# BUILDING THE BODY OF KNOWLEDGE

## JOURNAL OF THE 2008 CASE STUDY COMPETITION IN CORPORATE COMMUNICATIONS


Arthur W. Page

ARTHUR W. PAGE SOCIETY

IPR
Institute for Public Relations
FOUNDED 1956

ARTHUR W. PAGE SOCIETY

## VISION

The Arthur W. Page Society is committed to the belief that public relations as a function of executive management is central to the success of the corporation. The membership of the Society will embrace those individuals who epitomize the highest standards of public relations practice, as exemplified by the Page Principles.

## MISSION

To strengthen the management policy role of the corporate public relations officer by providing a continuous learning forum and by emphasizing the highest professional standards.

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*Presentation materials and teaching notes for each case study are available on our web site at www.awpagesociety.com in the Resources section.*

## INTRODUCTION

In order to advance its mission of strengthening the management policy role of the corporate public relations/communications officer, the Arthur W. Page Society has long been interested in increasing awareness among future business leaders of the value of public relations as a central function of management. Over the last seven years, the Page Society, in alliance with the Institute for Public Relations, has made an effort to increase this awareness by issuing a call for original case studies written by students of accredited schools of business, communications and journalism that focus on corporate communications and the practice of public relations.

The goals of this competition are to:

- Introduce the practical applications of the core principles that define corporate communication as a critical function of management to scholars, teachers and students
- Encourage research that contributes to the profession's body of knowledge and provide practical suggestions for improving the corporate communication function

This year's competition drew 36 entries from across the country. The judging panel awarded three cash prizes to student authors and their faculty advisers. The winning cases are published in the following pages of this Journal and also can be found on the Society's Web site at www.awpagesociety.com/site/resources/journals. The Grand Prize winner was recognized at a dinner during the Page Society's annual Spring Seminar, held April 10 at the Jurmeirah Essex House in New York City.

The Arthur W. Page Society and the Institute for Public Relations wish to thank all who participated in this year's competition.

### BACKGROUND

**The Arthur W. Page Society** (www.awpagesociety.com) is a select membership organization for senior public relations and corporate communications executives who seek to strengthen the management policy role of the corporate public relations officer. It is committed to the belief that public relations is a function of executive management and is central to the success of the corporation.

**The Institute for Public Relations** (www.instituteforpr.com) is an independent nonprofit organization focused on the science beneath the art of public relations. It exists to expand and document the intellectual foundations of public relations and to make this knowledge available and useful to practitioners, educators, researchers and the corporate/institutional clients they serve.

**Arthur W. Page** (1883-1960) was the first person in a public relations position to serve as an officer and member of the Board of Directors of a major corporation. He viewed public relations as the art of developing, understanding and communicating character – both corporate and individual. Page believed the successful corporation must operate in the public interest, manage for the long run and make customer satisfaction its primary goal. The principles of business conduct for which he became known have influenced thousands of thought leaders and have earned the support and respect of chief executive officers throughout the country. The Page Society bearing his name is built upon a foundation of management concepts that have been tested for more than half a century. Page practiced these principles of public relations management as a means of implementing his philosophy. (See the Page Principles on page 54.)

## Guidelines and Judging for the Competition

A panel of judges, who are experts in the corporate, agency and academic sectors of public relations, reviewed all case studies in this year's competition, which began with a nationwide call for entries in November 2007. The judging was completed in March 2008. The judges have no specific association to the case writers, the universities they attend, or the companies or organizations that are the subjects of the cases.

This year's distinguished panel of judges included:

Paul Argenti
*Tuck School of Business at Dartmouth*

Lynn Casey
*Padilla Speer Beardsley*

Mike Fernandez
*State Farm Insurance*

Eric Gander
*Baruch College*

Matthew P. Gonring
*Gagen MacDonald*

Stephen A. Greyser, DBA
*Harvard University*

Sandra Macleod
*The Echo Research Limited*

Elliot S. Schreiber, Ph.D.
*Drexel University*

Ward White
*Marcus Foundation*

The judges had the authority to make a final determination regarding any or all of the posted prizes and also the authority to make no awards if none seemed appropriate. Criteria used to judge all entries included the following:

- The significance of the business problem and of the critical issues identified in the entry
- The factual and accurate nature of the entry
- The decision(s) and evaluation(s) to be made
- The entry's style, tone and quality of expression
- The balance, fairness, and absence of bias in the entry
- The quality of the Teaching Note and PowerPoint Presentation

The judges were also asked to weigh a submission's usefulness and general value to the profession, as well as its educational value.

## Awards and Prizes

The prizes awarded by the panel of judges in this year's competition were as follows:

| Prize | Student(s) | Faculty Adviser(s) |
|---|---|---|
| Grand | $5,000 | $1,500 |
| 1st | $2,500 | $650 |
| 2nd | $1,500 | $350 |

## Eligibility Requirements

Any student, graduate or undergraduate, enrolled in an accredited school of business, communications or journalism who is pursuing a degree (full-time or part-time) was eligible to participate. Students were allowed to participate as sole authors or as a member of a case study team (not to exceed four people). In order to participate, each student author or case study team was required to have the sponsorship of a faculty member who advised and guided the case's development.

Faculty sponsors may be full-time or part-time, regular or adjunct, tenured or non-tenured. The student (or team) must be the author of the case study, with the faculty member serving as an advisor only.

# MATTEL RECALLS 2007: COMMUNICATION IMPLICATIONS FOR QUALITY CONTROL, OUTSOURCING AND CONSUMER RELATIONS

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## Abstract

American toymaker Mattel's recent string of controversial recalls provides a unique opportunity to explore corporate responses to a global crisis. The case study will consider how, when designing communications for product safety and quality control crises, communicators should be sensitive to contributing global issues such as outsourcing and international communication. For example, to avert future recalls, Mattel should work closely with its Chinese suppliers and government agencies to implement realistic quality control solutions for which it can be held accountable. The company should reassure stakeholders that outsourcing to China does not mean sacrificing quality. Regaining consumer confidence and controlling the dissemination of product safety information requires strong corporate communicators who can delicately and deliberately balance a number of relationships.

## 1. Overview:

During the summer and fall of 2007, international toy giant Mattel and childhood favorites Barbie® and Elmo® dominated media headlines for weeks. Reports talked not of Christmas sneak previews or of rising sales, but of recalls, lead poisoning and deadly magnets. In total, an excess of 21 million toys were pulled from shelves in little over a month, either because they were coated in toxic lead paint or contained small, poorly designed magnets, just the right size to be swallowed by curious kids.

Mattel's voluntary recalls poised the company to perform as a model of effective short-term crisis communication strategy. Working with the Consumer Product Safety Commission (CPSC) to execute the communication component of the recall at an accelerated pace, Mattel placed notifications in 20 languages on its website, sent personal letters to its entire customer database, sent letters and posters to its retailers, manned a hotline, placed full page ads in major newspapers, and worked closely with the media.

However, the CPSC's subsequent revelation that Mattel first suspected lead contamination in early June, a good two months before it announced the first of four recalls on August 4, has overshadowed much of what the company claims it did right. The disclosure calls into question Mattel's prioritization of its customers' interests and the quality of its products over its business interests. According to CPSC regulations, companies must report suspected safety issues within 24 hours of detection. Yet in 2001, Mattel waited over three years to announce a Power Wheels® defect. Six years later, consumers and investors may question why the company still fails to comply with federal reporting regulations and why it still lacks the processes and infrastructure to prevent such crises from recurring.

Adding to the controversy surrounding Mattel's recalls is that the products were manufactured in China, a country recently under fire for exporting contaminated products such as pet food and toothpaste. The Mattel case provides a unique opportunity to explore quality control, product safety and reporting regulations in the context of a larger, global issue: outsourcing manufacturing to developing countries. In light of this, Mattel must regain the trust of consumers, investors, regulators and the international community through transparent corporate communication and commitment to real change.

## 2. Company History:

An in-depth look into Mattel's corporate history, from its beginnings to the present, provides a context for understanding current quality control and recall issues.

### 2.1 Beginnings

For over 60 years, this El Segundo, California-based company has entertained children with household brands such as Ken®, She-ra®, Tickle Me Elmo® and the Cabbage Patch Kids®. The corporation went public in 1960, listed on the New York and Pacific Coast Stock Exchange in 1963, and joined the Fortune 500 in 1965 with sales topping $100 million.[1] Over the years, Mattel has acquired big-name brands such as Fisher Price® (merger, 1993) and Tyco Toys® (merger, 1997) and obtained lucrative licensing rights to Disney® (1988) and Nickelodeon® (1996).[i 2]

In 1965 Mattel also entered the educational pre-school toys market, with the See 'N Say® talking toy. Three years later, the company launched its "World of the Young" acquisition strategy. First came Monogram Models, followed by Metaframe (pet products), Turco (playground equipment) and Ringling Brothers and Barnum & Bailey Circus. Mattel also dabbled in film.

### 2.2 Reorganization as Mattel, Inc

In 1972, 12 years after it went public, Mattel reorganized as Mattel, Inc., a parent company with seven subsidiaries. By 1983 and after an unsuccessful foray into the electronic games market, the company reported a loss of $394 million from its non-toy lines. In 1984, the company made the strategic decision to close all non-toy related subsidiaries, dedicating itself 100 percent to the design and manufacture of children's toys.[3]

### 2.3 Products

Mattel currently manufactures over 800 million toys annually,[4] targeting four audiences: infant/preschoolers (26 types of toys), girls (63 types), boys (36 types) and grown-ups/parents (22 types). Brands for infants and preschoolers include Dora the Explorer® and Fisher Price®.[ii] Major brands for girls include Barbie® (1959) and American Girls®[iii]. Boys' toys include Hotwheels® and ESPN Toys®.

Producing around 5,000 new toys a year,[5] Mattel created some of the 20th century's biggest toy hits. When Tickle Me Elmo® hit shelves in 1996, it sold over $100 million in its first year and $200 million in its second. In a 2007 ranking of holiday toys conducted by *Consumer Reports Magazine*, Mattel's Hot Wheels® Racing Timer came in the top four.[6] And the dolls stack up well too: Barbie® as Princess Rosella Doll, Disney's High School Musical® dolls, and Barbie Girls®—an MP3 player that links up with a virtual online world—were ranked 2007 holiday all stars by *Toy Wishes Magazine*.[7]

### 2.4 Accolades for Ethics

In 2007 *Business Ethics* magazine ranked Mattel number 92 of the top 100 Best Corporate Citizens, a list drawn from the country's largest 1,000 publicly listed companies.[8] Mattel was praised for its Global Manufacturing Principles (GMP)—a set of externally monitored ethical manufacturing standards, first adopted in 1997. To date, Mattel remains one of the only toy companies to have such checks in place. These principles ensure that Mattel's supply chain partners uphold its stringent standards for employee working conditions, including wages, health, safety and the environment. The company also publishes an annual corporate social responsibility report for its investors and claims that its product safety regulations either meet or exceed those set by the Consumer Product Safety Commission.[9] Mattel prioritizes philanthropic work that reaches out to children. In 1978 it launched Mattel's Children's Foundation, an arm that partners with non-profits to fund children's projects using a percentage of pre-tax profits.[10]

[i] Acquisition: Aviva Sports® (1991). Licensing: Harry Potter® (2000) and Barney® (2001)

[ii] Also Barney®, Blues Clues®, Sesame Street® and Winnie the Pooh®

[iii] Also Diva Starz®, Kelly®, Loving Family®, Kitchen Play® and Polly Pocket®

[iv] Also Nickelodeon's Avatar® and Matchbox®

### 2. 5 Financial Performance and Business Objectives[11]

As the world's largest toy manufacturer, Mattel has consistently performed well. For example, from 2005 to 2006 Mattel maintained growth as depicted in Table 1:

**Table 1: Financial Comparison, 2005 to 2006**

| | 2005 | 2006 | Increase |
|---|---|---|---|
| Net Sales | $5.18 billion | $5.65 billion | 9 percent % |
| Net Income | $417 million | $592.9 million | $175.9 million |
| Cost of Sales | $2.81 billion | $3.04 billion | $232.2 million |
| Product Costs | $2.21 billion | $2.42 billion | $204.9 million |
| Gross Profit (as a % of net sales) | 45.8 percent | 46.2 percent | .4 percent |

http://www.shareholder.com/mattel/annual.cfm, Annual Reports: 2005 and 2006

The company's annual report for 2006 offers insight into its long term business growth objective: "To continue to create long-term shareholder value by generating strong cash flow and deploying it in a disciplined and opportunistic manner as outlined in Mattel's capital and investment framework."[12] To achieve this objective, the company outlined three goals. Firstly, to reinvigorate the Barbie® brand while simultaneously maintaining growth across all core brands and non-traditional brands. Secondly, to improve the execution of manufacturing, distribution and sales by implementing Lean supply chain initiatives,[13] which focus on minimizing generated waste from all steps of the supply chain.[14] Thirdly, to maintain the One Mattel global philosophy to increase cost savings when making purchasing decisions.

### 3. Toy Safety:

The Consumer Product Safety Commission monitors toy safety in the United States. Corporations are expected to comply with its standards and regulations, though they are encouraged to adopt more stringent regulations of their own, as has Mattel.

### 3. 1 Consumer Product Safety Commission Standards

The U.S. Congress created the Consumer Product Safety Commission (CPSC) in 1972 as part of the Consumer Product Safety Act. The CPSC is an independent federal agency that regulates more than 5,000 consumer products, ranging from lawn movers to children's toys, to protect the public from unreasonable injury and death.[15] Food, drugs, firearms, cars and motorcycles lie outside its jurisdiction. In 2007, the CPSC negotiated 472 cooperative, voluntary recalls involving almost 110 million products.[16] 21 million of these products came from Mattel.

The CPSC has many responsibilities. It develops, issues and enforces voluntary and mandatory industry standards. The CPSC can recall products and oversee repairs; it can ban consumer products proven to be so dangerous that no industry standard could realistically protect the public. It inspects suspicious products and researches new hazards. The CPCS communicates with the media.[17] Using its website or toll-free hotline, consumers can gather product safety information and report unsafe products.

Toy companies like Mattel and their Chinese suppliers are expected to follow CPSC regulations and recall protocol. One of the most important regulations—and one that is often ignored by companies—stipulates that a company must report a suspected defect or harmful product within 24 hours of discovery.[18] Mattel failed to comply with this regulation during a 1998 Power Wheels recall and the 2007 recalls.

