

Mattel: Overcoming Marketing and Manufacturing Challenges

CASE

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Synopsis: *As a global leader in toy manufacturing and marketing, Mattel faces a number of potential threats to its ongoing operations. Like most firms that market products for children, Mattel is ever mindful of its social and ethical obligations and the target on its corporate back. This case summarizes many of the challenges that Mattel has faced over the past decade, including tough competition, changing consumer preferences and lifestyles, lawsuits, product liability issues, global sourcing, and declining sales. Mattel's social responsibility imperative is discussed along with the company's reactions to its challenges and its prospects for the future.*

Themes: *Environmental threats, competition, social responsibility, marketing ethics, product/branding strategy, intellectual property, global marketing, product liability, global manufacturing/sourcing, marketing control*

It all started in a California garage workshop when Ruth and Elliot Handler and Matt Matson founded Mattel in 1945. The company started out making picture frames, but the founders soon recognized the profitability of the toy industry and switched their emphasis. Mattel became a publicly owned company in 1960, with sales exceeding \$100 million by 1965. Over the next 40 years, Mattel went on to become the world's largest toy company in terms of revenue. Today, Mattel, Inc. is a world leader in the design, manufacture, and marketing of family products. Well-known for toy brands such as Barbie, Fisher-Price, Disney, Hot Wheels, Matchbox, Tyco, Cabbage Patch Kids, and board games such as Scrabble, the company boasts nearly \$6 billion in annual revenue. Headquartered in El Segundo, California, with offices in 36 countries, Mattel markets its products in more than 150 nations.

In spite of its overall success, Mattel has had its share of losses over its history. During the mid to late 1990s, Mattel lost millions due to declining sales and bad

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business acquisitions. In January 1997, Jill Barad took over as Mattel's CEO. Barad's management style was characterized as strict, and her tenure at the helm proved challenging for many employees. Although Barad had been successful in building the Barbie brand to \$2 billion near the end of the twentieth century, growth slowed rapidly after that time. Declining sales at outlets such as Toys "R" Us and the mismanaged acquisition of The Learning Company marked the start of some difficulties for the toy maker, including a dramatic 60 percent drop in stock price under Barad's three-year stint as CEO. Barad accepted responsibility for these problems and resigned in 2000.

The company soon installed Robert Eckert, a 23-year Kraft veteran, as chairman and CEO. During Eckert's first three years on the job, the company's stock price increased to over \$20 per share, and Mattel was ranked fortieth on *Business Week's* list of top-performing companies. Implementing techniques used by consumer-product companies, Eckert adopted a mission to bring stability and predictability to Mattel. He sold unprofitable units, streamlined work processes, and improved relations with retailers. Under Eckert, Mattel was granted the highly sought-after licensing agreement for products related to the *Harry Potter* series of books and movies. The company continued to flourish and build its reputation, even earning the Corporate Responsibility Award from UNICEF in 2003. By 2008, Mattel had fully realized a turnaround and was recognized as one of *Fortune* magazine's "100 Best Companies to Work For" and *Forbes* magazine's "100 Most Trustworthy U.S. Companies."

Mattel's Core Products

Barbie

Among its many lines of popular toy products, Mattel is famous for owning top girls' brands. In 1959, Mattel made the move that would establish them at the forefront of the toy industry. After seeing her daughter's fascination with cutout paper dolls, Ruth suggested that a three-dimensional doll should be produced so that young girls could live out their dreams and fantasies. This doll was named "Barbie," the nickname of Ruth and Elliot Handler's daughter. The first Barbie doll sported open-toed shoes, a ponytail, sunglasses, earrings, and a zebra-striped bathing suit. Fashions and accessories were also available for the doll. Although buyers at the annual Toy Fair in New York took no interest in the Barbie doll, little girls of the time certainly did. The intense demand seen at the retail stores was insufficiently met for several years. Mattel just could not produce the Barbie dolls fast enough. Today, Barbie is Mattel's flagship brand and its number one seller—routinely accounting for approximately half of Mattel's sales revenue. This makes Barbie the best-selling fashion doll in most global markets. The Barbie line today includes dolls, accessories, Barbie software, and a broad assortment of licensed products such as books, apparel, food, home furnishings, home electronics, and movies.

