

# Sanlu Group and the Tainted Milk Crisis

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### Situation Overview

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- 2008
- 11 Mar:
    - American, Guangzhou Sun, published an accusation article – the public information
    - Chinese internet site Leihaiye.net is the first to print over the previous day article. 10 posts are taken to the US FBI website
    - Casesolving.com founder visited China
  - 12 Mar:
    - Sanlu Group admits that its milk powder was contaminated with the toxic chemical melamine
  - 13 Mar:
    - Melamine levels in the milk range 14 grams are announced
  - 14 Mar:
    - China's Director Administrator of Quality Inspection, Inspection and Quarantine releases the results from its investigation
    - Results confirm the quality of the "top melamine free ones"
    - A sample from "Sun" contained the highest level of melamine – 3.08 times (10%) safety limit
  - 17 Mar:
    - Half of all babies born in 2008, and the death toll is at least four times that of babies born in 2007, because of the "top melamine free" milk
  - 23 Mar:
    - European agency issues that withdraws top Chinese dairy products or at all times from Europe
  - 24 Mar:
    - The US issues a nationwide "recall alert" for Chinese made food products
  - 25 Dec:
    - Sanlu Milk to be recalled



**FINAL RESULTS**

► Sanlu Group's melamine levels are 10 times the limit

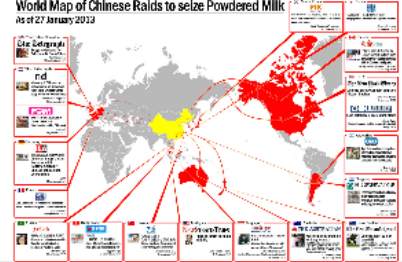
► The FDA says that the melamine levels in Sanlu's milk powder are 10 times the limit

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### International Response

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Analysis: A Media Catastrophe

While there is no doubt that the Sanlu milk powder scandal was a major media event, it was also a major media catastrophe. The media's role in the crisis was to amplify the panic and to create a sense of crisis that was not justified by the facts. The media's role in the crisis was to amplify the panic and to create a sense of crisis that was not justified by the facts.

**Today (Online)**

GOOGLE - About 670 results

YAHOO - 2,708,802 results

BING - 2,308,000 results

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**Sanlu Group**

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Sanlu Group's product recall was a significant event in the history of the company. The recall was a result of the discovery of melamine in the milk powder. The recall was a result of the discovery of melamine in the milk powder.

**Media Transparency**

- Cover up attempts
- Investigation of Sanlu's corporate records reveals that the company had been set up in early in August 1, 2005. But the PR had been established in 2004.
- Company's history shows that the company had been set up in 2004. The company's history shows that the company had been set up in 2004.

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In face of a crisis, the lack of transparency is often damaging to a company's reputation. The lack of transparency is often damaging to a company's reputation. The lack of transparency is often damaging to a company's reputation.

**Media Manipulation**

Sanlu may claim that public reaction in the form of media hysteria was a result of the media's manipulation of the facts. The media's manipulation of the facts was a result of the media's manipulation of the facts.

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## ELui Communications' Suggestions

**What should Sanlu have done?**

In short, Sanlu needed to prevent the following problems in the face of the 2008 milk powder crisis:

- **Lead: Sanlu's actions**
- Long and frequent communication
- Transparency
- Commitment to Customer Relations and Compensation

**What should Sanlu do now?**

- **Re-establish customer loyalty**
  - Transparency
  - Compensation
  - Strong Management
- **Re-establish management and employees**
  - Establish an internal audit system (IACS) to monitor and improve the quality of the milk
  - Full coverage of the milk production and distribution process

**The Chinese Government**

The government's role in the crisis was to provide support to the company and to ensure that the crisis was resolved. The government's role in the crisis was to provide support to the company and to ensure that the crisis was resolved.

**Fonterra**

Make the Sanlu milk recall an international event. Fonterra is a company that has been established and is currently located in the US. Fonterra is a company that has been established and is currently located in the US.

Established in Sanlu's operations (production and sales)

- Efficient
- Flexible
- Professional

Designated Partner

Edward Sanlu

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2008

11 Sept:

- Journalist, Guangzhou Jian, published an accusatory article – First public announcement
- China reveals that 14 babies fell ill in Gansu province over the previous two months. All drank the same brand of milk powder.
- Cases start being reported around China.