Other regulations are specific to substances and materials. For example, ingestion of lead by children can cause neurological damage, learning disabilities and hearing problems. It may delay mental and physical development. The CPSC requires all American manufacturers, suppliers, importers and retailers to abide by the provisions of the Federal Hazardous Substances Act (FHSA), which bans all children's toys containing hazardous amounts of lead.[19] The CPSC strengthened its guidelines in 1977 by lowering permissible lead levels from .5 percent to .06 percent to comply with the Lead Based Paint Poisoning Prevention Act.[20]

Other regulations apply to specific toy parts. In 1995 the CPSC applied the Child Safety Protection Act (CSPA) to all products sold in the United States.[21] The CSPA tightened restrictions on small parts and balls in children's toys so as to reduce choking deaths.

If a company disregards these guidelines, the CPSC can seek civil penalties in court. In 2007, it recovered a total of $2.75 million in fines from companies who failed to report hazards within the 24-hour limit. Of this amount, $975,000 was meted to Mattel alone for a defect in Fisher-Price's® Little People Animal Sounds Farm.[22] In 2001, Mattel paid $1.1 million, almost half of the total fines issued in 2007, for waiting over three years to report a Power Wheel's® fire hazard.

Many experts, including Pamela Gilbert, a former CPSC executive director, disparage the CPSC's penalties as too soft to deter large corporations from violating product safety laws.[23] Others add that the CPSC is weak and lacks funding to enforce its mostly voluntary regulations. The CPSC does not have pre-market jurisdiction, which means it cannot test products before they hit stores shelves.[24] Under pressure to respond, Congress is deliberating to increase the maximum monetary fee that can be slapped on companies.

### 3. 2 Mattel's Independent Standards

Despite past fines, Mattel asserts it abides by CPSC regulations and follows its own Code of Conduct and Global Manufacturing Principles.[25] An excerpt from its Code of Conduct on product quality and safety, adopted in 2003, reads:

> "Mattel's reputation for product quality and safety is among its most valuable assets…Children's health, safety and well-being are our primary concern. We could damage our consumers' trust if we sell products that do not meet our standards. Our commitment to product quality and safety is an integral part of the design, manufacturing, testing and distribution processes. We will meet or exceed legal requirements and industry standards for product quality and safety. We strive to meet or exceed the expectations of our customers and consumers. Any compromise to product safety or quality must be immediately reported to Worldwide Quality Assurance."[26]

Mattel's precautions include periodic checks of toys pulled off production lines; new supplies, such as paint, are tested upon arrival.[27] Mattel sets up testing laboratories for some of its contractors. Ironically, Mattel had built a lab for the supplier culpable in the 2007 lead paint crisis, suggesting that, "Even with regular inspections, breaches of codes of conduct in the supply chain become almost an inevitability."[28]

Some toy analysts are reluctant to blame the toy giant. "If something like this can happen to Mattel, which has some of the most stringent standards in the industry, what does that mean for the others manufacturers of such products?" argues Richard Welford of *CSR Asia Weekly*.[29] "The recall is particularly alarming since Mattel, known for its strict quality controls, is considered a role model in the toy industry for how it operates in China," adds the Associated Press.[30]

In fact, just weeks before its first August recall, Mattel was one of only two toy companies to allow the *New York Times* to visit its China plants. The *New York Times* article published on July 26, 2007, commended Mattel's product safety inspection procedures, which it maintained had improved since the Power Wheels® recall.

## 4. Outsourcing to China:

Moving manufacturing to developing countries overseas has contributed to the recall crises. But while the American media talks about the "China threat" or "China opportunity," free trade and outsourcing remains at present a mutually beneficial relationship between China and the United States, argues James Fallows in an *Atlantic Monthly* article titled "China Makes, The World Takes."[31] "Americans complain about cheap junk pouring out of Chinese mills," Fallows writes, "but they rely on China for a lot that is not junk, and whose cheap price is important to American industrial and domestic life."

Indeed, 80 percent of toys bought in the United States[32] are manufactured in factories scattered up and down China's east coast. American companies may own a few factories in China, according to Fallows' research, but mostly they commission manufacturing to local subcontractors.[33] The region with the largest production capacity is Guangdong province. In 2005, over 5,000 manufacturers in Guangdong exported almost USD$12 billion in plush, electronic and plastic toys, according to research compiled by the China Toy Association (see Table 2). Zhejiang, Jiangsu, Shanghai, Shandong and Fujian follow behind with a total of more than USD$ 2.8 billion exported per year. Of those toys, the China Toy Association estimates that an estimated USD $6.5 billion is exported to the United States, with Germany and Holland following (see Table 3).

**Table 2: Chinese Toy Exports 2005**

| Region | Total # of Manufacturers | Main Export Category | Export Value in 2005 |
|---|---|---|---|
| Guangdong | Over 5,000 | Plush toys, electronic toys, plastic toys | $11.934 billion |
| Jiangsu | Over 700 | Plush toys | $850 million |
| Zhejiang | Over 1,000 | Wooden toys, baby bicycles | $871 million |
| Shanghai | Over 700 | Baby bicycles, strollers | $549 million |
| Shandong | Over 550 | Plush toys | $367 million |
| Fujian | Over 500 | Electronic toys, plastic toys | $226 million |

China Toy Association, http://www.toy-cta.org/en/Introduction_1.asp

**Table 3: China 2006 Main Export Destinations**

Unit: US $

| Rank | Destination | Export value |
|---|---|---|
| 1 | USA | 6,553,321,398 |
| 2 | Germany | 1,469,936,169 |
| 3 | Holland | 1,055,340,703 |
| 4 | England | 1,040,271,120 |
| 5 | Japan | 718,578,989 |
| 6 | France | 230,893,819 |
| 7 | Russia | 216,180,371 |
| 8 | Australia | 213,071,333 |

http://www.toy-cta.org/en/Introduction_3.asp

### 4.1 Quality Control Challenges and Implications

Quality control remains a constant problem. 177 U.S. recalls since 2006 have involved products manufactured in China. "It is not easy to find the right factory, work out the right manufacturing system, ensure the right supply of parts and raw materials, impose the right quality standard, and develop the right relationships of trust and reliability," writes Fallows. He likens this "supply chain" to intellectual property in importance, and writes that companies who have found a good chain will not divulge it to competitors.[34] In an interview with the *New York Times*, Dane Chamorro, regional director of global consulting company Control Risks, said that, "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."[35] Andy Switky, managing director of California design firm IDEO, describes the general Chinese mentality as "happy with crappy," which makes it harder for Chinese suppliers to fully incorporate western quality control standards.[36]

But some corporate communicators argue it is impossible for corporations to be held 100 percent accountable for slip-ups when hundreds of suppliers and thousands of employees are involved. Others say it's impossible for a company to test every batch of toys produced. The most a company can do is pick its suppliers carefully, strengthen communication, consistently implement rigorous inspections, and threaten to cease business with companies who fail to comply.

### 4.2 Mattel in China

Mattel has manufactured in China for 25 years.[37] It owns five factories[38] and outsources 50 percent to third-party manufacturers[39] subject to quality control inspections. Together, these factories produce 65 percent of Mattel's toys.

In recent years, Mattel has transferred more testing responsibility to manufacturers themselves. One example is batch testing. Ten to 15 years ago, Mattel conducted the inspections. Now, to reduce costs, the company outsources testing to suppliers and manufacturers. Experts fear they will cover up and cut corners.[40]

Industry experts claim Mattel is inextricably tied to China. Eric Johnson, a management professor at Dartmouth and a specialist in the U.S.-China toy industry, said in a *Washington Post* article that Mattel is "dependent on Chinese industrial capacity for its toys...They have significant investment of their own capital...and don't want to lose it. I suspect that Mattel has a vested interest in expanding into the Chinese market as well."[41]

### 4.3 International Communication

Managing international relationships during calm times and crises is a key corporate communication challenge. Experts in the field explicate the role of corporate communications in an international arena: "Public relations people may ... be able to sensitize managements and host governments to the mutual benefits of multinational capital, technology and management skills providing jobs."[42] Indeed, corporate communicators should cultivate a mutually beneficial relationship with foreign governments that is based on respect for equals.[43] They must convince host countries that their goals are not imperialist and exploitative.[44] Communication with suppliers should be direct, as a company's reputation may be affected by its suppliers' business practices.

The China Toy Association is an example of a Chinese organization that facilitates communication between China and the West. It lobbies the national government for toy industry interests, revises toy safety standards with the China National Standard Committee, maintains communication with international media, and organizes international toy fairs and trade shows. The TIA likewise mediates conflict between China and its Western partners during times of crisis, while tactfully asserting the need for change, as it did during a toy safety conference held in Guangzhou, China, on November 15, 2007.

Industry experts believe both Chinese and American companies need to collaborate more. But ultimately U.S. importers are responsible for the quality of imported goods.[v]

## 5. Mattel's Recall History:

A toy recall can harm a company through lost sales, damaged reputation, diversion of resources, costly customer support, and the threat and expense of litigation.[45] According to industry experts, less than one percent of the three billion toys sold in the United States each year are recalled.

In spite of quality control efforts, Mattel has had 36 recalls since 1998 and two formal CPSC admonishments.[47] It's most controversial recall,

[v] Statement made by Erin Ennis, vice president of the U.S.-China Business Council

up until 2007, involved 10 million Power Wheels® toy vehicles.

### 5.1 Power Wheels® Product Recall 1998-2001

Responding to consumer complaints filed by parents of injured children[vi], the CPSC independently investigated the ride-on toy vehicle between 1995 and 1998. Parents reported 71 accidents involving faulty brakes, 116 fires due to faulty electrical wiring, and 1,800 incidents of overheating, short-circuiting or melting. Nine children suffered burn injuries.[48] The affected models were manufactured as early as 1986, and though Mattel was aware of complaints, it neglected to file a CPSC report for more than three years.[49] Even after the CPSC stepped in, Mattel's Fisher Price® refused to acknowledge it had knowingly erred. Anne Brown, the CPSC's then chairwoman, told the Wall Street Journal that, "They didn't want to do a recall…It took way too long."[50] Pamela Gilbert, the CPSC's executive director at the time adds that, "Mattel was uncooperative in giving key documents over to them during the investigation."[51]

Throughout the recall, Mattel blamed consumers who improperly used or tampered with the toys.[52] It maintained the 24-hour reporting regulation was unreasonable, and that it preferred to conduct an internal investigation before reporting to the public.[53]

## 6. The Competitive Environment and Competitor Recalls:

Though less than one percent of toys manufactured per year are ever recalled, a high profile recall can result in industry-wide profit loss; this means that competitors are likewise affected.[54]

### 6.1 Industry Overview

Approximately 3 billion toys are sold per year in the United States.[55] Annual toy sales are estimated to be $22 billion.[56] According to Table 4, annual toy sales for July '06 through June '07 rose to $22.5 billion dollars from $22.1 billion the previous year.

**Table 4: State of the Toy Industry: 05-06 and 06-07:**

| Category | July '05-June'06 (USD) | July '06-June '07 (USD) | % change |
|---|---|---|---|
| Action figures and accessories | 1.3 billion | 1.2 billion | -7 |
| Arts & Crafts | 2.5 billion | 2.7 billion | 8 |
| Building Sets | 686.8 million | 684.3 million | 0 |
| Dolls | 2.7 billion | 2.7 billion | 1 |
| Games and Puzzles | 2.4 billion | 2.4 billion | 0 |
| Infant/Preschool | 3.2 billion | 3.3 billion | 4 |
| Youth Electronics | 962.1 million | 1.1 billion | 17 |
| Outdoor & Sports Toys | 2.9 billion | 2.8 billion | -5 |
| Plush | 1.3 billion | 1.4 billion | 3 |
| Vehicles | 2.0 billion | 2.2 billion | 9 |
| All other Toys | 2.1 billion | 2.0 billion | -4 |
| **TOTAL** | **USD 22.1 billion** | **USD 22.5 billion** | **2** |

"State of the Industry Report," http://www.toyassociation.org/AM/Template.cfm?Section=Industry_Statistics, accessed November 26, 2007, sourced from The NPD Group / Consumer Panel Tracking

[vi] Mattel acquired Power Wheels from Kransco in 1994. The faulty products were on the market as early as 1984.

### 6.2 MGA, Hasbro and JAKKS

Mattel's major competitors include MGA Entertainment, Hasbro, Inc. and JAKKS Pacific Inc., discussed below, as well as Bandai, Lego and Leap Frog. MGA challenges Mattel with its successful urban doll line, Bratz. "Barbie has taken a tumble from her pedestal," wrote the *International Herald Tribune* in a November 2004 article. "Once thought of as unbeatable in the doll market, Mattel's Barbie has been kicked to the curb this season by its big-lipped, big-headed competitor: Bratz dolls…These urban dolls with their up-to-the-minute fashion accessories and their ephemeral cool factor are becoming must-haves for girls this year." The journal quotes Sharon Korbeck, editorial director of *Toy Shop Magazine*, who says that, "They are very edgy. Barbie will never be edgy."[57]

Hasbro owns 117 brands including Milton Bradley, Parker Brothers, G.I. Joe and i-Dog.[58] To monitor corporate social responsibility and its business in Asia, Hasbro created a committee that reviews the company's transparency, environmental stewardship and Far East Code of Conduct.[59] In 1993, the company implemented Global Business Ethics Principles. It is a founding member of the International Council of Toy Industries CARE program. Hasbro monitors its vendors to ensure factories comply with international workplace fairness and product safety regulations.[60] The company's website asserts that over the past seven years, it has reduced greenhouse gas emissions at its U.S. facilities by 39 percent, and has begun recycling 84 percent of generated waste at its 31 international locations."[61]

Hasbro has not been immune to recalls. It has experienced 21 since 1990 (compare to Mattel with 36 since 1998) all of which are posted on its website.[62] Most recalls result from poor design features (Playskool Klackeroo's choking hazard), risk of impact injuries (Super Soaker Monster Rocket) and food allergies (milk, wheat and eggs in Easy-Bake ovens). None were attributed to shortcuts in the manufacturing process.

