Crisis Management - a Chinese Perspective

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Strong brands are built on experience and trust. Product issues that threaten consumer safety put these brand foundations in jeopardy. Managing a crisis in todayâ€™s global marketplace presents many challenges. Here we look at how companies responded to the recent milk contamination crisis in China. Although this crisis mainly affected the dairy industry and food and beverage companies, many of the lessons learnt can be applied to other industries.

A national crisis

On September 15th 2008 stories hit the headlines that the Chinese infant milk formula brand Sanlu contained excessive and dangerous amounts of the chemical melamine. The contamination led to the deaths of four babies and thousands of others suffered kidney damage. The crisis quickly escalated from a problem involving just Sanlu to a global problem affecting the whole of the Chinese dairy industry and companies worldwide. A nationwide investigation ensued and 22 out of 109 dairy companies failed inspection.

Crisis management

Although there is no one-size-fits-all crisis management plan, in general, the higher the reliance on branding to drive sales, the more quickly a company needs to act to defend its assets. When faced with a situation involving risk to human health, the company should put the publicâ€™s welfare first and profits second.

Clear and consistent communication is critical in situations involving public safety. Those companies which have survived a crisis, have done so because they have reacted quickly and decisively. Making senior spokespeople available, answering journalists' enquiries and providing statements as soon as a crisis breaks are just some of the actions that can help companies manage the situation and reinforce trust.

It is also vital that a company accepts responsibility and initiates corrective actions voluntarily. Shirking liability and culpability will only exacerbate consumer tension and work against the brandâ€™s interests in the long term.

But in China, the companies involved in the milk crisis failed to react quickly enough, there was little communication and many protested at the findings of the government testing.

Confusion

A lot of confusion surrounded the crisis. Some tests discovered melamine in products that had previously been approved by some countries' governments. Even products that didnâ€™t contain any dairy ingredients were recalled. Many consumers switched to imported milk products, as they werenâ€™t sure which Chinese products they could trust. The sales of Chinese milk and milk powder slumped.

The retail response was varied. Starbucks and many other coffee outlets stopped serving any products containing milk. However, the supermarkets' removal of dairy and dairy-related products was inconsistent. This only amplified consumersâ€™ confusion about what was safe and what should be avoided.
Consumers turned to the Chinese government who set up an independent investigation to test products and verify their safety. Two lists were created â€” the safe list, and the unsafe list. This has been the only credible source of information for Chinese consumers to date.

Bad news for â€œmade in Chinaâ€•

The scandal generated a great deal of negative PR. Relayed by 24-hour news networks and consumer-generated media, the bad news quickly spread around the world. Chinaâ€™s reputation for food safety took a nosedive and the â€œmade in China brand took a major hit. Total bans on the sale of Chinese dairy products were implemented in many Asian markets and product recalls were widespread.

The crisis came at a very bad time. The global economic problems had already resulted in a drop in exports, and a rise in unemployment. This latest controversy will dent Chinaâ€™s reputation and is likely to lead to a further drop in exports as foreign markets lose faith in Chinaâ€™s products.

Putting the brand at risk

There is no simple way out of a crisis. The choice companies face is between paying sooner or later. Those companies that offered help and support, and provided something of value to retain the goodwill of customers may have assuaged public discontent to some extent. Those that held back have probably compounded their problems. Not only are they likely to face settlement costs; they may also have jeopardized the future of their brands.

Once the crisis is over it should never been assumed that questions will disappear. The brand is a promise. Broken just once, even the most loyal customers may be wary of future problems.

Conclusion

So far, for food and beverage companies, post-Olympic China has been about crisis management. If in a time of intense scrutiny, the public perceives that a company is not behaving honestly and responsibly, the potential downside is enormous. The Chinese brands affected will have to work extremely hard to restore consumer confidence. Only time will tell how and if the brands recover from the damage they have suffered.