Crisis management in Belgium: the case of Coca-Cola

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Abstract

Belgium was still reeling from fears over mad cow disease and from the news that the carcinogen, dioxin, had been introduced inadvertently into animal feed, when yet another health crisis rocked it. This new crisis was precipitated by consumer complaints about an irregular taste and smell in bottled soft drinks and by reports that more than 100 consumers had become ill after noticing an odour on the outside of canned soft drinks. As a result, The Coca-Cola Company, under instructions from the Belgian Health Ministry, withdrew its trade-marked products from the Belgian market. The effects of this crisis were felt not only within Europe, but also in countries as far away as Japan and India. Subsequently, the company identified specific production and distribution problems which could have contributed to the health crisis. Pursuant to the Ministry's order, the company took immediate steps to remedy those problems, and the Ministry's ban was lifted. In addition, an aggressive marketing campaign was launched in an effort to regain consumer trust, confidence, and market share. Nevertheless, this incident resulted in substantial financial costs to The Coca-Cola Company and in considerable damage to its global image and reputation.

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Introduction

First it was mad cow disease, then it was tainted animal feed. As Belgians were reeling from the crisis over cancer-causing dioxin in animal feed leading to the withdrawal of certain meats, eggs and dairy products from supermarkets, yet another health crisis rocked the nation. The effects were to be felt throughout Europe with rumblings heard as far away as Japan and India. This time it was a soft drink that was the cause for concern. On 14 June 1999, in a move that was to cost more than $200 million in expense and lost profits and cause damage to the brand image of the trade-marked products of The Coca-Cola Company (CCC), the Belgian Health Ministry ordered that Coca-Cola trade-marked products be withdrawn from the Belgian market and warned Belgians not to drink any Coca-Cola trade-marked products they had in their homes. Later, France, Luxembourg and The Netherlands also banned or restricted the sale of Coca-Cola products.

The production and distribution of Coca-Cola

The CCC, with headquarters in Atlanta, Georgia, USA, is the world's leading producer of soft drink concentrates and syrups, providing consumers with one of the world's most popular soft drinks. CCC and its subsidiaries manufacture, market and distribute syrups, concentrates and beverage bases for the Coca-Cola brand and over 230 other brands bearing CCC trade marks that are sold world-wide. In addition, CCC provides advertising and other promotional support for these brands. Coca-Cola Enterprises (CCE), the world's largest producer and distributor of products bearing CCC trade marks, as well as other bottlers, buy CCC's syrups and concentrates and produce and distribute final soft drink products. Europe is an important market for CCC and CCE with approximately 23 per cent of world-wide sales originating there. While other bottlers produce and distribute CCC brands in some European countries, CCE is the sole licensed bottler in Belgium, Great Britain, Luxembourg, The Netherlands, and most of France.

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Reasons for recall

According to Coca-Cola Chairman and CEO, Doug Ivester, in a statement released on 16 June 1999, The Coca-Cola Company, in cooperation with the Belgian Health Ministry, withdrew its products from Belgian stores, as a result of two "unrelated" matters. In the first case, some consumers complained of an irregular taste and odor in bottled products. In the second, more than 100 consumers (students at six schools) became ill after reporting an unpleasant odor on the outside of canned products. Symptoms of the reported illnesses included headaches, stomach-aches, shivering and nausea, and were severe enough to lead to hospitalization of students in some cases.

Products included in the recall were Coca-Cola, Coca-Cola Light (the European version of diet Coke), Fanta, Sprite, Nestea, Aquarius lemon, orange, and grapefruit, Bon Aqua, Kinley Tonic and Lilt. It was estimated that a total of 15 million bottles and cans of products were recalled.

A week after the reported illnesses, The Coca-Cola Company responded with its first public statement. Ivester said:

> The Coca-Cola Company's highest priority is the quality of our products. For 113 years our success has been based on the trust that consumers have in that quality. That trust is sacred to us. I want to reassure our consumers, customers, and government officials in Europe that The Coca-Cola Company is taking all necessary steps to ensure that all our products meet the highest quality standards. Nothing less is acceptable to us and we will not rest until we ensure that this job is complete. We deeply regret any problems encountered by our European consumers in the past few days (KO Now, 1999a)[1].

At the time, the Company identified two specific production and distribution problems:

(1) "Off-quality" carbon dioxide that affected the taste and odor of some bottled drinks.
(2) An offensive odor on the outside of some canned drinks. The odor appeared to intensify when the cans were stored in vending-machines.

Ban lifted

On 22 June 1999, the Belgian Health Ministry lifted its ban on CCC trade-mark products (except for those products sold in vending-machines, pending further review) on the condition that CCC and CCE use fresh basic materials, conduct a thorough cleansing of the plants, enhance current safety measures, as well as take other steps.

In yet another statement, Ivester explained:

> We respect the Ministry's obligation to the people in these times of deep sensitivity to public health issues. Nothing is more important than protecting the public's health, and we have worked very closely and intensively with the Ministry, providing significant amounts of information confirming complete confidence in the safety of our products and packages.