## International Response

### Thecasesolutions.com

World Map of Chinese Raids to s  
As of 27 January 2013



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- Journalist, Guangzhou Jian, published an accusatory article – First public announcement
- China reveals that 14 babies fell ill in Gansu province over the previous two months. All drank the same brand of milk powder.
- Cases start being reported around China.

12 Sept:

- Sanlu Group admits that its milk powder was contaminated with the toxic chemical melamine.

13 Sept: Production halts at Sanlu Group. 19 people are arrested.

16 Sept: China's General Administration of Quality Supervision, Inspection, and Quarantine releases the results from its investigation.

- Results confirm the public's fear of a widespread food crisis.
- A sample from Sanlu contained the highest level of melamine – 5,126 times the EU safety limit.

22 Sept: Toll of ill babies rises to 53,000, and the death toll to at least four. The head of China's quality watchdog resigns, becoming the first national leader to step down because of the scandal.

23 Sept: Countries across Asia start either to test Chinese dairy products or to pull them from shops.

26 Sept: The EU bans Chinese baby food with milk traces.

14 Nov: The US issues a nationwide "import alert" for Chinese-made food products.

23 Dec: Sanlu files for bankruptcy.



### FINAL RESULTS

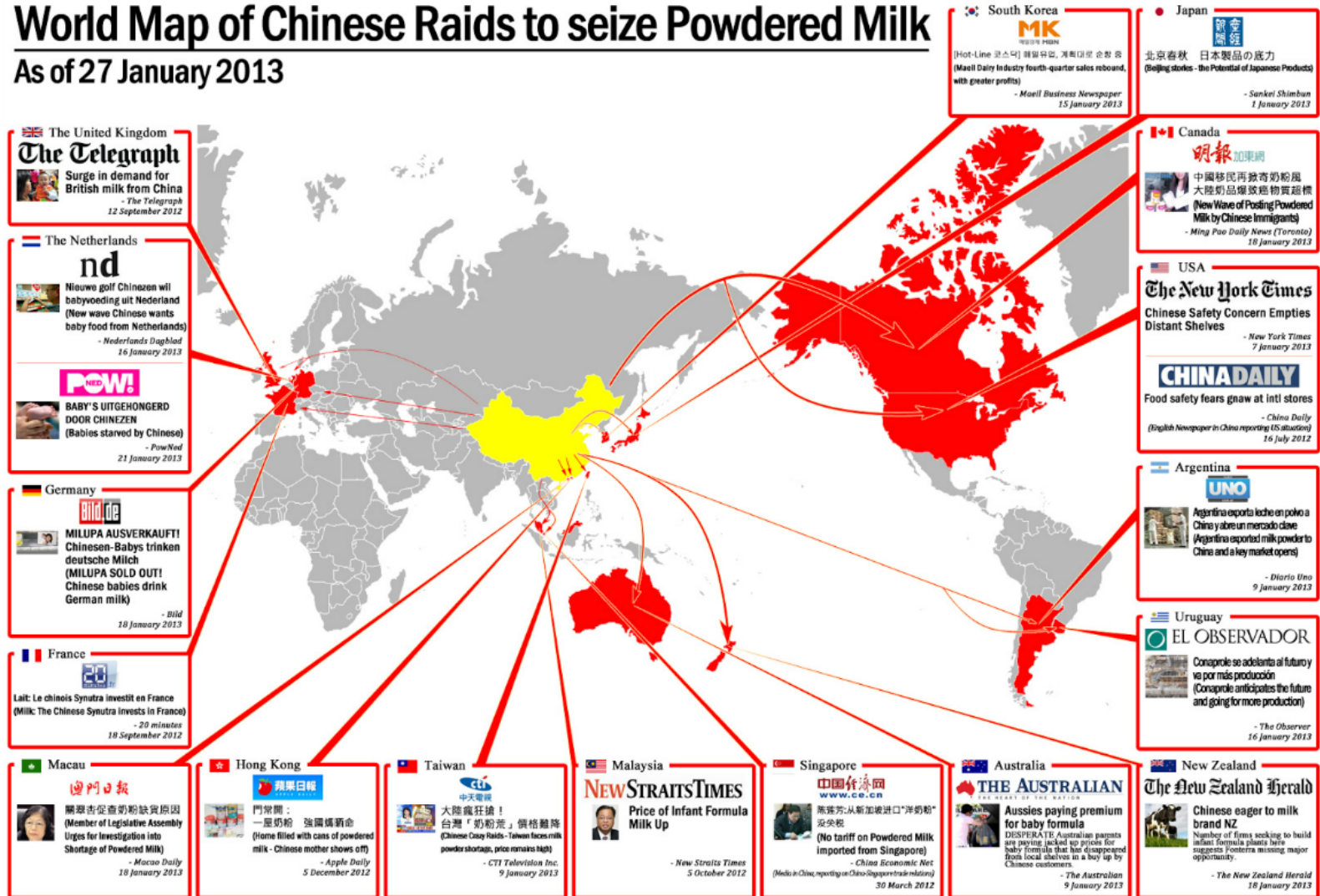
- Approximately 300,000 children fell; 6 deaths.
- 60 arrests – 21 sentences
  - CEO Tian was arrested and sentenced to life in prison
  - Vice President Wang was sentenced to 15 years in prison
  - 2 milk brokers were sentenced to death
  - 2 brokers were sentenced to life in prison
- Other administrators and farmers: 5-15 years
- The mayor of Shijiazhuang City and several top officials of the local government were removed from their offices
- Sanlu declared bankruptcy - The assets worth three billion U.S. dollars were sold to pay for the medical bills of the sick children.
- Fonterra also suffered a reported a loss of \$139 million.
- Analysts estimate the Chinese dairy industry may need five to ten years to recover.

