

# Strategy-evaluation framework for mattel



## **1. 0 Strategy Review, Evaluation, and Control**

The best-formulated and best-implemented strategies become obsolete as a firm's external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies.

We have developed a general strategy-evaluation framework for Mattel:

1. Reviewing bases of strategy
2. Measuring organizational performance
3. Taking corrective actions

Besides that, we will introduce balanced scorecard as another strategy-evaluation tool to analyze Mattel from few areas of objectives: customers, managers/employees, investors/shareholders, operations/processes, community/social responsibility, and financials.

## **1. 1 General Strategy-Evaluation Framework**

### **1. 1. 1 Reviewing bases of strategy**

Reviewing the underlying bases of Mattel's strategy could be approached by developing a revised EFE Matrix and IFE Matrix.

As being well described and analyzed in Chapter 3 and 4 of this report, here, we will revise EFE and IFE Matrix to review and evaluate how effective Mattel's strategies have been in response to key external and internal factors.

## **External Factors**

### **Opportunities**

- Mattel has a chance to market Barbie to the whole world and make it a recognizable brand worldwide. This has been proven that Mattel tries its best to improve its marketing strategies to penetrate different market segments and strive for stable revenue annually from international market.
- Weakening dollar makes the price of Mattel's toys becomes more affordable. It is helpful in increase its revenue. To take this advantage, in fact, Mattel has reduced the selling price of its products in some countries.

### **Threats**

- Many children start abandoning tangible toys and looking for more interactive and technological toys or cyber/virtual games. That was why Mattel tried to diversify into software industry. However, until now, its result is not satisfactory. One of the reasons is, the adopted strategies are not matched with its corporate culture or operations.
- Global recession caused reduced spending or down trading for toys. This is inevitable despite how much effort has been made to stimulate the revenue. However, if Mattel is able to make it more affordable and create a need for customers, it might change its situation. However, strategies should be well developed.
- Different countries with different cultures and languages in fact have posed barriers which hindered market penetration strategies of Mattel. However, Mattel seemed to have overcome them well as it tried to

market its products with different languages in different countries and modified the content of ads with some “ local flavors”.

- Many other competitors keep coming out with different and better products, such high product substitution threat might threaten the competitive position of Mattel. Therefore, Mattel is particularly cautious with its product quality and safety issues. However, there was still an outbreak of toxic toy which caused few millions loss to Mattel.
- Due to the emergence of China market and since many production plants have been setup in China, raw materials are subject to price fluctuation when the economy of China appears to be unstable. To overcome this, possibly, Mattel can locate its plants at many different countries. The downfall in one country might be offset by the upturn of another country.

## **Internal Factors**

### **Strengths**

- With successful operational and marketing strategies, Barbie has been known as a long established brand for 60 years. With recognizable brand portfolio and wide product range to cater various life stage, in fact, Mattel has safeguarded its market leader position for years. One of the strategies is to have new product launch annually, so that, customers will have “ surprise” every year. Such strategies are considered successful.
- With the effort and perseverance in maintaining business integrity and practicing corporate social responsibility, it has brought much credit to the reputation of Mattel. Despite the scandals, Mattel does have a group of loyal supporters and fans who will purchase new products of

Mattel. Such strategy of creating loyalty and trust in customers is very effective in customer retention.

- Since Mattel has strategic partnership with Microsoft, Disney, Bandai and etc, this created an invincible strength for it. As there are so many other strong rivals who strive to win market share from Mattel, Mattel tries to form a strong alliance with other strong companies in the market.
- Devoted, highly-motivated and energetic management team which works together to make better and better products and performance and stay together during doom time, this shows that Mattel has a successful HR strategy which retains experienced and outstanding employees in the corporation.
- Since early year, Mattel has been keeping its intangible assets as its valuables, such as trade names and trademarks. That is why it has a particular department which deals with this issue.

### **Weaknesses**

- Unprofitable mergers and acquisitions of the Learning Company had made a loss of nearly billion in Mattel's account. Although eventually Mattel sold off this subsidiary, this reduced the confidence of investors as Mattel's management is perceived as too reckless in M&A strategy.
- Due to many external changes, slipping popularity of their core product – Barbie has been shown in the declining sales of its product. Therefore, Mattel keeps coming out with new products to retain the interest and passion of customers.
- After the outbreak of toxic toys scandal, generally, the level of acceptance of customers has dropped. No doubt, Mattel has been

striving to give the customers the best products, in terms of quality, safety, and etc, however, such an incident is nearly fatal to the reputation and future of Mattel. No matter how good the strategies are, one scandal might ruin the company as a whole.

