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UNI-PRESIDENT: CRISIS MANAGEMENT STRATEGY

Huei-Mei Liang, Ting Yu, and Chung-Cheng Tu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On January 16, 2015, as he returned to his office in Taiwan at the end of another busy Friday, Edward Tu reflected on the growing safety concerns in the food industry. Modern organizations operated in an uncertain environment, marked by varied suppliers of raw materials, changing government policies and regulations, and shifting consumption choices. As environments grew ever more uncertain, the likelihood of a product crisis increased. The food industry was especially vulnerable, and large food manufacturers confronted difficult situations in which their hard-won reputations could be destroyed by a single crisis.

Even with its strong track record and reputation, Uni-President Enterprises Corp. (Uni-President) could not avoid the impact of a 2014 food scandal. Tu was the director of the company’s public affairs division. He had been busy that year making public statements to address food safety concerns. He appeared on behalf of Uni-President at eight press conferences between September and November 2014. Although Uni-President had survived the recent spate of food safety crises, more would be likely to come. Was Uni-President’s current crisis management approach sufficient, appropriate, and effective? Tu recognized the benefits of the current system and its ability to manage a crisis. However, he also knew how costly and challenging it had been to manage it.

THE FOOD INDUSTRY IN TAIWAN

The production value of the Taiwanese food industry in 2013 was estimated at NT$590.7 billion,[[1]](#footnote-1) (US$18.47 billion). Product innovation and new market developments drove the growth of the approximately 6,000 companies within this industry; low entry barriers made it highly competitive. Large firms therefore invested heavily to build their brands and achieve pricing advantages. In response to a series of food safety incidents, the Taiwanese government also tightened its regulations (with legislation that was passed by the Taiwanese parliament on November 18, 2014) and imposed severe penalties on any manufacturers that failed to meet the required safety standards. The incidents created other challenges in the industry too, such as rising consumer interest in food safety. Wage pressures, labour shortages, scarce raw material supplies, and fluctuations in raw material availability further challenged the industry, such that food manufacturers had to re-evaluate their strategies and seek ways to reduce their risk while still ensuring food safety, good brand management, well-integrated distribution channels, low channel costs, effective material management, and healthy accounts receivable.

A series of food safety incidents in 2013–14, associated with both ingredients and production processes, represented a serious threat to everyone in the food industry. Evidence had shown the contamination of cooking oil with recycled waste oil, and dried tofu products that had been adulterated with an industrial dye. Massive recalls ensued, and consumer confidence bottomed out, leading people to stop buying processed foods and dining out altogether.

The large food manufacturers confronted perhaps the most difficult situations, because their hard-won reputations could be destroyed by a single error. For example, with its thousands of products, spanning dozens of categories, the Taiwanese market leader Uni-President held a particularly vulnerable position; any issue with any one of its food products led to prominent headlines and triggered strong public reactions.

UNI-PRESIDENT

Founded in 1967 as a flour mill, Uni-President grew to become one of the largest food conglomerates in Asia.[[2]](#footnote-2) Among its key operating policies, Uni-President sought to optimize its product mix and brand investments to enhance its pricing power and overall added value. With its brand philosophy of “Good quality, Good credibility, Good services, and Fairness,”[[3]](#footnote-3) Uni-President also aimed to maintain a “world-class kingdom of food products.”[[4]](#footnote-4) Accordingly, it offered a wide range of products and services under various brand names, with a portfolio that consisted of 47.25 per cent dairy and beverage (e.g., juice, coffee, mineral water, tea, dairy products, and desserts); 19.01 per cent provisions (e.g., flour and animal feed); 12.7 per cent instant food (e.g., instant noodle and edible oil); 8.02 per cent health food (e.g., health food and baking products); 6.99 per cent general food (e.g., meat products, ice cream, seasonings, and frozen food); and 6.03 per cent other products.

Uni-President also managed well-known international brands in Taiwan including 7-Eleven, Starbucks, Mister Donut, Duskin, and Cold Stone Creamery. Most of its products were sold domestically,[[5]](#footnote-5) but as it grew, the small size of its domestic market naturally pushed Uni-President to enter global marketplaces, beginning with China and Southeast Asia (e.g., Philippines, Vietnam, Thailand, and Indonesia). After entering China in 1992, Uni-President continually increased its operating revenues in that country, reaching NT$150.7 billion (US$4.71 billion) in 2012.

