



Tainted Brands

A survey of milk consumers following
China's melamine incident

October 2008

Basic Report (key charts and comments)

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- What communication channels were at work?
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- Which brands are associated with melamine tainting?
- What has been the impact on San Lu's image?
- Which brands will people avoid?
- Will brand loyalists avoid or stick with their former favorites?
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- Are people's impressions of imported milk products favorable compared to China's?
- What has been the impact on the image of Chinese and imported milk products?
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Study background

- The tainting of San Lu infant milk powder with melamine first came to public notice on September 12th 2008. This was quickly followed by tests that revealed some 22 milk companies out of 108 tested had products containing melamine. Some of these – such as Mengniu and Yi Li are very prominent national brands and melamine tainting rapidly became the focus of government, media and public concern. Continued testing revealed that a range of other milk products, including yoghurt and liquid milk were also tainted. And, more recently, products using milk ingredients – such as chocolate and candy – have likewise been found to contain melamine.
- At time of reporting, checks had found melamine in 31 milk powder products – 11.7% of 265 products tested. 154 companies have been checked, representing more than 70 percent of China's milk powder market. Melamine tainted milk products originating from China have also been detected in more than 20 other countries and territories, thus raising the profile of the scandal to one of global importance.
- San Lu is a joint venture with New Zealand's Fonterra, one of the world's largest milk marketers. Fallout from China's melamine incident could harm New Zealand in terms of milk sales as well as tainting the country's clean and green image.
- AMC is a media research company that specializes in cross-media ratings and research of non-traditional media. One of our key areas of interest was the role of word-of-mouth as a communication channel in the unfolding of the scandal.
- Telephone interviews lasting 10 to 15 minutes were conducted among a random sample of 900 adults who buy milk. Interviewing lasted from September 22nd to 26th 2008. Details of sample composition follow.

Sample composition

Total sample: 900 milk product buyers spread as follows

City	%
Beijing	16.7
Shanghai	16.7
Guangzhou	16.7
Shijiazhuang	8.3
Other Hebei	8.3
Lanzhou	8.4
Other Gansu	8.2
Chengdu	8.3
Other Sichuan	8.3
Total	100.0
Sex	%
female	50.0
male	50.0
Total	100.0
Age	%
18-25	29.1
26-40	44.9
41-55	25.9
Total	100.0

Income group (location-specific breaks)	%
Low	33.3
Medium	33.3
High	33.3
Total	100.0

Household children	%
No	58.8
Yes	41.2
Total	100.0

Number of children	%
0	58.8
1	35.0
2	5.3
3	0.6
4	0.3
Total	100.0

Milk power consuming	%
No	58.0
Yes	42.0
Total	100.0

Notes on reading this report

- Due to the rapid pace of melamine testing and discovery of tainting evidence among a range of milk products, we used the most current scope of the problem existing at time of fieldwork. Respondents in the survey were therefore asked to think about milk products and encouraged to include any brands of liquid milk, yoghurt, butter, milk powder, etc.
- Published lists of tainted brands are appended
- Unless otherwise stated, all charted data is in percentages
- Question wording used in the survey is shown at the bottom of each chart
- Sampling accuracy for the total base of 900 respondents is $\pm 3.33\%$.
- Data for major brands are shown in this Basic Report. Full data tables containing results for all measured brands are provided in a Data Report. Strategic marketing insights are provided in an Analytical Report. Both sold separately (click [here](#) for more information).
- Further questions about the study or requests for additional analysis can be sent to melamine.report@allmediacount.com.

- “Loyal” – respondent has bought the brand more often than any other in the past 3 months
- “Retention” – percentage of customers who were loyal to a brand in the past 3 months and who claim to still be interested in buying the brand in future
- “T1”, “T2” – Tier 1 cities (Beijing, Shanghai, Guangzhou and Chengdu) and Tier 2 cities (Shijiazhuang and Lanzhou).
- “Towns” – areas in Gansu, Hebei and Sichuan provinces outside of the provincial capitals.
- “Win Lose potential” – the net number of choices for a brand (retained customers plus customers picked up from a competitor) minus the choices against a brand, expressed as a percent. Should not be interpreted as an absolute measure of market share shift.
- “WOM” – word of mouth



Summary

Summary (1)

- The melamine incident saturated communication channels for much of September 2008 during which time people learnt about the scandal through an average of four to five different communication channels, word-of-mouth being key among them. The melamine incident therefore provides a valuable case study for how each of the channels contributes to the unfolding and spreading of a message with implications for all marketers, not only in terms of crisis management, but also for tactical marketing and multi-media campaign planning.
- Not all media have been equally valued by milk consumers however. The most trusted channels are TV news and radio news (both over 85%). In contrast, internet news sites and blogs / chats are trusted by barely half of consumers. While the information at stake during a health scare is especially sensitive, the findings raise thorny questions for marketers who must balance the speed, flexibility and niche access capabilities of the internet against its limitations in terms of overall reach and, seemingly, trust.
- But the relationship between controllable media, user generated media and word-of-mouth is complex and low trust is not necessarily a barrier to effectiveness. Although many people regard the internet as being untrustworthy, it features heavily as an “input medium” for word-of-mouth communications, which is especially interesting considering the low penetration of online access in China

Summary (2)

- The interplay between and that may be more noticeable in the latter times and to different degrees is a complex one. Any consumer-led or massive brand such as Yi Li can never fall victim to its own success all competitors. Nearly two-thirds of M&G's localists were disappointed by the performance of the brand, expressing interest in switching. San Lu has had the opportunity to appear in the market and if the brand itself had not had a tailwind, could have made a significant impact. This observation will not be taken on by market leaders or producers of a persistent problem. This is not a criticism that the brand is "In a business" but: product quality control, pricing, local and domestic presence, etc.
- It also provides an strong indication of the industry: how has the crisis in one of our own companies which has a significant social impact and the need for a rapid communications plan that is ready to deploy when a crisis hits.
- San Lu has been a wake-up call for itself and for the industry. For example, anticipating a multi-million dollar write-down or a significant loss, but eyeing a drop and zero, we can observe serious and to some extent permanent impacts, not all of them expected. It's no surprise that over 80% of our buyers claim the scandal has given them a more negative opinion of China's milk products, but almost half said the scandal had also given them a more negative feeling about imported products. However, despite being angry at the situation, consumers are pragmatic: about 20-25% of M&G's and Yi Li's consumers are likely to remain loyal to the brands.

Summary (3)

