

A Study on Crisis Management Strategy: A case of Uni-President's Product Management

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Abstract. Increasing numbers of food safety incidents in Taiwan have highlighted a critical issue: Firms operating in highly dynamic environments are vulnerable to uncertainties associated with their suppliers, customers, competitors, and government policies. It is impossible for any single organization to maintain perfect control of all its production inputs and outputs, as well as how its products and services get consumed in the marketplace. Unforeseen crises might arise during the production, storage, delivery, or consumption stages as Uni-President, the market leader in the food product and service industry, has encountered. This case study describes Uni-President's three-stage crisis management process, which involves : the actions it takes to prevent crises, key measures and principles adopted to deal with a crisis, and operational and strategy adjustments after a crisis.

Keywords: crisis management, brand management, marketing communication, product deletion

1. INTRODUCTION

In Taiwan, the production value of the food industry in 2013 was estimated to be NT\$590.7 billion, slightly greater than in 2012. Product innovation and new market developments drive growth by the approximately 6,000 companies that function in this industry. The low entry barriers make the food industry highly competitive. Large firms invest heavily to build their brands and achieve pricing advantages. However, a series of food safety incidents led the Taiwanese government to tighten its policy and revise its regulations (the revised legislation passed Parliament on 18 November 2014), imposing severe penalties on any food manufacturer that fails to meet required safety standards. Every modern organization operates in an uncertain envi-

ronment inhabited by various suppliers of raw materials, changing government policies and regulations, and shifting consumption choices. As environments grow more uncertain, the likelihood of product crises increases. Other challenges in this industry include rising consumer interest in food safety and environmental issues, rising minimum wages, shortages in the labour supply, tight crop supplies, and fluctuations in raw material availability. Thus food manufacturers have begun to re-evaluate their strategies to meet these challenges and reduce their risk, while also continuing to achieve food safety, good brand management, well-integrated distribution channels, low channel costs, effective material management, and healthy accounts receivables. The food industry is especially vulnerable, and large food manufacturers confront difficult situations in

which their hard won reputations might be easily destroyed by a single crisis.

2. UNI-PRESIDENT ENTERPRISES CORP

One such manufacturer is Uni-President Enterprises

Corp. Founded in 1967 in Tainan, as a flour mill, it has grown to become one of the largest food conglomerates in Asia (Table 1)¹, and the leading company in food industry in Taiwan, 58.57% market share in 2014.

Table 1: Public food company rankings, Forbes, 2014.

Asian Ranking	Global Ranking	Company	Company Trademark	Sales	Profit	Assets	Market Capitalization
1	316	Wilmar International		441	13	466	177
2	509	Kirin Holdings		231	9	276	126
3	663	Asahi Holdings		176	6	170	128
4	804	San Miguel		176	9	253	40
5	875	Kweichow Moutai		46	25	92	272
6	956	Uni-President		145	5	124	88

Notes: Figures are in hundreds of millions of U.S. dollars

As its key operating policies, Uni-President seeks to optimize its product mix and brand investment to enhance its pricing power and overall added value. It offers a wide range of products and services, under various brand names (Figure 1); it also manages well-known international brands such as 7-11, Starbucks, Mister Donut, Duskin, and Cold Stone Creamery in Taiwan. Most of its products sell domestically² but, as it has grown, the small size of its domestic market has naturally pushed Uni-President to enter global marketplaces. Beginning with China and Southeast Asia (e.g., Philippines, Vietnam, Thailand, Indonesia). Since entering China in 1992, Uni-President has increased its operating revenues in that country to NT\$150.7 billion, as of 2012.

Recognizing the importance of corporate social responsibility, Uni-President actively participates in responsible practices that reflect its dominant focus on food production. For example, it invests NT\$150 million annually in food safety inspection and testing efforts and it has established a national food safety laboratory with NT \$1 billion in 2014. A key responsibility, as a large food product company, is to offer high quality products and this demand substantially drives Uni-President's efforts to improve its food production business. In addition to the 18 established national food product certifications, Uni-President was the first Taiwanese food product company to achieve ISO22000 certification. Thus, it enjoys strong credibility in the marketplace and makes claims that it offers good quality food products.