With the recognition that crises were inevitable and acknowledging the importance of corporate social responsibility, Uni-President also actively participated in responsible practices that resonated with its focus on food production. For example, it invested NT$150 million (US$4.71 million) annually in food safety inspection and testing efforts, and it established a national food safety laboratory. A key responsibility for any large food product company was to offer high quality products; this demand drove Uni-President’s efforts to improve its food production business. In addition to achieving the 18 established national food product certifications, Uni-President was the first Taiwanese food product company to achieve ISO 22000 certification. The company enjoyed strong credibility in the marketplace and could make viable claims that it offered good quality food products.

Furthermore, Uni-President enjoyed an excellent reputation as an employer, offering good pay and a strong human resources system. Its efforts to take care of its staff gained Uni-President national recognition, including being voted one of the top 10 organizations in Taiwan where students sought to work after graduating.[[6]](#footnote-6) It ranked among the best employers according to five pertinent criteria: pay, job security and employee welfare, openness to new ideas, interesting and challenging jobs, and good promotion opportunities.[[7]](#footnote-7) Uni-President was thus able to select among the best candidates to staff its positions, even when competing with other potential employers. Uni-President employed more than 5,000 people, and over 97 per cent of its staff joined unions,[[8]](#footnote-8) which negotiated for better work conditions and served a critical function in labour relations. The company’s organizational structure reflected its product groups (see Exhibit 1).

FOOD SAFETY SCANDALS AND UNI-PRESIDENT’S PRODUCT REDUCTION STRATEGY

Various food safety incidents in 2013–14 affected many well-known food manufacturers, including Taiwan Sugar Corporation, Ve Wong Corp., Chi Mei Frozen Food Co., Sheng Hsiang Jen Foods Co., and Gourmet Master Co. The issues also damaged popular restaurant chains and food stores, such as Good Morning Yu Jen Jai and Black Bridge Foods. The resulting recalls and diminished consumer confidence posed substantial challenges for Uni-President. However, the issues also affected its major competitors in the instant noodle sector (Ve Wong Corp), the fresh milk sector (WeiChuan), and the tea sector (Vitalon). In 2013, market share in those three sectors was divided as follows: Uni-President 48 per cent and Ve Wong Corp. 22.1 per cent in the instant noodle sector; Uni-President 31.9 per cent andWeiChuan33.3 per cent in the fresh milk sector; and Uni-President 45 per cent andVitalon 8.3 per cent in the tea sector.

Because it was aware of the inherent safety challenges in the food industry, Uni-President already had implemented a strategic initiative in 2008 that allowed the company to focus on its core business and re-evaluate its product offerings. Uni-President thus eliminated 90 per cent of its portfolio and retained only 10 per cent of the products it sold. With this initiative, Uni-President wanted to continue to offer the specific products customers demanded to meet their unique needs and product customization preferences, while simultaneously rationalizing its ingredient management efforts. More products complicated product management efforts and increased food security risks, because they required more types of ingredients. For its product deletion strategy, Uni-President adopted a “less is more” philosophy, where deleting products meant lower total revenues but improved gross margins (see Exhibit 2).

By reducing the numbers of products and categories, Uni-President also gained confidence that it could ensure food safety. In particular, it could reduce the number of suppliers it relied on and monitored, and it could more easily find, select, and work with suppliers that were more reliable. These supply chain management benefits were crucial; many food safety concerns arose not with the manufacturers themselves but with the ingredients that suppliers provided during the manufacturing process.

Beyond these considerations, however, portfolio decisions rested heavily on gross profit margins as a key performance indicator for each product.[[9]](#footnote-9) The product performance evaluations also included a measure of the ability to generate revenues. Poorly performing products were those with lower total sales, revenues, and profit margins. At the product category and product mix levels, the company conducted evaluations to determine which products contributed most significantly to its revenues. If Uni-President planned to introduce a new product, the removal of an existing product was required. Its ongoing evaluation of product performance and strict control over the number of products resulted in fewer product offerings (see Exhibit 3). With its product deletion strategy, Uni-President also reduced the amount of materials and number of suppliers it used, such that it decreased the complexity and costs of managing both materials and suppliers (see Exhibit 4).

