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The Toy Industry Needs Boots on the Ground

China is not the only culprit in the recent recalls of everything from toys to toothpaste and a wide variety of other consumer products. Shoddy manufacturing and quality control practices are endemic to the system that provides American consumers with low priced goods. America's mass market retailers, led by Wal-Mart, drive this by using toys as a loss leader to attract foot traffic into their stores during the holiday shopping season. In order for their loss leader strategy to work they need to charge extremely low prices. This is a problem in an environment of rising prices for oil, resin and transportation. Retailers relentlessly squeeze the profit margins of American companies who in turn beat up on Chinese manufacturers and their suppliers for even lower prices. At every stage of the supply chain from retailers on down each company has his hand in the next guy's pocket trying to extract his profit margin out of theirs. This puts those on the bottom rung, Chinese manufacturers and their suppliers, under tremendous pressure. China, Inc. has been shouting to anyone willing to listen (and it isn't many) that the overwhelming majority of their products are safe. The trouble is that if 90 to 95% of their products are safe then the consumer doesn't know which ones are not and may choose to stay away from them all.

It's easy to foresee many more recalls as toy companies rush to inspect their products. The Chinese government recently announced that 15% of food products had failed quality checks in the first six months of the year. It also seems that the U.K. is experiencing problems with widespread forgery of product safety certificates by Chinese factories. Anybody who just assumes that their stuff is okay is whistling past the graveyard. What this means for the coming holiday season remains

unknown. Many consumers will behave just as before but many will become more vigilant. Toy companies who manufacture their products in other locales will slap "Made Elsewhere" stickers on their packaging and they will certainly be helped. That said, I don't see "Made in Vietnam" as having much of a qualitative difference. High quality specialty toy companies could receive a substantial boost. It wouldn't be surprising to see Playmobil have a banner year. Nimble companies could do well in the short run by filling shelf space left barren by ongoing recalls. If toy companies act fast by publicly announcing recalls as well as emergency procedures for this year and overhauled quality programs for the future, then Christmas can be saved. If recalls continue into October, sales of mass market toys might be greatly impacted.

The best long term solution would be to treat the cause, not the symptoms. This would mean convincing Wal-Mart and its brethren to loosen their overly strict adherence to particular price points. Personally, I believe that a mother going into a store to buy a toy will purchase it regardless of whether the sticker price is \$9.99 or \$11.99. This would allow the retailers themselves to make better profit margins as well as letting everyone in the supply chain from US marketing companies to Asian manufacturers breathe a little easier. I'm not going to hold my breath waiting for that to happen.

American companies could try to induce Asian manufacturers to indemnify them against quality based recalls. Good luck with that. We could do nothing and wait for a real regulatory culture to develop in China but that could take decades. Yes, China has just announced the formation of a new cabinet level panel

which will study ways to address the country's quality problems, but on the very same day they banned state media from covering a deadly bridge collapse. At least when American bridges collapse we make it public and politicians blow hot air, if little else.

The best solution is to have boots on the ground – American boots. It's the Wild West (or Wild East) over there and in a land of the impoverished workers, conflicting loyalties and thick envelopes; the answer is not hiring locals and expecting them to remain loyal just because they are on your payroll. We need expats to be over there on a full time basis. It obviously has not been enough to send someone to Asia four or five times a year, as is now customary, and expect that everything will run the same way when your back is turned. Yes, sending in expats can be expensive but it is arguably less expensive than the financial, logistical and public relations nightmare of either recalls or lawsuits involving injured children. This is the price that needs to be paid when manufacturing is done in a country where quality problems are a normal occurrence.

There are plenty of Quality Control people around (think the automobile industry) and while they might not qualify to be your Vice President of Product Safety, they can certainly be retrained to administer the quality control procedures necessary for a toy manufacturing line. I'm willing to bet that they would rather be living in China on expat pay than sitting unemployed in Detroit waiting for their houses to be foreclosed on.

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