Although Barbie was introduced as a teenage fashion model, she has taken on almost every possible profession. She has also acquired numerous male and female friends and family over the years. Ken, Midge, Skipper, Christie, and others were

introduced from the mid-1960s on. The Barbie line has even seen a disabled friend in a wheelchair: Share a Smile Becky. Barbie's popularity has even broken stereotypes. Retrofitted versions of Barbie dolls, on sale in select San Francisco stores, feature "Hooker" Barbie, "Trailer Trash" Barbie, and "Drag Queen" Barbie. There are also numerous "alternative" Barbies, such as "Big Dyke" Barbie, but Mattel does not want the Barbie name to be used in these sales. Redressed and accessorized Barbies are okay with Mattel as long as no one practices trademark infringement.

Barbie's Popularity Slips Although Barbie remains a blockbuster by any standard, Barbie's popularity has slipped over the past decade. There are two major reasons for Barbie's slump. First, the changing lifestyles of today's young girls are a concern for Mattel. Many young girls prefer to spend time with music, movies, or the Internet than play with traditional toys like dolls. Second, Barbie has suffered at the hands of new and innovative competition, including the Bratz doll line that gained significant market share during the early 2000s. The dolls, which featured contemporary, ethnic designs and skimpy clothes, were a stark contrast to Barbie and an immediate hit with young girls. In an attempt to recover, Mattel introduced the new line of My Scene dolls aimed at "tweens." These dolls are trendier, look younger, and are considered to be more hip for this age group who is on the cusp of outgrowing playing with dolls. A website (<http://www.myscene.com>) engages girls in a variety of fun, engaging, and promotional activities.

Barbie's Legal Battle with MGA Entertainment Since 2004, Mattel has been embroiled in a bitter intellectual property battle with former employee Carter Bryant and MGA Entertainment, Inc., over rights to MGA's popular Bratz dolls. Carter Bryant, an on-again/off-again Mattel employee, designed the Bratz dolls and pitched them to MGA. A few months after the pitch, Bryant left Mattel to work at MGA, which began producing Bratz in 2001. In 2002, Mattel launched an investigation into whether Bryant had designed the Bratz dolls while employed with Mattel. After two years of investigation, Mattel sued Bryant. A year later MGA fired off a suit of its own, claiming that Mattel's My Scene dolls were an attempt to copy the Bratz line. Mattel answered by expanding its own lawsuit to include MGA and its CEO, Isaac Larian.

For decades, Barbie had reigned supreme in the doll market. However, Bratz dolls gave Barbie a run for her money. In 2005, four years after the brand's debut, Bratz sales were at \$2 billion. By 2009, Barbie's worldwide sales had fallen by 15 percent, although Bratz was not immune to sluggish sales either once consumers began to cut back on spending during the 2008–2009 recession.

Much evidence points toward Bryant having conceived of Bratz dolls while at Mattel. Four years after the initial suit was filed, Bryant settled with Mattel under an undisclosed set of terms. However, although some decisions were made, the battle between Mattel and MGA has continued. In July 2008, a jury deemed MGA and its CEO liable for what it termed "intentional interference" regarding Bryant's contract with Mattel. In August 2008, Mattel received damages of \$100 million. Although

Mattel first requested damages of \$1.8 billion, the company was pleased with the principle behind the victory. MGA is appealing the decision.

In December 2008, Mattel appeared to win another victory when a California judge banned MGA from making or selling Bratz dolls. The decision was devastating to the Bratz line, as retailers have avoided the brand in anticipation of Mattel's takeover. Many industry analysts, however, expect Mattel to work out a deal with MGA in which MGA can continue to sell Bratz dolls as long as Mattel shares in the profits. MGA plans to appeal the court ruling. Whatever the outcome, Mattel has managed to gain some control over Barbie's toughest competition.

