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Nanjing Guangshengyuan Food Co.

The Dark Side of The Mooncake

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# Executive Summary

The case study looked into a food safety scandal of Nanjing Guanshengyuan, a Chinese food manufacturer established in 1918. The scam was exposed right before the Mid-Autumn Festival of 2001 by the local TV station indicating that the workshop froze leftover mooncakes from last year and reused the fillings. The company refused to admit the wrongdoing and even tried to pose themselves as victims. At the beginning of 2002, Nanjing Guanshengyuan filed for bankruptcy. The other independent producers manufacturing under the brand “Guanshengyuan” are reporting a drastic drop in sales.

The following article discussed the case from a public relations perspective, which analyzed the case relying on ethical philosophy as well as the PRSA Code of Ethics. In the end, a social responsibility program with specific strategies and evaluation methods was proposed aiming at rebuild the reputation of the newly established Guanshengyuan.

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# Ethical Event

## History & Market

Guanshengyuan began in Shanghai in 1918, spread throughout the nation and eventually split into more than 30 separate businesses. Nanjing Guanshengyuan was established in the year 1925. Before the scandal went out, it was a prestigious food manufacturer with more than 70 years’ history.

Although mooncakes are only sold two months of the year, annual sales are worth about 6 billion RMB (US$722 million). The mooncake industry creates huge economic spinoffs by supporting other sectors – including agricultural products processing, packaging, printing and advertising. But lucrative profits and major risks exist, since it is hard to sell mooncakes after the Mid-Autumn Festival. If mooncake makers cannot manage production, excess product and sluggish sales will lead to financial losses.

## Start

A mooncake maker, Nanjing Guanshengyuan, in the eastern city of Nanjing, froze leftover mooncakes from last year worth several million RMB (several hundred thousand dollars) and reused the fillings, after “scraping off the mold from the rotten ones”, local media said.

The scandal was first uncovered right before the Mid-Autumn Festival of 2001 by reporters from the Nanjing television station, who had spent the past year monitoring the cake shop. They secretly filmed the manufacturer rewrapping year-old fillings in new crusts, and they broadcast the findings. Each year, according to the reports, tons of unsold moon cakes were recalled to the factory, where the pastry was removed and the inside paste was reprocessed and frozen for use in next year's cakes. If some paste got moldy in storage, it was simply rebaked a year later, before being used.

Other Chinese papers as well as the Central Chinese Television Station (CCTV) picked up the mooncake scam. The scandal became even more widespread after its broadcast on the CCTV on the day of November 3rd, that numerous outrageous audiences called in the TV station immediately after the show.

The owner of the store had been reusing old fillings to increase profit margins since 1993, when it became a joint venture to expand its market rapidly. It means that some of the fillings could have been several years old, quoted sources in the “Beijing Evening News”.

## Action

The Nanjing cake company Tuesday hurriedly cleared suspect goods off its premises and Nanjing supermarkets were emptying shelves of its goods, the “Beijing Youth Daily” said. 15 days after the show was aired on CCTV, Guangshengyuan announced a press release claiming that the reporters are distorting facts and disseminating misleading information to tarnish the reputation of the company. Moreover, according to the company's general manager, Wu Zhengzhong, that reliance on old stock is a standard practice among China's mooncake producers. "The use of old mooncake stuffing is not restricted as long as no quality problems are found," Wu said. "In fact, most small- and medium-sized companies have to do so in order to cut costs."

Authorities obviously disagreed. Health officials closed down the company the day after the report and began an inspection. Nanjing Municipal Sanitation Supervision Bureau officials closed Nanjing Guanshengyuan Co’s workshop after an investigation. It was determined that Guanshengyuan had used year-old fillings in its mooncakes. Tons of mooncakes and filling as well as other raw materials were confiscated.

## Impact

At the beginning of 2002, Nanjing Guanshengyuan, a 63-year-old food processing company, filed for bankruptcy.

Since the television report, other journalistic investigations and reports on moon cakes have followed. In one particularly graphic article, the “China Consumer News” described a series of factories making ''high quality'' moon cakes outside the southern city of Shenzhen. In one workshop, mooncake fillings were stored in the bathroom. Another place was using outdated oil, and workers were using shoes to blend the flour.

The reaction from consumers was strong and wide reaching, despite protestations from other Guanshengyuan brand producers that they used only fresh ingredients and that they had no connection to the Nanjing firm. Still, everyone who markets under the venerable Guanshengyuan brand is facing a crisis in consumer confidence.