CRISIS MANAGEMENT

In parallel with its product reduction strategy, Uni-President relied on a well-designed but costly crisis management strategy to minimize any potential losses due to food security issues. Crisis management spanned three stages: pre-crisis, during the crisis, and post-crisis.

Pre-Crisis: Preventive Actions

Ensuring that ingredients received from suppliers met acceptable standards was a key factor in minimizing food safety risks. Any food production company could develop mechanisms to manage its production processes, but it had little control over how the ingredients it received were sourced. This uncertainty and lack of control increased food safety risks. Therefore, managing suppliers was both challenging and critical.

Uni-President collected information from various sources to evaluate its suppliers and rank them by quality. This information included first-hand data, which it collected by inspecting the suppliers’ inventory records; production designs and performance; and material sourcing. Uni-President also collected information from unofficial channels, such as social media, to monitor news related to suppliers. The resulting rankings then designated some suppliers as members of a high-risk group, indicating that Uni-President should remove them, unless it was unable to find another supplier to replace them immediately. Suppliers that remained active while assigned to the high-risk group were subject to costly, extensive monitoring by Uni-President, which closely assessed their production processes. In comparison, suppliers categorized as less risky were subjected to multiple supervisory visits by Uni-President each year, to check their production process. A third group of trustworthy suppliers received only annual inspections, unless a special alert triggered their re-evaluation.

Staff training was another key factor that Uni-President emphasized during the pre-crisis stage. Like most large organizations, it offered a wide range of training for its new and existing staff. Training related to crisis management was an ongoing attempt to help managers deal with potential and actual crises. This training was compulsory for management at all levels but optional for staff members. Performance appraisals were linked to the number of hours that managers and staff spent attending relevant training; for example, senior management was required to attend 36 hours, middle management 30 hours, and lower level management 24 hours each year. If employees failed to meet these training requirements, their annual performance appraisals suffered; they would not be ranked as high achieving, regardless of their performance in other areas.

The training sessions were mainly organized by two divisions—training/education and public affairs. Typically, training lasted three to six hours per session and the trainers included both internal and external professionals. The director of the public relations unit taught management and staff how to deal with the media, but external lawyers and government representatives usually covered government policy and legal actions, to ensure that managers knew and understood their legal responsibilities. Although lower level staff were not required to attend risk management training, the training sessions were open to them, and sessions usually attracted a full house of attendees.

The key focus of training and education was practical skills and knowledge for preventing and dealing with crises. However, the programs also sought to reinforce Uni-President’s organizational culture as a practical, “down-to-earth” company that paid attention to details. The training process also aimed to reinforce its key values of honesty and innovation.

During the Crisis

Considering its vast size and involvement in multiple food categories, Uni-President made a basic crisis team part of its regular organizational structure, such that established teams functioned as initial responders to any crisis. Six work groups were responsible for six different categories of crisis: environmental impact (e.g., abnormal pollution), government announcement of a severe epidemic (e.g., severe acute respiratory syndrome and Avian Influenza A H7N9 Virus), food security (e.g., cooking oil scandal), financial, public safety, and other types. A specific route of reporting was followed by the crisis workgroups (see Exhibit 5). When a crisis was identified, the relevant crisis group, the president, and the reporting centre chairperson were informed and immediately took over responsibility for managing the crisis. During a crisis, Uni-President sought to implement efficient communications, and the senior management team had to support the business unit involved in the crisis. Various crisis handling teams were formed, according to the nature of each crisis. They followed the company’s key principles when dealing with any external parties.

Advances in technology and social media meant that speed was key to minimizing the negative impacts of a crisis. Management needed to be informed quickly about the details of the crisis, including its nature, its seriousness, the potential implications for other products or brands, public perceptions, and the legal implications, as well as the extent to which the news had spread. With this crucial information, Uni-President could respond appropriately. For example, it would decide whether to recall products that had already been sold to consumers or products that were stored by its distribution channel partners, as well as the potential compensation amounts to offer.

