

Presentation Agenda

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- Background of company
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- Briefly describe the story
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- Previous Financial achievements & issues
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- Analysing social failure
-
- Analysing governance failure
-
- Related theory and implication

Background

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- Began as Shijiazhuang Dairy Company in 1956
- Sanlu Group (Three Deer Group) was formed in 1996
- Former CEO: Tian wenhua
- In December 2005 Fonterra (NZ) injecting ¥864 million (43% equity stake)
- Shijiazhuang city government owned 56% stake of Sanlu (controlling shareholder)
- Awarded 2nd prize at the 2007 National Scientific Techniques Awards (January 2008)
- Over 1000 different tests were carried out before the products sell
- National Inspection Exemption Products
- Donation over A\$2 million products on 2008 Sichuan earthquake



Brief Story of 2008 milk powder scandal

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- Origin:
- kidney damage, kidney stones were diagnosed on the babies (Sanlu baby formula customer)
- Influence:
 - almost 30,000 babies were taken ill due to contaminated milk powder; 6 babies died
- Milk collection station add the Melamine to milk → higher protein level
- Result:
 - More than 20 people were convicted for their roles in the scandal (senior managers)
 - 3 people were executed (poisoning)
 - Sanlu Group Bankruptcy
 - A worst food safety incident (China)

Previous Financial achievements

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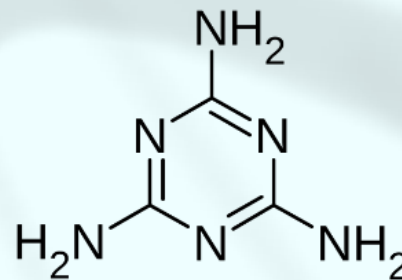
- Market shares- over 18%
- Consumer groups- low income level
- Annual sales revenue-5 billions RMB
(1 billion Aus dollars)



Financial issues

- Collect milk from local farmers
- Minimize acquisition price
- Added melamine to improve protein and save costs

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*Corporate social
responsibilities failure*

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Environmental health impact - Food safety:

Milk relative products in China -- 21 other
companies

Cultural impact - Domestic social stability
(National credibility)

Media(baidu) blocked the key words online to
research



CSR failure

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Domestic market changes:

Relative milk brands sustainability
development

Purchase large quantities of
imported milk