3. EFFECT OF FOOD SAFETY INCIDENTS ON UNI-PRESIDENT'S PRODUCT MANAGEMENT

In response to notable challenges in the food industry, Uni-President adopted a strategic initiative in 2008 to focus on its core business and re-evaluate its product offerings. Specifically, it sought to remove 90% of its offerings and only keep 10% of the products it sold and this is a key performance indicator it used gross profit margin. Performance evaluations for each product also measured its ability to generate revenues. Poor performing products were those

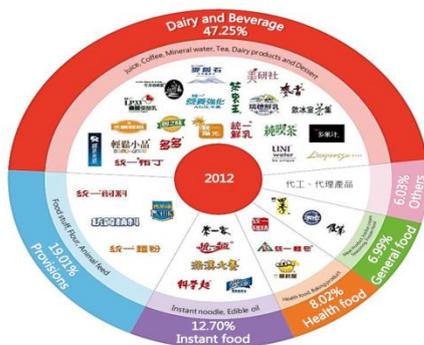


Figure 1: Product and services categories offered by Uni-President³

with lower total sales, revenues, and profit margins. The evaluation expanded to the product category and product mix levels to find which products contributed most significantly to the firm's revenues. If Uni-President plans to introduce a new product to the market it must remove an existing product. Its ongoing evaluation of product performance and strict control on the number of products has resulted in fewer product offerings.

Looking back from 2011 to 2014, Taiwan food industry has experienced unprecedented food safety crisis of plasticizer incident, toxic starch incident and dirty recycled waste oil. It made the collapse of Taiwan consumers' confidence and food industry. Even though Uni-President is working hard in managing and strictly examining its products, it still suffered from the recall and the damage to its brand reputation in the plasticizer incident in which seven skus used plasticizer and among the seven, six skus were removed from the shelves permanently at 2011. This plasticizer event caused profit loss by about 340 million NTD.

Through this incident, Uni-President recognizes "No food safety, No Uni-President". It came to more fully appreciate the sheer multitude of potential food safety risk factors facing its products, and also the need for more comprehensive response mechanism. Especially in the era of social media age when any news (particularly negative news) can spread out easily. Consumers connect to each other in no time and together boycott the products manufactured by companies involved in the incident, causing food companies more vulnerable to food safety incidents. Therefore, it is more important that companies should respond to public swiftly, sincerely and honestly. Through this food scandal, for more efficient and effective internal communication, Uni-President also set more risk management guiding principles to respond promptly and to take proper measures for all types of risks

Uni-President codified the "Crisis Management Principles" in 2011 and established an information center for crisis management. The center constantly compiles important information as reference for the senior executives to respond to crises. The corporate also established a single window policy to deal with the public, that is, there is only a single source of information from the company disclosed to public. In addition, a comprehensive written set of rules dealing with food crisis "Uni-President standard management model for food safety crisis" divides crisis management into three stages: pre-crisis, crisis, and post-crisis. In each stage, the situations and appropriate attitudes and proper actions are explicitly stated. Thus the management follows the rules accordingly when dealing with food crisis so that the corporate is able to manage promptly and appropriately before, during, and after a crisis

4. UNI-PRESIDENT STANDARD MANAGE-

MENT MODEL FOR FOOD SAFETY CRISIS

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4.1 Pre-crisis: Preventive Actions

Uni-President determined that preventive actions would be crucial to avoid crises. Therefore, it adopts three types of preventive actions: supplier management, product variety management, staff/management training and whistle blowing policy in corporate governance.

4.1.1 Supplier Management

Ensuring that ingredients received from suppliers meet acceptable standards is a key to minimizing food safety risks. Any food production company can develop mechanisms to manage their production processes, but they have little control over how the ingredients they receive are sourced. This uncertainty and lack of control increases the food safety risks. Thus, managing suppliers of food ingredients is both challenging and necessary.

Uni-President collects information from various sources to evaluate its suppliers and ranks them by quality. This information includes first-hand data, which it collects by inspecting the suppliers' inventory records, production designs and performance, and material sourcing. Uni-President also collects information from unofficial channels, such as social media, to monitor news related to suppliers. The rankings, based on this information, designate some suppliers into a high risk group, such that Uni-President should remove them unless it is unable to find another supplier to replace it immediately. The suppliers that remain in this group are subject to costly, extensive monitoring by Uni-President, which closely watches their production processes. Suppliers that are categorized as less risky instead are subject to multiple supervisory visits by Uni-President each year to check their production process. Finally, a third

group of trustworthy suppliers receive only annual inspections unless a special alert triggers their re-evaluation.

4.1.2 Product Variety Management

Customers have unique needs and seek product customization, but more products create more complicated product management efforts and greater food safety risks because they require more types of ingredients. Therefore, Uni-President simultaneously adds and removes products to its portfolio in an attempt to provide customized products but also lower its ingredient management efforts and risk. In its product deletion strategy, Uni-President adopts a “less is more” philosophy: For example, since 2012, it has drafted the plan for annual monitoring of material purchasing amount less than 10 thousand NTD and stopping to purchase. Although deleting products may lower total revenues, gross margins improve.