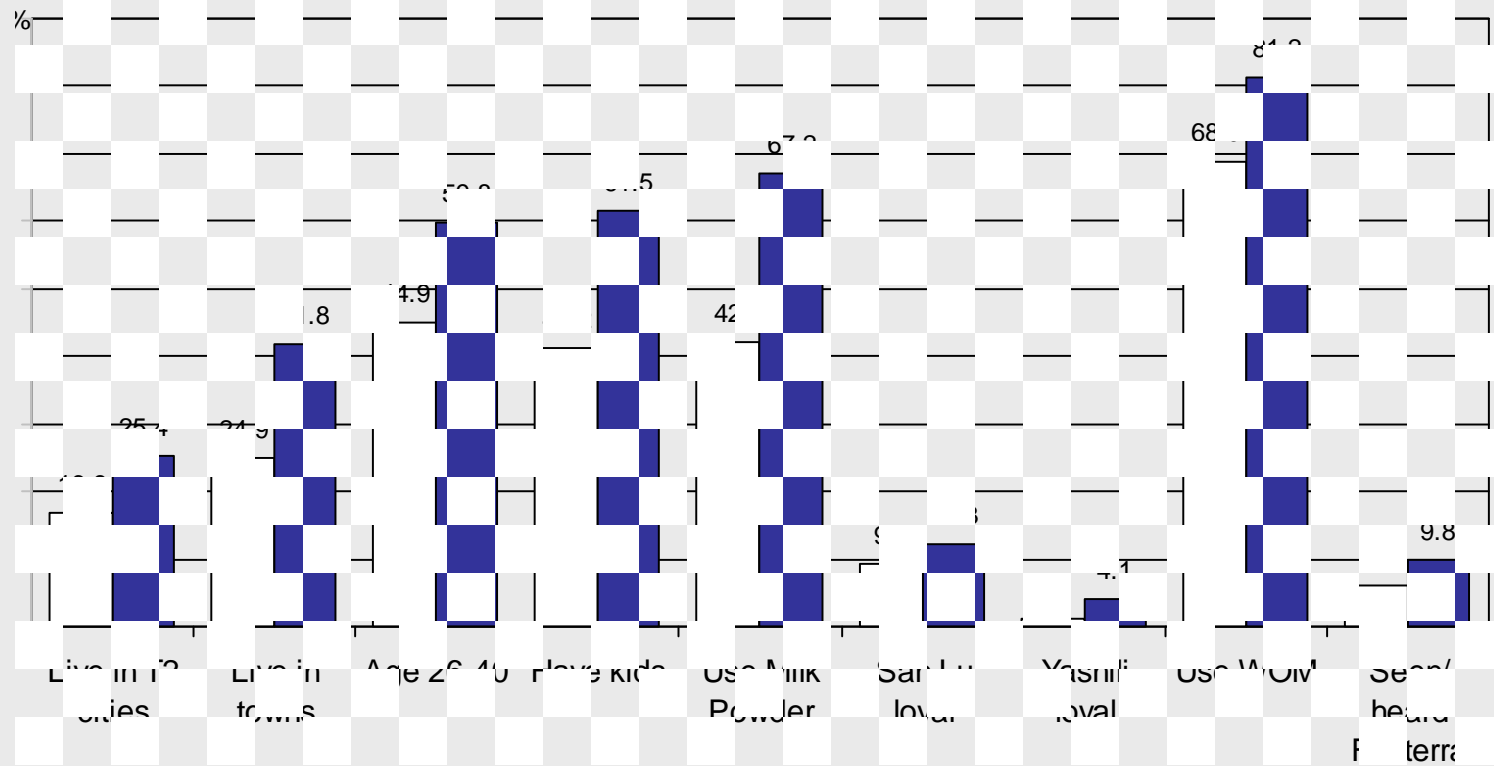
- As of the date of fieldwork, New Zealand's image has not been seriously harmed by the scandal because so few people were aware of the country's connection via Tomarra. The net impact, to date, is that only 3% of people feel worse about New Zealand because of the meromarine scandal. This does not necessarily mean New Zealand is in the clear: most consumers do not know what a New Zealand company is Sanyo's partner. When informed of this fact, the rate of negative sentiment about the experience a negative shift in feeling toward the country. An unfortunate side effect of the connection between Sanyo and New Zealand could have been that the scandal could have tarnished the image of the country.

Extent of harm

How widespread is harm from tainting?

68% of milk buyers claim to know someone harmed or that they have suffered harm in their own household. Residents of small cities and towns are more affected, especially in Jan Lu's home base of Hebei.

Characteristics of milk buyers claiming harm or knowing someone harmed vs. average milk buyers



Has your health or the health of anyone you know been harmed by melamine in milk products?
WOM = Word of Mouth

□ All respondents
■ Respondents Claiming harm

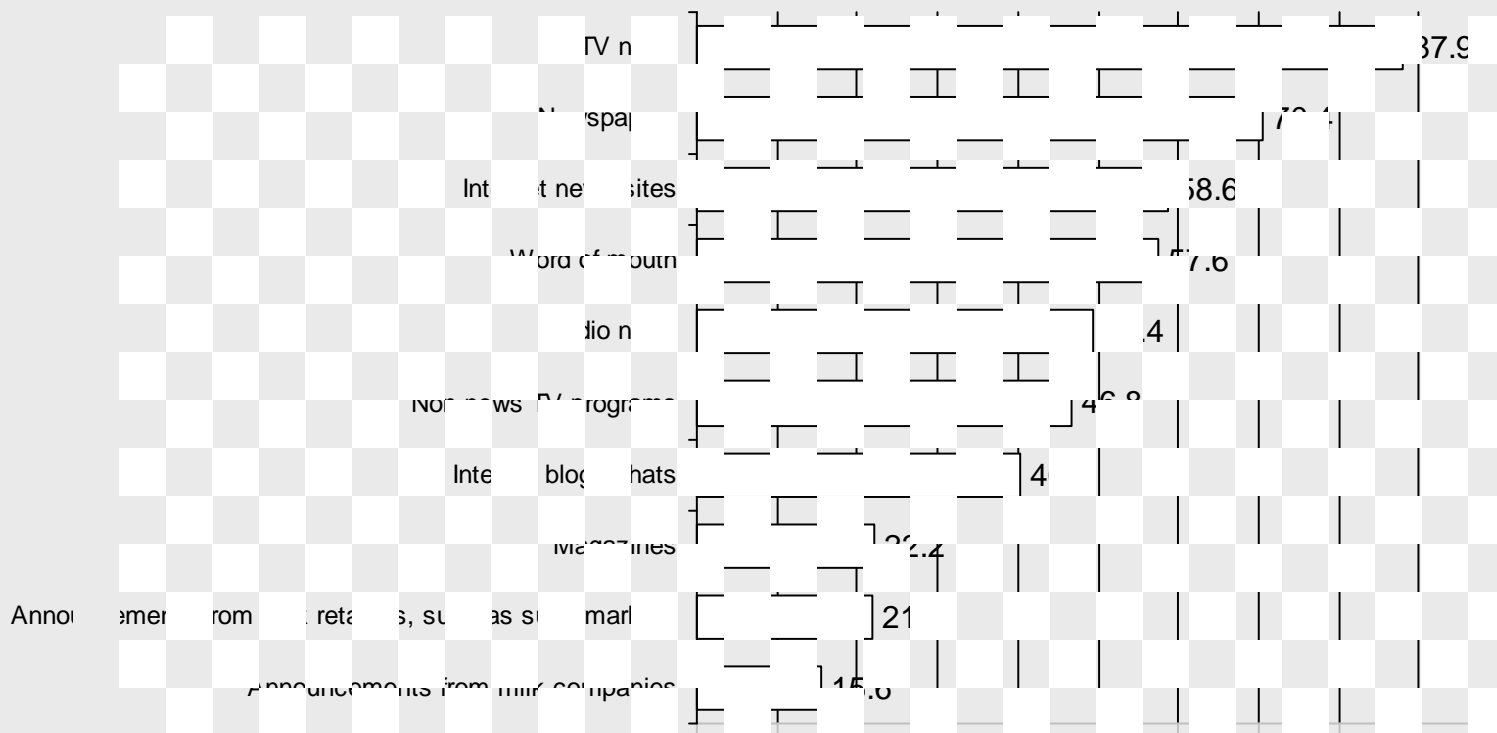
Base: Milk buyers claiming harm or knowing someone harmed

Communication channels

What communication channels were at work?

Most consumers had heard about the melamine scandal through four to five different channels. Of note is the high usage for access to internet news, which is well above the in-home online penetration level of 10-15% indicating much of this news consumption was happening at work.

