

## **CASE D–13**

### **The Melamine Crisis and White Rabbit Candy**

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#### **Case Objectives**

- To understand the concepts of food safety
- To understand consumer purchase behaviour
- To explore marketing strategies to deal with food safety crisis
- To explore marketing communication strategies for food products

#### **Case Synopsis**

- China's latest food safety case attracted nationwide attention on September 10, 2008 as more than a dozen babies in north-west Gansu province developed kidney stones after drinking a milk formula produced by Shijiazhuang Sanlu Group. In total, this worldwide scare has affected more than 54,000 children worldwide.
- In Singapore, the Agri-Food and Veterinary Authority (AVA) has expanded its checks on milk and dairy products from China for melamine contamination for the safety of Singaporeans and to put the worried consumers at ease.
- The Tylenol crisis faced by Johnson and Johnson's in 1982 where Tylenol was laced with cyanide, taking seven lives. Having dealt with the matter appropriately, Johnson and Johnson's earned the trust of their customers which explains for the success she is enjoying today.

#### **Case Questions and Answers**

##### *Question 1*

*Who is responsible for food safety? How will food safety concerns affect consumer buying behavior?*

- Various stakeholders are responsible for food safety.

- The manufacturer of the food product is responsible in making sure that the food has been produced under stringent control and hygiene standards, and that consumers are appropriately informed about the content in the product. The suppliers for the raw materials are also responsible in making sure that the latter fulfill safety standards.
- Governments can also set up associated agencies to be responsible for food safety policy and legislation, as well as set guidelines and procedures based on scientific knowledge and legal basis. One such agency is the UK Food Standards Agency.
- Authorities appointed to test for and certify imported food products are also responsible in ensuring that appropriate tests are used and updated knowledge based on scientific research is incorporated within the testing protocols.
- Consumers themselves may be partially responsible for food safety, and have the rights to report any adverse incidents that occur to them (such as food poisoning) to relevant authorities.
- Food safety concerns can be considered a perceived risk factor. Perceived risk represents the anxieties felt because the consumer cannot anticipate the outcomes of a purchase but believes that there may be negative consequences. Fearing that their health or lives may be negatively affected if they consume unsafe food, consumers are unlikely to purchase food that they deem unsafe.

### *Question 2*

*What can manufacturers of food products ensure the safety of their products? Should they be concerned about such issues?*

- The manufacturer of the food product is responsible in setting high standards for the production process, in terms of product handling and processing (such as the amount of each component to be added). This can be achieved by having clear guidelines for the process line and ideally, such rules and regulations should be set by benchmarking against guidelines set by relevant authorities and fulfilling the set requirements.

- The manufacturers should also ensure that their suppliers are providing them with raw materials that will produce final food products safe for consumption. The manufacturer or supplier can send samples of the raw materials for scientific testing regularly, and also set in place a quality control system within the production line.
- If the manufacturer is also in charge of packaging and labeling, it is also responsible for displaying accurate and truthful information regarding the food product such that consumers can decide whether the food is considered safe or not. For example, a manufacturer is responsible for explicitly informing the consumers whether the product contains nuts lest some consumers who eat the product are allergic to nuts.
- They should be concerned about such issues as consumers are concerned with food safety, mainly because their health or even lives are at stake. If consumers perceive the food products as unsafe or suspected to be unsafe, they are likely to other similar products as substitution. To reduce the influence of perceived risk and set consumers at ease purchasing their goods, manufacturers can adopt strategies like obtaining seals of approval from authorities, or providing extensive usage instructions for consumers.
- Furthermore, food products are usually convenient goods that are easily substitutable. If the manufacturers are unable to convince consumers that their products safe, consumers are likely to form unfavourable attitude or beliefs about the products, and hence less likely to purchase them. Attitude is a learned predisposition to respond to an object or class of objects in a consistently favourable or unfavourable way. Beliefs are a consumer's subjective perception of how a product or brand performs on different attributes.

### *Question 3*

*What effect does the country of origin have on marketing? How does this effect work for American, Japanese, Korean, Malaysian and Indian companies and their products? How will the melamine crisis affect Chinese companies and foreign companies manufacturing their products in China? How should these companies respond to the crisis?*