Another competitor is JAKKS Pacific Inc. This top-five toy company has manufactured children's toys, games, and leisure products since 1995. Its 17 product categories include action figures, water toys, sports toys, dolls and role-play toys. Its brands include Play Along® and Flying Colors®.[63] JAKKS licenses products from Disney and Nickelodeon.[vii]

From 2000 to 2002, *Forbes* magazine ranked JAKKS a top 200 small U.S. company. Unlike Mattel, all of JAKKS products are manufactured overseas. The Hong Kong division, JAKKS Pacific, Ltd., oversees production.[64] The company's website does not have a dedicated recall page. However, searching recalls by company on the CPSC website brings up three JAKKS recalls: one in July 2002, one in July 2002 and one February 2007.[65]

Interestingly, stock prices for Hasbro and JAKKS dropped during the worst of Mattel's recalls. Mattel's stock dropped as much as 25 percent.[66] Since then the companies have managed to bounce back, though Hasbro and JAKKS both outperformed Mattel for 2007, with closing prices on December 31 at $25.58, $23.61 and $19.04 respectively.

## 7. Mattel Product Recalls 2007:

In August 2007, just weeks after American toymaker RC2 recalled 1.5 million toy trains coated in lead paint, Mattel announced its first of what would become four recalls. Almost all the products were manufactured in China. Mattel partnered with the CPSC to implement a global crisis communication campaign.

### 7.1 Recall Timeline

The voluntary recalls began in August and continued into November (see Table 5), just in time for the holidays.

[vii] Also, Creative Designs International™ and Road Champs®

**Table 5: Recall Timeline June-November 2007:**

| Date | Event |
|---|---|
| June 8 | Mattel is first alerted to possible lead paint contamination. |
| June 9 | The CPSC deadline for Mattel to report the problem. |
| June 10 | CPSC deadline passes; Mattel fails to act. |
| July 26 | Mattel files full recall report with CPSC. |
| August 2 | Mattel voluntarily recalls 1.5 million Fisher Price toys that are supposedly coated in paint containing dangerously high levels of lead. |
| August 7 | Mattel identifies a Chinese factory as the source of the contamination scandal. |
| August 14 | Mattel voluntarily recalls a further 17.4 million products containing loose magnets easy for children to swallow (Mattel Play Sets and Barbie® Doll & Tanner). |
| September 4 | Mattel voluntarily recalls another 850,000 toys due to lead paint contamination (Barbie® Accessory Sets, It's a Big Big World, and GeoTrax Engines). |
| September 11 | CEO Robert A. Eckert publishes an opinion statement in the *Wall Street Journal*. |
| September 21 | Mattel's Vice President Thomas Debrowski apologizes to China for blaming Chinese suppliers for the Mattel recalls. |
| October 25 | Mattel voluntary recalls Go Diego Go! Rescue Boats coated in paint containing hazardous levels of lead. |
| November 6 | Mattel voluntarily recalls 155,000 Laugh & Learn and Learning Kitchen toys, manufactured in Mexico, due to a choking hazard. |

The holiday season is the most lucrative for toy companies. The third and fourth quarters of each fiscal year usually bring in the most sales.[67] Therefore, a fast and transparent corporate response was imperative.

### 7.2 Mattel's Response - Successful External Communication

On July 26, 2007 Mattel issued an official recall report with the CPSC. The CPSC agreed to help the toymaker alert the public. Together, they implemented the CPSC's "fast track" program[68] to communicate with parents and retailers using a mix of print, electronic and new media (see Table 6 on the following page).

Mattel's website played a strong role. Firstly, the company posted a video of CEO Robert Eckert addressing parental concerns over the safety of Mattel's products.[69] His comments reinforce several key points.

1. He stresses the company's *commitment to children*. Eckert says, "Nothing is more important than the safety of children...we are confident our toys are the safest ever."
2. He emphasizes the company's *dedication to open communication* with the public. "There's always room to be better...we are communicating frequently and openly."
3. He *assuages parents' fears* over the company's inspections systems, saying that, "All paint must be tested before it is used on toys, no exceptions. We've significantly increased testing and unannounced inspections at every stage of production...we are testing every production run of finished toys to ensure compliance before they reach consumers."
4. He then *praises Mattel's new three-point check system*, which he claims has been followed by other toy companies.

5. Finally, he *reports* that they have had *no further lead paint problems* claiming success for the tighter inspection systems implemented after the August crisis.

Recurring themes include trust and child safety. Eckert personally thanks parents for putting trust in Mattel and reiterates that child safety is Mattel's number one priority.

The website also answers parent questions in a section called "What We're Doing and What You Need to Know." Queries such as "Are toys safe for the holidays?" and "How can I trust that Mattel's products are safe?" reinforce themes of safety, commitment and trust stressed in Eckert's video. A new theme that arises is parental self-efficacy, for example "What can I do, as a parent, to ensure my child's safety?"[70] A page titled "Tips for Safe Toys This Holiday" guides holiday buying. What Mattel noticeably does not do, as it did during the Power Wheels incident, is place blame on consumers.[71]

**Table 6: "Fast Track" Tactics**

| | Mattel's "Fast Track" Recall Tactics |
|---|---|
| 1 | Staffed its call center, created a CPSC-approved script. |
| 2 | Created a recall portion of its website. |
| 3 | Sent notifications and posters to retailers. |
| 4 | Gave retailers advance notice of recall so they could remove products from shelves even before logistics of recall had been finalized. |
| 5 | Sent news releases to media. |
| 6 | Started a toll-free, multi-lingual interactive voice response phone line to assist callers to determine if their product is an affected one. |
| 7 | Launched a web-based recall identification tool on its website in more than 20 languages. |
| 8 | CEO video posted on website. |
| 9 | Allowed customers to register a product for recall online or over the phone. |
| 10 | Mailed recall notification letters to customers who were in their customer relations database due to past recalls. |
| 11 | Ran full page ads in newspapers on August 14 and September 5: USA Today, The New York Times, The Los Angeles Times, The Chicago Tribune, the Washington Post. |
| 12 | Conducted print, online and television satellite interview. |
| 13 | Posted ads on websites frequented by parents, such as Yahoo!, Disney, Nickelodeon, and The Cartoon Network. |
| 14 | Offered customers prepaid postage labels so that they could return the products. |
| 15 | Compensated customers with vouchers equal to or greater than the retail price plus tax. |

### 7.3 Mattel's Response: Internal Reorganization

Besides the external information blitz, Mattel reorganized internal operations to emphasize commitment to product safety. In the weeks following the recalls, Mattel created a **Corporate Responsibility Division** to report to Eckert. The group, consisting of 500 employees worldwide, will monitor domestic and international vendor and manufacturer adherence to Mattel's toy safety standards. Eckert also announced a new **Product Integrity Policy and Audit**, "a function that will combine an internal audit organization and an independent audit organization to monitor Mattel and vendor facilities' compliance with Mattel's product integrity standards."[72] The company also instituted a **three-point safety check system**:

1. Mattel will only use paint from certified suppliers. Every single batch of paint at every single vendor will be tested. Paint that doesn't pass will be discarded without exception.
2. Mattel will increase unannounced testing and inspections at every stage of the manufacturing process.
3. Mattel will test finished toys from every single production run to ensure they meet accepted lead levels before being shipped to stores.[73]

Eckert attested to the system's success in an opinion piece published in the *New York Times*. He wrote, "Mattel is conducting a thorough investigation, combing through our products to ensure that we identify and recall any product affected by lead paint, no matter how tiny the area...For example, we identified lead paint on the headlights of a three-inch train car - and we recalled it. If there is a needle in the proverbial haystack, we aim to find it. I encourage other companies to do the same."[74]

A Mattel news release also claims the company will apply U.S. standards of lead toxicity levels to European Union countries, even if local EU standards are not as high.[75]

Analysts remain upbeat about Mattel's future. In a research report from the Bank of America, analyst Michael Savner estimates the total cost of the recalls at an "insignificant" $24 million. Others argue that as Mattel advertises tighter testing regulations, parents will continue to buy its toys.[76] For example, though approximately 2.4 million defective Polly Pocket dolls were recalled in November 2006, Polly Pocket sales didn't fall. The brand weathered on, and Mattel even expanded the line.[77] And if other toy companies disclose similar defects during the next few months, Mattel might be praised for getting the word out first.[78]

### 7.4 Mattel's Response - Shortcomings

Positive responses do not completely deflect the negatives. Firstly, the toymaker has on several occasions failed to comply with CPSC reporting requirements. Though Mattel was alerted to the Fisher Price paint contamination on June 8, it did not file a full report with the CPSC until July 26, more than a month and a half later.

Secondly, critics accuse the toymaker of expending a disproportionate amount of effort on preserving its reputation. For example, subsequent reports revealed that Mattel misled publics to believe its Chinese suppliers and manufacturers were responsible for both the lead paint *and* the magnets, when in fact the magnet hazard was an internal Mattel design flaw. This blame-shifting backfired as China retaliated, and on September 21 Mattel's executive vice president for world-wide operations admitted to China's product safety chief that the magnet recall should not have been associated with China; he also apologized to Chinese consumers.[79] Critics claim such pandering to corporate interests betrays excessive invest-ment in public relations and the bottom line.

A third area where Mattel could improve is compensation. "Mattel is offering equivalent value coupons good for other Mattel products in exchange for recalled products. Given the inconvenience caused to consumers and the need to motivate them to return the affected products, this offer may not be sufficient,"[80] says John Quelch, a Senior Associate Dean at the Harvard Business School.

### 7.5 Competitor Response

The toy industry as a whole suffered from Mattel's recall crises (see Chart 7[viii]). As a result, Mattel's forward-thinking competitors have increased transparency.

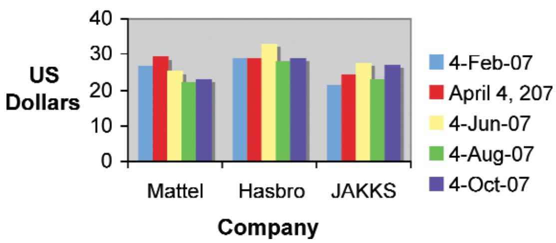
Between January and July 2007, Hasbro's stock steadily gained value, only to drop in August,[81] coincidentally timed with Mattel's toy woes and signaling the general negative climate surrounding toys manufactured in China. Between August and Mattel's November recall, Hasbro's stock prices slowly recovered, with third quarter net revenues

[viii] Data compiled from corporate websites: Mattel, JAKKS, and Hasbro

of $1,223 million still up 18 percent compared with the third quarter of 2006 ($1,039.1 million).[82] However, prices dipped again when Mattel announced its fifth recall on November 6, 2007: On November 6 Hasbro closed at $28.46; between November 7 and 9 it dropped to $25.96.

Like Mattel and Hasbro, JAKKS experienced a drop in stock prices in early August. Fortunately performance slowly rose in the third quarter and even remained stable during Mattel's November recalls. The company's third quarter report for 2007 showed net income at $47.3 million compared to $40.5 million the year before.[83]

**Chart 7. Stock Prices 2007**




In response to Mattel's lead paint crisis, Hasbro implemented a question and answer page on its website. The questions address consumer concerns about off shore manufacturing and product safety. One question highlights Hasbro's safety and quality control checks and its independent, third party testing of all products imported from China. Hasbro also increased the number of unannounced checks imposed on Chinese factories and products before they are delivered to U.S. retailers.[84] JAKKS' website, on the other hand, failed to address consumer concerns about its Chinese manufacturers.

### 7.6 Industry Response

Industry groups have responded by providing stakeholders with objective toy safety analysis. They also facilitate international communication and push for legislative change. "Our analysis of what had happened was that our toy safety standards were excellent, as they had been for years; but that the toy safety testing and inspection process had failed us," said Carter Keithley, President of TIA. "The US toy industry has been very pleased with its China based manufacturers for many years. The errors that resulted in lead paint and other hazardous materials being used on children's products were the acts and omissions of a very few," which he says do not reflect the standards maintained by the "vast majority" or their manufacturers.[85]

Groups like the TIA cater to consumer concerns. The TIA's website advertises "Toy safety is our top priority, year-round." For the 2007 holiday season, the group offered extra services to parents, such as a new website (www.toyinfo.org) and a toll-free hotline (1-888-88-4TOYS), both of which provide safety tips, advice from experts, and objective recall information.

The industry also collaborates with the Chinese government's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) to force tighter testing protocols on Chinese manufacturers.[86] On November 15, 2007, the TIA and the Chinese government co-hosted a toy safety conference in Guangzhou, China. Representatives from almost 300 Chinese toy manufacturers attended (though there are thousands of manufacturers operating in China). At the conference, the TIA proposed a "conformity assessment" program to "assure that all toys coming into our country are in compliance with strengthened U.S. safety standards."[87] The projected program would include the following measures:

- Creating new procedures with the American National Standards Institute (ANSI) for sampling and testing products as they come off the production lines.
- Developing criteria to accredit testing laboratories or inspecting organizations. Only the accredited will be qualified to perform the above-mentioned conformity testing procedures.
- Drafting federal legislation that requires all toys sold in the United States to pass the revised tests to ensure they conform to safety standards.[88]

Industry analysts[ix] predict an increase in recalls if toy companies don't enforce more rigorous standards now.

### 7.7 Investor Response

Mattel's gradually decreasing stock price reflects investor confidence. In August, Mattel's stock price continued a downward trend that had begun in July. The price then slowly rose in September, even after the September 4 recall was disclosed, only to later drop again. The price has been more or less falling ever since (See Table 8).

