Recovering Consumer Confidence after a Food Crisis

Jill Hobbs

Department of Bioresource Policy, Business & Economics, University of Saskatchewan, 51 Campus Drive, Saskatoon, SK, S7N 5A8; Email: jill.hobbs@usask.ca

- Introduction

Recent high profile food safety incidents have heightened consumers’ awareness of and sensitivity to information about food safety problems. Food safety issues make for dramatic headlines and have become the source of increased media scrutiny in recent years. It is not only the short-run impacts (such as the recall of potentially contaminated products) that become the focus of public scrutiny and therefore consumer confidence in the food system, but also the longer-term implications for the way in which food is produced and the levels of investment in (and monitoring of) food safety systems.

In Canada, one of the most prominent recent food safety incidents was the 2008 Maple Leaf Foods Listeria crisis in processed meats which led to the largest ever food recall in Canadian history and has been linked to 22 deaths and thousands of cases of illness. In the United States, recent high profile food safety incidents have included E. coli contamination of bagged spinach in 2006, salmonella from jalapeno peppers in 2008 (initially and erroneously blamed on tomatoes), salmonella from peanut butter later in 2008 and more recently, the outbreak of salmonella poisoning from eggs which led to extensive recalls of millions of eggs in summer/fall 2010. Given the inter-related nature of North American food supply chains for non-supply managed commodities, the spinach, tomato/jalapeno and peanut butter outbreaks and the subsequent recalls also affected consumers in Canada. An earlier prominent food recall that was the subject of much media attention was the 2007 Menu Foods recall of pet food products, which were blamed for the deaths of thousands of dogs and cats in the US and Canada. The source of contamination was eventually traced to imported ingredients from China which had been deliberately adulterated with melamine to raise protein levels artificially. A similar scandal erupted in China in 2008 after it was discovered...
that milk powder products had been contaminated with melamine; a number of young children died or were sickened after consuming contaminated powdered milk products. In addition to the impact domestically, the China milk case was the subject of intense global media attention. The latter two cases in particular led to increased scrutiny regarding the source of food and food ingredients, and calls for changes to food labelling regulations regarding the use of terms such as “Product of Canada”.

Major food safety incidents, such as those listed above, can weaken consumer confidence in a specific food product (e.g. brand), in a food category (e.g. processed meats, eggs), or in the entire food system. Some of these impacts are short-run and, as consumer confidence returns, sales recover. However, there may also be long-run shifts in demand for a product category as a result of weakened consumer confidence. This paper examines the factors affecting consumer confidence and the strategies that firms and industries can use to recover confidence after a food safety incident. A key distinction in this paper is made between firm level effects and industry or sector level effects. To that end, the next section briefly catalogues the impacts on firms and on a sector (industry) from a food safety incident, and discusses the role of the media in shaping consumer confidence. Section 3 explores preventative (proactive) versus containment (reactive) strategies to retaining or restoring consumer confidence, again distinguishing between firm-level and industry-level strategies. Lessons from the Maple Leaf Foods Listeria case are explored. The paper concludes with a discussion of industry and policy implications.

- Impacts of a Food Safety Crisis

Food safety crises of the types outlined above have impacts on three broad levels: societal, firm-level and industry-level impacts. Societal impacts include the effects on consumers and the public in general from illnesses or deaths that result from the consumption of contaminated food. In addition to psychological impacts, economic measures of these societal costs include medical costs (short term and long term), foregone income, and lost productivity.

Individual firms implicated in a food safety crisis are often faced with sizeable product recall, clean-up and containment costs, liability costs and damage to reputation manifest in reduced sales and lost market share, reduced share prices, and the need for substantial investments to rebuild a tarnished brand image. It has been estimated that the listeriosis outbreak cost Maple Leaf Foods $30 million during the recall alone (Howell and Miller, 2010), with some estimates of the full costs to the company (from market losses and a class action lawsuit involving 5,000 plaintiffs) exceeding $50 million (Greenberg and
Food safety crises often extend beyond the individual firm(s) eventually found to be the source of a contamination. In the short-run, until the source of contamination is known, product recalls tend to be widespread and may also therefore impact other firms in the industry or within the supply chain. Damage to industry reputation and loss of consumer confidence in the product category are also a problem and can result in a downward shift in demand for the entire sector. For example, the 2006 E. coli outbreak in bagged spinach led to major market disruptions and significant losses for the entire US spinach industry. Industry-level effects can also include loss of international market access as trading partners put in place temporary import bans in the face of food safety risks. The international trade rules regarding the imposition of trade restrictions for sanitary and phytosanitary reasons require there to be a scientific basis for the trade restriction, however, the basis for removal of the trade restriction is less clear cut (Kerr and Hobbs, 2010). Thus, industries can face long-term disruptions to international market access, as has been the case in a number of countries after the discovery of cases of BSE in cattle.

