

USDEC The CEO Crisis Guide to Taking the

“EARLY MOVER ADVANTAGE”

January 2017



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Fictional Scenario: It's 6:53 a.m. when your smartphone rings. Bad news. Your company's best-selling product is entangled in a food safety crisis in China, fueled by social media rumors. The good news: U.S. Dairy Export Council research shows you can protect your sales now and in the future, as well as your image and reputation, if you seize the "Early Mover Advantage."

What is the Early Mover Advantage?

Companies that act within 24 hours are far more likely to retain customers, maintain the public's respect and emerge stronger.

Based on what research?

USDEC commissioned Data Driven Marketing Asia, a China-based research firm, to convene 20 focus groups of high-income mothers in Beijing, Chengdu, Guangzhou and Shanghai. DDMA also conducted two 1,000-person online surveys.

What is the main finding?

A company is considered "sincere" by 79% if information is communicated within 24 hours of a food-related incident being made public. Only 14% consider a company sincere if it waits 72 hours or more.

Why is sincerity so important?

Sixty percent said they will forgive a company and return to consumption if they believe it is sincere in expressing regret and genuine in taking action. A timely apology is often necessary, acknowledging the distress and anxiety caused by the incident. This makes many lawyers nervous, but it can be done without increasing legal liability.

What is meant by "apology"?

"Apology" connotes something different in China than it does in the United States. Here, an apology implies an admission of guilt. In China, an apology is a compassionate acknowledgment of someone's pain and distress. It is similar to what Americans call "empathy." For example, a company may "apologize" in China when it says it regrets how the uncertainty of a food safety situation is causing anxiety and inconvenience for Chinese consumers. This has a calming effect.

Does the Early Mover Advantage work beyond China?

Yes. Each country varies, but speed and sincerity are always keys. Another survey by an international law firm (Freshfields Bruckhaus Deringer) showed more than a quarter of crises spread globally within a single hour and more than two-thirds within 24 hours. A crisis that spreads outside a country of origin will reach an average of 11 additional countries. You must move quickly to contain.

How can a company possibly respond in 24 hours when it takes longer to understand the details and cause of an incident?

A company can issue a “holding statement” when a situation is evolving, many facts are unknown and the outcome is unclear. This type of statement demonstrates the organization’s engagement in the response and opens a channel for ongoing communication with the media, the public, members, employees and customers.

What does a “holding statement” look like?

A holding statement typically includes these elements:

- What we know right now.
- What we are doing to find out more or address the issue.
- When or where we’ll follow up with more details.

Here is a holding statement template:

We are aware of the current situation regarding [situation, product, location, etc.] and are working quickly to gather more information and take appropriate steps. Our primary focus at this time is on protecting the health and safety of [our employees, the public, the people who enjoy our products, the surrounding communities]. [Add any additional details regarding actions or next steps.] We will [post additional information on our website, distribute an updated statement, hold a press briefing, etc.] [date/time if appropriate].

How can I apply this research?

As CEO, you set the tone. Consider these four actions:

Educate

- Let your employees know that even if you have a domestic crisis plan and have participated in dairy industry crisis drills, an international crisis is a very different ball game.
- Talk up the findings of the Early Mover Advantage, citing USDEC research.
- Create a shared understanding of the importance of speed, especially with corporate attorneys.

Prepare

- Have a tested global crisis-response plan that engages critical decision-makers and resources quickly and supports effective response actions.
- Have on-the-ground support in your markets and establish channels for communicating quickly with customers, consumers, media and other important stakeholders.
- Create a shared understanding of methodical action and speed within your core team.

Apply

- CEO and core crisis team must:
 - » Understand in advance the risks/benefits of moving early.
 - » In a crisis be willing to communicate publicly before all facts are known.
 - » Follow an organized activation and decision-making protocol.
 - » Take ownership of the situation even if the science is in doubt.
- Considerations for moving early:
 - » Is public health at risk or perceived to be at risk?
 - » Has a credible authority identified an issue – right or wrong – with our products?
 - » Is our company name or brand called into question by influencers or the media?
 - » How might sales be affected?
- Reasons to proceed with caution:
 - » Customer, not supplier, is called out publicly.
 - » Working closely with customers to coordinate actions, information-sharing.
 - » Ideally, supplier acts as member of customer's response team.