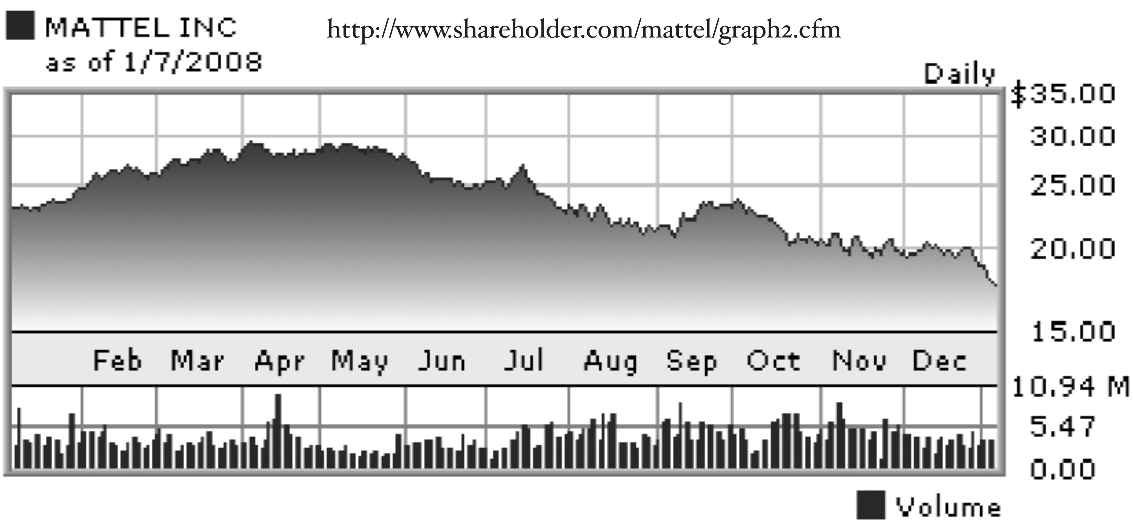
In addition, a large pension fund filed a shareholder's suit against Mattel in October 2007, alleging that the company's board of directors and executives purposely delayed announcements in order to sell as many faulty products as possible and to artificially increase stock shares. They claim that company insiders dumped shares to increase profits in the months leading up to the recall, as share prices dropped 20 percent immediately after.[89]

On a more positive note, on November 16, 2007 Mattel's Board of Directors officially increased the company's 2007 common stock annual dividend to .75 cents per share, an increase of 10 cents per share over 2006.[90]

**Table 8: Mattel Stock Prices 2007**

**1 Year Chart**

http://www.shareholder.com/mattel/graph2.cfm




### 7.8 Watchdog Response

The lead paint predicament does not just lie with toys. After the recalls, several groups including the Ecology Center and the Center for Health, Environment and Justice tested 1,200 children's products and found that 35 percent contained lead, while only 20 percent contained no lead. Tracey Easthope, director of the Ecology Center's Environmental Health Project, said that lead levels in 17 percent of the children's products tested would likely trigger a recall. Jewelry products rather than toys most often contained high levels of lead.[91]

### 7.9 Parent/Consumer Response

According to a 2007 Harris Poll, the 2007 holiday toy market may be hurt by the recalls. More American consumers report being wary of products manufactured in China. One-third said that they would likely buy fewer toys this December, while 45 percent said they would avoid toys manufactured in China. 68 percent

[ix] Here, Gerrick Johnson of BMO Capital Markets

of consumers who have been directly affected by the recalls said they would also avoid toys manufactured in China this holiday season.[92]

### 7.10 Government Response

The U.S. government has elevated the importance of product safety. Speaker of the House Nancy Pelosi in November 2007 called for the resignation of the U.S. Product Safety regulator. This comes on the heels of two key Congressional committee hearings and a CPSC hearing, all held in September and all at which Mattel testified.

On September 12, 2007, CEO Robert Eckert appeared before the Senate Appropriations Committee to defend Mattel's outsourcing of manufacturing to countries like China. At issue was not just Mattel's three recent recalls, but that 177 products from China have been recalled since 2006, a staggering number compared to Taiwan (12) and Mexico (6). Senator Sam Brownback argued that American consumers and legislators were fed up with defective products. Though Mattel claims it has strict safety inspection procedures, Brownback harangued the company for willingly choosing to manufacture in a country known for low standards and corruption.[93]

On September 20, 2007, both the CPSC and Mattel testified at a House Energy and Commerce Committee hearing investigating lead-tainted children's toys and product recalls. Testimonies are expected to guide lawmakers in discussing tighter import and export regulations.[94] At the hearing, Mattel was chastised by lawmakers. The CPSC will also investigate Mattel to determine whether it should levy fines against the toymaker.

Regulations born from these deliberations could include federally mandated inspections conducted by outside parties and higher penalties for those who fail to comply. Industry sources cited by ABC found that Mattel and Hasbro would actually support more stringent regulations enforced by an independent, international regulatory body.[95]

### 8. Current Dilemma:

In the wake of Mattel's repeat recalls and failure to comply with CPSC reporting requirements, Mattel has been criticized for putting the bottom line ahead of customer safety. Parents are wary of toy quality and reportedly less likely to purchase toys manufactured in China during the 2007 holiday season. Working closely with its Chinese suppliers and government agencies operating within the toy industry, Mattel is focusing on realistic quality control solutions for which it can be held accountable. The company faces challenges such as reassuring the public that outsourcing to China is not a high-risk manufacturing move, and that Chinese suppliers and the Chinese government are likewise willing to cooperate. Regaining consumer confidence and controlling the dissemination of product safety information requires strong corporate communicators who can delicately and deliberately balance supplier, customer, governmental, media and investor relationships.

## Appendix I

An opinion statement written by Robert A. Eckert and published in the Sept. 11, 2007 issue of the *Wall Street Journal*.

http://www.mattel.com/message_from_ceo.htm

What is going on at Mattel? I've heard this question many times over the course of the past few weeks as we've conducted three voluntary recalls of products, due to impermissible levels of lead in paint. I've heard from concerned parents, employees, my neighbors, former colleagues and even my own children. I think just about everyone knows we've had recalls. That's good. It means we have achieved our main goal of successfully communicating widely and openly with our many constituents.

Media coverage of the recalls, overall, has been helpful in spreading the news to consumers. Unfortunately, in some cases, opinions have been attributed to me that I've never held, let alone expressed. More seriously, the character of Mattel has been maligned. We've even been accused of being "unapologetic" by the very same newspaper in which we ran full-page ads apologizing. I apologize again.

I want to make clear where I stand and look forward to doing the same before Congress. I fully support the U.S. Consumer Products Safety Commission and the vital work that it does. We have worked closely and respectfully with the CPSC throughout this difficult period, and I applaud their prompt actions and professionalism.

As a father of four, I am intimately aware of the expectations of parents - they want safe toys, and they want assurances that those toys have been tested to make sure that they're safe. Currently, lead paint is topmost on parents' minds. I want parents to be assured that we are taking action.

To complement our many existing safeguards, we have implemented a strengthened three-stage safety check system to prevent lead in paint. First, we require that only paint from certified suppliers be used and that every single batch of paint at every single vendor be tested. If it doesn't pass, it doesn't get used. No exceptions. Second, we have significantly increased testing and unannounced inspections at every stage of the production process. Finally, finished toys from every production run must be tested for lead to ensure they are safe before reaching store shelves.

Mattel is conducting a thorough investigation, combing through our products to ensure that we identify and recall any product affected by lead paint, no matter how tiny the area. The level of detail in our findings is indicative of how intensively we are searching. For example, we identified lead paint on the headlights of a three-inch train car - and we recalled it. If there is a needle in the proverbial haystack, we aim to find it. I encourage other companies to do the same.

Our toys are overwhelmingly safe. To date, our lead-related recalls of toys produced in the past 12 months represent less than half of 1 percent of our production. I'd rather the number was zero.

As we continue our lead paint testing, it's possible that we could find more items that have parts that may not meet our specifications. Obviously, I hope we don't find anything else. But if we find any issue, no matter how small, we will work closely with authorities worldwide to inform consumers quickly and take prompt corrective action.

There has been quite a lot of talk about toy testing in past weeks. I also want to talk about this test of Mattel as an organization, and what people can expect from us moving forward. It is my sincere pledge that we will face this challenge with integrity and reaffirm that we will do the right thing. We will embrace this test of our company and the opportunity to become better.

When I was a young man growing up in suburban Chicago, my father encouraged me to earn his trust through my actions rather than just talk about what I was going to do. Today, I tell my children "deeds, not words."

And it is on this principle that Mattel will move forward. We will earn back your trust with our deeds, not just with our words.

## Appendix II

For Immediate Release

Contact: Mattel Corporate Communications
310-252-4705
corporate.communications@mattel.com

Media Statement – September 21, 2007

Some reports of Mattel's meeting today with Chinese officials have been mischaracterized.

Since Mattel toys are sold the world over, Mattel apologized to the Chinese today just as it has wherever its toys are sold.

The U.S. Congress has focused its inquiry on lead paint, given its long history of interest in that issue. Mattel has told the Chinese, as we did the U.S. Congress, the lead-related recalls arose because a minority of manufacturers did not follow the company's rules. In fact, Chinese officials have informed Mattel they are pursuing criminal charges against several individuals connected with at least one of those manufacturers.

Mattel informed the U.S. House Energy and Commerce Committee in a letter dated September 5th (available on the Committee's website), "The magnet-related recalls account for roughly 11.7 million of the recalled toys shipped to retailers in the U.S. The magnet-related recalls do not involve lead paint or manufacturing failures by Mattel or its vendors, including vendors in China." The magnet recall was a result of Mattel having adopted a new design standard for securing magnets in toys and retroactively applying that higher standard. To the extent that the Chinese were criticized for magnet-related recalls, Mattel apologized.

Mattel has always believed and publicly stated that our toys must be safe regardless of where they are produced or by whom.

The complete text of Mattel's written statement in China earlier today is posted below.

## Appendix III

September 21, 2007

PRESS STATEMENT OF MATTEL

Mattel is committed to working with the Chinese Government and manufacturers to promote and improve the safety of toys and other consumer products. Safety of toys is a matter of critical importance to Mattel, whether they are made in China or elsewhere around the world. Mattel has enjoyed a very successful partnership with manufacturers in China for 25 years.

Mattel produces approximately 800 million toys annually. Out of these, less than 0.3% were recalled because of impermissible levels of lead contained in the paint and approximately 0.5% of the toys produced from 2003 to 2006 were recalled as a result of magnets which could become loose. The toys recalled worldwide in relation to magnet issues were 17.4 million pieces, and the toys recalled in connection with impermissible levels of lead in paint were 2.2 million pieces. The magnet related recalls were due to emerging issues concerning design and this has nothing to do with whether the toys were manufactured in China. Mattel does not hold Chinese manufacturers responsible for the design in relation to the recalled magnet toys. Mattel has since changed the relevant design in January this year to effectively lock in the small magnets in the toys so that they cannot be easily detached.

Mattel is committed to applying the highest standards of safety for its products. Consistent with this, Mattel's lead-related recalls were overly inclusive, including toys that may not have had lead in paint in excess of the U.S. standards. Subsequent testing indicated that some of the recalled toys did not fail the U.S. standards. Mattel also applied the same high standards to recalls of its products in the EU and other countries despite the fact that some of these products may have met local safety standards.

## Appendix IV

SCCT Crisis Response Strategies[96]

**1. Deny Strategies:**

a. Attack the accuser: Crisis manager confronts the person or group claiming something is wrong with the organization. "The organization threatened to sue the people who claim a crisis occurred."
b. Denial: Crisis manager asserts that there is no crisis. "The organization said that no crisis event occurred."
c. Scapegoat: Crisis manager blames some person or group outside the organization

for the crisis. "The organization blamed the supplier for the crisis."

**2. Diminish Strategies:**

a. Excuse: Crisis manager minimizes organizational responsibility by denying intent to do harm and/or claiming inability to control the events that triggered the crisis. "The organization said it did not intend for the crisis to occur and that accidents happen as part of the operation of any organization."

b. Justification: Crisis manager minimizes the perceived damage cause by the crisis. "The organization said the damage and injuries from the crisis were very minor."

**3. Rebuild Strategies:**

a. Compensation: Crisis manager offers money or other gifts to victims. "The organization offered money and products as compensation."

b. Apology: Crisis manager indicates the organization takes full responsibility for the crisis and asks stakeholders for forgiveness. "The organization publicly accepted full responsibility for the crisis and asked stakeholders to forgive the mistake."

**4. Reinforcing Strategies:**

a. Bolstering: Tell stakeholders about the past good works of the organization: "The organization restated its recent work to improve K-12 education."

b. Ingratiation: Crisis manager praises stakeholders: "The organization thanked stakeholders for their help."

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# JETBLUE AIRWAYS: REGAINING ALTITUDE AFTER THE VALENTINE'S DAY MASSACRE OF 2007

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## Abstract

Valentine's Day 2007 changed the course of history for JetBlue Airways. The upstart low-fare airline – which had enjoyed unprecedented acclaim from customers and industry observers – suddenly found itself in the midst of its first major operational catastrophe. A winter storm that enveloped the New York metropolitan region and JetBlue's hub at John F. Kennedy International Airport left hundreds of the company's passengers stranded in the terminal, and worse, in planes on the tarmac. The flight disruptions at JFK plunged JetBlue's entire operation into chaos, forcing the carrier to cancel more than one thousand flights over a six-day period. The cancellations cost the airline an estimated $20 million in revenue and $24 million in flight vouchers to customers who were impacted by the disruptions. JetBlue founder and CEO David Neeleman and his executive team knew they had to find a way to restore the company's once sterling reputation. This case study describes the corporate communication dilemma faced by JetBlue Airways in the wake of its 2007 winter storm-related crisis known as the "Valentine's Day Massacre."

## Introduction

For JetBlue Airways, which prided itself on bringing the "humanity back to air travel,"[1] Valentine's Day 2007 served as a stark reminder that every honeymoon eventually comes to an end. The New York-based airline began the year on a roll; growth both in terms of destinations and fleet size was far outpacing even the most ambitious projections. JetBlue enjoyed a cult-like following among its loyal customers, thanks in large part to uncommonly attentive service, generous legroom, free satellite television feeds in every leather seat, and of course, the company's signature blue Terra potato chips. In fact, the airline ranked highest in customer satisfaction among low-cost airlines in 2006 and among all major airlines in the United States in 2005.[2]

Yet as a winter nor'easter barreled toward the New York metropolitan region on February 14, 2007, JetBlue leaders were blissfully unaware that the next seven days would be by far the most trying in the company's eight year history. By February 19, the company had cancelled more than one thousand flights and incurred tens of millions of dollars in losses. Worse, JetBlue's sterling reputation was now tarnished because of bad luck, flawed decision-making, and multiple systemic failures. As pressure mounted, JetBlue founder and CEO David Neeleman encouraged his executive team to search for bold and inventive solutions. If that meant parting with convention, then so be it, Neeleman told them. One thing was clear: JetBlue Airways needed a plan to win back customers, reassure employees and investors, and restore its public image.