Crises occurred at different organizational levels, although food safety usually involved lower level managers who would have received training but often lacked practical experience or confidence dealing with crises. These managers also did not usually have sufficient legal expertise or market sensitivity to respond to a crisis. Therefore, they could not take sole responsibility for dealing with the issue. Their lack of experience or expertise could worsen the problem, rather than mitigate it, if they offered inappropriate responses. An effective support system instead ensured that senior managers, and their expertise, were available to assist business unit managers in dealing with the crisis as necessary.

Specific principles were required to deal with different types of crises, but the following general principles applied to all types of crisis: be honest, use data or hard evidence when communicating with the public, and establish generous compensation. Uni-President responded to a crisis in the shortest time possible (i.e., within 24 hours), then made sure to take responsibility for it, 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 action against its oil supplier, who had 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.

Clear and standardized operating procedures for dealing with crises were communicated to managers at all levels of the organization through regular training. A crisis could be identified by the customer call centre, if it received serious complaints from consumers or media reports of abnormal product quality issues. With this identification, a temporary crisis team was formed to evaluate the risks and implications, and legal experts were contacted to identify potential legal implications. Uni-President then decided who would be the official spokesperson and what messages it would send. The production team was also informed about the issue and involved in any production decisions.

Uni-President identified key stakeholders when dealing with a crisis, including the media, consumers, Internet users, government bodies, channel partners, and internal staff. If it instituted 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 production changes. It would also consult with government tax offices about tax-related issues surrounding recalls or redundant products. In addition, because it was a market leader in Taiwan’s food industry, Uni-President maintained an open-door policy for communicating with the public, such as inviting the press to tour its factories.

When a major crisis occurred, such as a serious food safety violation, it was impossible to respond to individual media outlets separately, which would be time consuming and prone to mistakes. Uni-President therefore issued public statements that were developed by the crisis reporting centre and approved by the legal department and the chairperson. Only one spokesperson could respond to the public with any public statement related to the crisis. This public statement described the facts of the event (e.g., nature, product name or model involved, timing/duration, and location). The official response could be clarified, if required, and the crisis reporting centre could initiate press conferences for further communication.