Channels through which respondents have heard about melamine tainting

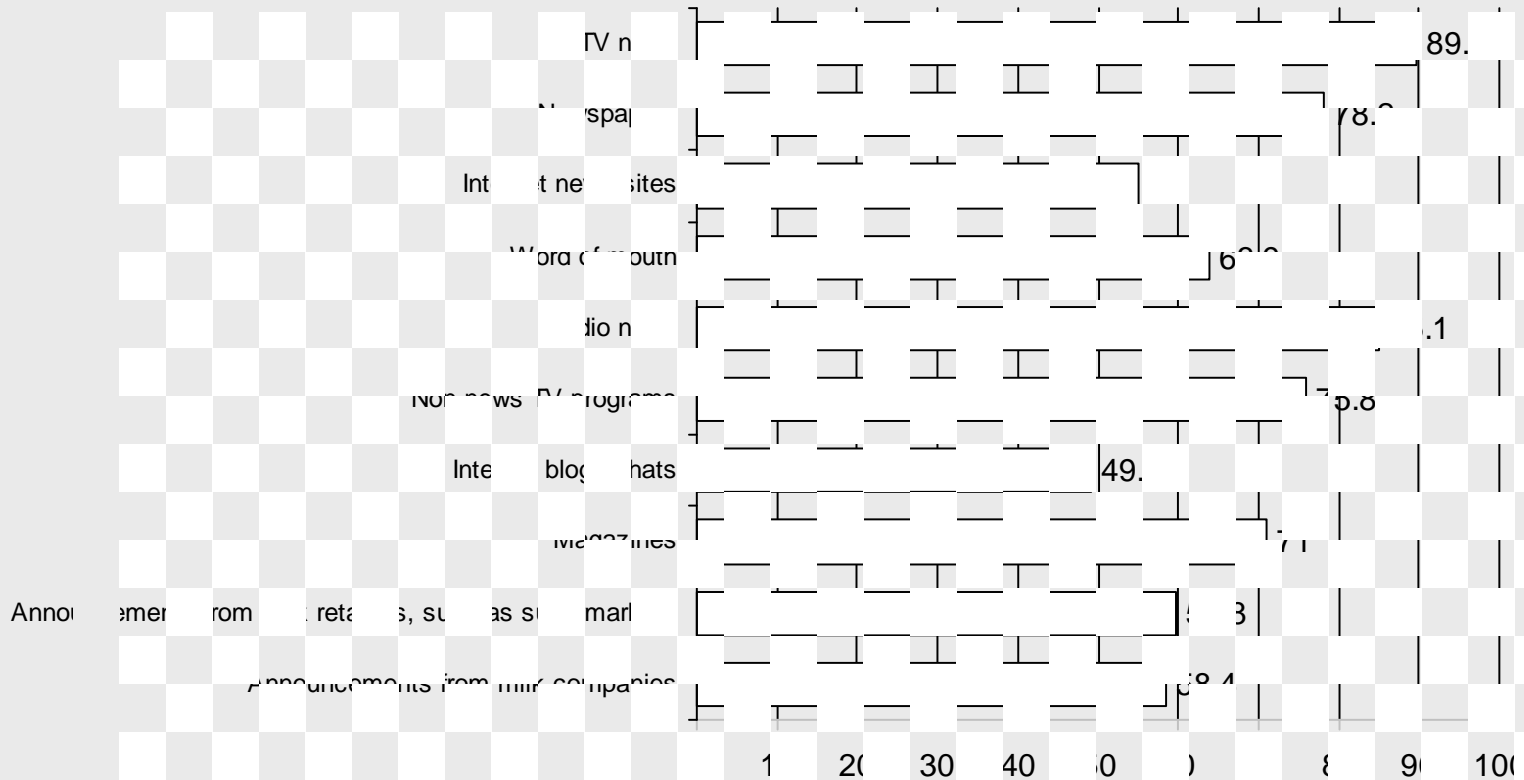


Which of the following channels have you heard about this scandal through?

How much trust do people place in these channels?

Channel trust is generally high, internet being notable for being somewhat less trusted

Levels of trust for each channel



For information about milk product safety, how trustworthy do you think each of those channels have been during this scandal? (4 point scale, percentages denote answers of “completely trustworthy” or “mostly trustworthy”).

Did word of mouth contribute to the spread of knowledge and formation of opinion?

It had a significant contribution. Among those using word-of-mouth (30%), the standard was discussed with 1.2 other people, on average.

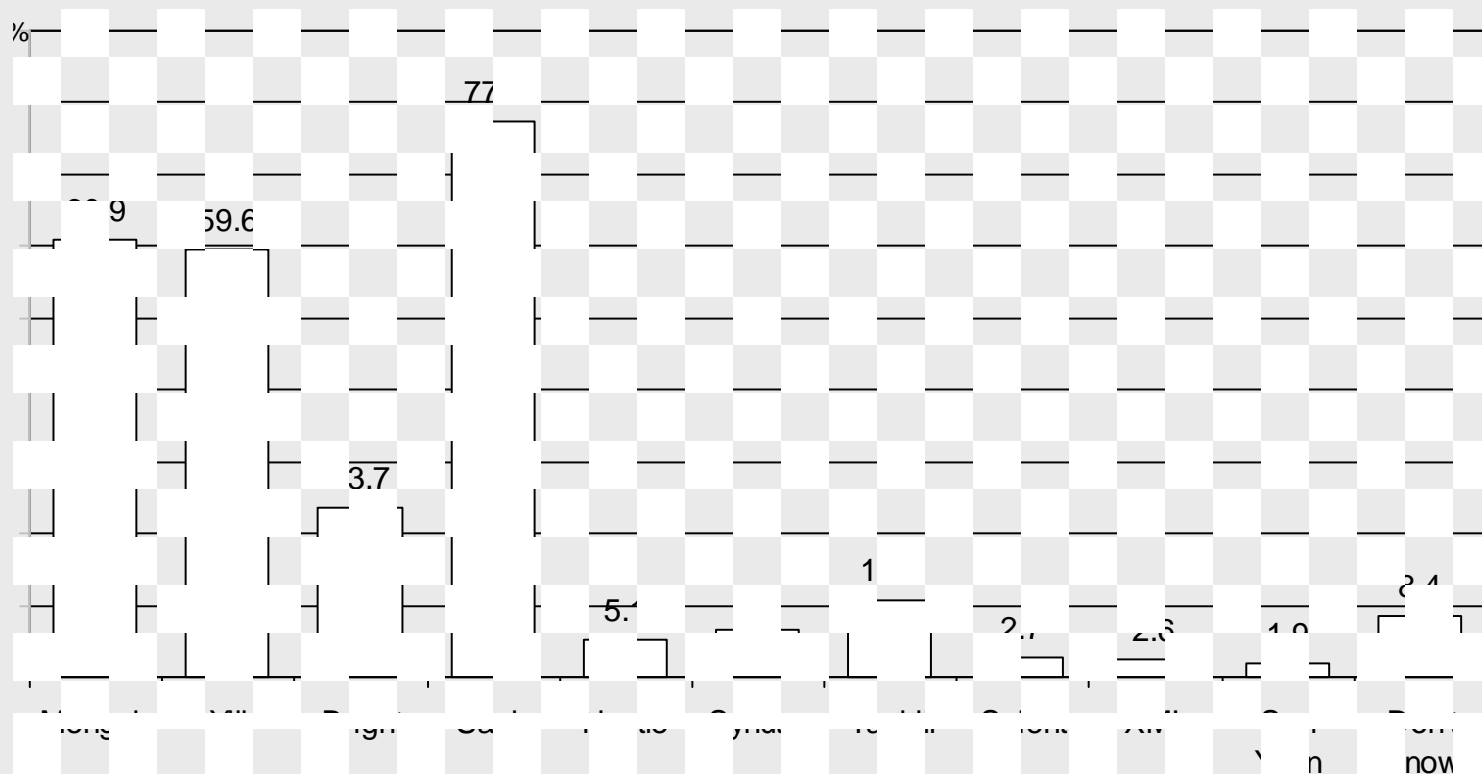
- Compared to average milk buyers, WOM users tend to be:
 - More trusting of: non-news TV programs, internet news, announcements from official and commercial sources
 - They were not like others who are wary of non-government
 - Less trusting of magazines
 - Heavier use of all media
 - Apart from WOM, they viewed the standard through all other media channels vs. 100 channels for non-WOM users
 - More frequent in their activities and work
 - Knowing someone harmed by milk for their own business and health
- How was WOM triggered? (They used all channels but especially)
 - Non-news TV programs
 - WOM users are 3 times more likely than average milk buyers to have used this channel
 - Blogs/Internet chats
 - WOM users are 2.5 times more likely than average milk buyers to have used this channel
 - Magazines
 - WOM users are 3 times more likely than average milk buyers to have used this channel
- But engaging in WOM had little difference in knowledge of better products being tainted.

