Business*.

¹⁵ Associated Press (2 November 2007) "PRC Bans Hundreds of Toy Makers from Producing Goods", *Taipei Times*, <http://www.taipeitimes.com/News/worldbiz/archives/2007/11/02/2003385913> (accessed 27 January 2008).

¹⁶ Fiducia Management Consultants (30 October 2003) "Conquering China's Consumer Market? Example: Toy Industry", <http://www.fiducia-china.com/News/2003/3010-1353.html> (accessed 7 March 2008)

¹⁷ Johnson, M.E. (August 2007) "Seven Questions: China's Total Toy Recall", *Foreign Policy*, http://www.foreignpolicy.com/story/cms.php?story_id=3960 (accessed 22 December 2007).

¹⁸ Toloker, S. (22 January 2008) "Industry Execs Discuss State of Toy Making in China", *Plastic News*, <http://www.plasticnews.com/china/english/business/headlines2.html?id=1200682751> (accessed 2 February 2008)

¹⁹ AsiaInfo Daily China News (27 August 2002) "Export of Toys is High, but the Benefit is Low"

²⁰ Banik, P.K.B.A. (16 October 2007) "Time for a Better Gameplan", *Businessline*

²¹ For details, see Mattel's Web site: www.mattel.com

US\$5 million and the product line included burp guns and musical toys.²² In 1955, Mattel made a pioneering move, sponsoring Walt Disney's Mickey Mouse Club television show instead of relying on retailers to promote its products. The US\$500,000 sponsorship gave Mattel access to young potential customers across America and Mattel's sales soared quickly.

In 1959, Mattel introduced a new doll with a full wardrobe and accessories to the market. The doll, which was named Barbie after Handler's daughter, was an instant hit.²³ With the success of the Barbie doll, Mattel became a public company in 1960. Between 1963 and 1965, sales almost quadrupled from US\$26 million to more than US\$100 million.²⁴ The Hot Wheels miniature cars launched in 1968 were also highly successful and, by the turn of the decade, Mattel had become the number one toy company in the world.

With sales soaring in the toy industry during the mid-1980s, Mattel became a volume-driven organisation with high overhead and product-development costs.²⁵ It set marketing quotas that it could not meet and money was ploughed into accelerating new-product development to drive sales.²⁶ After the stock market crash in 1987, retailers pulled back from orders and sales flattened. Mattel's new chief executive at the time, John Amerman, restructured the company, keeping Mattel's forecasts conservative to control inventories and refocusing Mattel on core products. He undertook development of new products selectively and cut Mattel's worldwide manufacturing capacity by some 40%.²⁷ The refocus on core products was a great success. Barbie's makeover, for instance, saw sales jump from US\$430 million in 1987 to US\$1 billion in 1992, comprising more than half of the company's sales. Mattel estimated that 95% of girls between the age of three and 11 in the US owned a Barbie doll at the time.

In the 1990s, Mattel carried out a number of acquisitions, including Fisher-Price, which specialised in preschool toys, in 1993 and Tyco, the maker of Matchbox cars, in 1997. It also attempted to acquire its biggest competitor, US-based Hasbro, but backed down after it realised that the purchase would be too costly.

Manufacturing

Mattel owned and operated 10 manufacturing plants worldwide. Five of them were located in China, while the remainder were in Indonesia, Malaysia, Thailand and Mexico.²⁸ Mattel's own manufacturing facilities covered the manufacture of about half of its products,²⁹ with the remaining half manufactured through contract factories in Asia, Australia, Europe, Latin America and the US.³⁰ Mattel also had about 1,000 licensees, which manufactured specialised consumer products such as apparel and software.

Mattel was a pioneer in manufacturing in Asia. The first Barbie doll, which was introduced in 1959, was produced in Japan. Over the years, it had shifted its manufacturing operation to different Asian countries in order to take advantage of lower costs. In the 1960s, Mattel operated four manufacturing facilities in Taiwan.³¹ In 1987, Mattel's worldwide

²² Ibid.; Funding Universe (date unknown) "Mattel, Inc.", <http://www.fundinguniverse.com/company-histories/Mattel-Inc-Company-History.html> (accessed 1 December 2008).