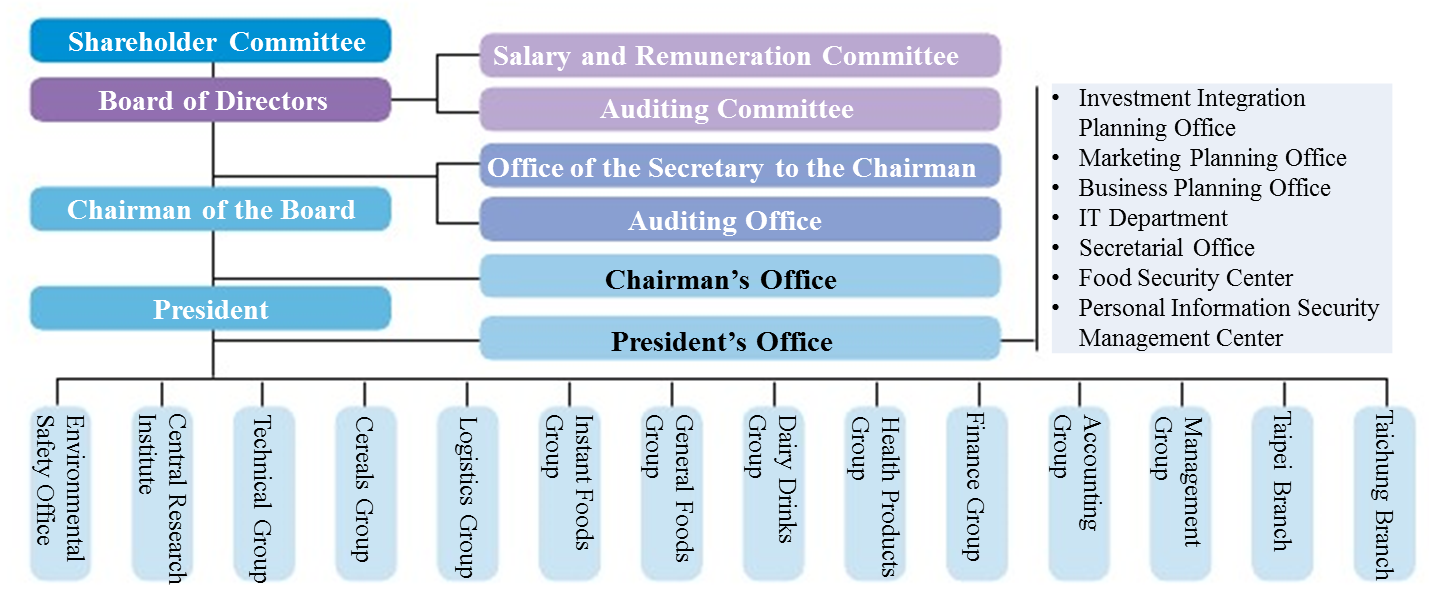
Post-Crisis

During a crisis, it would be virtually impossible to conduct comprehensive evaluations of how it had occurred and how the firm was handling it. Uni-President therefore conducted a full review following each crisis, including ideas for improving preventive actions. It used a list of indicators to measure its crisis handling performance, centred mainly around customer satisfaction and market share after the crisis. In addition, Uni-President re-evaluated its current product offerings and strategies after each product-related crisis, even if not all of its products were involved in that particular crisis. Regardless of this involvement, however, Uni-President re-examined all of its current product offerings to identify any products that might share similar characteristics, and specify the risk of future crises occurring. It then sought ways to either improve the products or remove problematic products from the marketplace. This risk evaluation was based on two criteria: potential damage, if a crisis occurred; and the likelihood of a crisis occurring (see Exhibit 6).

Despite the obvious benefits of the current system to managing crises, it was costly and challenging to manage. Costs for crisis training and monitoring suppliers’ production processes (e.g., 200 full-time staff employed just to monitor suppliers) represented a huge portion of Uni-President’s budget and its human resource allocations. Accordingly, as the person in charge of the public affairs division, Tu wondered what improvements might be possible. How could the system be modified to enable his division, and the company, to better manage future crises?

The authors thank Uni-President for providing access to its internal reports.

EXHIBIT 1: UNI-PRESIDENT’S ORGANIZATIONAL STRUCTURE



Note: IT = information technology

Source: Uni-President, *2011–2012 CSR Report*, [in Chinese], 14, accessed October 16, 2017, http://csrpro.mzcan.tw/upload/20141125183446-1.pdf.

EXHIBIT 2: UNI-PRESIDENT FINANCIAL REPORT DATA, 2008–2014 (in $NT million)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Revenue | 49,444.78 | 44,784.07 | 48,962.39 | 51,829.53 | 44,291.63 | 42,344.02 | 40,225.38 |
| Gross profit | 9,520.29 | 10,826.50 | 11,375.58 | 12,006.83 | 10,686.95 | 10,557.27 | 10,326.99 |
| Gross margin | 19.25% | 24.17% | 23.23% | 23.17% | 24.12% | 24.93% | 25.67% |
| Profit | 3,600.83 | 7,860.83 | 10,929.04 | 9,447.68 | 9,875.09 | 12,764.24 | 11,122.83 |
| Earnings per share | 0.96 | 2.02 | 2.55 | 2.08 | 2.55 | 2.48 | 1.96 |

Note: NT$ = TWD = new Taiwan dollar; NT$1 = US$0.0312 on January 6, 2015

Source: Uni-President, *2012 Uni-President Enterprise Corp. Annual Report*, accessed October 16, 2017, www.ir-cloud.com/taiwan/1216/annual/2012/EN/101\_annual\_report\_e\_TgQcp6rbJnhj.pdf; Uni-President, *2013 Uni-President Enterprise Corp. Annual Report*, accessed October 16, 2017, www.ir-cloud.com/taiwan/1216/annual/2013/EN/2013(E)0605

\_kBnCfnaJ6eUA.pdf; Uni-President, *2015 Uni-President Enterprise Corp. Annual Report*, accessed October 16, 2017, www.ir-cloud.com/taiwan/1216/annual/2015/EN/2015\_E\_EP1DMDb8ugKc.pdf.