Impact on brands

Which brands are associated with melamine tainting?

... addition to Sanlu the best advertised brands, if implicated, are quite well remembered

Brands associated with melamine tainting (top ten brands named)

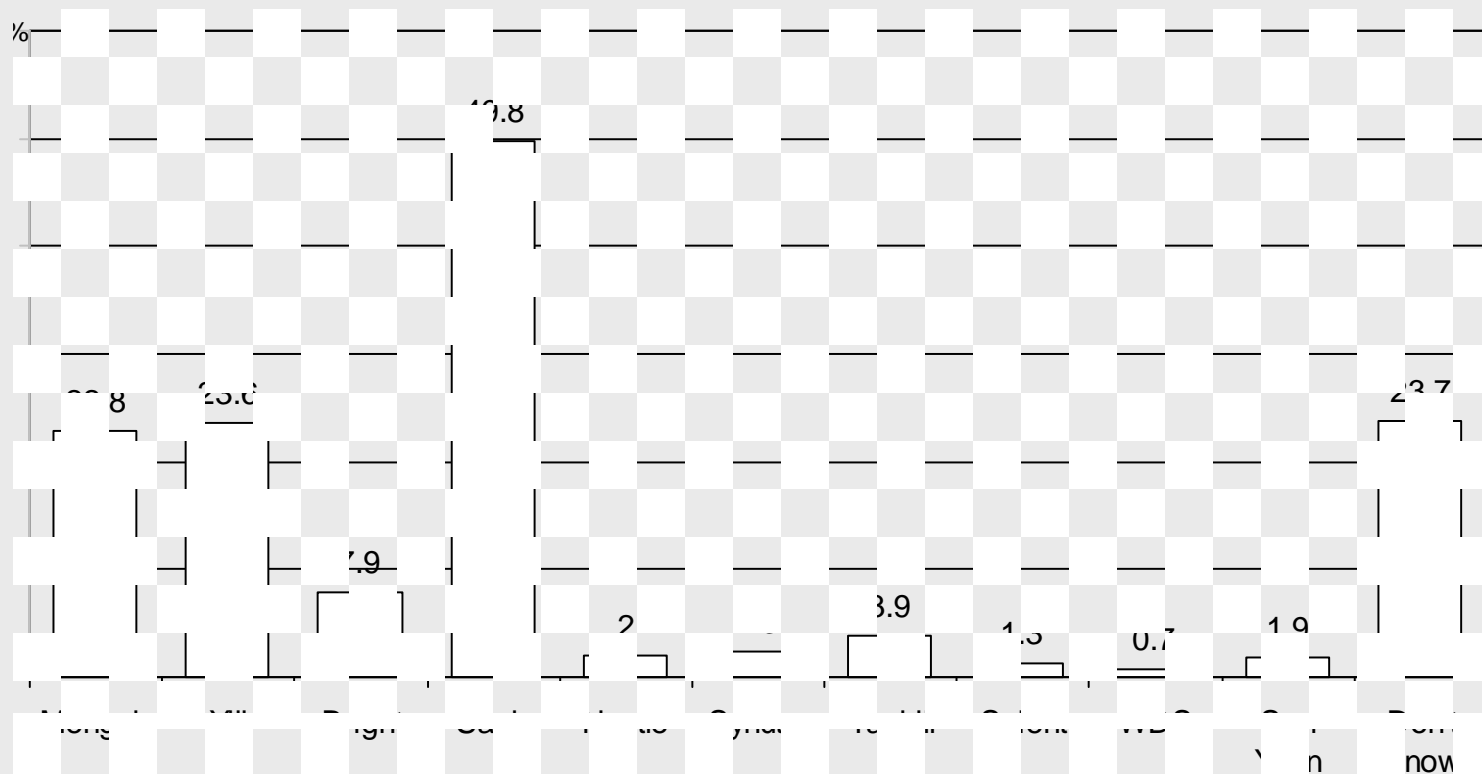


What brands of milk products are you aware of being tainted with melamine?
XML – Xiangmanlou

Which brands will people avoid?

Most people will be very brand specific in what they avoid in future. This national expectation with the aim guide will be resolved and that we are not yet seeing a national try-wide scandal.

Avoidance of brands (top ten brands named)