# International Response

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## World Map of Chinese Raids to seize Powdered Milk

### As of 27 January 2013



This map was last updated at: 17:54, 27 January, 2013

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## Analysis: A Media Catastrophe

Within hours, journalist Guangzhou Jian's online article and its frightening news had been shared and regurgitated through social media to reach all across the country, and even the world.

The scandal took the media by storm. Using the search function of China Core Newspaper Full Text Database, the Takungpao.com news search, and the Lexis-Nexis newspaper database, a study by the University of Dayton found a total of 498 relevant news articles from Mainland China, 135 from Hong Kong, and 113 from U.S. to have been published through the period of January 1 - December 31, 2008



## **Today (Online)**

**GOOGLE** - About 9750 results

**YAHOO** - 2,720,000 results

**BING** - 2,800,000 results

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# Sanlu Group

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By nature, Sanlu's pivotal reputation as a giant in the dairy sector would undoubtedly garner attention from the business world. However, by being in the health and food industry, and by catering to the tender market of children, the spotlight was extra glaring, especially in light of China's One Child Policy.

# Media Transparency

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- Cover up attempts
  - Inspection of Sanlu's corporate records reveals that the company had learned as early as August 1, 2008, that its milk had been compromised.
- Unnecessary delays that were intentionally caused by Sanlu and the board's decision to handle things behind closed doors and not halt production --> Lead to unnecessary casualties and losses

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In face of a crisis, not only is lack of transparency often damaging to a company's reputation, loss of customer trust also translates into loss of business and other forms of financial repercussions. In this particular case, Sanlu's financial security was also compromised when it had to spend large sums of money on compensations to victims and their families, fighting lawsuits, and on other crisis management actions.



# Media Manipulation

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Some may argue that public deception in the form of media manipulation was even more damaging to the brand. As the scandal gained media traction, many also became increasingly suspicious of the lack and the delay of news and it was soon uncovered that the company had been bribing its consumers and various media outlets to withhold and in some cases fabricate news.

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This practice was found to have started months before the scandal even broke; for example, in May 2008, the company allegedly gave a customer more than 2,000 RMB worth of its milk products in exchange for his removal of an unfavorable blog post and attempted to negotiate with the search engine Baidu to block all negative stories online (Veil and Yang). As the situation escalated, so did the extent of Sanlu's media manipulation and by the time external parties found out, the company's malpractice had blown into epic proportions and deserved legal discipline.