Execute

- Own the dialogue. In the USDEC survey of Chinese consumers, 69% said initial news on a food safety incident should come from the highest executive in the company, even if the executive is not based in China.
- Swiftly release a “holding statement,” ideally from you, the CEO.
 - » Reassures stakeholders that the top person in charge is aware of the issue, is addressing it and is personally sorry for the worry the situation has caused.
 - » Realize you don’t need a solution at this time, just an acknowledgment, with empathy. The holding statement buys you time.
 - » Template: *We are aware of [brief description] and are working quickly to gather more information and take appropriate steps. We will provide updates on our website, [insert Web address], when we have more information to share. I regret the anxiety this situation is causing [insert stakeholders].*
- Contact USDEC. We have resources and experience to help you. You’re not alone.

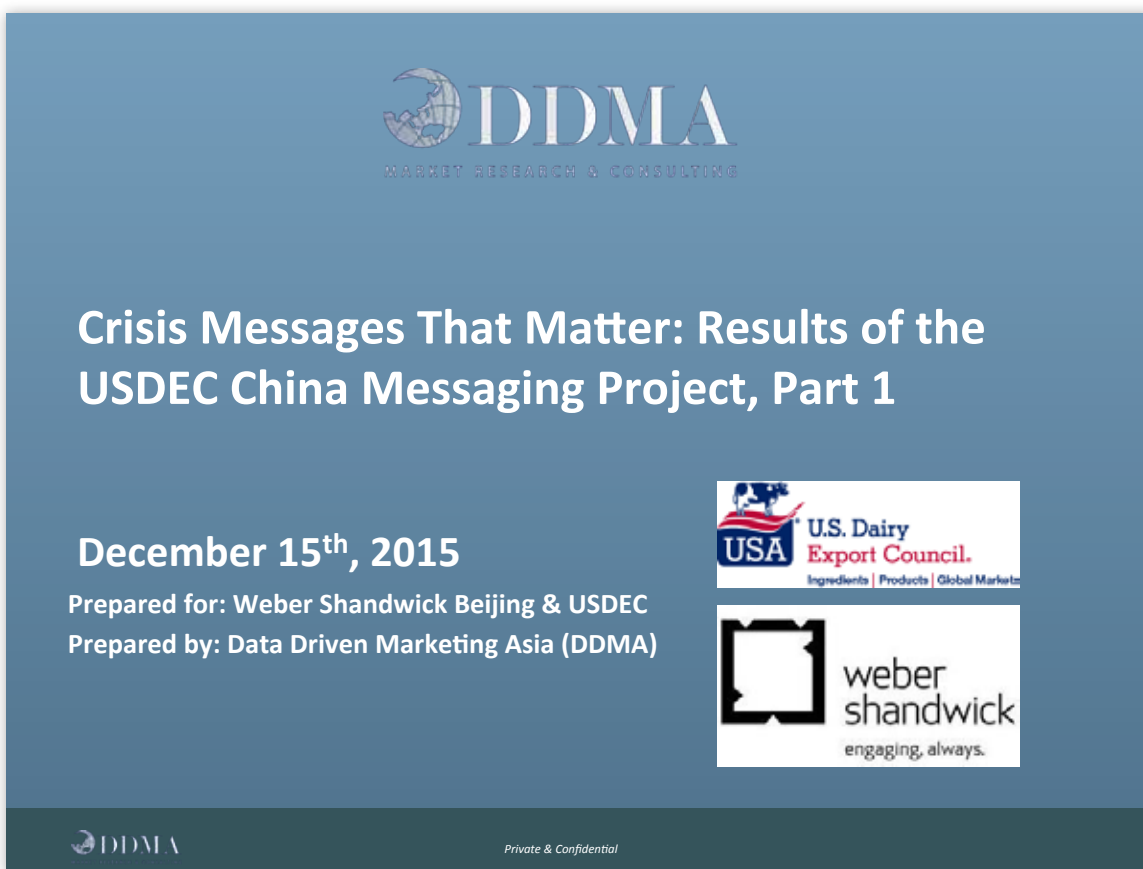
Margaret Speich
Senior Vice President, Strategic
and Industry Communications
mspeich@usdec.org
(703) 469-2363

Mark O’Keefe
Vice President, Editorial Services
mokeefe@usdec.org
(703) 528-4812

Luke Waring
Manager, Communications & Membership
lwaring@usdec.org
(703) 528-3049

Appendix

USDEC commissioned Data Driven Marketing Asia, a China-based research firm, to convene 20 focus groups of high-income mothers in Beijing, Chengdu, Guangzhou and Shanghai. DDMA also conducted two 1,000-person online surveys. Below are detailed findings of that research as it pertains to the Early Mover Advantage.