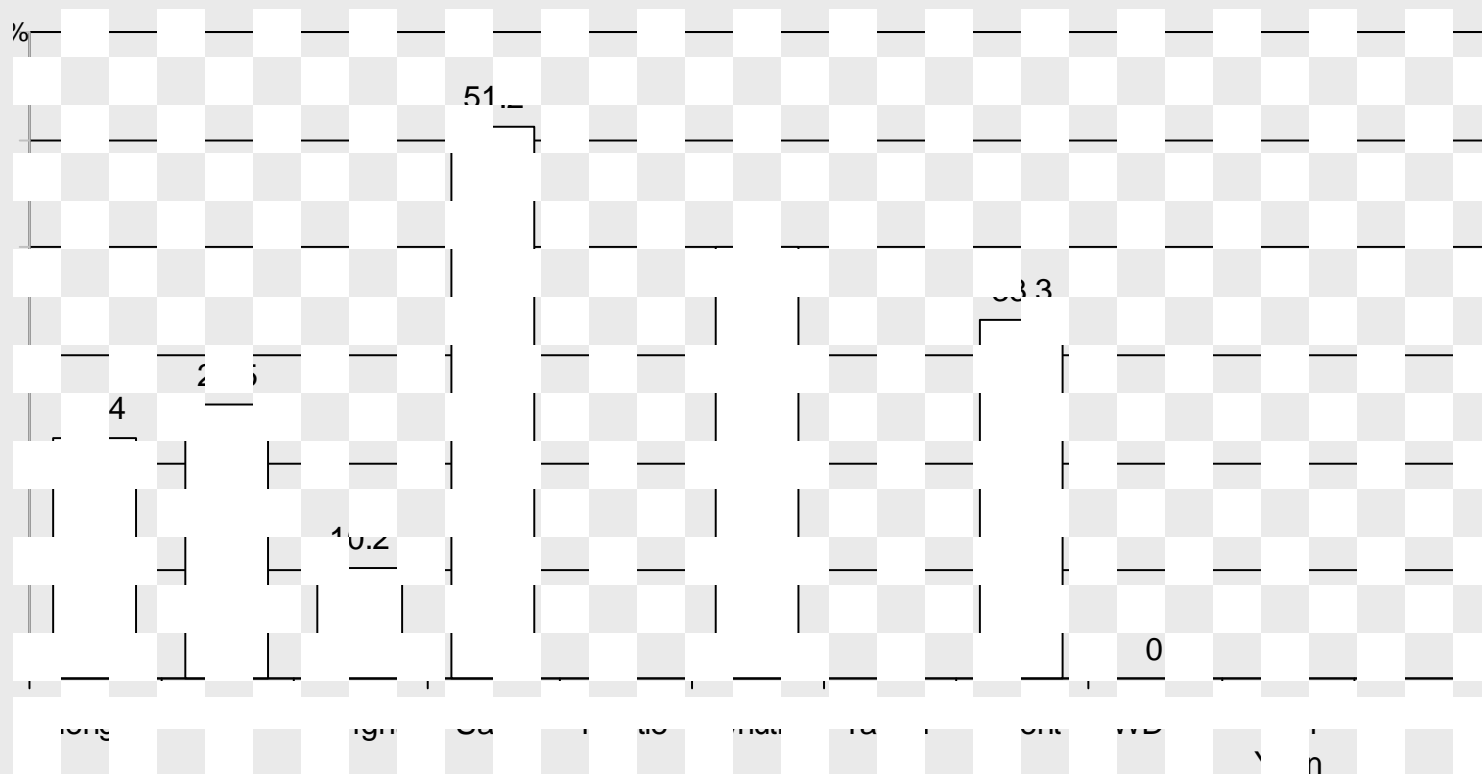


In future which brands of milk products, if any, would you avoid buying?
WDS – Wandashan

Will brand loyalists avoid or stick with their former favorites?

Intention to avoid brands similar among loyalists and buyers in general.

Avoidance of brands by loyalists (top ten brands named)



In future which brands of milk products, if any, would you avoid buying?

WDS – Wandashan

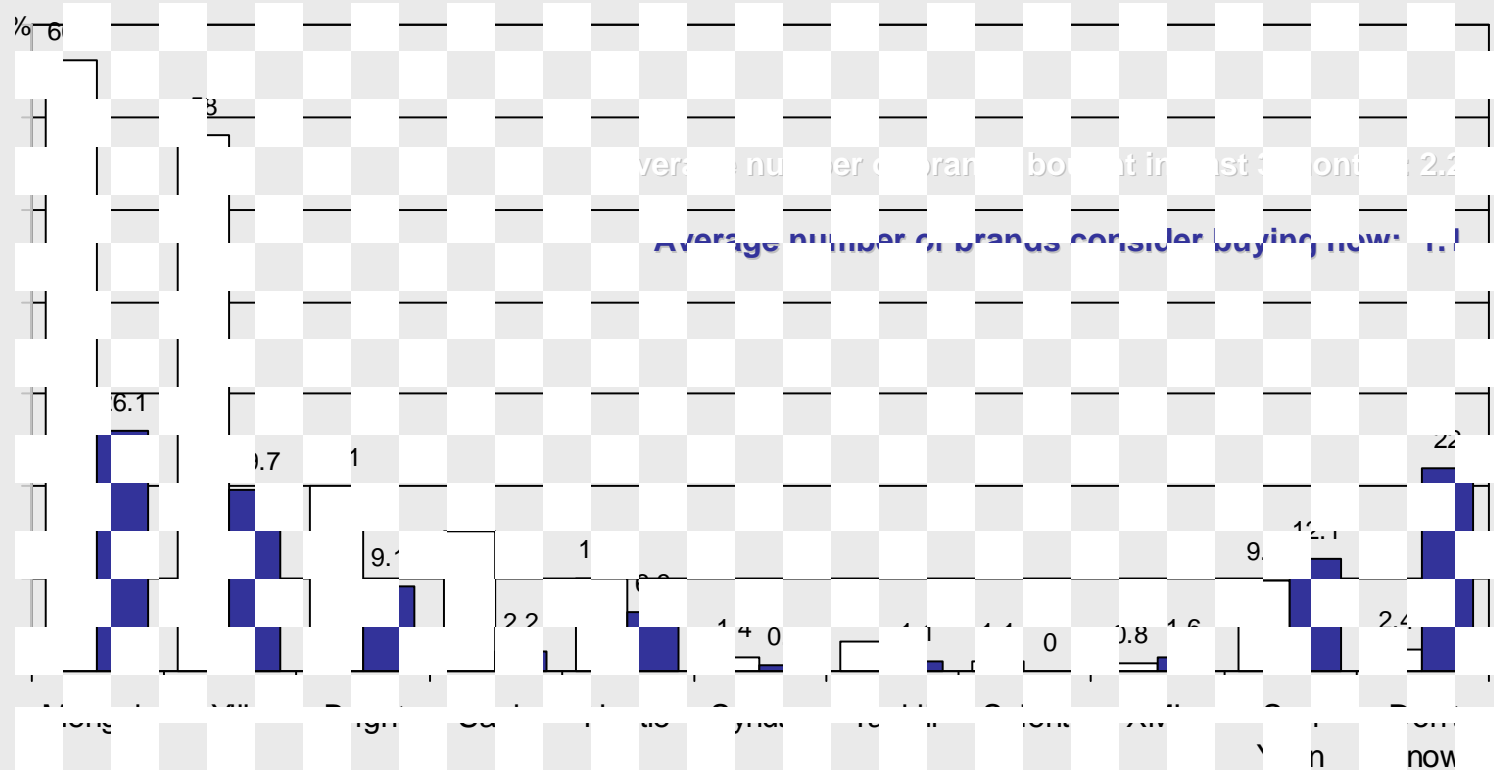
* Small sample base (data for reference only)

Base: Most often buyers of the brand in past 3 months

What is the impact on brand consideration?

All research indicates that consumers are more likely to purchase brands that they have seen in the media. Milk and dairy products are no exception. While the number of brands bought in the last 3 months has increased, the number of brands considered immediately after the Melamine scandal has decreased. Many are still unsure of what brands they will settle on.

Brands bought in the three months and brands considered immediately after the Melamine scandal



In the past three months, which brands of milk products have you ever bought?
Next time you buy milk products which brands would you consider buying?
XML – Xiangmanlou

If people switch brand, where would they go?

Leading brands such as Mengniu manage to retain a portion of loyalists, but significant level of secondary, disenchanted customers provides windfall opportunities for smaller, less talented local brands such as San Yuan.

