Crisis management: Lessons learned

New Zealand is forming a working group to outline ways to upgrade the nation’s dairy traceability system.

Such news might seem relatively minor—another initiative aimed at bolstering a dairy exporter’s reputation. But the story behind the working group should be of interest to dairy suppliers all over the world, including the United States.

The task force stems from multiple investigations into last summer’s *Clostridium botulinum* scare and subsequent recommendations to the country’s dominant dairy exporter Fonterra Co-operative Group.

Significant negative fallout persists despite the fact that the product thought to be contaminated—38 metric tons of Fonterra-made whey protein concentrate (WPC)—proved clean after further testing.

There are many lessons to learn from the incident. One of the biggest revolves around traceability. The investigations found that Fonterra’s inability to promptly and definitively track the destinations of the suspected batches of WPC escalated the problem.

It apparently struck a nerve. Not only did New Zealand form a traceability task force, Australia established an “incident management” working group to study recent food safety incidents and how to improve response, including ensuring accurate traceability and providing market assurances. And Canada announced at the end of March an initiative to upgrade its dairy traceability system.

I am happy to say the United States is well advanced on the road to upgrading its traceability system. The Innovation Center for U.S. Dairy®, established under the leadership of America’s dairy farmers through the checkoff, and a group of industry representatives researched and analyzed U.S. dairy traceability for nearly two years before publishing enhanced traceability guidelines for dairy processors last September. The guidelines are voluntary, and so far, 12 U.S. companies representing about 59 percent of the U.S. milk supply have committed to follow them.

We congratulate those companies for their good work and aggressive approach to the issue. And we hope more will adopt the guidelines to get in position to avoid just the type of problem that shook the New Zealand dairy industry. The goal is to have companies representing 80 percent of the U.S. milk
supply signed on by this September. (To view the full guidance document and other information on traceability, go to www.dairytraceability.com.)

Enhanced traceability is critical in today’s world, as the New Zealand incident clearly showed in order to create a degree of comfort with major global dairy suppliers about the ability of various national milk pools to support and assist them should real or perceived problems arise. Important, too, is overall crisis preparedness. The focus here is not on how the botulism issue arose but how it was handled once it was detected.

The investigations showed that two key findings intensified the fallout. 1) There was a disconnect between detection of the contaminant and recognition of the explosive reputational risk it involved. 2) Although Fonterra had a crisis management plan in place, that plan, including training and external communications, was inadequate to address a problem of this scale.

Crisis management teams must regularly engage in credible and frequent simulations. Such exercises prime a company for the speed at which such situations can explode, particularly in these days of social media.

Better crisis management processes and planning, including a designated crisis management team, would have made “a substantial difference” in the incident’s severity, the co-op’s independent inquiry noted. Furthermore, crisis management teams must regularly engage in credible and frequent simulation exercises. Those simulations should include government/regulatory and customer participants and scenarios involving international product recalls. Such exercises prime a company for the speed at which such situations can explode, particularly in these days of social media.

The inquiry report recommended that crisis management plans should clearly delineate operational, managerial and communication protocols in the “Golden Hours” of a crisis (i.e., the first 24 hours). Fonterra’s management of the events in the critical early period “was not well executed,” the inquiry report noted, citing the fact that many customers heard about the problem not from the co-op itself but from the media and that initial communications were inconsistent, at times seeking to minimize the issue.

On the other hand, once the initial shockwave from the incident passed, Fonterra excelled at involving high-level executives in responses, accepting responsibility and not offering excuses or quibbling over the seriousness of the risk.

Fonterra Chief Executive Officer Theo Spierings’ “apology tour” to China demonstrated deference, honest concern and contriteness to consumers and the Chinese government, invaluable messages under the circumstances.

The stakes for the U.S. industry have never been higher. The United States shipped the equivalent of 15.5 percent of the U.S. milk supply overseas in 2013, and volume and value are rising annually. U.S. suppliers are expanding their product portfolios, investing in U.S. assets specifically for export markets and even establishing strategic alliances overseas to serve booming global demand.

It has taken years to build the U.S. reputation for quality and commitment to international dairy markets. The Clostridium botulinum
scare showed how quickly a reputation could be eroded.

We operate in a highly complex global processing and distribution network, and no one can guarantee a food quality issue will never reoccur. We all need to be prepared, and enhanced traceability and crisis management planning and practice are key elements in that preparation. CMN

The U.S. Dairy Export Council is primarily supported by Dairy Management Inc. through the producer checkoff that builds on collaborative industry partnerships with processors, trading companies and others to build global demand for U.S. dairy products.