Introducing MilkCoffee Ltd.

MilkCoffee Ltd. (MilkCoffee) was established in 2000 and is currently one of the fastest-growing chains of coffee houses in South East Asia. Traditional coffee houses in the region are known as kopi-tiams and are owned by individuals, who provide a service to the locality. Despite the popularity of restaurant chains like Starbucks and The Coffee Bean & Tea Leaf in South East Asia, MilkCoffee's business model is to retain aspects of the kopi-tiam. The new style of outlets incorporates the concept of a traditional cafe with a modern feel for being cosy, casual and relaxing. The design is intended to provide a soothing, serene atmosphere.

It took about 8 years for MilkCoffee to overcome the many constraints and really take off. For example, because kopi-tiams are popular among the Chinese community in Malaysia, the Malaysian Muslim majority population doubted the halal status of MilkCoffee's foods and drinks. The brand, however, intends to continue its efforts to maintain margin and improve growth for its cafe chain operations through various initiatives, such as streamlining menu offerings and focusing on building brand loyalty among customers via consistent product quality and customer service. For instance, with the introduction of halal standards and certification in 2004, MilkCoffee has successfully penetrated the Malay market and established a significant presence. MilkCoffee aims to remain focused on strengthening the perception of good value among its Malay consumers.

Nonetheless, MilkCoffee recorded a 1% dip in revenue for the quarter ending 31 December 2017 (Q317), from RM105.95 million to RM104.89 million. Revenue from cafe chain operations amounted to RM45.311 million, a 3% dip compared with the same period the previous year, while manufacturing of beverages saw a 1% increase in revenue, to RM62.87 million. Despite a slight reduction in overall revenue, MilkCoffee will continue to invest in advertising, promotional and marketing activities for the MilkCoffee brand name. Currently, MilkCoffee has more than 200 outlets, 5 distribution centres with logistic facilities, and 3 central food-preparations centers within Malaysia. Internationally, it has established approximately 40 outlets in Thailand, Singapore, Indonesia, and Taiwan.
At its outlets, MilkCoffee offers 50 menus that cumulatively involve more than 650 raw materials. Furthermore, the range of items on its menus is increasing, in line with MilkCoffee’s desire to widen its target market, especially at the international level. Therefore, the numbers of ingredients and raw materials are also expected to increase. In addition, MilkCoffee also exports its instant beverages to more than 14 countries worldwide as part of its growth strategy (expanding its export market and widening its product portfolio).

MilkCoffee focuses on product quality, deeper understanding of consumers’ insights, bringing new products and innovations to market and effectively meeting consumers’ needs and preferences. In conjunction with this, MilkCoffee is constantly alert to issues concerning the safety and quality of the products it offers. The company has high quality and safety standards (exceeding regulatory requirements) for its raw materials, production, food handling and servicing, and distribution. This allows MilkCoffee to offer its customers products of the best quality, safety and taste, which is the key to success in the food industry. MilkCoffee has recorded tremendous business growth, but has acknowledged that keeping up with the evolution of the food industry has been more difficult. The food industry, especially in relation to supply chains and product recalls, has passed through several phases in recent years and has become more complex and challenging, as reviewed below.

The Nature of the Food Supply Chain

Prior to the era of globalization, tracking food movement was easy, as supply chains were generally short and simple (Ali and Suleiman, 2018). The sourcing and movement of raw ingredients were predominantly localized, with the objective of ensuring the food security of a certain geographical area. Food businesses were mostly independent local firms, which limited food miles and resulted in good visibility for the control of the movement of food along the supply chain. The absence of the more efficient technological infrastructure available today did restrict the distribution of the product to nearby markets, but this again served to shorten the supply chain and make it more controllable. In that era, the food trade was characterized by trust and direct interactions between buyers and suppliers, and any issues regarding product quality or safety could be easily mitigated. Moreover, the smaller number of firms in the supply chain minimized the risk of the supply chain being opportunistically exploited or the shared values and trust between firms being violated. There was an expectation that the partners in the supply chain were capable of performing the tasks expected, and there was transparency in the business of food manufacture (Roth et al., 2008).