(NOTE: Interviewing was conducted before Nestle and San Yuan failing was discovered)

Number of former loyalists that would consider other brands (multiple choice)

	59 Bright loyalists	326 Mengniu loyalists	36 Nestle loyalists	84 San Lu loyalists	24 San Yuan loyalists	188 Yi Li loyalists
Among loyalists each brand now considers buying ...						
Bright	7 (Ret: 11.5%)	0	0	0	0	0
Mengniu	20	15 (Ret: 4.6%)	0	0	0	0
Nestle	0	11	17 (Ret: 47.2%)	0	0	0
San Lu	4	3	0	8 (Ret: 9.5%)	0	0
San Yuan	0	12	2	14	12 (Ret: 50%)	0
Yi Li	0	3	3	0	0	5 (Ret: 2.7%)
Other brand	21	1	1	27	5	3
Don't know	0	28	13	0	2	14
Net potential	21	30	14	27	17	18

Next time you buy milk products, which brands will you consider buying? (e.g. Bright: 7/59 = 11.5%)

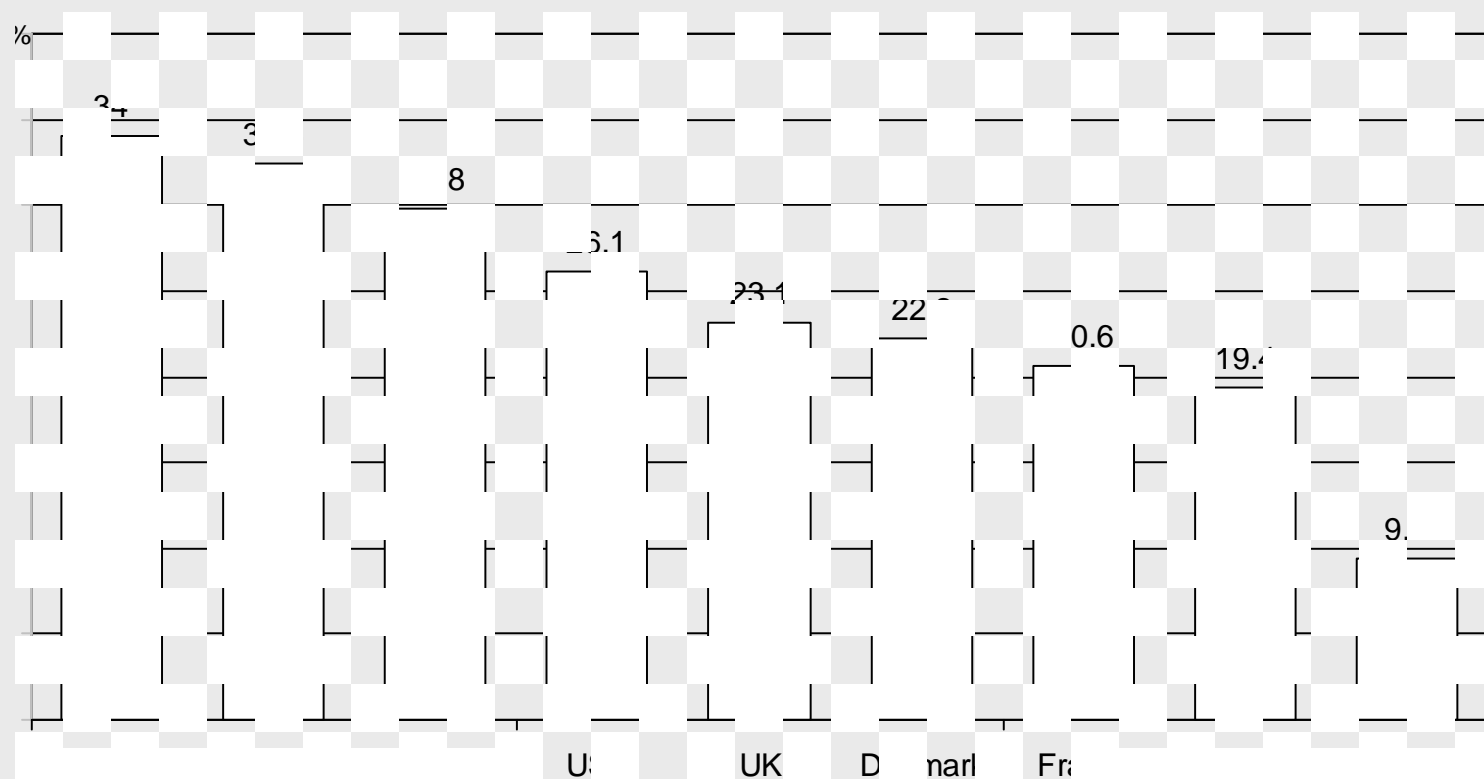
Base: Most often buyers of the brand in past 3 months

Impact on New Zealand and other countries

Are people's impressions of imported milk products favorable compared to China's?

Generally not. Even with the impact of the scandal, China's milk products are still seen by domestic buyers as among the best in the world.

Percentage of milk buyers with positive impression of country's milk products



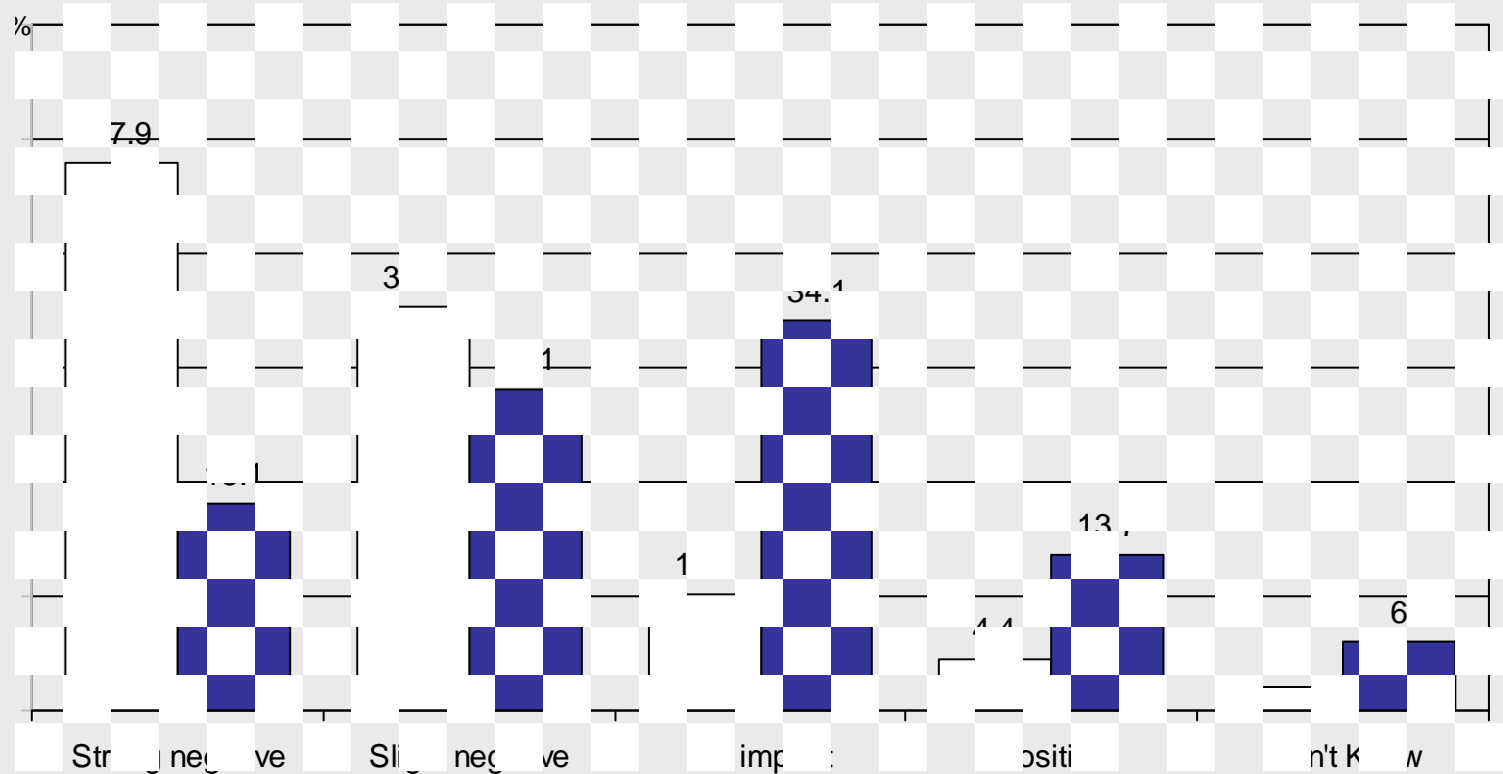
For each of these countries, tell me if you have a positive, neutral or negative impression of that country's milk products

Base: All Milk Buyers

What has been the impact on the image of Chinese and imported milk products?