### **1. 1. 2 Measuring organizational performance**

This includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and annual objectives are commonly used in this process. Criteria for evaluating strategies should be measurable and easily verifiable.

Generally, strategy evaluation is based on both quantitative and qualitative criteria. For quantitative criteria, financial ratios are commonly used. There are three critical comparisons:

- Comparing the firm's performance over different time periods
- Comparing the firm's performance to competitors'
- Comparing the firm's performance to industry averages

Mattel's performance over different time periods has been well explained in Chapter 7. Overall, Mattel is able to maintain its financial ratios over years. It only has slight increase or decrease occurred. Therefore, internally, we may say Mattel is financially stable and strong over years. Even during economic crisis period, it was still able to maintain its financial performance at a satisfactory level.

On the other hand, to compare the performance of Mattel to that of competitors and also industry averages, two main competitors, namely,

Hasbro Inc. (HAS) and Jakks Pac Inc. (Jak) have been identified and served as a benchmark to compare the performance of Mattel Inc. (Mat).

From the table below, it is obvious that Mattel is the market leader of this industry which having splendid financial performance as compared to its main competitors. By looking at its valuation, profitability, dividend, growth, liquidity and asset ratios, Mattel is far better than competitors and industry averages. In short, based on quantitative criteria, Mattel’s performance takes a leading position which created core competency for its sustainability and survival. However, it may guarantee long-term success if it does not proactively improve itself.

Year	MAT	HAS	JAKK	Industry Averages
2008				

Valuation

Price/Earnings (TTM)	15.24	14.58	1.52	12.78
----------------------	-------	-------	------	-------

Price/Cash Flow	10.73	7.83	10.07	9.54
-----------------	-------	------	-------	------

Price/Sales (TTM)	0.98	1.13	0.75	0.95
-------------------	------	------	------	------

Price/	2.66	2.46	1.06	2.06
--------	------	------	------	------

Book

Per Share Data

Last

	70.	42.		
Dividen			0	37.40
d	09	11		

Book

Value	5.88	9.3	11.66	1.95
-------	------	-----	-------	------

EPS

(TTM)	1.07	1.9	-12.8	-3.28
-------	------	-----	-------	-------

Revenu

e	5.91	4.02	903.	3.61 B
	B	B	39 M	

Profitability

EBIDTA	742.	654.	101.	499.37
	00 M	33 M	79 M	M

Operati

ng	9.	12.	1.	10.29%
Margin	74%	29%	85%	

Profit

Margin	6.	7.	1.	7.49%
	41%	63%	42%	

Gross

Profit	45.	55.	35.	45.57%
--------	-----	-----	-----	--------



Margin 19% 96% 56%

Dividend

Dividend	4.	2.	0.	
Yield	18%	96%	00%	2.38%

Payout Ratio	70.09	42.11	0	37.40
--------------	-------	-------	---	-------

Dividend

5 Year Average	3.33%	2.07%	0.00%	1.80%
----------------	-------	-------	-------	-------

e

Growth

Net Income	379.63 M	306.76 MM	76.05 M	254.15 M
------------	----------	-----------	---------	----------

EPS (TTM)	1.07%	1.90%	-12.80%	-3.28%
-----------	-------	-------	---------	--------

Revenue	5.91 B	4.02 B	903.39 M	3.61 B
---------	--------	--------	----------	--------

PEG	1.56%	1.44%	1.71%	1.57%
-----	-------	-------	-------	-------

Financial Strength

Quick

Ratio 6.41 7.63 1.42 7.49

(MRQ)

Current

Ratio 2.06 2.61 2.09 2.25

(MRQ)

Long

Term

Debt to 32.81.0 31.12

Equity 72 65

Ratio

(MRQ)

Total

Debt to 29.34.11.64 25.17

Capital 83 03

(MRQ)

ROE 17.21.9.47 16.01  
32 24

ROA 10.9 9.67 -46. -1.80  
98

ROIC 13.8 15.9.5 12.94

(Return  
on  
Investe  
d  
Capital)

52

Assets

Asset

Turnov 1. 43 1. 290. 88 1. 20

er

Asset

per 143, 528, 1. 03  
123. 095. 0. 57 M  
Employ 72 93 M  
ee

Invento

ry

6. 72 5. 746. 79 6. 42

Turnov

er

Apart from quantitative criteria, there are some qualitative criteria needed to be taken into consideration. These criteria are presented in question forms, including the following questions:

**\* Is the hiring and recruitment process matched with the strategy?**

Among the workers working at Mattel’s plant, a large majority of the workers (79%) got their job by applying directly at the plant site, while another 19%

were referred by friends. The average length of employment among the interviewed workers was approximately 4.0 years. However, for 26% of the workers, employment at Mattel was their first job. This indicates that while the workforce includes a sizeable proportion of temporary and seasonal workers, the core group provides Mattel with a substantial number of stable and experienced employees. The hiring process includes general company orientation, which covers such issues as the employment contract, rules of conduct, disciplinary measures, grievance procedures, wages deductions and overtime pay policies, transportation services, facilities, amenities and tour of the factory. Newly hired workers also receive information and training in the topics of Environmental, Health and Safety (EHS Orientation). Each worker at the Mattel's plant has a signed contract on file. Employee personnel records also include illness and injury reports; disciplinary action reports; medical examinations and maternity leave reports. All new hires are also given a medical examination. They also received job-related training of varying length based on the specific requirements of their jobs. Based on these mechanisms on hiring and recruitment, Mattel is able to ensure they have selected the best and right people to achieve company's goals.

### **Are the workers able to understand and practice GMP?**

GMP is very important in ensuring the quality of products. Interviewed workers largely confirmed that they were familiar with various provisions of Mattel's GMP. Management Compliance Report (MCR) indicated that GMP document in local language was provided to all employees and is available in local language. The Plant Manager plays the key role in communicating GMP information to supervisors and employees. The MCR also stated that

information on GMP is provided twice a year, through various sources such as the new hire orientation program, employee handbook, boards and the company intranet.

**Are the plant's workers financially motivated to achieve company's objectives?**

Financial compensations to plant's workers are very important to maintain the morale and motivation level of workers. The minimum wage for Tijuana is \$41. 67 (Mexican pesos) per day. Temporary workers at the Mexico's plant earn at least \$74. 00 per day; while the core group's minimum wage is \$85. All overtime is paid at double wage rates, up to 9 overtime hours each week. All hours worked in excess of 9 hours per week are paid at triple rates. In addition, workers also receive attendance and punctuality bonuses. Besides, all confirmed workers are also entitled to annual leave, sick leave, maternity leave, free vacation, free transportation, free coffee and bakery products, free training courses, and etc. These policies are able to match the workers' objectives with company's objectives when they are well compensated.

**Are work environment of manufacturing operations and related facilities able to ensure the quality of work from workers?**

As an example, the plant in Mexico is a large plant consisting of one building covering an area of over 473, 000 sq. square feet. The facility has installed a very modern and efficient delivery system for handling raw materials. Resins for manufacturing plastic are delivered by trucks to a roadside facility where they are stored in large silos. From there, they are delivered to the molding machines on the factory floor through a sophisticated computer-controlled system. The process is designed to keep the site clean and helps minimize spillage and waste.

The facility maintains, among others, detailed and up-to-date records on plant maintenance, air filtration, noise control, fire prevention, and safe storage of hazardous materials. The high standards of environmental health safety of the plant were also confirmed by the ICCA professional engineering audit team through an extensive “ walk through” of the entire plant. ICCA’s inspection confirmed that the plant was in “ good” operating condition internally and in “ fair” condition externally. The plant provides free-of-charge Personal Protective Equipment (PPE) to all employees where use of such equipment is required and appropriate. The factory meets or exceeds the GMP requirements for bathroom, wash basins, and clean drinking water. Toilets are equipped with an effective flushing system and are maintained and cleaned on a regular basis. The dining area at the factory canteen is quite attractive. Colorful paintings, natural light through large windows and TV for entertainment provides the dining room with a pleasant environment. There is also an outside eating area for those who wish to smoke. Employees are served two meals per shift. The meals are mostly subsidized by the factory with workers paying only a nominal sum. In addition, the medical clinic at the plant is excellent and well-staffed. It is open 24 hours and seven days a week. It is staffed with one medical doctor and three qualified nurses. The clinic has a good record keeping system for the workers’ use of the clinic including work-related injury data.

In short, Mattel has a well maintained facility and operates in an efficient manner while ensuring that the plant provides a clean, safe and healthy work environment for its employees. This also helps to ensure the workers produce high-quality products.