²³ Funding Universe (date unknown) "Mattel, Inc.", <http://www.fundinguniverse.com/company-histories/Mattel-Inc-Company-History.html> (accessed 1 December 2008).

²⁴ Ibid.

²⁵ Mattel, Inc (1988) "Annual Report".

²⁶ Ibid.

²⁷ Sansweet, S.J. (6 April 1988) "As Toy Industry Changes, Mattel Cuts Product Line and Marketing", *Wall Street Journal*.

²⁸ Sun, N.Y. (10 September 2007) "Mattel Aims to Shore Up Supply Chain", *Plastic News*.

²⁹ Mattel Inc (16 March 2007) "Mattel 2007 GRI Report".

http://www.mattel.com/about_us/Corp_Responsibility/MATTEL_2007_GRI_REPORT.pdf (accessed 15 October 2007).

³⁰ Hoovers (29 January 2008) "Mattel Inc.", Hoovers's Company Records - In-Depth Records on Mattel.

³¹ Holiday, D. (2005) "Barbie's Taiwanese Homecoming", *Reason Online*, <http://www.reason.com/news/show/32194.html> (accessed 2 February 2008).

manufacturing capacity was cut by between 40% and 50% as the organisation underwent restructuring. Plants in Taiwan, the Philippines and Los Angeles, California were closed³² as production was relocated to cheaper Asian countries such as China and Indonesia.³³

Mattel was already outsourcing its production to China before it built its own plants there. In the 1980s, Mattel became increasingly concerned with the country's lax intellectual property rights and sensitive issues such as labour rights, and decided to build its own plants in China.³⁴ Its decision to build and operate its own manufacturing plants was also driven by the belief that it would be more efficient to manufacture in large factories. By 1987, Mattel was producing between 70% and 80% of its products in its own manufacturing facilities, most of which were located overseas to take advantage of cheaper labour.³⁵

Despite its decision to build and operate its own factories, Mattel continued to outsource part of its production. In 1988, following a McKinsey study that recommended that Mattel keep the production of its core products in-house and outsource the manufacturing of its non-core products, Mattel created its Vendors Operation Asia ("VOA") division in Hong Kong to oversee its outsourcing activities.³⁶ Over the next decade, VOA developed a network of about 35 suppliers, most of them Hong Kong companies with manufacturing plants located in China. These suppliers offered not only low labour costs but also skills and expertise in building relationships with local Chinese government officials and cutting through the Chinese government bureaucracy. These suppliers were selected based on their process capabilities, production quality, time-to-market ability and competitive pricing, and they covered a wide range of expertise, from the simple assembly of plush toys to the production of technology toys such as toy radios.³⁷ By 1997, VOA's manufacturing activities accounted for about 25% of Mattel's revenues.³⁸

Mattel's strategy was to focus its own manufacturing facilities on the production of core products such as Barbie dolls, Hot Wheels cars, and certain Disney and Fisher-Price product lines. Manufacturing of short-term products that were subject to fluctuating demand, such as characters from movies and television shows, was outsourced.³⁹ This strategy increased its operational flexibility, reduced cost and capital commitments, and cushioned its manufacturing operation from the boom-and-bust cycles that characterised the toy industry.

About half of Mattel's toys were produced in-house, an unusually high proportion compared to other toymakers.⁴⁰ Mattel reasoned that producing in-house would enable it to respond more quickly to changing market demand.⁴¹ By comparison, Mattel's major competitor, Hasbro, outsourced the manufacture of most of its toys.⁴² In 2007, Hasbro owned and operated only one manufacturing plant in the US and one in Ireland, with the rest of its

³² Yoshihashi, P. (16 February 1988) "Mattel Inc.'s Loss Widens Partly Due to Restructuring", *Wall Street Journal*.