Eight in ten milk buyers not worse about local milk products. But this does not translate to feeling better about imported milk products: almost half of buyers feel worse about imports too.

Impact of scandal on people's impression of Chinese and imported milk products (self reported)



What impact, if any, has the melamine scandal had on your impression of Chinese milk products in general?
 What impact, if any, has the melamine scandal had on your impression of imported milk products?

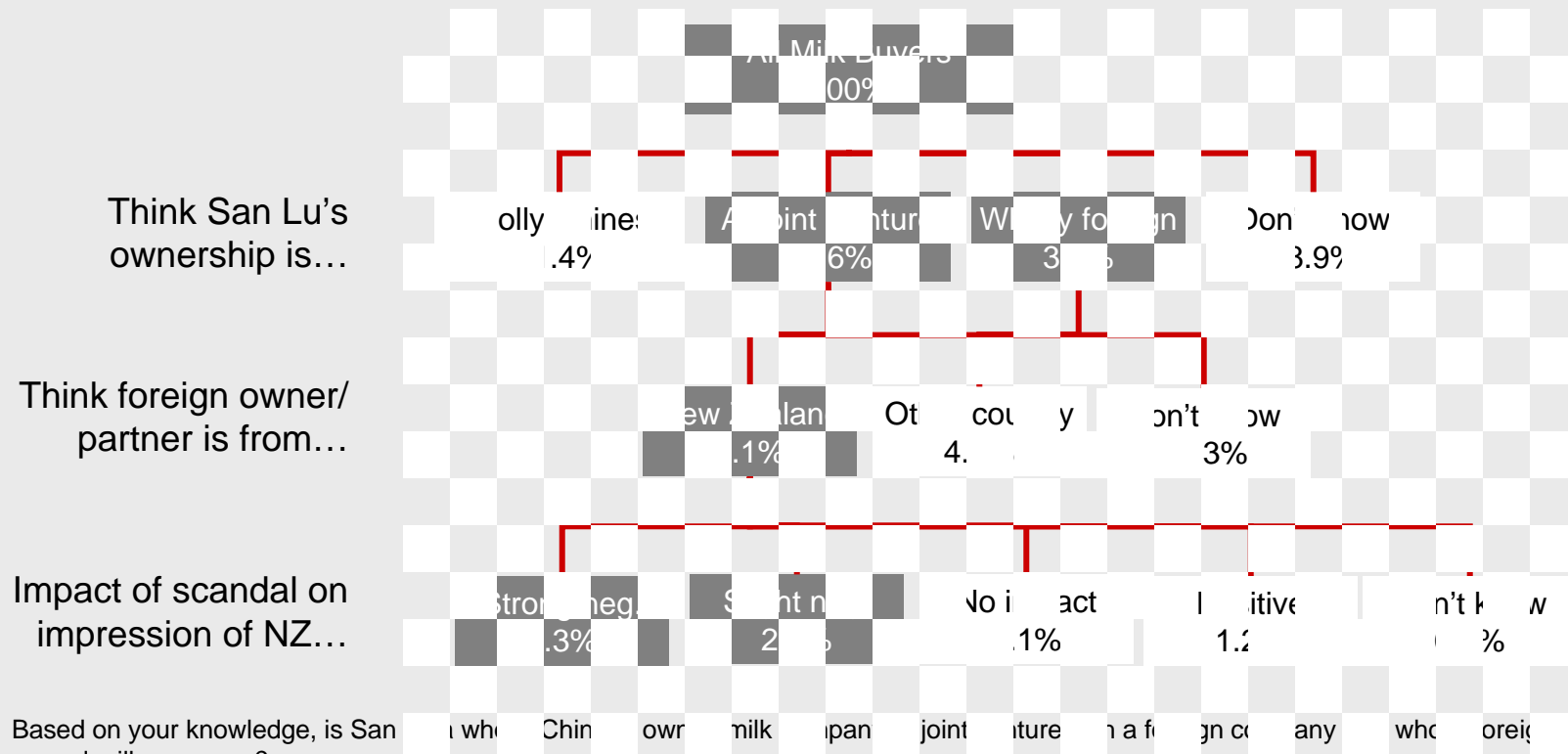
□ Chinese ■ Imports

Base: All Milk Buyers

What is the impact on New Zealand's image?

Quite a bit of awareness of New Zealand's connection to an industry I know: only 9% of people were of an age group, until with a slight sentiment related to the California environmental issues, the New Zealand milk scandal and surrounding public health reports at all directions on New Zealand among only 3% of milk consumers.

Knowledge of New Zealand's connection and impact of scandal on perceptions



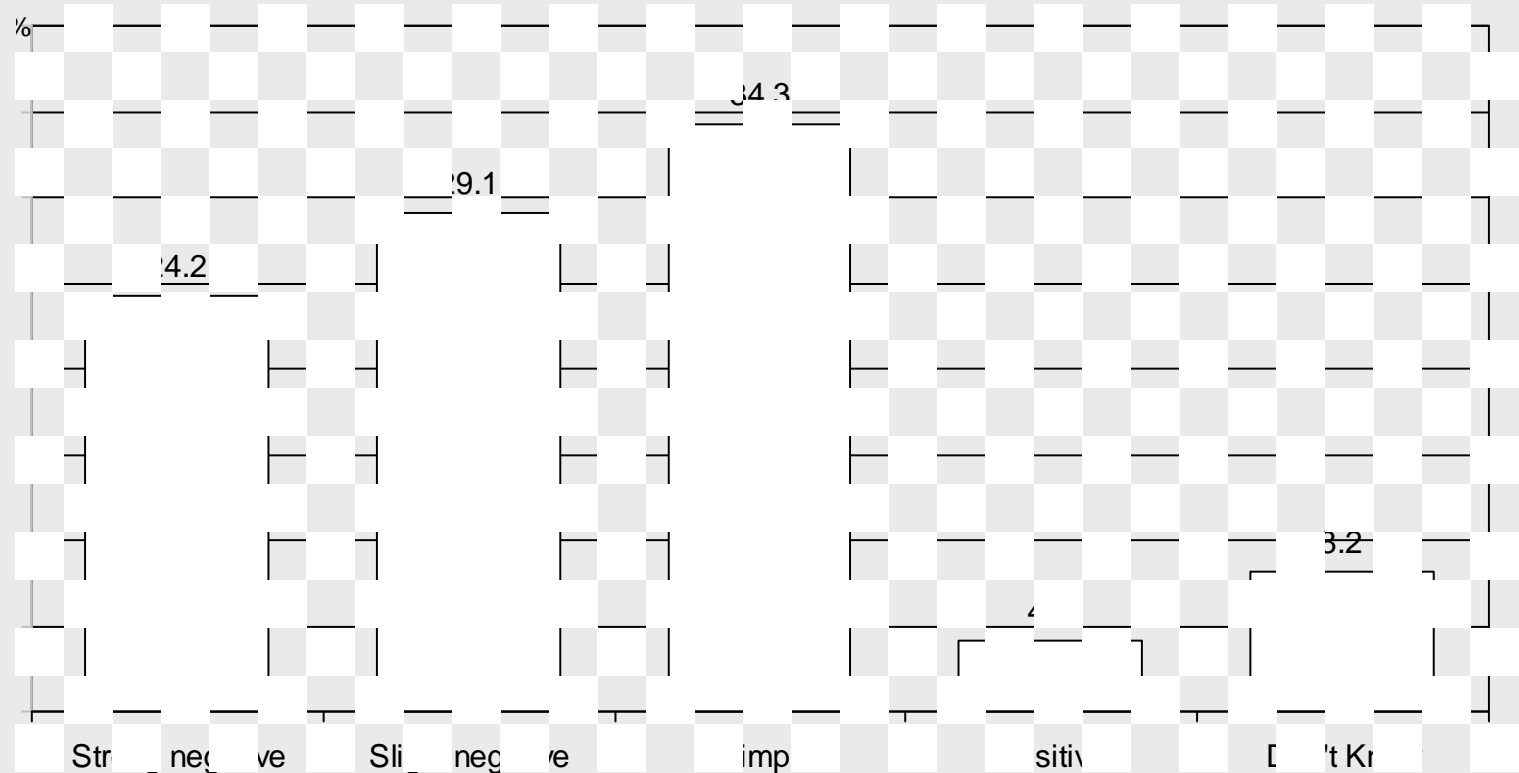
Based on your knowledge, is San Lu a wholly Chinese owned milk company?
 From which country is the company that is investing in San Lu?
 What impact, if any, has the melamine scandal had on your impression of New Zealand as a country? (4-point scale)