## JetBlue Takes Off

The launch of JetBlue Airways in 1999 was never supposed to work. After all, of the 58 start-up jet airlines that had commenced operations since the U.S. government deregulated the industry in 1978, only two survived. The prospect of making money in the airline industry is so exceedingly difficult that billionaire investor Warren Buffet once famously remarked that capitalism would have been better served had someone shot down the Wright brothers' prototype airplane at Kitty Hawk, North Carolina, a century earlier.[4]

Airlines today face high fixed costs because scheduled flights have to take off whether they are full or empty.[5] Carriers also incur staggering expenses that are subject to market volatility, such as jet fuel, and are particularly sensitive to the ebbs and flows of economic cycles.[6] "It is a business whose margins are so razor thin that a couple of passengers on each plane can spell the difference between profit and loss and where a one-cent rise in the price of jet fuel can cost the industry an added $180 million a year," wrote industry expert Barbara Peterson.[7]

The pitfalls of the airline business were not always so apparent. Commercial aviation in the U.S. entered its heyday following World War II, a time when many airlines enjoyed lucrative lease contracts from the military, and the demand for passenger and cargo transport soared. Industry behemoths like Eastern Air Lines, Trans World Airlines, United Airlines, American Airlines, Braniff International Airways, Northwest Airlines, and Delta Air Lines reaped enormous profits and ruled the skies until Congress and President Jimmy Carter passed the Airline Deregulation Act of 1978.[8] The primary purpose of the act was to eliminate government control over commercial aviation and encourage market forces to shape the industry's development.

While the Airline Deregulation Act ensured easier market entry for new carriers, success did not automatically follow for these start-ups. The cutthroat competitive tactics employed by the legacy airlines in the 1980s and 1990s caused most new companies to fail. Still, competition persisted and airfares dropped significantly during the 1990s and into the 21st century, leading to the rise of low-cost carriers such as AirTran Airways, Southwest Airlines, and JetBlue Airways.

JetBlue was the brainchild of David Neeleman, an industry visionary who promised to "bring humanity back to air travel."[9] Neeleman, who was born in Brazil but grew up in Utah as part of a large Mormon family, was no stranger to start-up airlines.[10] He helped to build Morris Air, a Utah-based airline that Southwest acquired in 1993 for $129 million.[11]

Neeleman leveraged his industry experience and connections to create a company that would boast a fleet of brand new airplanes, low fares, and a host of customer-friendly embellishments that legacy carriers and other start-ups would be hard-pressed to match. Neeleman envisioned treating JetBlue's customers – never referred to as passengers – to comfy and wide leather seats, paperless ticketing, and exceptional service by flight crew members. Every seat would come equipped with a television that featured dozens of free channels provided by satellite signal. Finally, to keep costs down, JetBlue would offer a virtually unlimited supply of appealing in-flight snacks instead of soggy meals that no one really wanted.[12]

Backed by an impressive capital reserve, Neeleman's plan worked far sooner than even the most optimistic industry observers predicted. With its new airplanes and flights to and from previously underserved markets, JetBlue quickly shot to the top of J.D. Power and Associates' customer satisfaction surveys.[13] Based at New York's John F. Kennedy International Airport, the start-up soon expanded operations to Los Angeles (via Long Beach Airport), southern Florida, and a host of smaller markets, such as Buffalo, New York.

JetBlue's launch was particularly well-timed. Despite frequent pricing skirmishes resulting from increased competition between the low-cost and legacy airlines, the domestic commercial aviation industry as a whole started 2001 with 24 consecutive quarters of profitability.[14] Passenger volume had risen at an average rate of 3.6% per year between 1990 and the end of 2000, and net profits for the industry totaled $7.9 billion in 2000.[15] Despite these trends, many legacy carriers were struggling to maintain profitability due to the competition posed by low-cost carriers. Then the unthinkable happened.

The hijacking and downing of four U.S. jetliners in New York City, Washington D.C., and rural Pennsylvania by terrorists on September 11, 2001 crippled an already ailing airline industry.

Consumer confidence in the safety and security of air travel plummeted, sending booking rates down by 70% when flights resumed after 9/11.[16] The industry, which generated 11 million jobs and constituted nine percent of the U.S. gross domestic product, saw more than 80,000 jobs eliminated during the two months immediately following the attacks.[17] Only three airlines managed to turn a profit in 2001: low-cost carriers Southwest, AirTran, and JetBlue.[18]

Due in large part to its size and flexibility, JetBlue continued to impress in the years that followed. In 2002, Advertising Age crowned JetBlue the "Marketer of the Year"[19] and claimed the company's branding efforts gave it a singular identity in a crowded and often confusing marketplace.[20] JetBlue flights were among the most on-time in the industry in 2003, the same year the airline filled most of its available seats on planes – two feats that rarely go hand-in-hand.[21] By mid-2004, the company had turned a profit for more than 16 consecutive quarters.[22]

Although JetBlue reported a net loss of $1 million in 2006 primarily due to soaring jet fuel expenses, the company's operating revenue totaled $2.36 billion, which constituted growth of nearly 39 percent over fiscal year 2005.[23] By 2007, the airline's growing fleet of Airbus and Embraer jets served 52 destinations with more than 575 daily flights.[24] Even though an increasing number of critics forecasted growing pains for JetBlue after its meteoric rise, the love affair between the upstart airline and its faithful customers appeared to be as strong as ever.

## The Perfect Storm

Valentine's Day 2007 got off to an inauspicious start in the New York metropolitan area. Bleak, gray skies blanketed the region and weather forecasters warned of a wintry mix of precipitation. JetBlue officials at JFK International Airport gambled that temperatures would warm up enough to change the snowfall and icy slush into rain. Six JetBlue planes – four bound for domestic destinations, one headed for Aruba, and another for Cancun, Mexico – were loaded early in the day with passengers, luggage, and cargo.[25] The planes pushed back from their respective gates and waited for word of a break in the storm. Meanwhile, several inbound flights landed, taxied, and filled most of the airline's dedicated gates.

With no end to the freezing rain in sight, JetBlue and airport officials hatched a plan to allow planes stranded on the tarmac to ferry back and forth to the few remaining open gates for offloading. This strategy failed, however, when the runway equipment used to tow the planes froze to the ground. Said a JetBlue spokesman: "We had planes on the runways, planes arriving, and planes at all our gates... We ended up with gridlock."[26]

Meanwhile, almost all of the other airlines operating at JFK had called off their flights earlier in the day. Scores of JetBlue passengers in the terminal waited in vain to board flights that would inevitably be cancelled. "We thought there would be these windows of opportunities to get planes off the ground, and we were relying on those weather forecasts," said Sebastian White, a corporate communications manager at JetBlue.[27] Freezing rain continued to fall on New York, entombing hundreds of passengers inside JetBlue planes that were stranded on the runways at JFK. The worst, however, was yet to come.

## On Thin Ice

Deteriorating weather conditions at JFK and flaring tempers both inside JetBlue's terminal and aboard its planes only exacerbated the company's crisis. Nine of the airline's jets sat idle on the tarmac for more than six hours before passengers were successfully offloaded and taken to the terminal.[28] Passengers aboard one JetBlue flight that landed at the airport were trapped inside the plane for a full nine hours.[29]

Tensions inside the planes ran high during the seemingly interminable ground delays. The airline's pilots tried to provide frequent updates and apologies, while crew members in the cabins did their best to appease restless customers with snacks and beverages. It was not until 3 p.m. on Valentine's Day that JetBlue officials at JFK finally called the Port Authority of New York and New Jersey to request buses that the airline could use to shuttle passengers from the stranded planes back to the terminal.[30]

As the waiting continued, some passengers became reluctant to use the on-board restrooms. “I don’t know what anyone else did, but I just held it,” said a man who claimed the lavatories aboard his JetBlue flight stopped working.[31] Two puppies on the man’s flight had no compunction about using the facilities; they were led to the rear of the cabin so they could relieve themselves on newspapers, he said.[32]

The crisis took a particularly troubling turn at Newark Liberty International Airport on February 15. Several passengers became unruly upon learning of additional flight cancellations, prompting JetBlue ticketing personnel to call in the police for protection.[33]

JetBlue customers found little solace in calling the airline’s reservations hotline or visiting JetBlue.com on the World Wide Web. Even by Friday, February 16, many callers who dialed the company’s telephone number were still greeted by a recorded voice that said, “We are experiencing extremely high call volume… We are unable to take your call.”[34] Additionally, JetBlue’s Web site listed flights as on schedule for departure when, in fact, the carrier had already cancelled many of those flights.[35]

Widespread instances of lost baggage further infuriated JetBlue’s customers whose travel plans were disrupted by the Valentine’s Day storm. Said one passenger at JFK: “We’re staring at thousands of bags. We’re in a sea of luggage, and [our bags] cannot be found.”[36] Another customer described the company’s efforts to sort through the mounds of luggage as “organized chaos.”[37]

## JetBlack and Blue

JetBlue soon found that many of its planes and flight crews scattered across the rest of the country were now out of place due to the disruptions at its hub in New York. As a result, the carrier was forced to cancel more than 250 of its 505 daily flights scheduled for Valentine’s Day.[38] JetBlue called off 217 of its 562 scheduled departures on February 15, as well.[39]

“We had a problem matching aircraft with flight crews,” said Jenny Dervin, JetBlue’s director of corporate communications.[40] Company leaders quickly settled upon a strategy designed to “reset” the airline’s operations. “Sometime in the afternoon [of February 16], it just fell apart,” said Dervin.[41] “The folks running the operation [were] just exhausted. We said, ‘Let’s stop the madness.’” The plan to reset operations, however, came at a steep price: JetBlue was forced to cancel approximately 1,200 flights between February 14 and February 19.[42]

David Neeleman cited multiple operational failures that compounded the crisis. Among the primary culprits: inadequate communication protocols to direct the company’s 11,000 pilots and flight attendants on where to go and when; an overwhelmed reservation system; and the lack of cross-trained employees who could work outside their primary area of expertise during an emergency.[43]

“We had so many people in the company who wanted to help who weren’t trained to help,” Neeleman said.[44] “We had an emergency control center full of people who didn’t know what to do. I had flight attendants sitting in hotel rooms for three days who couldn’t get a hold of us. I had pilots e-mailing me saying, ‘I’m available, what do I do?’”

As the crisis deepened, JetBlue leaders began to calculate the financial hit the company would take because of lost revenue from cancelled flights, as well as refunds and vouchers issued to stranded customers. “It’s going to certainly impact us, and it’s going to be many millions of dollars that we’re going to lose from this,” said Neeleman several days after the winter storm.[45]

The cancellations during the five-day period cost the airline an estimated $20 million in revenue and $24 million in flight vouchers to customers who were impacted by the disruptions.[46] Within days of the storm, JetBlue lowered its operating margin forecast for the fiscal quarter and the year; investors immediately responded by selling off their shares of JetBlue stock.[47] As the losses mounted, Neeleman became obsessed with finding a way to restore JetBlue's sterling reputation and win back disillusioned customers.

## Misery Loves Coverage

"Call it the perfect storm, the imperfect storm, the Valentine's Day Massacre," said one JetBlue vice president.[48] Regardless of the label that the public affixed to the crisis, JetBlue officials knew the media interest in the story would be sky high. The company's corporate communications department fielded roughly 5,000 telephone inquires from the media between February 14 and February 19.[49]

JetBlue's reputation as a successful and offbeat upstart airline only seemed to invite sensational newspaper headlines during the crisis. The New York Post published an article under the banner: "Air Refugees in New JFKaos; Hordes Camp Overnight Before JetBlue Says: 'Tough Luck, No Flights.'"[50] A New York Times story entitled "Long Delays Hurt Image of JetBlue" similarly predicted reputational damage for the carrier as a result of the crisis.[51] The headline of a *Newsday* article asked the question virtually every industry observer wanted to know: "Can JetBlue Recover?"[52]

Television and print news reports were equally harsh. For their part, angry JetBlue customers provided plenty of material. "They are right on the edge of human-rights violations," said one passenger whose travel plans to attend his mother's funeral in Baltimore were temporarily derailed.[53] "They have no contingency plan at all. When they say no frills, they mean it," he said. Another JetBlue customer who spent nearly nine hours aboard the grounded Valentine's Day flight bound for Cancun remarked: "It was like – what's the name of that prison in Vietnam where they held [Senator John] McCain? The Hanoi Hilton."[54]

With all eyes on the embattled company, JetBlue leaders knew they had to choose their public relations battles carefully. "It was a horrible situation," said Todd Burke, vice president of corporate communications.[55] "However, we never had overflowing toilets on the planes. We never ran out of food and water like people said, but that was the customers' perception."

Although most of the media stories that began trickling out on February 14 and February 15 recounted tales of passengers' woes, several reports of creativity on the part of JetBlue employees emerged. Flight attendants aboard planes that were stranded on the tarmac at JFK on Valentine's Day kept children busy by allowing them to push beverage carts and serve snacks.[56] The crew members also invited passengers to recharge their mobile phones through electrical outlets on the planes.[57]

When the supply of snacks ran low aboard a JetBlue flight that was destined for Florida but marooned on the tarmac at JFK, pilots arranged for pizzas to be delivered to the plane.[58] The gesture, along with the satellite television access in every seatback, went a long way toward soothing frazzled nerves. "The TVs were a saving grace," said one passenger.[59]

Perhaps the most remarkable story of ingenuity involved two JetBlue pilots who on February 16 paid a taxi driver $360 to shuttle them from New York City to the upstate town of Newburgh, where one of the company's jets sat idle.[60] The pilots flew the plane to JFK, loaded it with passengers and luggage, and then continued on to Sarasota, Florida. The New York Daily News reported that the "passengers came off the plane cursing the airline but marveling at the flight crew."[61] One passenger on the flight to Sarasota remarked, "I've never experienced a pilot and a co-pilot getting in a taxi cab and finding a plane."[62]

## Congress Comes Calling

Just days after JetBlue's operational meltdown at JFK, members of Congress began calling for legislation designed to prevent air travelers from being held captive inside grounded airplanes for excessive amounts of time. Many suggested that the implementation of an industry-wide passenger bill of rights would be necessary to spur major airlines to action. These legislators argued that a bill of rights would entitle passengers to receive standardized compensation from carriers that fail to meet certain service levels, such as a flight that remains on the runway for hours after pushing back for departure.

David Neeleman bristled at the thought of government intervention. "We will change our operational strategy based on this [crisis]," JetBlue's CEO said.[63] "We would prefer to be in control of how we compensate customers we have inconvenienced."