Research design and methodology

Respondents were females aged 25 years to 50 years old, all mothers and higher income groups



- Research focused on Shanghai, Beijing, Guangzhou and also Chengdu
- Respondents for all stages of this study were recruited from the upper middle class and above socio-economic groups. These respondents are the largest consumers of imported food products in China.
 - Females aged 25 – 45 years old
 - From the top 20% - 40% Household income groups in each market (US\$ 3,000 per month and above)
 - Have children
 - Consider dairy to be an important part of their diet and families diet
 - Purchase international dairy products at least once every two weeks (Yoghurt, milk, butter, etc.)
 - Responsible for the household groceries – either purchase directly or instruct parents or maid as to what to buy
 - Shop in international hyper and supermarket at least once a week
 - Currently consume a mix of imported product – meat, fish, dairy, fruit.
 - Do not reject food produce from the USA
 - Lifestyle: Travel overseas at least once in the last 24 months for vacation



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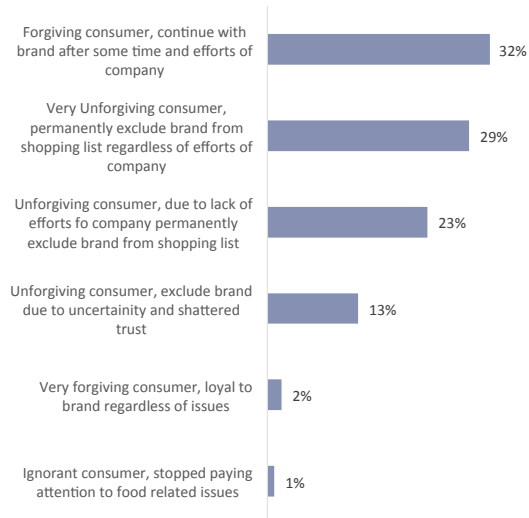
Impact of food safety incidents on purchasing behavior

50% of respondents clearly recall a food safety issue with a food brand that they used to consume

- Among the respondents that are aware and have been affected by food safety issues, **65% can be classified as unforgiving customers.**
- **30% of consumers refuse to return to the brand** regardless of the efforts that the brand owners make to repair the damage.
- **23% refuse to return to the brand** as they feel the company has not tried to repair the damage.
- **An additional 13%** of are so disappointed that they will avoid the brand in the future.
- Depending on the severity of the crisis, an effective crisis management strategy can retain the forgiving consumers and ambivalent (35%) and the unforgiving customers that need to be convinced that the company is working hard to remedy the issues and is being transparent in the process, an additional 23%. **Therefore, total retention in an extreme crisis could be close to 60% of pre crisis customers.**

Influence of food safety related incidents on purchasing behavior - % that pick

Base: All respondents that very well recall food safety issues and are highly involved n=1,189



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Unforgivable Scenario versus Forgivable Scenarios in Food Scandals

Different consumer behavior after scandal and reasons behind

Unforgivable scenario:

- Consumer behavior: stop consuming completely
- Example brands: Shuanghui (双汇), Sanlu (三鹿)
- Reasons:
 - The contamination was seriously health endangering, e. g. non-food appearance, life-threatening chemicals
 - The companies' actions are unacceptable
- Company actions:
 - No response at all
 - No apology at all
 - Denial of food-safety issue
 - Trying to hide the facts
 - Trying to find inevitable factors in order to shirk the responsibilities
 - Inconsistent behavior: first deny then admit

Forgivable scenario:

- Consumer behavior:
 - Stop purchasing all types of products from the same brand, but after the company took some actions, they returned to the brand.
 - Stop purchasing products which are reported to have safety issues, yet continue purchasing other products from the same brand.
- Sample brands: KFC, McDonald's
- Reasons:
 - The cause was less endangering
 - The companies' responses are acceptable
- Company actions:
 - Admit the existence of safety issue
 - Immediate sincere apology
 - Removal/recall of involved products
 - Switching to new suppliers