### **1. 1. 3 Taking corrective actions**

The final strategy-evaluation activity is about taking corrective actions, which requires making changes to competitively reposition a firm for the future. These corrective actions might be derived from the inspection of internal or external auditors who review and evaluate the practices and policies of a company. Some corrective actions, for example, like altering an organization's structure, replacing one or more key individuals, selling a division, or revising a business mission. Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, differently allocating resources, or developing new performance incentives.

As for Mattel, despite some of the scandals, it has been performing well since its establishment. When there were discrepancies of performance from target, Mattel had made corrective actions accordingly.

### **1. Mattel Independent Monitoring Council for Global Manufacturing Principles**

In this internal auditing practice, the physical plant, including all manufacturing and storage areas, were found to be in excellent condition. The plant and its related machinery were well maintained. The housekeeping appeared to be very good resulting in a neat, clean and safe operating plant. MIMCO was especially attentive to ensure that employees were properly using safety equipment and that environmental practices were being followed. However, there are few areas have been identified to make improvements.

- Employee Treatment by Line Supervisors

- MIMCO' report of the previous audit had noted that the primary source of employee dissatisfaction pertained to incidents, albeit infrequent, of verbal abuse by line supervisors especially when it is meted out in public and in the presence of co-workers. It was recommended that Montoi's plant management review all pertinent issues of supervision and human relations in its weekly meetings. Further, the plant management should take action to strengthen its first-line supervisor training program.
- Work-place Hazards

Mattel was found to have insufficient storage space as it had reached its maximum capacity. This shortage led to storage of volatile compounds in a tool crib in the middle of the factory' assembly line. Another issue of concern was the noise level in some areas caused by the sonic welding machines. This noise level was found to be in excess of Mattel' GMP standards in the vicinity of the sonic welding operations. A possible work hazard described by employees was the risk of fire when water spilled from machines on the electric cables in work areas. MIMCO recommended an upgrade to the water feeding system and training of employees. The use of all-purpose utility knives to trim the mold marks was identified as a work hazard by management, production employees and the MIMCO team. These cuts were found to be a major source of injury and lost-days of work. Mattel had made corrective actions accordingly to rectify the mistakes and improve on the insufficiencies.

- Insufficient Bathroom and Toilet Facilities



In the initial audit of Montoi, employees had complained about long waiting time for the use of bathrooms. The employees felt that there were not enough bathrooms to meet their needs when the plant was operating at full capacity. Although, the number of available bathrooms met both the GMP standards and the Mexican law, it was recommended that serious consideration should be given to expanding these facilities. The Montoi plant has added 11 more toilets for female employees and 8 for male employees.

## **2. Mattel's corrective actions on ICCA 2004 Follow-Up Report of Mattel Owned and Operated Plants in China**

- Regular and Overtime Work Hours

ICCA found that Mattel's plants were scheduling work hours in excess of Mattel's 60 hour per week requirement. In response to this, Mattel has elected to limit the maximum number of working hours to 60 per week during normal operations, and 72 hours per week during peak periods and other extraordinary situations, provided that overtime is voluntary, the employees are paid appropriately and work hours in excess of 60 hours per week, but less than 72 hours per week, do not exceed 1/3 of the year for each employee.

- Payment of Minimum Wages

Mattel's China partner at the Guan Yao facility had made a good faith effort in negotiating a minimum wage that was competitive with other local cities, and had sought out and received approval for the reduced minimum wage originally stipulated for their area. With respect to this reduction of minimum wage at Mattel's Guan Yao plant, Mattel has instituted a policy in conjunction with the new minimum wage increase slated for early 2005, which requires

Mattel's China partner to pay the stated minimum wage for the area. Due to the inconsistency in legal opinion regarding local waivers allowing a reduction of the minimum wage, Mattel will no longer accept these types of waivers from the local labor bureau.

- Inappropriate Wage Rate During Temporary Shut Downs and Other Circumstances

There are three separate and distinct situations with respect to the amount of money employees are compensated for hours worked. In each case that ICCA has identified, Mattel has gone back and assessed an acceptable corrective action. For example, in the case of Guan Yao & Chang An, with respect to the payment of minimum wages during down time for internal factors within control of the plant operations, Mattel has instituted a policy of paying the employees minimum wage during these unexpected shutdown periods. This policy change was instituted in January 2004.

- Mandatory Deductions and Legally Mandated Benefits

Mattel's annual leave policy has been amended to reflect the actual days of service an employee has worked over the length of their tenure at Mattel. In 2004, Mattel will compensate employees with 5 days of paid leave for those who quit before the end of the year and have one year of service. Mattel's policy with respect to maternity leave was updated in 2004. All employees seeking maternity leave, regardless of whether they return to work, will be compensated for the full 90 days, as allowed under Chinese labor law.