4.1.3 Staff/Management Training & Whistle Blowing Policy in Corporate Governance

Staff training is a key emphasis of Uni-President. Similar to most large organizations, it offers a wide range of training for its new and existing staff (see Appendix 1). Training related to crisis management is an ongoing focus in an effort to help managers deal with potential and actual crises. This training is compulsory for management at all levels but optional for staff members. Performance appraisals are linked to the hours that managers and staff attend relevant training. For example, senior management is required to attend 36 hours, middle management 30 hours, and lower level management 24 hours each year. If employees fail to meet these training hour requirements, their annual performance appraisals suffer such that they cannot be ranked as high achieving, regardless of their performance in other areas.

In 2013, Uni-President boldly formulated and promoted the “Regulation of encouraging employees to involve in and safeguard food safety”. In addition to establishing a sense of food safety crisis in the employees, the regulation gave the responsibility of product safety to the body of all employees. It divides food safety risk into four tiers, encouraging employees to report through a dedicated hotline any ambiguous or potentially illegal advertisement, labeling, and ingredient of the company’s product in the market. This regulation is ⁴according to the Ministry of Health and Welfare (MOHW) of Taiwan, “any domestic food incident is graded into one of the following levels: immediate danger upon intake; poses no immediate danger but does not meet the food-sanitation standards as regulated by domestic laws and regulations; exaggerated labeling with fake ingre-

dients or adulteration; and incomplete or nonfactual labeling.”

In 2014, the highest reward of this regulation has been raised to NTD 5 million, and all employees’ computer splash screens have been changed to display the regulation. The continuous effort in promoting employee awareness of food safety has been fruitful. Under the supervision of all employees, the product quality control has been enhanced.

4.2 During the Crisis

Firms inevitably confront some crises during their lifetimes, regardless of the preventive actions they have taken. Uni-President was no exception. As a market leader, offering thousands of products across various categories, Uni-President takes a vulnerable position compared with many other players.

During a crisis, Uni-President seeks to implement efficient communications, and the senior management team should support the business unit involved in the crisis. Appropriate teams form according to the nature of each crisis. The crisis handling aims to follow the company’s key principles when dealing with any external parties involved.

4.2.1 Efficient Crisis Communication System

Advances in technology and social media mean that speed is a key to minimizing the negative impacts of a crisis. Management needs to be informed about the details of the crisis, including its nature, seriousness, potential implications for other products or brands, public perceptions, and legal implications, as well as the extent to which the news has spread. With this crucial information, Uni-President can respond appropriately, such as when it must decide whether to recall products that already have been sold to consumers, products stored by distribution channel partners, or potential compensation.

Therefore, other than honesty, the key to crisis management is time. Uni-President possesses an efficient crisis management procedure and mechanism. Upon receiving news of a crisis, it assembles all pertinent divisions in an hour to understand the facts, including the inventories of all the relevant products’ in warehouses and channels, and keeps track of the latest news regarding this crisis through all media. In 12 hours, it confirms the product, estimates the monetary loss, withdraws and obliterates the product, and drafts a compensation regulation and a declaration. Below is a flow chart of Uni-President’s crisis management. (Figure 2)..