To a significant degree, the industry-wide impacts of a food safety crisis are externality or spillover effects, meaning that the costs of a food safety incident often extend well beyond the immediate source of the contamination (the firm). This has implications for the firm and industry-level strategies necessary to reduce the risk of food safety problems occurring and to restore consumer confidence following a food safety incident. Externalities are a form of market failure and lead to an underinvestment in enhanced food safety practices by individual firms. Some commentators have referred to food safety investments as ‘weakest link’ public goods (Richards et al., 2009). Public goods suffer from a free-rider problem. In the case of food safety, within a complex supply chain each participant receives only part of the total benefit from their investment in improved food safety practices. If another participant in the supply chain fails to apply due diligence – is the weakest link - the total benefit is reduced and there is a reduced incentive for others to make the socially optimal level of food safety investments (such as improved management or production practices, closer monitoring and testing, vaccines to reduce the risk of pathogens in livestock, etc).

Media coverage of food safety issues can be very influential in building or eroding consumer confidence. Recent studies have tracked the effect of media coverage of major food safety issues on US consumer confidence and the stock prices of US food companies and find empirical evidence for a significant negative impact of increased media coverage on both (see for example, Garcia-Fuentes et al., 2010). The concept that the media frames the
way in which people think about an issue, and as such influences attitudes toward the issue, is known as the agenda-setting effect. Thus, mass media can influence how people perceive certain issues by the media’s choice of which stories are considered newsworthy and how these stories are presented (Garcia-Fuentes et al., 2010). Information from the media tends to have a larger effect on public attitudes the less direct experience or knowledge an individual has about the issue. As most people are not directly involved in food production and have limited knowledge of microbiology, including pathogens, we can expect media information on food safety to be a significant determinant of consumer confidence.

- Strategies to Restore Consumer Confidence

Firm Level Strategies

Restoring consumer confidence following a food safety incident has elements of both a preventative/proactive strategy, as well as a containment/reactive strategy. Crucially, the differences between firm level and industry level strategies, and the scope for an effective response for a branded food product versus a commodity, become evident.

Given the economic costs of a food safety incident that can be traced to a firm’s branded food product, as discussed above, there is a market incentive for a firm to act quickly to respond to a food safety incident. Preventative strategies seek to reduce the risk of a food safety incident occurring and include the adoption of food safety management practices such as HACCP (Hazard Analysis, Critical Control Points), supplier audits, requirements that suppliers implement Good Management Practices or Good Agricultural Practices, third party audits and food safety certification, and the implementation of improved traceability and record-keeping systems within a firm’s supply chain to limit the scope and scale of any product recalls. No food system is 100 percent ‘safe’ - or at least the cost of attempting to achieve that milestone, were it even technologically feasible, would significantly outweigh the benefits, both public and private - and while proactive measures may significantly reduce the risk of a food safety incident they are unlikely to eliminate the risk entirely. Thus, food safety incidents will occur and firms will need to respond. A core component of a firm’s response to a food safety crisis is its communication with the public, particularly via the media.

In an interesting analysis of the Maple Leaf Foods case, Howell and Miller (2010) examined the so-called 5-Cs of communication: care, commitment, consistency and coherence, and clarity. They argued that the Maple Leaf Foods response to the crisis was a good example of effective communication: the early apology by the CEO, Michael McCain, demonstrated ‘care’ and was
instrumental in generating a turning point in media coverage of the situation; the widespread product recall, closure of the affected plant and intensive and well-publicized sanitations demonstrated ‘commitment’, while the key messages from the company were ‘consistent’ in accepting responsibility and in communicating the steps being taken to address the issue; finally the authors argue that ‘clarity’ was achieved through a media campaign to enhance the organization’s reputation when its products returned to retail outlets. The company has subsequently positioned itself as a source of expertise on Listeria and has declared a commitment to become a ‘global leader in food safety’, with the appointment of a Chief Food Safety Officer and a ‘Food Safety Pledge’ that features prominently on the company’s website (see www.mapleleaf.com). Others have noted that the McCain apology and the company’s crisis response was very effective at rebuilding trust and in mitigating the potential for regulatory or legislative action (Greenberg and Elliott, 2009).

Contrast the Maple Leaf Foods crisis response to that of Toyota in 2010 to the issue of potential problems with accelerator pedals in a number of popular models of their vehicles. In the Toyota recall case, the company appeared to be slow to recognize and respond to the problem, its top executives appeared defensive and aloof, and the initial communications response was characterized by denial and lack of transparency. Given the importance of the media in influencing consumer confidence, an effective communication strategy, backed by demonstrable and credible improvements to production and management practices, is critical to restoring consumer confidence.

While a highly publicized food safety incident can be extremely damaging to a firm’s reputation and brand name capital, as the Maple Leaf Foods case demonstrates, it is possible for a firm to restore consumer confidence through transparent and credible investments in enhanced food safety management practices, expanded supply chain audits, and through advertising and promotional campaigns. Consumer confidence will hinge on the extent to which consumers trust the firm. Communication remains an important component of restoring consumer trust.