He announced:

> We let down the people of Belgium, and we're sorry for that, but now we're committed to do what it takes to earn their complete trust again (*KO Now*, 1999b).

He further explained that immediately following the Belgian Health Ministry's decision to ban products bearing CCC's trade marks, the Company began moving to resume production of high-quality products while maintaining efforts to recover and destroy all existing product, as had been ordered by the Belgian government. According to Ivester:

> The Minister made it clear he did not want us to conduct this process through the media, and we have completely honored that request but, now that the situation has been resolved, we believe we have an obligation to all of our constituents in Belgium to be very open and informative (*KO Now*, 1999b).

Ivester apologized to the Belgian government and to consumers in newspaper and broadcast advertisements. In these ads Ivester said he was very sorry for any discomfort or inconvenience stating that:

> ... for decades, we've worked very hard to establish ourselves as true leaders in providing high quality consumer products (*KO Now*, 1999b).

Aggressive marketing bolsters image

Later, in mid-July, Ivester and Coca-Cola CFO, James Chestnut, met with 100 analysts to update them on CCC's business, the Belgian crisis, and global economic conditions. Ivester reported that CCC was putting forth an aggressive marketing campaign in Europe to gain the trust of consumers. In Belgium alone, promotional activities included "the Coca-Cola Beach Party" with California beach music, dancing,

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and 20 tons of "imported" sand; "Belgium's annual Coca-Cola Summer Tour" where Coca-Cola brand products were presented at over 90 locations throughout the country; and "the Originals Promotional Campaign", where over 72,000 consumers won premiums. By the beginning of August, research indicated that core users of Coca-Cola brand products reported the same intent-to-purchase levels as before the crisis.

Mass hysteria?

Almost four months to the day that the ban on all CCC trademarked products was lifted, four students in Tienen, Belgium, went to a local hospital with complaints they said resulted from consumption of a Coca-Cola product. Tests conducted at bottling plants in Belgium and Great Britain as well as at an independent laboratory in The Netherlands confirmed that the products in question were "normal" and of the "highest quality". No action was taken against CCC or CCE by the Health Ministry.

Five months later and nine months after the original incident, Isy Pelc, head of the psychiatry and psychological medicine service at Brugmann Hospital in Belgium, said the children's illness was due to psychosomatic reactions caused by unpleasant odors. His study, based on 110 students who had claimed illness after drinking Coca-Cola products and another 40 who had not become ill, was in line with the findings of two professors from the Catholic University of Leuven who had earlier attributed the crisis to mass hysteria. In an interview, Pelc reported that "with this investigation, there is clear evidence that there was a psychological contribution to the crisis" (Adler, 2000). While he believed the symptoms were real and not imagined, they stemmed from concerns over Belgium's dioxin crisis, in which the carcinogen had entered the human food chain from tainted animal feed. The dioxin scare had come after fears in Europe over beef contaminated by mad cow disease. While students reacted to a "sulphur smell" that had resulted from the carbonation process in some bottled Coca-Cola as well as to the smell of preservative chemical on the outside of some cans, according to Pelc, "there was not enough found to cause toxicological illness" (Adler, 2000).

Case notes

Objectives

This incident is intended to demonstrate organizational issues and challenges that can threaten a company's short- and long-term performance, as well as the long-lasting implications of strategic decisions made by management. CCC and CCE Web sites provide additional information in terms of financials and press releases. Consulting these sites is an excellent means of seeing how companies use Internet technology to provide information at such times. This case includes concepts related to crisis management and business continuity planning, political, legal and socio-cultural environments in international business, leadership and decision-making, and marketing. Study of this incident should prove helpful to firms operating in the global arena in identifying similar situations and in developing appropriate organizational strategies.

Discussion

A crisis management plan should be a part of an overall strategic management plan. If the planning process has included a SWOT analysis, major areas of vulnerability have been identified, and can therefore be addressed. In an age of instantaneous communication and media coverage, response time is critical in minimizing damage to image and/or brand name. Traditionally the proper place to address these areas of vulnerabilities and subsequent responses is in a business continuity plan. Contingency planning is crucial to ultimate success in dealing with opportunities and threats to a company. Moreover, because factors of impact vary from country to country and culture to culture, it is very important that response plans are developed for each location and include input from local management and public officials.

Further, an "immediate response" role should be delegated to those with expertise in the appropriate professional disciplines. The "Law of the situation" (Wolf, 1988-1989) states that different situations require different kinds of knowledge. That theory remains valid in today's corporate environment. Individuals possessing the required knowledge, all other things being equal, move toward leadership of the moment. As potential situations in the business continuity planning process are identified, teams of professional experts should be assembled to prepare responses in order to minimize risks/damages. This will enable management not only to forecast potential damaging events, but also to decisively confront a situation as quickly as possible after an actual crisis has occurred. Individuals to be included on the team could be: engineers, medical personnel, scientists, security experts, media specialists, policy analysts, and others depending on the particular industry.