Base: All Milk Buyers

How badly could this impact NZ's image?

Most consumers do not know that a New Zealand company is San Lu's partner. When informed of this fact via our interview process, over 50% experience a negative "hurt" feelings towards the country. Clearly, a further disclosure of New Zealand's connection with this scandal should be handled carefully.

Impact of scandal on people's impression of New Zealand as a country (prompted)



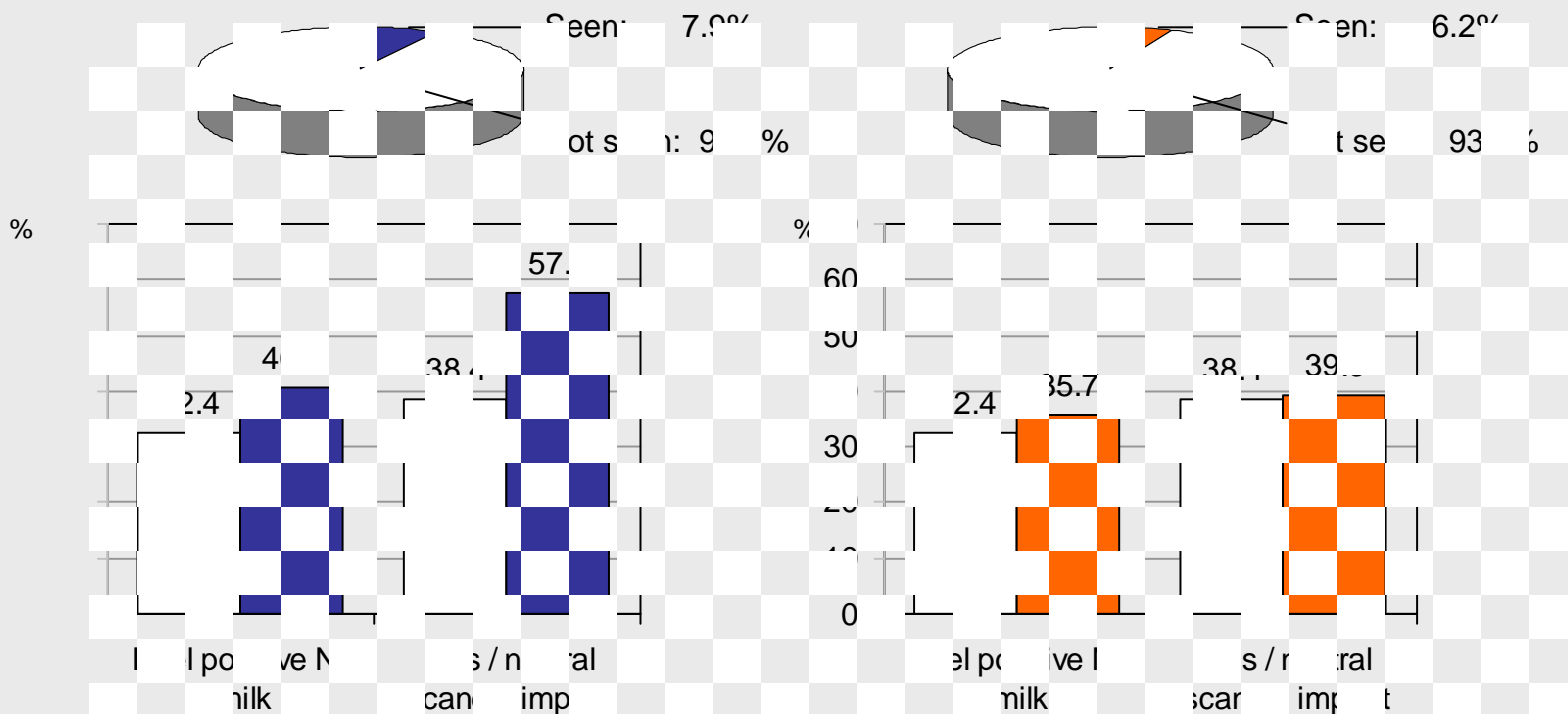
San Lu's foreign investment partner is from New Zealand.
(Knowing this), what impact, if any, has the melamine scandal had on your impression of New Zealand as a country?

Did communications from New Zealand's government and from Fonterra have any impact?

Communications from both entities have largely gone unnoticed. In the case of the former this is unfortunate – those who were exposed to news from the NZ government have left with a much better impression of the country and its milk products. Conversely, news releases from Fonterra have had a negligible effect

Seen or heard news from NZ govt.

Seen or heard news from Fonterra



Have you seen or heard any news releases featuring the NZ government about this melamine scandal?
 Have you seen or heard any news releases from Fonterra, the NZ company which is San Lu's joint venture partner?
 Do you have a positive impression of New Zealand's milk products?
 What impact, if any, has the scandal had on your impression of New Zealand as a country?

□ Average ■ Seen news



Appendices

Official lists of tainted brands

Infant milk powder

Released 16 September

1	三鹿	San Lu
2	熊猫	Panda
3	圣元	Synutra
4	古城	Gucheng
5	英雄	Hero
6	惠民	Hui Min
7	蒙牛	Meng Niu
8	可琪	Kocci
9	雅士利	Yashili
10	南山	Nan Shan
11	齐宁	Qi Ning
13	金必氏	Ginbis
14	施恩	Scient
15	金鼎	Jinding
16	伊利	Yili
17	奥美多	Ausmeadow
18	爱可丁	Eccodin
19	御宝	Yubao
20	磊磊	Lei Lei
21	宝安力	Baoanli
22	聪尔壮	Cong Er Shi

Children's milk powder

Released 30 September

1	三鹿	San Lu
2	培益	Pei Yi
3	宝城	Bao Cheng
4	龙源	Long Yuan
5	南山	Nan Shan
6	龙港	Long Gang
7	明乐	Ming Le
8	宏冠	Hong Guan
9	蒙牛	Meng Niu
10	金元	Jin Yuan
11	光明松鹤	Bright Songhe
12	雅士利	Yashili
13	海河	Hai He
14	福乐	Fu Le
15	伊利	Yili
16	三元	San Yuan

Source: <http://news.sina.com.cn/c/2008-10-01/005316385367.shtml>



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