Today, the food supply chain has become more complex (Ali et al., 2017). Globalization has resulted in bigger market opportunities, and this has had significant impacts on the food industry. First, foods now travel thousands of miles. For example, coffee that has been grown in Brazil may be consumed in the Middle East; dairy products from New Zealand may be consumed in South East Asia. Second, food production is now a mass volume business. Third, the food industry is characterized by long lead times, as the growing and raising of the raw materials (crop and animal products) require a significant period. This means that mismatches between supply and demand become more likely, with the consequent risks of overproduction, higher inventory or shortages. Fourth, the distribution of foods involves more players in the supply chain, which in turn increases the chances of a defined hazard occurring. Such occurrences have led to significant losses for food firms.

The above situation has made product movement more difficult to track. Although there are mechanisms in place, such as labels on packaging, to facilitate product recalls, the complex supply chain network has made the task daunting. The weak links in multi-tier sourcing (for instance where higher-tier suppliers outsource to sub-suppliers) can be one of the major issues for product tracking (Lyles et al., 2008; Zailani et al., 2010). In many food-related scandals featuring product recalls, the long and wide supply chain (with multiple products used for production) has been a real challenge (Grimm et al., 2014). The current typical globalized food supply chain is complex and does not necessarily meet the heterogeneous demands of end consumers for safe and quality food. Therefore, all partners in the supply chain are forced to uphold their responsibilities to meet these demands (Chen et al., 2014).

Food Safety, Quality and Integrity

Consumer concern has increased due to the infamous 2014 horsemeat scandal in the UK and other European countries, when horsemeat was detected in meat burgers that were claimed to be pure beef (horse is rarely consumed in Britain and Ireland because of a widespread reverence for the animal) (Premanandh, 2013). Although contaminated products were removed from the marketplace, consumer trust in food integrity was severely dented. Exacerbating the situation, the scandal involved a product that had been certified by a quality assurance system.

In fact, food firms currently have to adhere to many general quality assurance systems globally, including: Good Manufacturing Practices (GMPs), Good Agricultural Practices (GAPs), Good Hygienic Practices (GHPs), and Hazard Analysis and Critical Control Point (HACCP) (Van Der Spiegel et al., 2003). In addition, the food industry also has to meet specific dietary requirements during production. For example, Halal, Kosher, Organic and Vegetarian standards have to be met by firms to sell to the relevant groups of consumers (Tan et al., 2017). This extends safety and quality concerns to what is termed ‘integrity’ in meeting such standards, which are intended to ensure that ‘acceptably-produced’ food products are available to consumers.

Since consumer demands have widened to include not only food safety and quality but also integrity, the landscape of the food industry has changed. Due to the failure to ascribe responsibility to specific parties in the horsemeat scandal, governance of the
supply chain is more important than ever, as the quality, safety and integrity of food products are no longer the concern of focal firms alone (i.e. brand owners) but of the complete supply chain: suppliers, manufacturers, retailers, caterers and consumers. All of these players in the supply chain are expected to play their part.

Moreover, assurance processes are complicated when (as is often the case) a food’s constituents are not physically separable (the flour, the sugar and egg, say, in a cake). In these circumstances, recalling and replacing some parts of the product is simply not possible. In addition, the use of independent inspection and certification to determine the safety, quality and integrity of a food involves significant investment. Since the food industry is dominated by small and medium-sized firms, these mechanisms are often omitted, since they do not provide any tangible returns to the firm.

More widely, it can be argued that total dependence on the GMPs, GAPs, HACCP systems may be flawed (Powell et al., 2013). The argument is strengthened by the fact that many cases of food recall in recent years have involved products that had been certified (Maruchek et al., 2011). Exacerbating this, there is a widespread assumption throughout the food industry that the status quo is satisfactory until complaints and feedback from consumers and customers suggest otherwise.

Following the current market trend and supply chain situation, MilkCoffee has obtained many certifications, allowing the firm to showcase its commitment to high safety, quality and integrity standards. MilkCoffee is also committed to the continuous improvement of its governance of the supply chain, to convey the idea that the brand can be trusted. These commitments are reflected in all the company’s activities and its governance of each level of the supply chain.