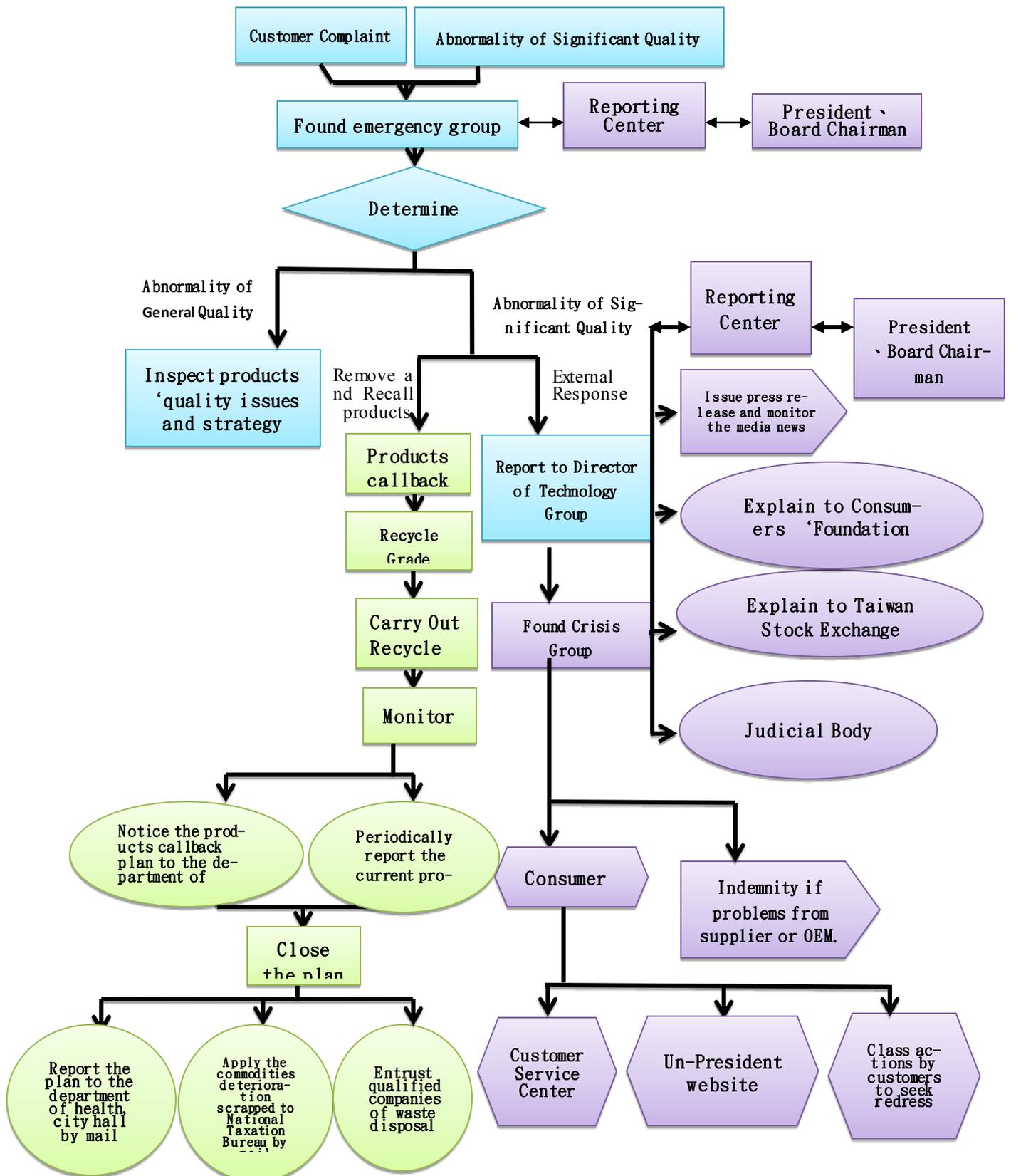


Figure 2: Flow chart of Uni-President's crisis management

4.2.2 Support System

Crises occur at different organizational levels, though food safety in particular usually involves lower level management who have received training but may lack practical experience or confidence with dealing with crises. These managers also might not have sufficient legal expertise or market sensitivity to respond to a crisis and they cannot take sole responsibility for dealing with a crisis. Their lack of experience or expertise could even heighten the crisis, rather than mitigating it, if they offer inappropriate responses. Therefore, an effective support system that makes senior management and their expertise available to assist lower level business unit managers in dealing with the crisis is necessary.

4.2.3 Special Crisis Management Team

Considering its vast size and involvement in multiple food categories, Uni-President makes a basic crisis team part of its regular organizational structure, such that established teams function as the initial responders to any crisis. Six work groups are responsible for six types of crises: environmental impact (e.g., abnormal pollution), government announcement of severe epidemic (e.g., SARS, Avian Influenza A H7N9 Virus), food safety (e.g., cooking oil scandal), financial, public safety, and other types. Figure 3 details the reporting lines for the crisis work groups. When a crisis is identified the relevant crisis group, president, and reporting center chairperson are informed and immediately take over responsibility for dealing with it.