**Industry Level Strategies**

Industry level strategies to restore consumer confidence are somewhat more challenging, particularly in the case of a food safety incident that affects a commodity or taints an entire sector, rather than a branded product specific to one firm. Often, the ability to restore consumer confidence depends on how quickly the source of contamination can be isolated and addressed. In the case of the E. coli contamination in the US spinach industry, for example, the US Food and Drug Administration initially issued a nationwide alert warning US consumers not to consume any fresh spinach products, and although the strain of E. coli was eventually traced back to four ranches in California, the
exact source of contamination was never definitively identified (Seltzer et al., 2009). In this regard, an effective traceability system that limits the scope and scale of a product recall, and enables the source of a problem to be identified quickly, can be a key component in an effective industry-level food safety response, as well as in restoring consumer confidence.

Similarly, industry standards for enhanced food safety practices, whether on-farm food safety systems or good manufacturing processes including HACCP systems, as well as reducing the risk of a food safety incident, can assist in restoring consumer confidence through the ability to demonstrate an industry-wide commitment to food safety. Industry-level responses are fraught with the ‘free rider’ or ‘weakest link’ problem outlined above. Sectors with strong industry organizations (e.g. proactive national producer groups) are more likely to be able to mitigate these effects than fragmented sectors characterized by disparate, incomplete membership with competing or inconsistent priorities. Nevertheless, the free-rider problem haunts all voluntary industry organizations.

In some cases public sector regulation, in the form of mandatory standards, is necessary to overcome the free-rider and weakest link problems, for example, mandatory HACCP programs in federally inspected meat processing plants. Moves are currently underway to introduce a mandatory national livestock and poultry traceability system in Canada. Emergency management, a safer food supply system, industry reputation, market access, and the maintenance/restoration of consumer confidence are key goals of the proposed mandatory traceability system. A particular challenge in implementing this system and achieving compliance lies in the conundrum that livestock traceability delivers a blend of public and private benefits (Hobbs et al., 2009). The benefits flow beyond livestock producers to other supply chain participants and to society in general. Furthermore, traceability alone is unlikely to be sufficient to ensure consumer confidence – it is but one component of a broader food safety strategy. Nevertheless, this type of proactive measure, if credible and effective, can influence consumer confidence in the food system.

As with individual firms, a key component of an industry-wide strategy to restore consumer confidence lies in re-establishing trust. Confidence in the regulatory system governing food safety, and the respective roles of the public and private sectors in delivering credible food safety assurances is a core component of trust. Results from a recent survey of Canadian consumers probing elements of trust are insightful in this regard. The survey, conducted in 2008, probed 480 Canadians on the extent to which they trusted various types of organization (public and private sector) for accurate information about farming methods (see Innes and Hobbs, 2011). Third parties and governments were the most trusted sources of information, followed by farmers/farm organizations, food processors and lastly retailers. While the
survey did not deal with food safety attitudes per se, the results indicate a relatively high degree of trust in arms-length institutions such as government and third parties when it comes to assuring the integrity of food attributes. Public-private partnerships encompassing credible third party certification may therefore be a relevant consideration for an industry seeking to restore or retain consumer trust.

Summary and Conclusions

Both firm and industry level strategies may be necessary to recover consumer confidence after a food crisis. Key strategies include open, effective and credible communication, an ability to demonstrate a proactive commitment to enhancing food safety practices, and the establishment of effective industry standards for food safety management and traceability. The Maple Leaf Foods listeriosis case presents a valuable lesson in firm-level responses to a food safety crisis that became the largest food recall in Canadian history. In the Maple Leaf case it was possible fairly quickly to identify the company as the source of the problem, albeit it proved much more difficult to trace the contaminated products through the supply chain (sandwich/deli meats widely distributed to retailers and food service outlets). Food safety crises that cannot be traced to a definitive source, or that emerge as a result of systemic failure within a supply chain due to ‘weak links’ are both more difficult to contain and present challenges in restoring consumer confidence. Industry organizations that are proactive in fostering cooperation and compliance among members, as well as communicating credibly with consumers on behalf of the sector can be a valuable asset. A collaborative rather than combative relationship with public sector regulators, in a co-regulatory approach, can also lead to more effective food safety systems and stronger consumer confidence in the long-run.

References


---

Gleptosil

Iron that’s Good as Gold

Most producers will wean 7 more piglets per 10 bottles than with iron dextran.

In fact that’s an investment better than gold.

For more information ask your veterinarian/distributor or call 1.800.456.5758

or Click: service@championalstoe.com

Gleptosil® is a registered trademark of Alstoe Ltd., Champion Alstoe Animal health Inc., authorized user. Copyright 2005