³³ Holiday, D. (2005) "Barbie's Taiwanese Homecoming", *Reason Online*, <http://www.reason.com/news/show/32194.html> (accessed 2 February 2008).

³⁴ Barboza, D. and Story, L. (26 July 2007) "Toymaking in China, Mattel's Way", *New York Times*.

³⁵ Stevenson, R. W. (20 December 1987) "More Trouble in Toyland", *New York Times*.

³⁶ Lubatkin, M. U. (2007) "Dual Corporation Structure: Operational, Marketing and Organizational Implications", *Business Districts*, 11, 1-15.

production outsourced.⁴³ Similar to Mattel, most of its outsourced production was located in China. In 2007, 65% of Mattel's production was done in China.⁴⁴

The downside of Mattel's strategy of outsourcing non-core products was that it gave outside vendors less incentive because such orders tended to be less stable and the order size smaller, making it more difficult for vendors to recoup the fixed cost of production. An alternative was to outsource the production of its core products and produce new and less-popular products in-house. Such a strategy would allow Mattel to develop very stable relationships with its suppliers. It would also give Mattel more control over the resolution of the design problems and operational issues that arise from manufacturing new products, and boost the development capability of its in-house manufacturing operation.

Safety Standards

Mattel was fully aware of the perils of manufacturing in developing countries—where safety measures were often substandard and working conditions were unacceptable to its Western consumers—and the impact that such issues could have on Mattel's reputation. In the mid-1990s, Mattel and other American toy and garment companies came under criticism for not fully protecting the safety and rights of workers who manufactured their products in Asia.⁴⁵ In 1996, the media alleged that Mattel had used under-age workers and forced them to work overtime.⁴⁶ Chinese law and regulations allowed eight-hour workdays and a 40-hour work week, plus overtime of three hours per day and up to 36 hours per month.⁴⁷ To protect itself, Mattel established its Global Manufacturing Principles ("GMPs") the following year.⁴⁸ Mattel required both its own production facilities and all its contract manufacturers to comply with the GMPs and built regular GMP audits into Mattel's manufacturing operation. GMP audits were conducted by the Mattel Independent Monitoring Council ("MIMCO"), which was composed of external and independent experts. MIMCO was given a free hand in investigating all of Mattel's manufacturing plants and payroll and financial data, as well as talking to its factory workers. MIMCO also had the freedom to publish its findings without any censorship by Mattel.⁴⁹ The GMP code covered standards for wages, working hours, child labour, product safety and quality, and environmental protection, and it was later adopted by the International Council of Toy Industries.

"Mattel realized very early that they were always going to be in the crosshairs of sensitivities about child labour and product safety, and they knew they had to really play it straight", said M. Eric Johnson, a management professor at Dartmouth University who had visited a number of Mattel's plants in China. "Mattel was in China before China was cool, and they learned to do business there in a good way. They understood the importance of protecting their brand, and they invested."⁵⁰

⁴³ Reuters Stock (Date Unknown) "Hasbro Company Overview".

<http://stocks.us.reuters.com/stocks/fullDescription.asp?rpc=66&symbol=HAS> (accessed 9 March 2008).

⁴⁴ Banik, P. K. B. A. (16 October 2007) "Time for a Better Gameplan". *Businessline*.

⁴⁵ Bannon, L. (19 November 1999) "Mattel's Plants in Asia Attract Scrutiny". *Asian Wall Street Journal*.

⁴⁶ Barboza, D. and Story, L. (26 July 2007) "Toymaking in China, Mattel's Way". *New York Times*, www.nytimes.com/2007/07/26/business/26toy.html (accessed 8 March 2008).

⁴⁷ Verite (September 2004) "Excessive Overtime in Chinese Supplier Factories: Causes, Impacts, and Recommendations for Action", <http://www.verite.org/research/Excessive%20Overtime%20in%20Chinese%20Factories.pdf> (accessed 7 October 2008).

⁴⁸ Iwata, E. (27 March 2006) "How Barbie is Making Business a Little Better". *USA Today*.