From a historical perspective, there is evidence that the greater the response time to a critical incident, the greater the long-term damage to a company's financial security and reputation. In an age of instantaneous communication, Internet availability and satellite media coverage, the amount of information and the speed at which customers can be informed of a perceived or actual problem have increased exponentially. The prevailing media trend is to accentuate the negative rather than the positive aspects of situations. Nature abhors a vacuum. Therefore, if decision-makers are unwilling or unable to rapidly address challenges, then sensational images will linger and grow unabated in the perceptions and attitudes of stakeholders. Perception becomes reality. In this case, the company's silence as they attempted to identify the source of the problem led to a loss of public confidence. The longer management delays a response, the more opportunity for permanent damage to the psychological bond which connects the consumer to company image and reputation. A critical component in this emotional contract is trust and confidence in the corporation's ability to maintain its successful position in the market and in the community. It is therefore imperative that local personnel who have built rapport and credibility with local customers and political units be included as a visible part of the immediate response plan. There had been a recent change in political leadership in Belgium following the dioxin crisis and, as the head of CCE's Belgian operations was in the process of stepping down from his position, the necessary rapport between company and government had not been established.

Another important consideration in critical incidents such as this is the preservation of brand image. Brand image is created in the minds of the consumers and convinces them that products have value-added components above and beyond the products offered by the competition. Value-added components can include product quality, price, design, and intangible elements such as status, nostalgic memories, confidence in company management and leadership, and a positive record of corporate social responsiveness. When the tangible elements are relatively equal, then intangible elements must be preserved and protected for a company to maintain and to continue its long-term position in the market. Preserving and protecting brand image necessitate identifying potential threats, and addressing those threats when they occur, as effectively and expeditiously as possible. This can be done by not only designing and implementing emergency response plans as a part of the overall management strategy, but also by having extensive quality assurance systems, effective communication processes, and ongoing reinforcement of the company's commitment to the community.

Conclusion

For decades, The Coca-Cola Company has been a standard-bearer of management and leadership practices against which other companies have been measured. The Corporation reigned supreme in areas such as quality assurance, product development, manufacturing and distribution, brand marketing, customer service, stakeholder relationships, and corporate social responsiveness. The Coca-Cola brand has become a symbol of globalization – the second most recognized phrase world-wide after "OK". It also enjoyed unparalleled loyalty and commitment from employees, customers and stockholders. One has only to evoke examples such as the New Coke/Classic Coke case, the rapid and steady increase in the stock price under Chairman Roberto Goizueta, the passion and zeal of Company employees who have "Coca-Cola Red" blood flowing through their veins, and the ubiquity of respect and admiration for the Company to illustrate the stature of its image. The Company had a reputation for doing the right things and for doing things right.

This favored status was dealt a severe blow when the health crisis erupted in Belgium. Historically, the Company had been especially adept in confronting challenges and

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minimizing risks with little or no permanent damage to its financial resources or image. However, the mad cow disease and dioxin contamination cases had very recently threatened the health and safety of Belgian citizens. Perceiving a cover-up, public unrest subsequently led to the resignation of a number of government officials. Undoubtedly, this environment was conducive to yet another episode of suspected product contamination and ultimate product recall. Therefore, the precarious social/political environment necessitated a calculated and sensitive approach to crisis management.

The Company's response to the unprecedented product recall included identifying two very specific production and distribution problems that apparently led to quality breakdowns, taking steps to eliminate those problems, and re-establishing public trust and confidence. The issue in this situation is not whether the Company was able to accomplish these tasks, but rather when and how it actually did so.

When the crisis began, Company executives took several days to make the matter a top priority. The Company did identify and publicly admit that there had been manufacturing mistakes. However, according to some observers, Coca-Cola stumbled repeatedly, exacerbating the situation. For example, an apology to consumers came more than a week after the first public reports of illness. It took ten days after the first child became dizzy and nauseated for top executives to arrive in Belgium and Coca-Cola's initial response attempted to minimize the number and severity of the illnesses (Hayes *et al*., 1999). A senior CCE official, Phillippe Lenfant, did state that the scare had been mishandled, that communication was inadequate, and that the Company was unprepared for a crisis of this magnitude (*The Los Angeles Times*, 1999).

Tests conducted in Europe found that the products did not contribute to illnesses and that the symptoms were psychosomatic. Ben Deutsch, Coca-Cola spokesman, said these findings brought clarity and closure to the incident. He further stated that "the recall was a humbling experience – a wake-up call from which we learned to be ever-vigilant in our concern for our consumer and the quality of our products" (Unger, 2000).

In spite of these assurances, damage to Company image, reputation and prestige has yet to be completely alleviated. Subsequent events continue to affect the Company as is illustrated by the sudden resignation of Chairman and CEO, Douglas Ivester, the flattening of the organizational structure, in-country assignment of executives responsible for global operations, and a renewed commitment to local management decision making.

Note

1 KO = New York Stock Exchange ticker symbol for The Coca-Cola Company.

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