- Country of origin refers to the country of manufacture, production, or growth where an article or product comes from. Country of origin effect refers to how consumers deal with quality perceptions of products.
- This effect differs by product category and quality level of the country of production. From a marketing perspective, "country of origin" gives a way to differentiate the product from the competitors.
- Research shows that the country of origin has an impact on the willingness to buy a product, and that consumers may tend to display *country of origin bias*—preferring products from their own country or may tend to have a relative preference for some products that originate from certain countries.
- Consumers tend to view American products as those that identify the individual. American products tend to focus on reducing risks faced by consumers, saving time and are convenient to use.
- Japanese and Korea are considered developed countries and their products tend to be perceived to focus more on the image, and have strong positive emotional appeal. Both countries generally have stringent manufacturing legislation and guidelines, and hence enjoy positive country of origin effects, such as reputation for high technology and good quality products.
- Malaysia and India are considered developing economies and even though their efforts in enforcing string manufacturing practices are recognized, consumers tend to view their products in a neutral or slightly negative manner.
- The melamine crisis attracted mass media attention and is likely to cause a negative impact on country of origin effect for Chinese manufacturers. Consumers are likely to perceive food products produced by Chinese manufacturers to be unsafe and that China food authorities do not have a set of stringent control protocols to ensure that food products are safe for consumption.
- Foreign companies manufacturing their products in China might also have to face the problem of consumers having higher levels of perceived risks towards their food products, and reduction of sales.
- These companies can respond to the crisis by staying open about the content of their food products. If applicable, they can send in samples of the products to relevant food

test laboratories who will issue certificates or verifications to inform consumers that the products are safe. With seals of approval and extensive usage instructions displayed on the product labels, consumers will be more convinced and confident in the country of origin and product. If required, companies can also consider educating the consumers about their products or the benefits/potential harm that consuming the products may cause.

#### *Question 4*

*How does Guan Sheng Yuan Food Limited develop brand loyalty and preference for White Rabbit candy? How is White Rabbit candy affected by the melamine crisis? Do you think the company has taken effective actions to deal with the crisis? What other actions do you think the company should take?*

- Brand loyalty is a favourable attitude towards and consistent purchase of a single brand over time. It results from the positive reinforcement of previous actions. Consumer reduces risk and saves time by consistently purchasing the same brand and enjoys favorable results.
- Consumers are likely to have developed brand loyalty because of its consistent good quality and generations after generations have eaten and trusted this brand since its introduction in 1943.
- There are various reasons why consumers develop a preference for the White Rabbit Candy product.
  - Due to its wide distribution in more than 50 countries and regions, consumers can obtain this product easily and this is important because the candy is a convenience good and requires consumers to be constantly aware of its existence and availability.
  - Its creamy content makes it a perfect substitute for milk, a rare rarity in China. This caters to the needs of consumers who want to eat something nutritious at an affordable price.
  - Consumers tend to associate this candy with festive seasons and positive emotional links are likely to explain their preference for the candy.

- Premier Zhou Enlai presented this sweet to U.S. President Nixon in 1972. He can be considered to be a reference person, one whom an individual looks as a basis for self appraisal or a source of personal standards. Reference groups/people affect consumer purchases because they influence the information, attitudes and aspiration levels that help set a consumer's standards. Since he is a highly regarded figure in society, his love for the candy is likely to induce consumers' preference.
- The White Rabbit Candy is only slightly affected by the melamine crisis. The Singapore importer of White Rabbit candy Hock Lam estimates losses of between \$30,000 and \$50,000 from the suspension of sales in Singapore but this loss will not make a huge impact on sales as White Rabbit candy makes up only 10 per cent of the firm's revenue, as sales of White Rabbit candy has been declining over the years due to increased competition from the wide range of candy available in the market.
- In addition, AVA's Chief Executive Officer Dr Chua Sin Bin commented that the White Rabbit Candy is still safe for consumption. With his influential authority, he put most consumers at ease about the candy product.
- Three weeks after a sales halt, White Rabbit candy is back in production after passing Shanghai quality supervision administration tests. White Rabbit's producer Guan Sheng Yuan Food Ltd changed the packaging of the candy by placing a green label on the candy's packaging to show that the product is free of melamine. Other than that, Guan Sheng Yuan has not come up with any new promotional activities to win the trust of its consumers again.
- Compared to how Johnson and Johnson's dealt with the Tylenol Crisis, Guan Sheng Yuan Food Ltd seemed to be less effective in dealing with the melamine case. The company did little to follow up on the case and investigations. Unlike Johnson and Johnson's which provided complete openness on the crisis and took measures to prevent future recurrence of the problem, Sheng Yuan Food Ltd

merely placed an additional label on the packaging. This action is not effective in convincing the consumers that the current or future batches of candy are safe.

- The company should have put samples of the new batches for food test from other authorities in other countries. Having seals of approval and verification on the new packaging is likely to reduce the perceived risks. The company could have also provided more information and be more proactive in discussing the melamine issue in general, and educate the public regarding this chemical and its effects if it is found in food products.