⁴⁹ Sethi, S. P., Weidenbaum, M. L., and McCleary, P. F. (2009) "A Case Study of Independent Monitoring of U.S. Overseas Production: Mattel Independent Monitoring Council for Global Manufacturing Principles (MIMCO)—Audit Report 1999". *Global Focus: An International Journal of Business, Economics and Social Policy*, http://www.icca-corporateaccountability.org/PDFs/IndependentMonitoringofUS_MIMCOAuditReport12-09-99.pdf (accessed 20 January 2008).

⁵⁰ Barboza, D. and Story, L. (26 July 2007) "Toymaking in China, Mattel's Way". *New York Times*, www.nytimes.com/2007/07/26/business/26toy.html (accessed 8 March 2008).

Compared with its peers in the toy industry, Mattel manufactured a high proportion of its toys in-house to give it more control over the safety of its products. Stringent safety measures were put in place at the plants to ensure that nothing would go wrong. Toys were pulled off the production line regularly for safety checking and raw materials were tested when they were delivered to its factories.⁵¹ Vendors were required to use certified suppliers for sourcing raw materials, and those who did not comply were likely to lose their contracts with Mattel.

Nonetheless, maintaining safety standards in a country such as China, where public health standards were very different from those in the West, was not easy.⁵² Faced with rising production costs and pressure from customers to lower prices, toy manufacturers reduced costs by evading safety standards. There were cases where toys that had passed safety inspections were found to be laden with lead afterwards, suggesting the suppliers had tampered with safety inspections. "In the last three or five years, you've seen labour prices more than double, raw material prices double or triple", said Tom Debrowski, Mattel's executive vice-president of worldwide operations, "and I think there's a lot of pressure on guys that are working at the margin to try to save money".⁵³

Product Recall

In the summer of 2007, Mattel made several recalls of its toys made in China due to safety reasons. On 2 August, Mattel recalled 1.5 million Fisher-Price toys because of excessively high lead content in their paint.⁵⁴ Though the bulk of the affected toys were recalled before they reached consumers, more than 300,000 affected toys had already been sold.⁵⁵ Within two weeks, on 14 August, Mattel announced a global recall of another 436,000 toys due to lead paint hazards and recalled another 18.2 million toys with small magnets that could become detached and easily swallowed by children.⁵⁶

The substandard toys in both recalls connected with lead paint had been made by Mattel's long-time suppliers. The first was Lee Der Industrial Co. Ltd ("Lee Der"), which produced Fisher-Price infant toys and had worked with Mattel for 15 years.⁵⁷ The manufacturer responsible for the second recall, Early Light Industrial, had been a Mattel partner for 20 years. Critics were quick to point out that Mattel had become lax with its close manufacturing partners, leaving the regular testing to them and conducting spot-tests only every three months.⁵⁸ Mattel had 200 employees responsible for ensuring that contractors complied with Mattel's safety standards, but none of them was stationed on-site, leaving plenty of room for things to go wrong. For instance, neither Lee Der nor its subcontractor, Hong Li, had purchased the paint used for the manufacturing of the recalled toys from Mattel's certified paint suppliers. Critics also pointed out that Mattel's vigorous vetting of its contractors did not extend to second-tier subcontractors, and manufacturing orders were subcontracted out

⁵¹ Ibid.

⁵² A 2004 study by Beijing University showed that 34% of young children in China had blood-lead levels that exceeded safety standards set by the World Health Organization. See: Spencer, J. and Casey, N. (3 August 2007) "Toy Recall Shows Challenge China Poses to Partners", *Wall Street Journal*. <http://worldfinancial.blogspot.com/2007/08/toy-recall-shows-challenge-china-poses.html> (accessed 2 March 2008)

⁵³ Story, L. (2 August 2007) "Lead Paint Prompts Mattel to Recall 967,000 Toys", *New York Times*. <http://www.nytimes.com/2007/08/02/business/02toy.html> (accessed 15 October 2007).