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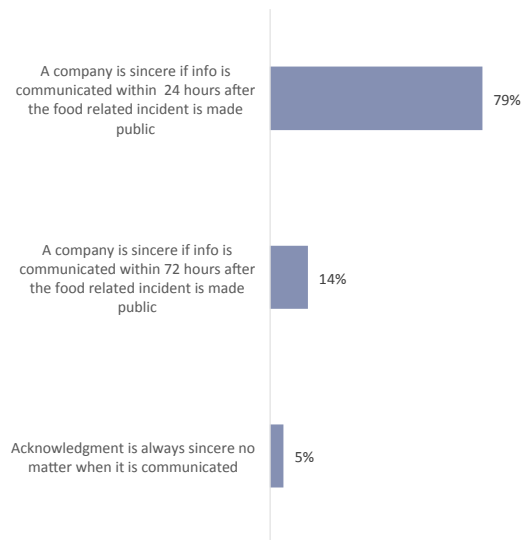
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Appropriate timeframe of acknowledgment of a food safety issue

Speed of response is closely linked to perceptions of sincerity and genuine regret for inconvenience

- Speed to market with first hand, official and relevant news and information builds perceptions of credibility, sincerity and responsibility.
- In the past, and particularly with Chinese companies, the response to food safety scandals has been perceived evasive and insincere.
- There were no major differences across markets are sub groups on this finding.

Acceptable timeframe for communication
 Base: All respondents that very well recall food safety issues and are highly involved n=1,189



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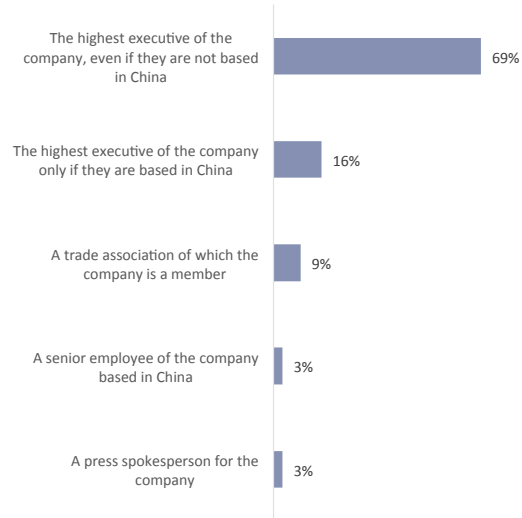
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Most suitable person to communicate initial news on food safety incident

Respondents felt that the initial announcement should come from the highest executive in the company

- **The appropriate spokesperson is dependent on the severity of the food safety issue.**
- The vast majority of respondents feel that the most appropriate spokesperson is the most senior executive in the company.
- The low rating of a trade association is linked to respondents not fully understanding what an international style trade association or industry body looks like. When this role was clarified in later research, the role of a body, such as US Dairy was considered to be credible and positive.
- There were no major differences across markets or among sub groups to suggest that a regional approach should be taken.

Most appropriate person to communicate details of incident
 Base: All respondents that very well recall food safety issues and are highly involved n=1,189



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First message - Expressing regret

Expression of feeling regret for the inconvenience caused

- It is not an admission of guilt and therefore the apology is not about actually apologizing for a problem but to apologize for distress caused. The Chinese consumer place great value on honest, genuine and timely disclosure of information.
- In the Chinese language there are different ways of expressing an apology – from the more informal ‘feel sorry’ to the formal ‘Regret to inform’. The different wordings for an apology in Chinese are (verb for apologize in bold):
 - **歉意 (qiàn yì)** – **Feel sorry** – “歉” means “apology” and one of the meaning for “意” is “intention” or “to intend to”. This word has an emotional dimension attached and normally associated with guilty due to (internal or external) moral pressure. In Chinese, people use this word to sincerely apologize for something. Feel sorry (qiàn yì) is perceived as most sincere and suitable in the situation of a food safety related incident and the correct term to be used in a statement targeting Chinese consumers.
 - **遗憾 (yí hàn)** – **Pity, regretful, unfortunately** – One of the meaning for “遗” is “remaining” and “憾” means “disappointment”. Literally, this word means “disappointment cause by something which is not in accordance with one’s wish”. This word is widely used in giving a piece of bad news, such as doctor giving decease notice to the family. The announcer in this context is normally associated as someone who cannot do anything to what happened or cannot have any influence on it. This word is perceived as emotionally detached and people use this word out of politeness and therefore not recommended to be used in a statement.

“You don’t actually have to say its your fault, just acknowledge the problem and tell me that you are sorry for the trouble you have caused me.”

An Older Respondent - aged 35yrs - 50yrs

“If you say that you are sorry, I can sense that you feel a certain guilt, you don’t have to tell me your sorry its your fault – I know that anyway. Sometimes there is also nothing you can do, it is out of your hand but as you are producing the food you are still responsible and should apologize for the inconvenience.”

Younger Respondent - aged 25yrs - 35yrs



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