American Girl

In 1998, Mattel acquired Pleasant Company, maker of the American Girl collection—a well-known line of historical dolls, books, and accessories. Originally, American Girl products were sold exclusively through catalogs. Mattel extended that base by selling American Girl accessories (not the dolls) in major chain stores like Walmart and Target. More recent efforts to increase brand awareness include the opening of American Girl Place shops in New York, Chicago, Los Angeles, Atlanta, Dallas, Boston, and Minneapolis. The New York store features three floors of dolls, accessories, and books in the heart of the 5th Avenue shopping district. The store also offers a café where girls can dine with their dolls and a stage production where young actresses bring American Girl stories to life.

The American Girl collection is wildly popular with girls in the 7- to 12-year-old demographic. The dolls have a wholesome and educational image—the antithesis to Barbie. This move by Mattel represented a long-term strategy to reduce reliance on traditional products and to take away the stigma surrounding the “perfect image” of Barbie. Each American Girl doll lives during a specific time in American history, and all have stories that describe the hardships they face while maturing into young adults. For example, Felicity's stories describe life in 1774 just prior to the Revolutionary War. Likewise, Josephina lives in New Mexico in 1824 during the rapid growth of the American West. Other dolls include Kaya (a Native American girl growing up in 1764), Elizabeth (Colonial Virginia), Kirsten (pioneer life in 1854), Addy (1864 during the Civil War), Samantha and Nellie (1904 New York), Kit (1934 during the Great Depression), Molly (1944 during World War II), and Emily (a British girl who comes to America during World War II). The American Girl brand includes several book series, accessories, clothing for dolls and girls, and a magazine that ranks in the top 10 American children's magazines.

Hot Wheels

Hot Wheels roared into the toy world in 1968. More than 40 years later, the brand is hotter than ever and includes high-end collectibles, NASCAR (National Association for Stock Car Auto Racing) and Formula One models for adults, high-performance cars, track sets, and play sets for children of all ages. The brand is connected with racing circuits worldwide. More than 15 million boys ages 5 to 15 are avid collectors, each owning an average of 41 cars. Two Hot Wheels cars are sold every

second of every day. The brand began with cars designed to run on a track and has evolved into a “lifestyle” brand with licensed Hot Wheels shirts, caps, lunch boxes, backpacks, and more. Together, Hot Wheels and Barbie generate about 65 percent of Mattel’s profits.

Fisher-Price

Acquired in 1993 as a wholly owned subsidiary, Fisher-Price is the umbrella brand for all of Mattel’s infant and preschool lines. The brand is trusted by parents around the world and appears on everything from children’s software to eyewear, and books to bicycles. Some of the more classic products include the Rock-a-Stack, Power Wheels vehicles, and Little People play sets. Through licensing agreements, the brand also develops character-based toys such as *Sesame Street*’s Elmo, Disney’s Winnie the Pooh, and Nickelodeon’s Dora the Explorer.

Fisher-Price has built a trust with parents by creating products that are educational, safe, and useful. For example, during recent years, the brand has earned high regard for innovative car seats and nursery monitors. Fisher-Price keeps pace with the interests of today’s families through innovative learning toys and award-winning products. One example is the Computer Cool School, a kid-friendly keyboard with a tablet and stylus, which turns a standard Windows-based computer into an interactive classroom for kids ages 3 to 6. The product was awarded the “Best Toy of 2008” by both *Parents Magazine* and *Family Fun Magazine*.

Mattel's Global Manufacturing

As a U.S.-based multinational company owning and operating facilities and contracting worldwide, Mattel’s Global Manufacturing Principles reflects the company’s needs to both conduct manufacturing responsibly and respect the cultural, ethical, and philosophical differences of the countries in which it operates. These principles set uniform standards, across Mattel manufacturers, that attempt to benefit both employees and consumers.

Mattel’s principles cover issues such as wages, work hours, child labor, forced labor, discrimination, freedom of association, and working conditions. Workers must be paid at least minimum wage or a wage that meets local industry standards (whichever is greater). No one under the age of 16 or the local age limit (whichever is higher) may be allowed to work for Mattel facilities. Mattel refuses to work with facilities that use forced or prison labor, or to use these types of labor itself. Additionally, Mattel does not tolerate discrimination. The company states that an individual should be hired and employed based on his or her ability—not on individual characteristics or beliefs. Mattel recognizes all employees’ rights to choose to affiliate with organizations or associations without interference. Regarding working conditions, all Mattel facilities and its business partners must provide safe working environments for their employees.