Following Neeleman's lead, JetBlue tried to beat the zealous legislators to the punch. Late on February 14, the company issued a statement announcing that any customers who had been stranded aboard one of its planes for longer than three hours would receive a full refund and a free roundtrip flight.[64] Many industry experts suggested that this measure would do little to quell the groundswell of public support for standardized service level benchmarks on domestic flights. Surprisingly, JetBlue's chief executive agreed.

In order for JetBlue to regain its former prestige, Neeleman knew he would have to propose that the airline do something novel, something impressive, something no competitor had ever done before. "I can flap my lips all I want," Neeleman said.[65] "Talk is cheap. Watch us."

## Dilemma

The winter storm that gripped the northeast United States on Valentine's Day 2007 set off a chain reaction of interdependent business problems and corporate communication quandaries for JetBlue Airways. Company leaders had already decided to "reset" flight operations, prompting the cancellation of hundreds of flights between February 14 and February 19. Passengers would have to be rebooked, lost pieces of luggage would have to be returned to their owners, and refunds would have to be issued to customers who opted to fly another airline or make use of alternate means of transportation. In such matters, David Neeleman and his leadership team had little choice.

Making amends with JetBlue's customer base was another issue entirely. Numerous public apologies and promises of corrective action had already been made by company representatives in the five days that followed Valentine's Day. Neeleman even starred in a video mea culpa posted to the company's Web site and YouTube.[66] "This was not acceptable," said JetBlue spokesman Bryan Baldwin in another such statement.[67] "We pride ourselves on being a customer service company and we failed to meet the needs of our customers.... We are going to go back and analyze what happened and make sure it never happens again."

By February 19, JetBlue leaders recognized that the company was at a crossroads. One option was to place a greater emphasis on the winter storm's role in the operational problems at JFK and across the country. The strategy of redirecting blame had certainly worked for other airlines in the past; after all, the public generally accepted that weather was a frequent cause of air travel disruptions.

The leadership team was mindful that other major carriers had experienced backlashes following weather-related crises. Northwest Airlines, for example, was vilified in 1999 when one of its flights from the Caribbean arrived in Detroit 22 hours late and then sat on the tarmac for 8 additional hours.[68] Northwest instituted and publicized a formal recovery plan that included the purchase of mobile staircases at a dozen airports so that passengers could deplane even if all the gates were occupied.[69]

JetBlue executives knew that such preventative measures could prove to be a very worthwhile investment and a good discussion point when addressing key publics. They feared, however, that these actions would not go far enough in reconnecting with customers like Patricia Fabricant, who told a New York newspaper, "This has been one of the worst experiences of our lives."[70]

The corporate communications team at JetBlue's Queens-based headquarters debated whether to put David Neeleman on the television news and talk show circuit. On one hand, JetBlue's charismatic and affable CEO could explain to the public what exactly had gone wrong. Neeleman could also tell a broad audience what the company was doing to prevent a repeat occurrence of the crisis. On the other hand, his presence on major network news programs might draw additional unwanted attention to an episode nearly every JetBlue employee wanted desperately to forget.

The biggest decision facing JetBlue's leadership team concerned a proposal set forth by Neeleman himself just days earlier. He suggested a gambit that was likely to garner much-needed positive attention for the beleaguered airline, but would also commit the company indefinitely to millions of dollars in potential losses. Neeleman's idea was a JetBlue Airways Customer Bill of Rights that would specify in no uncertain terms how passengers would be compensated if the company failed to meet certain performance standards. For example, customers would receive vouchers good toward future travel if their flight sat on the tarmac after landing for more than a certain number of minutes. The value of these credits would escalate the longer the passengers were forced to wait on board the plane. In essence, JetBlue would be putting its money in place of its mouth.

The idea was met with understandable skepticism by the members of Neeleman's executive team. The ongoing costs associated with such a groundbreaking program would be unpredictable at best and staggering at worst. Furthermore, a favorable reaction to the initiative by shareholders and Wall Street was far from a given. As the weekend progressed, Neeleman faced countless questions – and staunch objections in some cases – from the heads of JetBlue's legal, finance, flight operations, government affairs, and marketing teams, to name a few.[71] No other airline has ever committed to something like this, they argued.

Neeleman – who was known for personally answering every customer letter or e-mail he received – viewed the Customer Bill of Rights as absolutely vital to restoring JetBlue's image. He contended that the bill of rights would reaffirm the public's perception that JetBlue viewed air travelers as human beings, not cattle to be shipped from Point A to Point B. "This is going to be a different company because of this," Mr. Neeleman said. "It's going to be expensive. But what's more important is to win back people's confidence."[72]

A proposed JetBlue Airways Customer Bill of Rights was sure to catch the attention of not only employees, customers, and shareholders, but rival airlines as well. The major carriers had historically shied away from putting performance guarantees of this nature in writing.[73] Even if JetBlue pushed forward with this innovative but costly bill of rights program, Neeleman felt certain that the established industry heavyweights would be unlikely to follow suit.

In numerous interviews throughout the weekend, Neeleman promised that he would reveal JetBlue's redemption plan to the world by Monday, February 19. If a customer bill of rights was going to be part of that plan, the CEO still had to convince many influential people inside the company. As the weekend drew to a close, Neeleman and his leadership team needed to make some tough decisions – ones that would undoubtedly change the course of history for JetBlue Airways.

## Discussion Questions

1. What image restoration strategies should JetBlue Airways employ to rebuild its reputation as a customer-centric company?
2. If you were in charge of JetBlue's external communication effort, how would you try to make amends with customers who were delayed aboard planes or in terminals for hours?

3. How could JetBlue have better communicated with its internal stakeholders across the country on Valentine's Day and during the days that followed?
4. When addressing the company's stakeholders, how much blame for the crisis would you place on the inclement weather on Valentine's Day?
5. What is the best way to publicly explain the hundreds of additional flight cancellations that were necessary because of JetBlue's decision to "reset" its operations?
6. Should the corporate communications team at JetBlue arrange for CEO David Neeleman to appear on the national television news and talk show circuit following the crisis? What are the potential benefits and risks to the company's reputation?
7. What are the financial and reputational risks of publicly committing to an initiative like the JetBlue Airways Customer Bill of Rights?
8. What concerns might JetBlue's shareholders as well as members of its legal and finance departments have about a proposed JetBlue Airways Customer Bill of Rights?
9. Could JetBlue ever retract its Customer Bill of Rights once it is made public?
10. If implemented, how would you market the JetBlue Airways Customer Bill of Rights to external and internal stakeholders?

## Appendix A

jetBlue AIRWAYS®

JetBlue Airways News Release

**JetBlue Statement Regarding Operational Impact Today**

*Release (February 14, 2007)*

NEW YORK, Feb. 14, 2007 (PRIME NEWSWIRE) -- JetBlue Airways issues the following statement regarding operational disruptions caused by a winter weather system:

JetBlue apologizes to customers who were impacted by the ice storm at our home base of operations in New York, specifically at John F. Kennedy International Airport. Of the 505 daily flights operated by JetBlue, more than 250 flights were cancelled, and approximately 10 flights were significantly delayed at JFK with customers on board. These flights were a combination of scheduled departures from JFK that were not able to take off due to the ever-changing weather conditions, and arrivals that we were unable to move to a gate within a reasonable amount of time, due to all gates being occupied.

This resulted in unacceptable delays for our customers. JetBlue sincerely apologizes to all customers impacted by today's weather and will be issuing a full refund and a free roundtrip flight to customers delayed onboard any aircraft in excess of three hours. JetBlue's customer commitment team will be contacting these customers as soon as possible.

## Appendix B

jetBlue AIRWAYS

JetBlue Airways News Release

**JetBlue Airways Pre-Cancels 23 Percent of its Scheduled Flights for Feb. 17 and Feb. 18, 2007**

*Release (February 17, 2007)*

NEW YORK, Feb. 17, 2007 (PRIME NEWSWIRE) -- JetBlue Airways today announces that it has pre-cancelled 23 percent of its Saturday, Feb. 17 and Sunday, Feb. 18 schedule in order to reset the operation by positioning all aircraft and allowing flight crews to reset their operating clocks. Further cancellations may occur throughout the operating days.

The airline has canceled all flights to and from the following cities for Saturday, Feb. 17 and Sunday Feb. 18:

| | |
|---|---|
| Austin, TX | Nashville, TN |
| Bermuda | Pittsburgh, PA |
| Charlotte, NC | Portland, ME |
| Columbus, OH | Raleigh/Durham, NC |
| Houston, TX | Richmond, VA |
| Jacksonville, FL | |

Flights to other JetBlue destinations may be impacted as well. Customers are asked to check the status of their flight online at www.jetblue.com. Customers whose flights have been cancelled will be granted full refunds or JetBlue credit, or may choose to rebook their travel through May 22, 2007.

Refunds and credits may be obtained through www.jetblue.com. Customers may rebook their travel by calling 800-JETBLUE (800-325-2583). Call volume is high; customers may have difficulty getting through to reservations. Customers may rebook via 800-JETBLUE anytime through May 22.

JetBlue attempted to recover from the Feb. 14 ice storm by selectively canceling flights on Feb. 15 and Feb. 16 in order to help reset the airline's operation. The benefits of this action were mitigated by further operational constraints at JFK, including a one runway operation on Feb. 15, which resulted in long delays that flowed into Feb. 16.

JetBlue is taking this aggressive, unprecedented action to end rolling delays and cancellations, and to operate a new schedule reliably.

## Appendix C


YouTube Video Featuring JetBlue
CEO David Neeleman
*(February 18, 2007)*

## Appendix D


JetBlue Stock Value – January 1, 2007 through February 20, 2007

**JetBlue Airways Stock Value**
*(January 1, 2007 – February 20, 2007)*

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# UNILEVER'S DOVE AND AXE: EXAMPLES OF HYPOCRISY OR GOOD MARKETING?

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## Introduction

Should a company be criticized when one of its brands undertakes a campaign to improve the self-image of women around the world? In the fall of 2007, the Campaign for a Commercial Free Childhood (CCFC), a respected Boston-based activist group, said "yes" if that company was Unilever. Citing differences in how two major Unilever brands positioned themselves, the CCFC claimed it was unfair for Dove to capitalize on the success of its "Campaign for Real Beauty" while Axe, another of Unilever's brands, ran campaigns focusing on how its products increased the sexual appeal of young men, especially among physically attractive, suggestively dressed young women.

While the CCFC initially called only for an online letter-writing campaign to Unilever's CEO, its discontent was publicized quickly through blogs and traditional media, raising awareness of the issue. Eventually, some activists, bloggers, and journalists alike were questioning the ethics of one company using what they deemed to be conflicting messages that exploited stereotypes for profit. Since the Campaign for Real Beauty's message went beyond product promotion to social responsibility, working to improve the ways women evaluated their self-esteem and self-worth, the objectification of women in the Axe ads only fueled their complaints. Critics also noted both brands' use of viral tactics, suggesting this reliance on the consumer to generate publicity only furthered the accusations of hypocrisy.

## Unilever and Its Commitment to Customers

Unilever manages over 400 brands representing 14 categories of home, food and personal care products. Established in 1930 with the merger of Lever Brothers and Margarine Unie, British and Dutch companies respectively, Unilever's initial purpose was to eliminate competition between these companies' main products. After reorganizing its international operations following World War II, Unilever continued to increase its product offerings and the geographic scope of its operations throughout the twentieth century. In 2006, with over 179,000 employees in over 100 countries, Unilever produced a global operating profit of over €5 billion. Based on company research, Unilever's operations allow people in over 150 countries to choose its products an estimated 150 million times each day.[i]

In developing these products, Unilever follows its mission of adding "vitality to life," identifying this quality as what defines and differentiates its brands. The company says this mission not only shapes the products it produces, but also its contributions to society, noting its culture reflects vitality by demanding "the highest standards of behavior towards everyone we work with, the communities we reach and the environments on which we have an impact." By adhering to this mission, Unilever hopes to "help people look good, feel good and get more out of life."[ii]

In a speech given in 2003 at the London Business School, former chairman Niall Fitzgerald provided greater insight into how Unilever views the relationship between business and society. He said:

> When we talk about corporate social responsibility, we don't see it as something we 'do' to society. It is inherent in everything we do. Not just voluntary philanthropy or community investment, important though that is, but the

> impact of our operations and products as well as the interactions we have with the societies we serve.[iii]

Patrick Cescau, current group CEO, echoed these feelings in a speech on social innovation delivered in October 2006. Mr. Cescau said, "[Corporate responsibility] isn't philanthropy, it's business…it's about creating social benefits through our brands and through our interactions as a business with society." Additionally, he identified building reputation as one of the four main components of the business case for social responsibility, along with sustainable development, growing markets and fueling innovation.[iv]

To express its commitment to social responsibility, Unilever identified four partnerships that reflect its mission of vitality and relate to its two core business areas, food and home/personal care. These partnerships include work with UNICEF, the World Food Programme, the World Heart Federation and the FDI World Dental Federation; they reflect Unilever's commitment to corporate social responsibility by improving health, minimizing environmental impact, developing sustainable supplies and generating wealth in local communities.[v] While they are focused on providing different types of aid to countries in the developing world, Unilever identifies these partnerships as a way of building trust and exhibiting a genuine commitment to social responsibility with its key publics in the developed world. When discussing its vitality mission, Unilever USA looks to the company's global commitments as a way of building trust with consumers whose purchasing behavior, shaped increasingly by issues of societal and environmental importance, demands companies to put more action behind their brands.[vi]

## Relationships: Unilever, Dove and Axe

Dove and Axe represent important brands in Unilever's home/personal care division (HPC), one of its two major product groups. Along with Lux, Pond's, Rexona and Sunsilk, they comprise the six global brands at the core of the company's business in the deodorants, skin cleansing, daily hair care and mass-market skin care categories. Additionally, of these six, all but Axe and Pond's are among the company's 12 €1+ billion brands.[viii]

## Dove

Unilever's Dove product line began in the United States in 1957 when the company launched a personal cleansing bar made from a pH-neutral cleanser and moisturizing component. Based on a formula developed as a non-irritating skin cleanser for the treatment of burns and wounds during World War II, the introduction of the Dove Beauty Bar provided the first ever non-soap cleansing bar. Because it was not a soap, Unilever marketed Dove to women with the promise that it would not dry their skin. According to Dove, by the 1970s an independent clinical dermatological study recognized its Beauty Bar to be milder than 17 other leading bar soaps, and by the 1980s its Beauty Bar had become the number one physician-recommended cleansing bar.