EXHIBIT 3: Number of PRODUCTS OFFERED BY UNI-PRESIDENT, 2007–2014

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Products offered | 4,059 | 3,140 | 2,332 | 2,185 | 1,994 | 1,485 | 790 | 660 |
| Products deleted | - | 919 | 808 | 147 | 191 | 509 | 695 | 130 |

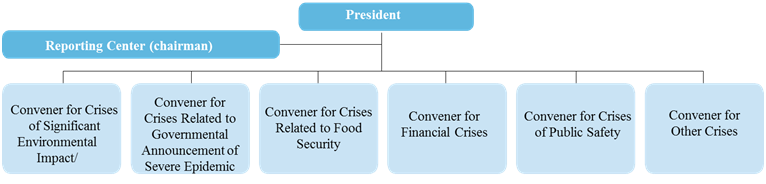
Source: Company files.

EXHIBIT 4: uni-president PRODUCTION STATISTICS, 2007–2014

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| *Number of Items* | | | | | | |  |  |
| Raw Materials | 1,587 | 1,555 | 1,452 | 1,597 | 1,556 | 1,285 | 1,198 | 943 |
| Materials | 2,297 | 2,117 | 1,926 | 2,055 | 1,909 | 1,455 | 1,279 | 1,084 |
| **Total** | **3,884** | **3,672** | **3,378** | **3,652** | **3,465** | **2,740** | **2,477** | **2,027** |
| *Number of Suppliers* | | | | | | |  |  |
| Raw Materials | 631 | 648 | 657 | 696 | 651 | 601 | 552 | 479 |
| Materials | 172 | 171 | 154 | 155 | 156 | 145 | 142 | 133 |
| **Total** | **803** | **819** | **811** | **851** | **807** | **746** | **694** | **612** |

Source: Company files.

EXHIBIT 5: CRISIS REPORTING SYSTEM FOR UNI-PRESIDENT



Source: Uni-President, *2011–2012 CSR Report*, [in Chinese], 14, accessed October 16, 2017, http://csrpro.mzcan.tw/upload/20141125183446-1.pdf.

EXHIBIT 6: PRODUCT RISK EVALUATION

Damage

Probability

Source: Company files.

1. NT$ = TWD = new Taiwan dollar; all currency amounts are in NT$ unless otherwise specified; NT$1 = US$0.0312 on January 6, 2015. [↑](#footnote-ref-1)
2. “The World’s Biggest Companies: #1,036 Uni-President,” *Forbes,* accessed January 14, 2015, www.forbes.com/companies/uni-president. [↑](#footnote-ref-2)
3. “Corporate Logo,” Uni-President, accessed October 16, 2017, www.uni-president.com/01aboutus/aboutus01.asp/invest/index.html. [↑](#footnote-ref-3)
4. Uni-President, *2011–2012 CSR Report*, [in Chinese], accessed October 16, 2017, http://csrpro.mzcan.tw/upload/

   20141125183446-1.pdf. [↑](#footnote-ref-4)
5. That is, 98.73 per cent of its products were sold domestically: Uni-President, *2013 Uni-President Enterprise Corp. Annual Report*, 100, accessed October 16, 2017, www.ir-cloud.com/taiwan/1216/annual/2013/EN/2013(E)0605\_kBnCfnaJ6eUA.pdf. [↑](#footnote-ref-5)
6. “Top 100 Most Desirable Employers for the Young Generation in 2014,” [in Taiwanese], Cheers: Happy Employees Magazine, accessed November 25, 2017, www.cheers.com.tw/article/article.action?id=5056899. [↑](#footnote-ref-6)
7. Cao Yiwen, NowNews, “TSMC, Wang Pi, and Hon Hai Precision Win the First Three Positions of Top 10 Enterprises,” November 28, 2012, accessed January 14, 2015, www.nownews.com/n/2012/11/28/355657. [↑](#footnote-ref-7)
8. Uni-President, *2011–2012 CSR Report*, op. cit., 26. [↑](#footnote-ref-8)
9. Uni-President, *2013 Uni-President Enterprise Corp. Annual Report*, op. cit. [↑](#footnote-ref-9)