Manufacturing Issues Lead to Product Recalls

Despite Mattel's best efforts, not all overseas manufacturers have faithfully adhered to its high standards. In 2007, Mattel came under scrutiny over its sale of unsafe products as it announced recalls of toys containing lead paint. The problem surfaced when a European retailer discovered lead paint on a toy. An estimated 10 million individual toys produced in China were affected. Mattel quickly stopped production at Lee Der, the company officially producing the recalled toys, after it was discovered that Lee Der had purchased lead-tainted paint to be used on the toys. Mattel blamed the fiasco on the manufacturers' desire to save money in the face of increasing prices. "In the last three or five years, you've seen labor prices more than double, raw material prices double or triple," CEO Eckert said in an interview, "and I think that there's a lot of pressure on guys that are working at the margin to try to save money."

The situation began when Early Light Industrial Co., a subcontractor for Mattel owned by Hong Kong toy tycoon Choi Chee Ming, subcontracted the painting of parts of *Cars* toys to another China-based vendor. The vendor, named Hong Li Da, decided to source paint from a nonauthorized third-party supplier: a violation of Mattel's requirement to use paint supplied directly by Early Light. The products were found to contain "impermissible levels of lead." When it was announced that another of Early Light's subcontractors, Lee Der Industrial Company, used the same lead paint found on *Cars* products, China immediately suspended the company's export license. Afterward, Mattel pinpointed three paint suppliers working for Lee Der: Dongxin, Zhongxin, and Mingdai. This paint was used by Lee Der to produce Mattel's line of Fisher-Price products. It is said that Lee Der purchased the paint from Mingdai due to an intimate friendship between the two company's owners. In the latter part of 2007, Zhang Shuhong, operator of Lee Der, hung himself after paying his 5,000 staff members.

That same year, Mattel was forced to recall several more toys because of powerful magnets in the toys that could come loose and pose a choking hazard for young children. If more than one magnet is swallowed, the magnets can attract each other inside the child's stomach, causing potentially fatal complications. Over 21 million Mattel toys were recalled in all, and parents filed several lawsuits claiming that these Mattel products harmed their children.

At first, Mattel blamed Chinese subcontractors for the huge toys recalls; but the company later accepted a portion of the blame for the trouble, while maintaining that Chinese manufacturers were largely at fault. The Chinese viewed the situation quite differently. As reported by the state-run Xinhua news agency, the spokesperson for China's state Administration of Quality Supervision and Inspection and Quarantine (AQSIQ) said, "Mattel should improve its product design and supervision over product quality. Chinese original equipment manufacturers were doing the job just as importers requested, and the toys conformed to the U.S. regulations and standards at the time of the production." Mattel also faced criticism from many of its consumers, who believed Mattel was denying culpability by placing much of the blame on China. Mattel was later awarded the 2007 "Bad Product" Award by Consumers International.

How did this crisis occur under the watch of a company praised for its ethics and high safety standards? Although Mattel had investigated its contractors, it did not audit the entire supply chain, including subcontractors. This oversight left room for these violations to occur. Mattel has moved to enforce a rule that subcontractors cannot hire suppliers two or three tiers down the supply chain. In a statement, Mattel claimed to have spent more than 50,000 hours investigating its vendors and testing its toys. Mattel also announced a three-point plan designed to tighten Mattel's control of production, discover and prevent the unauthorized use of subcontractors, and test the products itself rather than depending on contractors.

The Chinese Government's Reaction

Chinese officials eventually did admit the government's failure to properly protect the public. The Chinese government is now promising to tighten supervision of exported products, but effective supervision is challenging in such a large country that is so burdened with corruption. In 2008, the Chinese government launched a four-month nationwide product quality campaign, offering intensive training courses to domestic toy manufacturers to help them brush up on their knowledge of international product standards and safety awareness. As a result of the crackdown, the state AQSIQ announced that it had revoked the licenses of more than 600 Chinese toy makers. Also in 2008, the State Administration for Commerce and Industry (SACI) released a report claiming that 87.5 percent of China's newly manufactured toys met quality requirements. Although this represents an improvement, the temptation to cut corners remains strong in a country that uses price, not quality, as its main competitive advantage.