While Dove's only product through 1995 was this cleansing bar, at this time the brand began launching more personal care products. Aimed at expanding its commitment to provide personal cleansing products less abrasive than soap, Dove's new products included a moisturizing body wash, sensitive skin bar, facial care cleanser, facial cleansing scrub and facial care daily moisturizer. Additionally, an all-day moisturizing body wash was introduced in 1999, followed by a line of anti-perspirants and deodorants in 2001 and a hair-care line in 2003. Finally, in 2004, Dove launched its Campaign for Real Beauty in an effort to continue its mission of expanding the definition of beauty among women around the world.

Drawing from its roots as a brand that provides mild yet effective beauty products, Dove says it continues to provide products that make a "genuine difference to the condition and feel of your skin and hair." Doing so helps to accomplish its mission of expanding women's definition of beauty to include all ages, shapes and sizes, helping them to realize real beauty is not limited to how they look.[ix]

## Axe

Unlike Dove, Axe is a brand targeted to young men. First launched in France in 1983, the Axe brand was Unilever's first substantial investment in a male product line. While other personal care companies had already introduced products for this audience, such as Estee Lauder's Aramis, Shulton's Old Spice, and Faberge's Brut, Unilever had only begun to explore this market. By the 1970s, it sold various men's toiletries with varying degrees of success in Britain, France and South Africa; however, in an effort to capture perceived growth in the demand for a male deodorant, the company decided to further develop these initial products with the Axe brand.[x]

Following its debut in France, by 1986 Axe was available in Germany and several other European countries and was marketed as Lynx in the United Kingdom, Ireland, Australia and New Zealand. As it moved into the 1990s, the brand widened its product offerings to include shaving and other male grooming products, eventually becoming the world's largest male personal care brand with 7.5 percent of global deodorant sales. In addition to its product line, Axe's geographic scope also continued to grow. By the time it launched in the United States in 2002, it was present in 53 other countries and dominant in Europe, South America and Australia.[xi]

Regarding Axe's growth, Unilever credits the brand's "tightly focused promotional efforts—dramatizing 'Boy gets Girl' benefits resulting from product usage." Axe and its agencies have dramatized these benefits in several creative ways to reach the brand's 18 to 24 year old target audience, utilizing a variety of online promotions including websites, instant messaging, blogs and games.[xii] The brand has also paired these online activities with edgy videos designed to elaborate on the "Boy gets Girl" theme. Often relying on both implicit and explicit sexual references, Axe continues to remind young men that using its products will help them receive attention from the girls in whom they are interested.

## Unilever's Control over Both Brands

Even as separate brands targeting different groups in very different ways, Dove and Axe do not operate with complete independence from each other or their parent company. In fact, Unilever's corporate structure ensures its brands must operate under the overall control of the company because they are managed according to both product category and geographic regions. Structuring its operations in this manner helps Unilever manage its brands with two separate yet complimentary functions. On one hand, leaders in the product category function are responsible for brand development, innovation and research/development; their success is measured according to how they manage medium/long term market share, build brand health, develop measurement metrics and create greater value within the product category. On the other hand, leaders in the region function are responsible for deploying brands and innovations, managing the business and interfacing with customers. In doing this, they are held accountable for short-term market share, growth, profit and cash flows. So, even though Unilever's brands are managed by individual teams, the management structure necessitates that these teams work within the overall direction of the company.[xiii]

Just as their overall management for each brand is not independent of Unilever's oversight, neither is the marketing function. According to a press release issued on April 12, 2007, Unilever asserts some level of control over the marketing functions for each of its brands in an effort to take seriously its marketing responsibilities. To do this, the company requires all marketing activities carried out by its brands adhere not only to the law, but also show respect to differing views and work not to offend. Additionally, it also has its own code of conduct with specific guidelines governing the use of advertising directed at small children and prohibiting the use of size-zero models.

Recognizing its portfolio includes diverse brands, in this release Unilever acknowledges that it speaks to different consumers in different ways but always in an effort to support its "vitality" mission. Doing so helps brands maintain relevance and uniqueness among target markets, providing consumers in each of them with the chance to "look good, feel good and get more out of life." Unilever even highlights the relationship between Dove and Axe as an example of how these inter-brand relationships work. Noting that although the tones of their respective campaigns are different, "both brands resist telling people how they should look and both aim to build people's confidence and self-esteem."[xiv]

Practically, this marketing structure dictates that while there are managers and teams who direct the marketing function for each brand, there are also leaders for this area at the product category and regional levels as well. For example, while Axe has a team composed of positions such as brand manager and brand development director for deodorants, these positions also exist at the corporate level encompassing all brands in a product category, such as director of marketing, deodorant, for Unilever USA.[xv] Additionally, while different agencies are sometimes used to carry out advertising and public relations functions in marketing campaigns—i.e., Ogilvy and Mather handling Dove's "Campaign for Real Beauty," while Bartle Bogle Hegarty (BBH) handled Axe's "Bom Chicka Wah Wah" campaign--sometimes the same agencies are used to handle multiple brands.[xvi] Edelman handled PR for both the Dove and Axe campaigns mentioned above, while MindShare's Chicago office contributed strategic marketing and media information for Axe, Degree and Dove.[xvii] Finally, another example of Unilever's efforts to expand continuity across marketing functions is its increasing effort to highlight the "Unilever" name in advertisements for individual brands. The company plans to put the Unilever logo on all of its packaging in an effort to emphasize its vitality mission and how its many products help consumers realize this mission in their lives.[xviii]

## Dove and the Campaign for Real Beauty

Dove launched the "Campaign for Real Beauty" in September 2004 in response to the results of a study it commissioned, "The Real Truth About Beauty: A Global Report." This report highlighted how 3,200 women from 10 countries feel about beauty and found only 2 percent describe themselves as "beautiful," while 31 percent describe themselves as "natural," 29 percent as "average," 9 percent as "attractive," 8 percent as "feminine," 7 percent as "good-looking" and 7 percent as "cute." Additionally, the study found 42 percent of women strongly agreed they felt uncomfortable describing themselves as beautiful and, while most women defined their beauty and attractiveness as average, they felt their body weight was too high, a more common perception among older respondents.

In addition to its global report, Dove's "The Dove Report: Challenging Beauty" focused specifically on how women in the United States define beauty, noting most do not measure it solely according to the dimension of physical appearance; in fact, 36 percent of women felt their looks were above average, but only 18 percent rated their beauty the same way. Other statistics from the study provide greater insight into how women in the United States view beauty. Seventy-five percent feel beauty is defined more by qualities such as spirit and love of life than physical appearance, but 79 percent still wish a woman could be considered beautiful if she is not "physically perfect." Additionally, 71 percent expressed a desire for the media and advertising industry to expand their definition of beauty to include women of varying physical appearances.[xix]

Overall, the study showed women feel their understanding of beauty is impacted heavily by societal influences, and it concludes: "[the] findings clearly indicate women are ready for a new definition of beauty that celebrates real types of women rather than stereotypes."[xx] With the use of the report, Dove hopes to begin a process where "a new definition of beauty will free women from self-doubt and encourage them to embrace their real beauty," a revolution whose viability Dove finds affirmed in the results of the report.[xxi]

Based on the findings revealed in this research, Dove's Campaign for Real Beauty looks to extend

Unilever's vitality mission by leading a change in the definition of beauty both in the United States and around the world. To do this, Dove began its campaign by asking viewers to judge the appearance of models, whom it felt did not meet the stereotypical image of beauty, according to whether they were oversized, outstanding, wrinkled or wonderful. Next, in June 2005, Dove began the second phase of its campaign with ads featuring six women photographed in their underwear, though they were not professional models and their bodies differed in shape and size. Encouraging women to "Stand Firm to Celebrate Their Curves," these ads worked to change the definition of beauty by addressing body image.[xxii]

In addition to these print ads, Dove has also relied on discussions and fundraising to raise awareness of its Campaign. For example, to foster a greater connection among women from across the United States, Dove created opportunities on its website for them to comment about advertisements and discuss on bulletin boards different issues related to beauty. Additionally, Dove relied on panel events at the national and local levels, bringing together women from the American Women in Television and Radio to participate in the former and sponsoring local market panel events as part of the latter. Regarding fundraising, Dove created the Self-Esteem Fund to publicize the link between beauty and body-related self-esteem. Working through the Unilever Foundation, Dove uses money contributed to the Fund to support global projects that increase the self-esteem of girls and young women.[xxiii]

Dove has also relied on several emotionally compelling videos to spread the Campaign for Real Beauty's message. In "Self-Esteem," pictures of young girls flash across the screen with captions intended to insinuate how the current understanding of beauty might taint its perception among these young girls. For instance, a red-headed girl's picture would appears with the phrase "Hates her freckles," while an Asian girl's picture was tagged with the phrase "Wishes she were blond."[xxiv]

Dove's "Evolution" video, which won both a Film Grand Prix and Cyber Lion (a Grand Prix for cyber-marketing) at the 2007 Cannes Lion International Advertising Festival, takes a different approach.[xxv] By highlighting the extent to which pictures of models are often modified and retouched in advertisements, this video points out the unrealistic nature of many models' appearances. Showing how much a model's appearance can change from its natural state at the beginning of a photo shoot, thanks to make-up, stylists and computers, "Evolution" is intended to challenge women not to accept a type of beauty that is unrealistic and attainable only through the use of editing and retouching.

Finally, "Onslaught" is another high-profile video from the Campaign released in October 2007. Opening with the image of a young girl crossing the street, it reveals a montage of images selected to depict the portrayal of beauty in pop culture. The first half of the images are advertisements depicting young and thin models in a variety of everyday places, while the second half show the plastic surgeries perhaps necessary to achieve the appearance of people in the first. The video then closes with another shot of the young girl and the line, "Talk to your daughter before the beauty industry does."

## Axe and the "Bom Chicka Wah Wah" campaign

In February 2006, Axe executives met with BBH in London for a pitch concerning its newest campaign. Russell Taylor, vice-president of Axe, wanted a way to take his company's main sales idea, which insinuates that guys can become irresistible to women by using Axe products, and translate it into a marketing message that would work in all of the 75 countries where Unilever sells Axe. In response, BBH proposed branding Axe products with the phrase "Bom Chicka Wah Wah," a musical expression associated with 1970's pornographic movies and understood currently as a slang term for a sexual encounter. Using this expression, BBH intended to create, according to Business Week, an "international expression of lust" that would help guys in each of Axe's 75 countries understand the message behind the product.[xxvi]

In the United States, the "Bom Chicka Wah Wah" (BCWW) campaign uses television, online and live channels to disseminate its message. Five television commercials each provide a visual depiction of what supposedly happens when attractive women encounter the Axe scent. Each commercial features a young, attractive woman in a situation where she smells Axe on a man nearby, prompting her to blurt out the phrase "Bom Chicka Wah Wah" with a suggestive look on her face. For example, in one commercial a patient is attracted to the Axe fragrance worn by her dentist, while in another a grocery shopper is attracted to scent worn by a vegetable stock boy. The three additional commercials are set in a classroom, at a dinner party and in Paris.[xxvii]

Besides television, the BCWW campaign also utilizes online channels and face-to-face channels to disseminate its message. Beginning on May 1, 2007, the BCWW website, www.axebcww.com, began featuring a music video that stars four girls named Bom, Chicka, Wah and Wah, along with ringtones, copies of the television ads and other interactive activities. The site's homepage features a picture of the four thin, attractive girls from the music video, dressed in lingerie and sporting seductive looks, with the tagline "We're the world's naughtiest band." On the "Meet the Band" page, another picture of the girls appears with the following text: "We're hell-bent on being the world's hottest band. Listen to our tune of lust and take leave of our senses as we shed all our inhibitions."

Also on the site, the "In Your Area" page shows a map supposedly depicting locales across the country where women have been effected by the Axe scents and offers videos of the BCWW girls driving in different places. Viewers are instructed to "Choose a hotspot on the map below and watch women across the country loose their inhibitions, their minds…and often their clothes." Finally, regarding its live messages, the BCWW campaign placed 60-foot inflatable cans with transparent bottoms in downtown Chicago, Los Angeles and Baltimore during its first week. The campaign then placed women, "Axe Angels," inside the cans jumping on trampolines.[xxx]

This campaign for Axe is not the first to rely on some type of sexual innuendo, as its advertising theme since its 2002 launch has been "giving guys the edge in the mating game." When it launched in the United States at that time, it relied heavily on three online videos showing the "Axe effect," which occurred when women smelled Axe's scents and began chasing the men who wore them. Axe also created an online game where men could indicate the type of women in which they were most interested, allowing it to make predictions about which of its scents would be most attractive to them.[xxxi]

Axe still relies heavily on the "Axe Effect" concept because it remains part of the address for the brand's main website, www.theaxeeffect.com. This site contains info about Axe, its products and an archive of commercials all of which are described in a sexual tone similar to the "Bom Chicka Wah Wah" site. For example, the site says the "Axe Effect" is an:

> Internationally recognized name for the increased attention Axe-wearing males receive from eager, and attractive, female pursuers…Regardless of where you live, you can 'get you some' Axe effect by going to a store near you.

Also, when describing its product lines, the site shows pictures of attractive, young women with quotes that seem to indicate the result a man could expect from using the product. For its Clix scent, the tagline is "Clix…because the mating game is all about amazing figures. Spray on, sit back and count you clicks." Also, the quote that appears under the picture of a smirking girl on the Clix page is, "I threw out those dirty magazines under you mattress…and got you new ones." Axe uses similar text to describe the other eight fragrances on its site.[xxxii]

## Viral Nature of Both Campaigns

Both Dove's "Onslaught" and Axe's "Bom Chicka Wah Wah" made the list of the top ten viral videos of 2007, ranked by YouTube impressions, according to GoViral, a viral marketing agency that seeds and tracks viral campaigns for creative agencies, media agencies and advertisers around the world.[xxxiii] While both brands clearly relied on viral marketing for their 2007 campaigns, neither are strangers to the viral marketing world.