Mattel's policy on deductions for room and board was changed in 2004. All employees who stay in the dorm and eat at the cafeteria will be charged no

more than 50 percent of their minimum wage rate. It should further be noted that staying in the dorms is voluntary for employees.

## **1. 2 Balanced Scorecard**

There are few criteria have been introduced to evaluate and review the performance of Mattel Inc.

### **1. 2. 1 Customers**

#### **Product Quality and Safety**

Mattel's reputation for product quality and safety is among its most valuable assets. Their commitment to product quality and safety is an integral part of their design, manufacturing, testing and distribution processes, and is essential to the success of their business. Children's health, safety and well-being are their primary concern. They will meet or exceed legal requirements and industry standards for product quality and safety. They strive to earn their consumers' trust through their dedication to safety, and to exceed the expectations of parents. Employees have an obligation to immediately report any concerns about product safety or quality to Mattel's Worldwide Product Integrity Department.

#### **Consumer Information**

They respect the confidentiality of consumer information consistent with all applicable privacy and data protection laws and regulations. They do not share, sell or trade any private or sensitive personal information obtained online from children without the prior consent of the parent or unless compelled by legal process.

**Advertising and Promotions**

Mattel's brand and product promotion activities, including advertising, packaging, point of purchase displays, promotional programs and sweepstakes, should be conducted in a manner consistent with applicable laws and with their reputation for honesty and integrity. They adhere to high standards of commercial fairness in ads and promotions. They must accurately portray the features, quality and performance of their products in all advertising media and packaging in a manner appropriate for their target audience. They do not misstate facts or provide misleading or deceptive information about Mattel's products, or the products of a competitor.

They should be diligent in safeguarding the reputation of Mattel brands and products by being selective about promotional opportunities, such as event sponsorship and other joint promotions, avoiding association of Mattel's name with any product, service or activity which might be considered unsafe or inappropriate for children, or with any person or organization if the relationship might be damaging to Mattel's reputation.

**1. 2. 2 Managers/Employees****Respect**

They will treat others as they want to be treated – with respect, dignity and fairness. They have the right to work in an environment free from discrimination and harassment based on race, color, religion, sex (including pregnancy, childbirth or related medical conditions), sexual orientation, gender identity, national origin, ancestry, social origin, age, disability, marital status, veteran status or other protected characteristics. They also respect their co-workers' rights, and remember that such discrimination and

harassment will not be tolerated. They should speak out when the conduct of a coworker makes them or others uncomfortable. They each have a responsibility to report to Human Resources any such harassment or discrimination that they experience or observe.

### **Diversity**

Mattel recognizes diversity as an asset, and is committed to actively seeking and promoting diversity in the workforce. They value the different perspectives, insights and experiences of diverse individuals and cultures, and they aspire to create a company culture that encourages an expression of, and a respect for, diverse viewpoints. They provide equal employment opportunity for all applicants and employees, without regard to factors such as race, color, religion, sex (including pregnancy, childbirth or related medical conditions), sexual orientation, gender identity, national origin, ancestry, social origin, age, disability, marital status, veteran status or other protected characteristics. They make employment decisions to meet their business needs based on factors such as qualifications, skills and achievement. They comply with local and national employment laws.

### **Employee Health and Safety**

Mattel is committed to providing a safe, healthful and environmentally responsible workplace, and has established safety programs to provide information and training for safe practices in the normal conduct of business and for emergencies. They are responsible for observing safety and health rules, for taking appropriate precautionary measures and for reporting unsafe or hazardous conditions to their supervisors, to Mattel's Global

Sustainability Department, Global Security Department or local Mattel security personnel.

In order to maintain their high standards for quality, productivity and safety, they should be in suitable mental and physical condition at work. Possessing, buying or selling, using or being under the influence of illegal drugs or engaging in any other activities which create an unsafe work environment while on duty, or when on Mattel premises, are expressly prohibited. The consumption of alcohol while on duty or when on Mattel premises is prohibited except during approved Mattel social functions, or during business meals.

#### 1. 2. 3 Investors/Shareholders

#### **Protecting Mattel Assets**

All employees and Directors share in the responsibility to protect Mattel's assets, including physical assets, financial assets, intellectual property and proprietary information from theft, loss, damage, misuse or waste. Those of them who have custody of company property, such as vehicles and laptop computers, should take appropriate measures to ensure their proper security and use.