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Toymaking in China, Mattel's Way

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SHENZHEN, China, July 19 — Inside [Mattel's](#) sprawling test lab here, scores of technicians are doing their worst: setting Chicken Dance Elmo dolls on fire, wrecking Hot Wheels cars and yanking at the limbs of Dora the Explorer. The lab workers are paid to break toys, pick apart their innards, and analyze the raw materials that go into them.

The goal is to protect young children from the serious harm that poor construction or dangerous components can bring. But it is also to protect Mattel, the world's biggest toy maker, from what is increasingly viewed as the risk of doing business in China.

The recent wave of recalls and warnings from China has ignited worldwide concern about the safety of Chinese products, potentially mucking up a global system built, in large part, on outsourced manufacturing. As a result, companies are trying urgently to figure out how to do business here, without risking their reputation, consumer trust, or customers' lives.

Mattel may have some of the answers. In the 1990s, critics charged the company with running sweatshops in Asia. Now, independent analysts, and even watchdog groups, say Mattel may be the best role model for how to operate prudently in China.

"Mattel realized very early that they were always going to be in the crosshairs of sensitivities about child labor and product safety, and they knew they had to really play it straight," said M. Eric Johnson, a management professor at the Tuck School of Business at Dartmouth, who has visited numerous factories in China, including some of Mattel's. "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."

Mattel, and many of the outside analysts, say the key is command and control. Unlike many other companies, Mattel, which makes about 65 percent of its toys here, actually owns the plants that produce its most popular wares. About 50 percent of Mattel's toy revenue comes from core products made in these company-run plants, a high proportion in the industry — and a more costly method than using the lowest-bidding local manufacturer.

Its workers check toys for safety on site and in facilities like the one here in Shenzhen. An independent auditor inspects factories and posts reports on the Internet.

The company demands that the outside manufacturers it does use comply with its safety guidelines. And when supplies or raw materials arrive at one of its five Chinese factories, they are analyzed and tested.

"We are not perfect; we have holes," said Jim Walter, a senior vice president at Mattel. "But we're doing more

than anyone else.”

Mattel's presence in Asia predates the global outsourcing wave by decades. “The foot-stamp on the original Barbie says ‘Made in Japan,’ ” said Jules Andres, a spokeswoman for Mattel. “That was 1959.”

Initially, overseas production was handled largely by outside vendors. But in the 1980s executives became concerned that outsourcing toy-making put trademarks at risk: the market could be flooded with imitation Barbies. Executives also thought they could handle manufacturing more efficiently themselves by building large factories.

Mattel aggressively expanded the number of plants it owned in Asia. Noncore products, like trinkets made under movie-licensing deals, could be outsourced. But Barbie dolls and Hot Wheels, among others, would be kept in tightly controlled factories.

For all its efforts to assume direct control, Mattel was surprised when, at the height of the holiday shopping season in 1996, NBC's “Dateline” program sneaked cameras into Mattel's Indonesian factory and alleged that the company had hired underage workers and overworked them. U.S. News and World Report ran a cover story the same month with the headline “Sweatshop Christmas.”

A Mattel spokeswoman said that many of the charges against its factories were unfounded, and that the toy maker was already committed to decent workplace conditions.

Still, in 1997, Mattel took a significant step to improve its image and working conditions. The company hired S. Prakash Sethi, a professor at [Baruch College](#), part of the [City University of New York](#), who had an international reputation as a critic of worker mistreatment.

Mr. Sethi would make unannounced visits to Mattel's factories and vendors' plants. He insisted that he would only monitor Mattel if the toy maker let him post his reports publicly and uncensored.

Mattel agreed.

Ten years later, Mr. Sethi says Mattel, unlike most companies operating abroad, still gives him 100 percent independence in his reports, which are often critical. “Mattel is the gold standard,” he said.

Today, industry analysts tend to mention Mattel's commitment to worker conditions in the same breath as its commitment to product safety.

“Mattel talks about this with a passion, and it is not just lip service,” said Sean McGowan, managing director and toy industry analyst at Wedbush Morgan Securities.

That doesn't mean the company, based in El Segundo, Calif., and its subsidiaries, Fisher-Price and American Girl, haven't had recalls — 25 in the last 10 years. But, rather than supply-chain defects, the recalls have mostly involved design flaws, or consumer misuse.

The largest, in 1998, involved toys made not in China but in the United States. At the time, Mattel recalled up to 10 million Power Wheels electronic cars sold by Fisher-Price, Mr. Walter of Mattel said.

Mattel and the United States [Consumer Product Safety Commission](#) clashed over whether to recall the cars, which sometimes overheated. To some Mattel officials, the problem seemed to lie with customers — often teenagers or young adults who were deliberately overriding safety features, Mr. Walter said. But Mattel decided to recall the cars because the misuse was frequent.

Now, many recalls fall into this “consumer usage” category, and Mattel seeks to act before being prompted by government demands.

Mattel was one of only two major toy makers that agreed to allow a reporter for The [New York Times](#) to visit one of its factories in China — or even to put an executive on the phone to discuss the issue of Chinese product safety. [Hasbro](#), LeapFrog and Zizzle — the maker of Pirates of the Caribbean toys, among others — all declined requests.

Lego does not manufacture in China, but it declined a request to visit factories elsewhere. Aside from Mattel, only MEGA Brands of Canada said it would permit a visit.

One of Mattel's biggest factories is a two-hour drive north of here, in Guanyao, a city in south China's Guangdong province, considered the world's biggest toy manufacturing center. Opened in 1999, the Mattel Diecast China factory produces small metallic Hot Wheels cars and recently began producing plastic toys for Fisher-Price.

On a tour of the plant, Mattel officials showed off a 330,000-square-foot factory that operates 20 hours a day, six days a week during peak time. About 3,000 workers busily created molds, painted, assembled parts and boxed up millions of Hot Wheels and plastic toy sets.

The staff is mostly young and female, migrant workers who typically leave home for three- or four-year stints in factories after high school. Many of them say they work 10 hours a day, six days a week, for about \$175 a month, typical for this region.

Elisha Chan, the director of product integrity and corporate responsibility, is charged with guarding against dangerous defects like lead-based paint. Suppliers are closely monitored, he says, and sending in fake or tainted supplies is a ticket to losing the contract with Mattel. And some vendors have, says Mr. Chan.

Professor Johnson of Dartmouth visited the Guanyao factory while it was under construction. “I was impressed that they were spending a lot more time and money building dorms,” he said, comparing the factory with those of other companies. “Mattel's China partner working to build that factory could not understand why they'd be wasting this money on all these things.”

Mattel says that it can control the quality of its toys better because it owns factories like this one. Before the company approves any of its new toys — some 5,000 each year — it produces small batches.

Once full-scale production begins, toys are pulled off the line periodically and supplies are tested as they come in the door.

That may sound elementary. But many Western companies operating in China do not test their raw

materials, even though suppliers are known for substituting cheaper material to pad their profit.

"This is very common," said Dane Chamorro, regional director of Control Risks, a global consulting company. "The samples you get are always fantastic; but once they rope you in they can cut back. And a lot of Chinese companies will do anything to cut costs."

Some manufacturing experts say factories that are owned by global brand companies, like Mattel, often appear to be of higher quality than plants owned by vendors.

But others say that companies relying on contract factories could be just as tough if they chose to. David M. Upton, a professor at [Harvard](#) Business School, said, "You can fire the vendor, too."

All the toy testing and safety measures cost money. But the Mattel brand can command a premium price, said Mr. McGowan, the analyst at Wedbush Morgan.

And, he said, "a major toy safety problem" could prove much more costly than prudence.

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