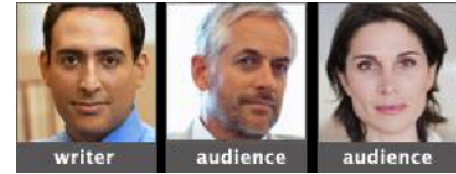


Felipe's Persuasive Memo: Final Draft



Memorandum

To: Humberto
From: Felipe
Subject: Serious Problems at Our Main Chinese Factory

Our supply chain in China is a strategic asset. Without it we cannot compete against the larger companies in the industry. On my recent trip to the country, I toured our suppliers and found that most provide good value and quality and have acceptable working conditions. There was one exception: our principal supplier in Guangdong. There I discovered underage workers and poor working conditions. As a result, we have a decision to make about how to respond.

In a recent email, a representative of the factory owner said that he had heard of my reservations about the plant and was upset about them. I do not know how the owner received this information. I have not said anything about this matter to anyone outside our company. In any event, I think this development gives added urgency to the decision.

Tech Musica is not the first company to confront this type of situation. You may remember the Nike situation in the 1990s. Nike received bad publicity for doing business with sweatshops. It faced consumer boycotts and experienced large sales losses in the year after its use of sweatshops was publicized. People still remember Nike's association with sweatshops many years after it first came to light. More recently Apple, the most esteemed brand in consumer electronics, has been on the receiving end of bad publicity for working conditions in its supply chain.

As I see them, we have three options:

- Take corrective action.
- Change vendors.
- Do nothing.

I strongly believe we should take corrective action regarding the plant based on several criteria:

- Ethics
- Marketing
- Legal liability
- Cost

Because no one from our company has visited the plant, I will describe the most serious conditions I found:

- Many of the workers in the factory are young girls, 12 to 16 years old.
- Rooms the girls work in are not air-conditioned and temperatures in the factory often exceed 100 degrees.
- They are not allowed to look up for eight hours, and they have no breaks. No magnifying glasses are available to ease the strain on their eyes.
- Some employees work around toxic materials: melted lead and lead paint. They have only inadequate paper masks as protection against lead fumes.
- Employees live next door to the factory in dormitories that have no windows or running water.

Ethics

I'm certain we can all agree that our association with these conditions violates our ethical values.

The factory uses child labor extensively. The children do not go to school and work in conditions that may ruin their health. Underage workers are paid less and are more docile than adults, making them less likely to object to how they are treated. Whether a parent or not, no one in our company wants to be associated with child labor.

In the factory, employees have no effective protection against toxic vapors from lead. Long-term exposure can cause memory and concentration problems, exhaustion, reproductive problems, kidney failure, and even death.

In the company dorms, diseases spread rapidly because of the crowded, windowless rooms and the absence of running water.

However, we must look at our behavior and acknowledge our share of responsibility for this situation. We have leaned on our suppliers to cut their costs to the bone without asking ourselves how they were going to do that. Our main Chinese vendor has responded with cost-cutting measures that jeopardize the welfare of workers. We can't expect to solve the problem unless we understand our role in it.

Marketing

Labor abuses all over the world are frequently exposed in the media, and the information is available on the Internet, often overnight. As an electronics company marketing fashion-forward products, we sell primarily to young people. As music lovers and cell phone and Internet users, many of them feel strongly about social issues such as treating workers fairly and humanely. If the conditions at our vendor's factory are publicized, many of our customers will learn about them on the Internet. As we know, in the consumer electronics industry, consumers don't lack choices. Quickly, we could lose customers to our competitors; eventually, the losses could be crippling. The senior vice president for marketing agrees with this scenario.

We could hope that few of our customers learn about the factory and those who do will not stop buying from us. Do we want to make this bet with our reputation? Nike did and lost. Apple has encountered the same problem, and we don't know how the story will end. Obviously they are much larger companies with financial resources many times ours, giving them greater resiliency.

By taking action, we can turn a liability into an asset. We can make our concern for overseas workers part of our marketing, differentiating us from companies that care only for profits.

Legal Liability

By law, children younger than 16 years old are not allowed to work in Chinese factories. The law is not enforced very often. However, there is always the possibility that it will be or that a company will have bad publicity for tolerating vendors who treat their workers poorly.

China has laws that prohibit sweatshops. Although the laws are sporadically enforced, workers harmed while working at the factory might bring lawsuits against us.

Let's remember, too, that our entanglement in legal problems over sweatshop work will result in bad publicity that can lead to the marketing disaster described earlier.

Cost

In our company the most crucial obstacle to improving the work environment at our vendor's plant probably is the fear of running up our costs. We compete against giant global organizations. We can't afford to be sentimental about costs.

With one bold step, cutting out the middleman, we have saved up to 30 percent of our manufacturing costs. Suddenly we have a little more flexibility, which is all that is needed to make a difference at the factory.

We don't have to fund expensive construction or purchase costly equipment. Small, inexpensive steps now will quickly benefit workers, such as providing respiratory protection for workers exposed to lead and plastic fumes and magnifying glasses for the girls assembling circuit boards.

Difficult negotiations will remain over the use of child labor, but we will be headed in the right direction. As changes are made, the factory will become more efficient, attract higher-skilled workers, and experience less turnover.

Other Options

We do have other options.

We could take our business elsewhere. We have many factories to choose from, including those with which we already do business. I recommend this option as a last resort. Changing vendors requires a huge effort, has high transition costs, and will inevitably disrupt production for some time no matter how well we plan. We will probably end up paying higher manufacturing costs.

We can do nothing, accepting the status quo, and essentially take the attitude that we aren't responsible for working conditions in vendor factories. As I have shown, this option makes us vulnerable to risks that are much harder to fix than poor working conditions in a single plant.

Conclusion

I believe we should heed the advice of someone who has been where we are now. Todd McKean, a Nike executive, once said: "[Our] initial attitude was, 'Hey, we don't own the factories. We don't

control what goes on there.' Quite frankly, that was a sort of irresponsible way to approach this."

I also think that we should examine whether our demands for cost cutting at vendors may create incentives for behavior that are detrimental to our mutual interests.