⁵⁴ Story, L. (28 August 2007) "Mattel Shifts into Crisis Mode after Quality Problem", *International Herald Tribune*. <http://www.ihl.com/articles/2007/08/28/business/mattel.php> (accessed 2 February 2008)

⁵⁵ Story, L. (2 August 2007) "Lead Paint Prompts Mattel to Recall 967,000 Toys", *New York Times*. <http://www.nytimes.com/2007/08/02/business/02toy.html> (accessed 15 October 2007)

⁵⁶ Mattel, Inc. (14 August 2007) "One Product Recalled for Impermissible Levels of Lead. November 2006 Magnet Recall Expanded", Press Releases. <http://www.shareholder.com/mattel/news/2007/08/14-259557.cfm> (accessed 2 February 2008).

⁵⁷ Story, L. (28 August 2007) "Mattel Shifts into Crisis Mode after Quality Problem", *International Herald Tribune*. <http://www.ihl.com/articles/2007/08/28/business/mattel.php> (accessed 2 February 2008)

⁵⁸ Ibid.

extensively in China.⁵⁹ Even though all contractors had to provide a list of the subcontractors they used so Mattel could visit them, it was unclear whether the policy was actually being implemented.

Apology

Mattel produced about 65% of its toys in China, and its product recalls raised media attention regarding the safety of products manufactured in China. In September, Debrowski apologised to China's product safety official, Li Changjiang. Debrowski said the "vast majority of those products that were recalled were the result of a design flaw in Mattel's designs, not through a manufacturing flaw in China's manufacturers". He also said: "Mattel takes full responsibility for these recalls and apologizes personally to you, the Chinese people, and all of our customers who received the toys."⁶⁰

Aftermath

In late 2007, following Mattel's toy recalls, the provincial government of Guangdong inspected toy factories and suspended or revoked the export licenses of more than one-third of the factories because of substandard products.⁶¹ Mattel, meanwhile, beefed up product safety measures. It increased random inspections of vendors⁶² and adopted a three-step process for testing paint for lead:⁶³ paint was tested before it was applied to toys, followed by further testing and sudden inspections. In addition, every production run was tested before the final product was shipped.

The Way Forward

Mattel immediately stepped up safety measures after the product recalls in late 2007, and the Chinese government also cracked down on toy manufacturers who did not meet safety standards. The recalls clearly showed the difficulties of control in outsourcing and manufacturing in China despite precautionary measures and Mattel produced the majority of its products in China. Should Mattel increase the proportion of in-house production, or should it shift some of its production to other countries, perhaps more-developed countries, to spread risks?

⁵⁹ Ibid.

⁶⁰ Merle, R. and Mui, Y.Q. (22 September 2007) "Mattel and China Differ on Apology", *Washington Post*, http://www.washingtonpost.com/wp-dyn/content/article/2007/09/21/AR2007092100330_001 (accessed 1 March 2008).

⁶¹ Associated Press (2 November 2007) "PRC Bans Hundreds of Toy Makers from Producing Goods", *Taipei Times*, <http://www.taipetimes.com/News/worldbiz/archives/2007/11/02/2003385913> (accessed 27 January 2008).

⁶² ABC 7 News (15 October 2007) "Mattel Profit Dips on Recall Costs", <http://www.wjla.com/news/stories/1007/464024.html> (accessed 2 March 2008).

⁶³ Dungan, R. (11 February 2008) "Mattel Reiterates Safety Measure", *Toy News Online*, <http://www.toynewsmag.com/news/29506/Mattel-reiterates-safety-measures> (accessed 1 March 2008).

EXHIBIT 1: DIFFERENT REGIONS' SHARES IN THE TOY MARKET

Region	Percentage Share
Africa	2%
Asia	24%
Europe	29%
Latin America and Caribbean	7%
North America	36%
Oceania	2%

Source: The NPD Group (2007) "Toy Markets in the World", Prepared for the International Council of Toy Industry, www.toyassociation.org/AM/TemplateRedirect.cfm?Template=/CM/ContentDisplay.cfm&ContentID=3884 (accessed 22 February 2008).