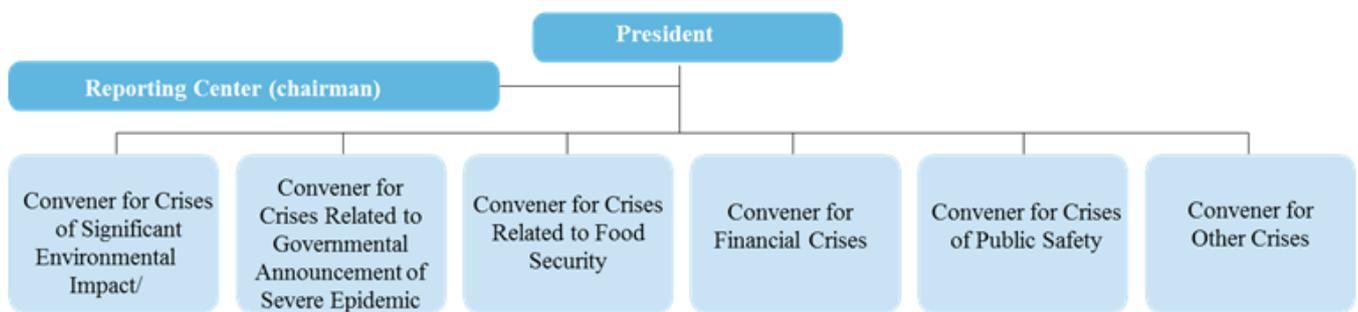


Figure 3: Crisis reporting system for Uni-President

4.2.4 Key Principles: Honest, Data Driven, Fast, Accountable

Specific principles are required to deal with different types of crises, but general principles apply to all types: be honest, use data or hard evidence when communicating with the public, and establish generous compensation..

Uni-President responds to crises in the shortest time possible (i.e., within 12 hours), then makes sure to take responsibility for the crisis, rather than blame others (e.g., blaming suppliers as the source of low quality ingredients). During the oil scandal of 2014 for example, Uni-President took legal actions against its oil supplier, because it supplied oil that failed to meet established safety standards, but it also recalled all affected products and offered generous compensation to consumers who had purchased them, beyond what was legally required.

Upon any food safety incident happening, most of the firms might not find ways to solve real problems and might neglect the importance of food safety again. However, due to the high popularity rate of the internet and a trend of the exhaustive news report, the issue of food safety becomes a hot topic and spread messages easily. Messages could be

exaggerated and sensational and that may disturb consumers' emotions. Therefore, when any firm faces a critical incident, being fast to respond with only data driven facts and being honest are the keys to ease the disturbance in public.

The clear, standardized operating procedures for dealing with crises are communicated to managers at all levels of the organization through regular training. Crises might be identified by the customer call center if it receives serious complaints from consumers or through media reports of abnormal product quality issues. With this identification, the temporary crisis team forms to evaluate the risks and implications and calls on legal experts to identify potential legal implications. Uni-President then decides who will be the official spokesperson and what messages they will send. The production team also is informed and involved in any production decisions.

Uni-President previously has identified key stakeholders when dealing with a crisis: media, consumers, Netizens, government bodies, channel partners, and internal staff. If it institutes a food product recall, Uni-President would need to work with its distribution channel partners to recall the product and inform suppliers about any necessary produc-

tion changes. It also must consult with government tax offices about tax-related issues surrounding recalls or redundant products. In addition, because it is a market leader in Taiwan's food industry, Uni-President seeks to maintain an open-door policy for communicating with the public.

4.3 Post-Crisis

During a crisis, it is virtually impossible to conduct comprehensive evaluations of how it occurred and how the firm is handling it. Uni-President therefore conducts a full review following each crisis, including ideas for improving preventive actions. It uses a list of indicators to measure its crisis handling performance, centered mainly around customer satisfaction and market share after the crisis.

In addition, Uni-President reevaluates its current product offerings and strategies after each product-related crisis, even if not all its products were involved in that particular crisis. Regardless of this involvement though, Uni-President re-examines all its current product offerings to identify any products that might share similar characteristics and specify its risk of future crises, then seek ways to either improve the products or remove problematic products from the marketplace.

Uni-President keeps emphasizing the importance of food traceability system in food upstream supply chain management. The following actions are just some of the many actions that Uni-President has taken for food safety in supply chain management. The company assembled a food safety inspection team over 200 staffs and the numbers may be more than the food inspection members of Taiwan government. After strengthening auditing of food safety management, the new auditors together with senior auditors and researchers will audit suppliers' factories regularly or randomly in order to ensure the safety of raw materials and food products.

At outbreak of a food safety crises, with CEO fully involved, the food safety inspection team, the food safety center, and Traceability Management System must work closely with the reporting center to make sure the crisis under control immediately.

5. FUTURE RISK MANAGEMENT CHALLENGES

The director of the Public Affairs Division, Edward Tu had a busy year dealing with the media (Appendix 2). He has appeared on behalf of Uni-President at ten press conferences between September to November 2014 to clarify and address public concerns about food safety-related issues. Although Uni-President has survived the recent spate of food safety crises, it continues to anticipate further crises. But Edward Tu wonders, as he returns to his office at the

end of another busy day," Is Uni-President's three-stage crisis management approach truly sufficient and ideal?.

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