Shanghai Guangshengyuan suspended marketing activities in all 20 of its outlets nationwide. According to the sales manager, they had no time to sell their mooncakes before the news broke. What’s worse, their other products such as candy, biscuits and honey may also be affected. Some 50 percent of its customers canceled their orders, causing the company to shut down production. Guanshengyuan companies in the Sichuan and Yunnan provinces say they are losing millions of RMB as a result. All those independent producers reported a drastic drop in sales, perhaps as much as 40 percent.

In the following years, more than 30 preservatives have been banned for use in mooncakes under the latest amendments to China's food laws, shortening the shelf life of this seasonal snack. Usually mooncakes can be preserved for three to six months, but now they may expire within 45-60 days.

In 2010, a published survey suggested mooncake sales would not be as successful compared to past years. Consumers are 20 per cent less likely to buy mooncakes this year, indicated by statistics from the China Social Research Institute (CSRI). The survey was conducted in several cities – including Beijing, Shanghai, Nanjing, Shenzhen, Guangzhou, Wuhan, Changsha, Shenyang, Chongqing and Xi’an – to examine this year’s mooncake market and consumers’ purchasing intentions. Sixty-four per cent of respondents said they would buy mooncakes this year, 24 per cent said they would not and 18 per cent were uncertain.

# Why this is a Public Relations Ethical Issue

The case of Nanjing Guanshengyuan Food Co. is a typical example of Public Relations ethical issue since it seriously violated the basic professional value of honesty with its ignorance of public interest.

According to the PRSA code provisions, a company should try to protect “Core Principle” and “advance the free flow of accurate and truthful information, which is essential to serving the public interest and contributing to informed decision making in a democratic society”. The company failed to make a timely apology after the scandal broke out, and even attempt to clear the suspect goods off their premises. They wasn’t trying to cooperate with media after the crisis but to accuse reporters as “distorting facts” and “misleading publics”, which completely betrayed the consumers by lying and covering facts. The statement of the general manager of the company “reliance on old mooncake fillings is a standard practice among China's mooncake producers” as well as their press announcement were all attempting to evade their responsibilities. In this sense, the company violated the “disclosure of information” by betraying consumers and deeply hurt their feelings. In short, the Guanshengyuan infringed the basic ethical standards of public relations practice when communicating with its stakeholders.

# Ethical Theories

Ethics is an intangible concept that it is often hard to tell right from wrong. Ancient philosophers have studied ethics for thousands of years and some of the classical theories can still be adopted to analyze human as well as corporate behavior today.

The scandal stems from the egoism of the Guanshengyuan as the company is taking its self-interest as “the basis of ethical decision making” without considering the interest of its stakeholders. Though it is understandable that such company pursues maximizing profit, the action should base on integrity and openness. Using old fillings of last year’s mooncake is an unethical way to cut cost, and Guanshengyuan took no consideration of how its action is going to jeopardize the heath and wellbeing of consumers. The justifying way of maximizing profit and fair competition should be enhancing managerial skills, updating manufacture technology, conducting employee-training programs.

In order to practice ethical public relations, the company should adopt the theory of communitarianism, which indicates “organizations should recognize and fulfill their responsibilities to the communities of which they are a part”. As a time-renowned company, Guanshengyuan should be engaged in establishing common standards for the industry. The scandal not only ruined Guanshengyuan’s own reputation, but also hurt the sales of mooncake industry and consumers’ confidence. Thus, Guanshengyuan should take the lead to invigorate the industry and gain back consumers’ trust. Also, as a part of the local community, Guanshengyuan is supposed to take social responsibility to make contributions to the social welfare. Since nowadays, producing high quality products is not the only mission of manufacturer, however, they have to establish long-term relationship with the publics to create preference towards the company.

According to the dialogic theory, communication should be based on “mutual respect and compromise”. Thus, the Guanshengyuan should lead an open and honesty dialogue with the stakeholders after the crisis. The publics understand that companies do make mistakes, but it is the way that the companies handle the situation determines the relationship. A sincere apology should be made immediately and specific procedures to correct the problem have to be stated.

Value ethics indicates that truly ethical public relations requires companies to consider the basic rights of individuals. In Guanshengyuan’s case, the consumers have the right to know the facts while the company’s attempt of distorting truth is completely inappropriate. The company should respect the publics and provide them with accurate information and opportunities for participation. Guanshengyuan should timely update their progress of solving the crisis and establish customer service department to take care of the feedbacks, especially complaints, from the unsatisfied customers.

# Social Responsibility Program

## Goal

For the newly established Nanjing Guanshengyuan Food Company, I designed a social responsibility program to reach a series of goals.

First, they need to rebuild corporate reputation. Since they are operating under the brand name of the old company, they need to ensure the consumers that they are adopting more organized managerial function, establishing higher manufacture standards, and taking on more responsibility in the industry as well as in the larger society.