Mattel's Social Responsibility Imperative

Because Mattel's core products are designed primarily for children, the company must be sensitive to social concerns about children's rights. It must also be aware that the international environment often complicates business transactions. Different legal systems and cultural expectations about business can create many complex issues. Finally, the use of technology may present many dilemmas, especially regarding consumer privacy. Mattel has recognized these potential issues and taken steps to strengthen its commitment to business ethics. The company also purports to take a stand on social responsibility, encouraging its employees and consumers to do the same.

Privacy and Marketing Technology

One issue Mattel has tried to address repeatedly is that of privacy and online technology. Advances in technology have created special marketing issues for Mattel. The company recognizes that, because it markets to children, it must communicate with parents regarding its corporate marketing strategy. Mattel has taken steps to inform both children and adults about its philosophy regarding Internet-based

marketing tools, such as the Hot Wheels website. This website contains a lengthy online privacy policy, part of which reads as follows:

Mattel, Inc. and its family of companies (“Mattel”) are committed to protecting your online privacy when visiting a website operated by us. We do not collect and keep any personal information online from you unless you volunteer it and you are 13 or older. We also do not collect and keep personal information online from children under the age of 13 without consent of a parent or legal guardian, except in limited circumstances authorized by law and described in this policy.

By assuring parents that their children’s privacy will be respected, Mattel demonstrates that it takes its responsibility of marketing to children seriously.

Expectations of Mattel's Business Partners

Mattel also makes a serious commitment to business ethics in its dealings with other industries. In late 1997, the company completed its first full ethics audit of each of its manufacturing sites as well as the facilities of its primary contractors. The audit revealed that the company was not using any child labor or forced labor, a problem plaguing other overseas manufacturers. However, several contractors were found to be in violation of Mattel’s safety and human rights standards and were asked to change their operations or risk losing Mattel’s business. The company now conducts an independent monitoring council audit in manufacturing facilities every three years.

In an effort to continue its strong record on human rights and related ethical standards, Mattel instituted a code of conduct entitled Global Manufacturing Principles in 1997. One of these principles requires all Mattel-owned and contracted manufacturing facilities to favor business partners committed to ethical standards comparable with those of Mattel. Other principles relate to safety, wages, and adherence to local laws. Mattel’s audits and subsequent code of conduct were designed as preventative, not punitive, measures. The company is dedicated to creating and encouraging responsible business practices throughout the world.

Mattel also claims to be committed to its workforce. As one company consultant noted, “Mattel is committed to improving the skill level of workers . . . [so that they] will experience increased opportunities and productivity.” This statement reflects Mattel’s concern for relationships between and with employees and business partners. The company’s code is a signal to potential partners, customers, and other stakeholders that Mattel has made a commitment to fostering and upholding ethical values.

Legal and Ethical Business Practices

Mattel prefers to partner with businesses similarly committed to high ethical standards. At a minimum, partners must comply with the local and national laws of the countries in which they operate. In addition, all partners must respect the intellectual property of the company, and support Mattel in the protection of assets such as patents, trademarks, or copyrights. They are also responsible for product safety and

quality, protecting the environment, customs, evaluation and monitoring, and compliance.

Mattel's business partners must have high standards for product safety and quality, adhering to practices that meet Mattel's safety and quality standards. As noted earlier in the case, safety standards have been seriously violated in the past. Also, because of the global nature of Mattel's business and its history of leadership in this area, the company insists that business partners strictly adhere to local and international customs laws. Partners must comply with all import and export regulations. To assist in compliance with standards, Mattel insists that all manufacturing facilities provide the following:

- Full access for onsite inspections by Mattel or parties designated by Mattel
- Full access to those records that will enable Mattel to determine compliance with its principles
- An annual statement of compliance with Mattel's Global Manufacturing Principles, signed by an officer of the manufacturer or manufacturing facility

With the creation of the Mattel Independent Monitoring Council (MIMCO), Mattel became the first global consumer products company to apply such a system to facilities and core contractors worldwide. The company seeks to maintain an independent monitoring system that provides checks and balances to help ensure that standards are met.