Dove's Campaign for Real Beauty has utilized viral marketing in several ways since its 2004 launch. As previously mentioned, the Campaign's website includes several different types of interactive features, each of which offer an "Invite a Friend" link at the bottom of the page. Specifically, the section of the site devoted to "Self-Esteem Fund" offers opportunities for girls as well as moms and mentors to participate in online activities. The section designed for girls offers an interactive "Self-Esteem Zone," which allows girls to measure and improve their self-image, post and respond to discussion boards and ask questions of an expert. The section designed for moms and mentors offers downloadable guides for developing self-esteem in different-aged girls, kits for holding a "Real Beauty" workshop and online training videos in building self-esteem. Both of these sections include a link entitled "Self-Esteem is Worth Sharing," which allows the content to be emailed or provides a link for code to the website so that it can be embedded easily in other sites. Additionally, there is also a link to make a donation to the Self-Esteem fund, and the "Inside the Campaign" section of the sight allows visitors to send "Real Beauty" e-cards to help develop the self-esteem of others.[xxxiv]

In addition to relying on viral marketing to popularize the interactive features of its site, Dove also relied heavily on it to spread the messages of its videos. The "Self-Esteem Fund" section of the Campaign for Real Beauty site also contains a film gallery of videos produced by the campaign, including "Onslaught," "Evolution," "Amy" and "Hair." With each video, there is a link allowing the viewer to share the film, in addition to the "Invite a Friend" link visible on every page, and the films are also posted on YouTube.[xxxv]

Regarding their popularity, "Evolution" has been viewed on YouTube over 12 million times since its posting in Oct. 2006, and "Onslaught" was viewed more than 500,000 times in its first ten days, contributing to its over 1 million views by mid-December 2007. After its launch, "Evolution" garnered over 1.7 millions views in its first month, making it the most viewed on YouTube for a day, week and month in October 2006; moreover, on Oct. 24, 2006, it was both ABC.com's lead story and CNN.com's most viewed story. Because of its popularity, the video enjoyed segments on ABC's "The View," "Good Morning America," "Ellen," NBC's "The Today's Show," CNN, "Entertainment Tonight" and Fox's "Geraldo." This media exposure, according to *Creativity*, provided $150 million of free media time for Dove's Campaign.[xxxvi]

Perhaps in response to the viral success of its campaign, Dove has also experienced a positive impact on its bottom line. Todd Tillemans, Unilever's VP for skin care, North America, notes that the Campaign for Real Beauty, assisted by the popularity of "Evolution," has increased substantially consumers' brand loyalty to the Dove name, evidenced in the number of brand sales generated by people buying more than one product. In Oct. 2006, these sales accounted for two-thirds of Dove's total sales, up from one-third before the Campaign for Real Beauty began three years earlier.[xxxvii]

In addition to brand loyalty, Dove has benefited in other ways. At the end of 2006, Dove had gained market share in four of its five major product categories, including personal wash, hair care, deodorant and hand-body lotion.[xxxviii] Additionally, Dove sales increased 12.5 percent in 2005, the first year after the launch of the Campaign, and 10.1 percent in 2006. Sales for the 52 weeks leading up to August 2007, however, had risen only 1.2 percent, prompting *Advertising Age* to question whether the brand took its "Pro-Age" message too far, citing data showing Proctor and Gamble's

Olay "Anti-Aging" products outsold Dove's line of "Pro-Age" products eightfold in the first six months of 2007.[xxxix]

Axe has also relied heavily on the use of viral tactics for its success. When it posted online its three videos depicting the "Axe Effect," discussed previously, men found them to be so humorous that millions forwarded them to friends via email.[xl] Additionally, its "Naughty to Nice" and "Bom Chicka Wah Wah" campaigns both made their online activities easy to email to others and embed in websites, while the former even targeted 18 to 24 year old males on the Boost Hookst mobile network. When Axe released the main video for its "The Axe Vice Naughty to Nice Program," it utilized a seven-week banner and video sharing campaign on this network, which consists of over four million young men, providing free clips for users to share with their friends. Sam Chadha, director of antiperspirants at Unilever, said the Hookst network was "a great fit for a campaign about lust" because its reputation among young mobile phone users is as a place to go for meeting girls.[xli] Even though these viral tactics may seem insignificant when viewed by themselves, *Business Week* attributes Axe's effective use of viral marketing as a major reason why its U.S. business grew from nothing at its launch in 2002 to over $500 million in 2006.[xlii]

For both Dove and Axe, the use of viral techniques follows the lead of parent company Unilever. Following its 2001 partnership with Time Warner, which was the largest combined online and offline advertising deal ever, Unilever maintains it learned valuable lessons about how best to utilize the internet for advertising in the future; it maintains, however, that following the 2003 conclusion of this deal, they have planned no more large deals of this nature. Instead, Unilever's marketers propose the most effective way the company can use the internet is to provide interesting, creative online content. Doing so, they hope, will build brand recognition by drawing visitors who would not normally familiarize themselves with the websites of consumer products brands, especially not as they might with those brands offering big-ticket items.[xliii]

The rationale behind this strategy is exemplified in Unilever's decision not to run a Super Bowl ad in 2007. While a consumer-generated ad for Dove's Oil Cream Body Wash did run during the Academy Awards and Degree, another Unilever brand, launched a webisode campaign in conjunction with the television show "24," the consumer involvement inherent in these placements indicate Unilever is relying on its brands to generate more of their own publicity. Unilever's shift in advertising strategy is also underscored by the online success of Dove's "Evolution," which garnered greater succcess than Dove's Super Bowl commercial the previous year, which relied mostly on press from before and after its single appearance to generate its impressions.[xliv]

## The Issue

On Oct. 9, 2007, following the release of Dove's "Onslaught" ad the previous week, the Campaign for a Commerical-Free Childhood (CCFC), a Boston-based activist group, issued a news release calling for a letter writing campaign to Unilever requesting it cease its Axe advertising. Citing "hypocrisy inherent in Unilever's marketing Dove products by promoting 'Real Beauty' for girls while simultaneously advertising Axe Body Spray by degrading them," the CCFC alleged it was unfair for Unilever to profit from the sexy tone and expression of its Axe ads while at the same time benefiting from the positive publicity garnered by Dove's Campaign for Real Beauty. Dr. Susan Linn, director and co-founder of the CCFC, said:

> The Axe campaign makes clear that any concerns Unilever has about girls' well-being take a backseat to their desire to exploit stereotypes for profit. With Axe, Unilever is creating the same toxic environment addressed by its Dove Campaign.[xlv]

## Who is the CCFC?

The CCFC is headquartered in Boston at the Judge Baker Children's Center (JBCC), which is an affiliate of the Harvard University Medical School and exists to help children with mental health problems reach their full potential.

Comprised of a national coalition of healthcare professionals, educators, concerned parents and advocacy groups, the CCFC works to expose and prevent the harmful effects of marketing directed at children. Essentially, it supports "the rights of children to grow up—and the rights of parents to raise them—without being undermined by rampant commercialism." To propagate this message, the Campaign utilizes both grassroots and congressional lobbying efforts, each aimed at further protecting children from marketers.[xlvi]

## The Controversy Develops

Following the CCFC's release, comments on Unilever's connection with both the Dove and Axe campaigns appeared in blogs and traditional media alike. On Oct. 10, 2007, the *Los Angeles Times* ran an article in its "Business" section, followed by *The New York Times* on Oct. 15, *The Toronto Star* on Nov. 28, and London's *The Times* on Dec. 3. Articles also appeared in trade publications, such as *Advertising Age*, *AdWeek.com* and *Campaign*, during the same period. Most of these articles simply presented facts surrounding the case, cited information from the CCFC's release and provided comments from various Unilever employees about the company's opinion on the issue.

Several articles, however, commented on the ethics underlying Unilever's divergent messages, such Michelle Gillet's Nov. 5 op-ed in *The Boston Globe*, entitled "A Company's Ugly Contradiction." She wrote:

> Unilever is in the business of selling products, not values, and that means we, the consumers, are being manipulated, no matter how socially responsible an ad seems and how much we want to believe its message…If Unilever wants us to buy its concern for girls' self-esteem, it has to do more than shift the burden of its efforts to parents.[xlvii]

Additionally, Russell Davies, an author in *Campaign's* "Media Perspective" section, wrote concerning Unilever: "If you're going to claim big, meaningful values, you're going to have to live them, not just assert them." Also, in its "Viewpoint" section, Advertising Age asserted:

> Unilever and other large companies must realize that the days of the populace never making connections between brands with conflicting messages are gone…No amount of spin is going to erase the fact that Unilever is being hypocritical with its Dove work.[xlvii]

In addition to coverage from the traditional media, the new media have covered the Dove/Axe controversy as well. Technorati.com, a website devoted to searching and covering the blogosphere, identified just under 200 blogs that mentioned Dove, Axe and "Onslaught" between the video's Oct. 2007 debut and early Jan. 2008. Blogpulse.com, a division of Nielsen BuzzMetrics that analyzes content in the blogosphere, also shows approximately 10 bloggers had posted about the divergent themes of Unilever's advertising before the CCFC issued its release on Oct. 9.

In addition to these blog posts, the controversy surrounding the release of "Onslaught" spawned a video parody of the ad that also enjoyed viral success. Rye Clifton, a senior strategic planner at the Interpublic Group of Companies' Martin Agency, modified the "Onslaught" video to include women engaging in activities with a sexual connotation along with Axe's logo instead of the montage of beauty industry messages present in the original video. At the end of his adaptation, Mr. Clifton added the line, "Talk to your daughter before Unilever does" as a parody of the original video's charge for parents to talk to their daughters "before the beauty industry does." Between the time Mr. Clifton posted the video on Oct. 19, 2007, and early Jan. 2008, it received over 92,000 views on YouTube and had generated over 100 blog postings by the end of November.[l]

## What Happens Next?

Even before the controversy surrounding Dove's "Onslaught" video and its criticism of the beauty industry, Unilever maintained Dove and Axe were separate brands who targeted messages successfully to their respective audiences.[li] And, after the controversy broke, Unilever has continued to maintain this position, noting in a statement that:

> The Axe Campaign is a spoof of [the] 'mating game' and men's desire to get noticed by women and not meant to be taken literally...Unilever is a large, global company with many brands in its portfolio. Each brand's efforts are tailored to reflect the unique interests and needs of its audience.

Simon Clift, Unilever's chief marketing officer, echoed this spoof idea when he said of the controversy: "The joke is on the boy. It's just a few bloggers in the U.S. who don't get it." Clift also said Unilever had the right to use different imagery when targeting its Axe customers because: "[Teenage boys] are obsessed with sex. Nothing we or anybody else says will change that." [liii] Stacie Bright, senior communications marketing manager for Unilever, also commented on the matter. She noted most feedback concerning "Onslaught" had been positive and called the controversy "part of the conversation."[liv]

Even taking Unilever's position into consideration, questions of accountability for its messages still remain. Jim Nail, chief marketing and strategy officer for Cymfony, a brand-monitoring firm, pointed out this controversy exemplifies "the sort of distinction social media's transparency renders difficult."[lv] As companies like Unilever continue to modify their communication practices, increasing their use of viral marketing tactics and their support of social responsibility issues, this case illustrates how they should also work to understand how these changes impact expectations among key publics.

## Discussion Questions

1. How much does Unilever's commitment to social responsibility among all its brands impact any responsibility it has to ensure they do not use contradictory messages?
2. Could the brands be positioned in a way that still respects their target audiences while also respecting each other's ideals?
3. Does Unilever's corporate structure, which oversees the marketing activities of all brands and prohibits any one from operating with complete independence, make it more accountable for ensuring brand communications do not contradict?
4. Do Axe's marketing messages, in which young, thin, attractive girls find any man who wears an Axe scent to be sexually attractive, make those of the Campaign for Real Beauty seem less truthful?
5. To what extent should Axe's "Bom Chicka Wah Wah" campaign, along with its others marketing messages, just be considered spoofs of the male approach to dating? Should the CCFC's hypocritical assessment of Dove and Unilever be any different even if the ads are only intended as jokes? If so, how?
6. How, if at all, does the viral nature of both the Dove and Axe campaigns impact any responsibility Unilever has to ensure its communications messages are not contradictory?
7. Would the validity of the CCFC's hypocrisy claim be any different if both brands used either paid advertising spots or non-viral public relations tactics to send their messages?
8. To what extent should the CSR element of Dove's message, which relates directly to important issues of self-esteem and self-worth for women, influence any responsibility Unilever might have to ensure its other brands do not contradict these messages?

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# PAGE PHILOSOPHY & PAGE PRINCIPLES

## The Page Philosophy

Arthur W. Page viewed public relations as the art of developing, understanding and communicating character—both corporate and individual.

This vision was a natural outgrowth of his belief in humanism and freedom as America's guiding characteristics and as preconditions for capitalism.

The successful corporation, Page believed, must shape its character in concert with the nation's. It must operate in the public interest, manage for the long run and make customer satisfaction its primary goal. He described the dynamic this way:

"Real success, both for big business and the public, lies in large enterprise conducting itself in the public interest and in such a way that the public will give it sufficient freedom to serve effectively."

## The Page Principles

- *Tell the truth.* Let the public know what's happening and provide an accurate picture of the company's character, ideals and practices.
- *Prove it with action.* Public perception of an organization is determined 90 percent by what it does and 10 percent by what it says.
- *Listen to the customer.* To serve the company well, understand what the public wants and needs. Keep top decision makers and other employees informed about public reaction to company products, policies and practices.
- *Manage for tomorrow.* Anticipate public reaction and eliminate practices that create difficulties. Generate goodwill.
- *Conduct public relations as if the whole company depends on it.* Corporate relations is a management function. No corporate strategy should be implemented without considering its impact on the public. The public relations professional is a policymaker capable of handling a wide range of corporate communications activities.
- *Realize a company's true character is expressed by its people.* The strongest opinions—good or bad—about a company are shaped by the words and deeds of its employees. As a result, every employee—active or retired—is involved with public relations. It is the responsibility of corporate communications to support each employee's capability and desire to be an honest, knowledgeable ambassador to customers, friends, shareowners and public officials.
- *Remain calm, patient and good-humored.* Lay the groundwork for public relations miracles with consistent and reasoned attention to information and contacts. This may be difficult with today's contentious 24-hour news cycles and endless number of watchdog organizations. But when a crisis arises, remember, cool heads communicate best.

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