Second, they need to gain trust from the publics in the safety of the products. The quality of product is the most significant factor to determine the success of a manufacturing company. Since the consumers are still concerned about the safety of the product after the scandal, a strategically designed campaign has to be conducted in order to win back consumers’ hearts.

Third, the past incident had not only ruined the reputation of a single brand name, but it had also severely jeopardized the image of the whole mooncake industry. Thus, it is critical for the new Guanshengyuan to take the lead voluntarily to contribute to the credibility of the food industry, especially since it has been regarded as a time-renowned brand in China.

Forth, the Guanshengyuan needs to set objectives in terms of increasing sales and production by 20% compared to the previous year. The mooncake industry has been through trauma for the following few years after the scandal broke out, and the enthusiasm of mooncake consumers has diminished. Guanshengyuan needs to recover from these and invigorate the company as well as the whole industry through taking public relations and advertising methods.

Finally, I would suggest Guanshengyuan to reasonably expand its market to reach the consumers of 3 additional provinces by opening 15 new chain stores and cooperate with local supermarkets. The company will definitely try to reach more customers by establishing new branches. However, considering the nature of its product (the preservation date of mooncake is 45 days under the new regulation of authorities) the manufacturing company cannot randomly explore a new market but will have to make plans strategically. The new chains stores will be located in major cities in the three developed provinces.

## Strategies & Tactics

Guanshengyuan should start with making a formal apology to the publics on behalf of the old company and making a sincere promise to the customers. Since the old Guanshengyuan has been trying to avoid responsibility and owns the deceived customers an apology, the way that the new company can make a generous gesture is to establish a long-term relationship with the publics.

Secondly, making an association with the historical heritage of the company. The Guanshengyuan has been actively engaged in donating food to soldiers in times of war, and has also been rewarded by the governors with high honor. Since patriotic education has always been an important educational program in China, children tour the memorials and museums to learn history every semester. I would suggest the company to sponsor an educational patriotic campaign within primary schools to show that the company is concerned about education.

Thirdly, conducting a food safety campaign. Several specific tactics can be implemented to realize this strategy. The company can promote food processing videos through their official website and various social media to show that their production is based upon high quality control standards, the latest technology, as well as qualified skilled workers. Inviting consumers and stakeholders to tour the factory would also be a good way to let the publics get to know the company through their own eyes. The tour can also be associated with the sponsorship of primary schools by inviting children to observe how mooncakes are produced and learn historical stories at the same time. Moreover, providing authorized certification as proof of product safety can also serve to enhance consumers’ confidence.

Fourthly, promoting an environmental protection philosophy. Over-packaged mooncakes have dominated a large portion of the market. According to the statistics from “Jiefang Daily”, a major Chinese newspaper, Mooncake producers in Shanghai use yearly between 400 and 600 trees – nearly equal to a small forest – to package their cakes. Thus, eliminating the excessive packaging of mooncakes has become an urgent issue for environmentalists, and mooncake manufacturers should be responsible for it. For instance, Guanshengyuan can take the initiative to produce environmentally friendly mooncake packaging by using recycled paper.

Furthermore, Guanshengyuan should actively engage in a social welfare program. In the past scandal, the behavior of the company revealed its ignorance of public health and people’s welfare. The company can provide financial support and donate medical supplies for the disabled, children, and the elders.

Finally, the company needs to re-organize the customer service department, and provide a professional training program for the employees. Chinese companies largely overlook customer service when the customers failed to find an outlet to express their unsatisfaction towards the products or services they received. The manufacturer needs to hear feedback from the consumers constantly so that they can improve their product, and more importantly, solve any unpleasant cases before they go into media. Moreover, adopting social media as a communicating method with the stakeholders can also enable the company to timely respond in a timely fashion to the suggestions and criticisms from the publics.

## Evaluation

The evaluation process will start with a survey including a questionnaire focusing on the satisfaction of the customers towards company’s products and services, and the overall impression of the company as well as the mooncake industry. The survey also needs to find out purchasing intention, preference of products, demography of the main consumers, and preferred location of purchasing. The questionnaires can be sent through mooncake gift box, and also available at the chain stores. To stimulate the participation rate of survey, consumers can receive either sample products or discount coupons.

Another procedure is to calculate the traffic visiting the company’s website as well as followers and comments of social media pages. The increased figures can be associated with growing interests to the brand and preference of the product.

A more direct way to evaluate the program is to analyze the sales figure and market share. Detailed sales figure of every store location, every type of product, and a comparison with its competitors are needed. The result will be helpful for the company to plan for the amount of production next year, decide new store locations, make adaptation to the product, and be competitive in the market.

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