If certain aspects of Mattel's manufacturing principles are not met, Mattel will try to work with contractors to help them fix their problems. New partners will not be hired unless they meet Mattel's standards. If corrective action is advised but not taken, Mattel will terminate its relationship with the partner in question. Overall, Mattel is committed to both business success and ethical standards, and it recognizes that it is part of a continuous improvement process.

Mattel Children's Foundation

Through the Mattel Children's Foundation, the company promotes philanthropy and community involvement among its employees and makes charitable investments to better the lives of children in need. Funding priorities have included building a new Mattel Children's Hospital at the University of California, Los Angeles (UCLA), sustaining the Mattel Family Learning Program, and promoting giving among Mattel employees.

In November 1998, Mattel donated a multiyear, \$25 million gift to the UCLA Children's Hospital. The gift was meant to support the existing hospital and provide for a new state-of-the-art facility. In honor of Mattel's donation, the hospital was renamed Mattel Children's Hospital at UCLA.

The Mattel Family Learning Program utilizes computer-learning labs as a way to advance children's basic skills. Now numbering more than eighty throughout the United States, Hong Kong, Canada, and Mexico, the labs offer software and technology designed to help children with special needs or limited English proficiency.

Mattel employees are also encouraged to participate in a wide range of volunteer activities, including Team Mattel, a program that allows Mattel employees to partner with local Special Olympics programs. Employees serving on boards of local nonprofit organizations or helping with ongoing nonprofit programs are eligible to apply for volunteer grants supporting their organizations. Mattel employees contributing to higher education or to nonprofit organizations serving children in need are eligible to have their personal donations matched dollar for dollar up to \$5,000 annually.

Mattel Looks Toward the Future

Like all major companies, Mattel has weathered its share of storms. In recent years, the company has faced a series of difficult and potentially crippling challenges. During the wave of toy recalls, some analysts suggested that the company's reputation was battered beyond repair. Mattel, however, has refused to go quietly. Although the company admits to poorly handling recent affairs, it is attempting to rectify its mistakes and to prevent future mistakes as well. The company appears to be dedicated to shoring up its ethical defenses to protect both itself and its customers. Mattel's experiences should teach all companies that threats could materialize within the marketing environment in spite of the best-laid plans to prevent such issues from occurring.

With slowing demand for toys and the most recent economic recession, Mattel may be in for slow growth for some time to come. Today, Mattel faces many market opportunities and threats including the rate at which children are growing up and leaving toys, the role of technology in consumer products, and purchasing power and consumer needs in global markets. The continuing lifestyle shift of American youth is of particular concern for Mattel. The phenomenal success of gaming systems, portable music players, text messaging, and social networking sites among today's youth is a testament to this shift. Children and teens are also more active in extracurricular activities (for example, sports, music, and volunteerism) than ever before. Consequently, these young consumers have less time to spend with traditional toys.

Despite these concerns, Mattel has a lot to offer both children and investors. Barbie remains the number one doll in the United States and worldwide. And Barbie.com, the number one website for girls, routinely gets over 50 million visits per month. Furthermore, all of Mattel's core brands are instantly recognizable around the world. Hence, the ability to leverage one or all of these brands is high. A few remaining issues include Mattel's reliance on Walmart and Target (which lessens Mattel's pricing power), volatile oil prices (oil is used to make plastics), and increasing competition on a global scale. However, analysts believe Mattel has a great growth potential with technology-based toys, especially in international markets, in spite of changing demographic and socioeconomic trends. For a company that began with two friends making picture frames, Mattel has demonstrated marketing dexterity and longevity. The next few years, however, will test the firm's resolve and strategy within the highly competitive yet lucrative toy market.

Questions for Discussion

1. Do manufacturers of children's products have special obligations to consumers and society? If so, what are these responsibilities?
2. Comment on the strengths and weaknesses of Mattel's core brands. In looking at Barbie specifically, what actions would you recommend to stem Barbie's sales decline? Should Mattel accept the fact that the brand will never regain its former sales status? Explain.
3. To what extent was Mattel responsible for issues related to its production of toys in China? How might Mattel have avoided these issues?
4. What opportunities and threats does Mattel face as it looks toward its future?

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