Being one of the leaders of the kopi-tiam market in Malaysia, MilkCoffee has developed its own product menu, to offer the best products to consumers. The menu emphasizes originality, but this means that the quality, safety, integrity and taste of the foods offered all need to be established by MilkCoffee. Maintaining the consistency of raw ingredients is difficult, especially when it involves many suppliers. On the other hand, it would be too expensive or even impossible to source all ingredients and materials on its own, or from single suppliers. Therefore, the company needs to ensure that it partners with only the best suppliers. However, given the dominance of small and medium-sized enterprises in the food industry, finding a stable certified supplier is a daunting task (Bourlakis et al., 2014). Moreover, high dependency on a few selected reputable suppliers may greatly increase the price of MilkCoffee’s products. While some consumers are willing to spend more to ensure they get food that is safe with quality and integrity, this may involve a substantial outlay (Grunert, 2005). For firms, the decision to invest in meeting various food standards can be difficult because it involves non-tangible benefits to consumers (Caswell et al., 1998). MilkCoffee has taken a decision to reduce any risk of product recalls or withdrawals. Additional actions, such as extensive internal audits of all its supply chain members, are further evidence of MilkCoffee’s desire to provide high-quality, safe food to its consumers.

**Product Recall Strategies**

With regard to food product safety, quality and integrity, MilkCoffee is customer-oriented; therefore, it has chosen to increase its control over its supply chain and has committed itself to own some of the critical points of production, as it believes that its own governance system represents the most efficient control mechanism. MilkCoffee has thus decided to concentrate on product development using its own products. This, according to the top management, is a simplification of the supply chain. The control of material flow within the supply chain is in fact being centralized. Indeed, the company’s own governance of the supply chain has become the ideal solution. The supply chain model of MilkCoffee is illustrated in Fig. 1.

The role of MilkCoffee’s central kitchens is to produce the core ingredients of most of its end products. The four distribution centres, which are the cornerstone of the distribution network in Malaysia, are all owned by MilkCoffee. Each distribution centre serves as the logistics hub for materials flow to the appointed outlets, according to geographical location. Delivery is every 3 days. MilkCoffee also owns many types of transport, such as trucks and vans, and does not use third-party logistic companies to distribute materials to its outlets.

Despite MilkCoffee having governance of its supply chain, there have still been many instances when MilkCoffee has had to recall its products. In order to ensure that all products are safe and appropriate for different consumer groups (e.g. halal foods), any product associated with any sort of threat will be removed as quickly as possible from the marketplace. The top management of MilkCoffee will not compromise and will take immediate action at any points where foods are exposed to the risk of: (1) microbial contamination, (2) fraudulent labelling, (3) foreign matter in food, (4) chemical contamination, (5) undeclared allergens, (6) biotoxins, (7) tampering, or (8) violation of dietary requirements.

**Product Recall Process**

Consumers may ask to return a product if it is found to have defects or to expose consumers to risk. As part of the commitment to serve the customers well, companies may adopt the product recall process (Shaharudin et al., 2015). Most recalls are voluntary, although there are several cases of involuntary recall, where a federal government ministry or other agency instructs a company to perform a mandatory recall, especially where a serious product defect imposes a significant risk to consumers. MilkCoffee has had to deal only with voluntarily recalls of a product. In all cases, MilkCoffee top management requires the product to be removed from its outlets and supply chain within 12 days. Fig. 2 shows the general product recall process for MilkCoffee.
Figure 1  Simplified supply chain for MilkCoffee.

Figure 2  Product recall process.
The process starts when complaints or feedback from either a member of the supply chain or consumers are received. MilkCoffee top management is committed to treat seriously (and as equal in importance) all forms of complaints, internal findings, or laboratory reports, be they formal or informal. This is because, in the current era of social media, consumers tend to put feedback on the internet rather than lodging a formal complaint with the food producer/brand owner. In this context, complaints (on any issues) that are supplemented by a picture are the strongest type of evidence.

Then, the quality assurance department and its ad-hoc committee will start an investigation. Since the food industry is prone to speculation, any further decision on the issue needs to be backed by a thorough investigation. In other words, the complaints need to be confirmed. If an issue is identified, it is necessary to see whether it has affected only the place of origin of the complaints or whether it affects the whole supply chain. Countermeasures may need to be taken. MilkCoffee top management believes that involving responsible suppliers is also important whenever a product recall is required. Information about the product recall needs to be disseminated to all parties involved (internal and external). The recalled product will be acquired from MilkCoffee’s outlets. Collecting the product may involve all respective actors in the supply chain, i.e. the distribution centre, outlets and consumers, which will determine the extent of returns flow operations in the reverse supply chain (Shaharudin et al., 2017). At this stage, the tracking data (i.e., product batch number, expiry date, distribution list) are crucial to determine the exact items to be recalled. The lack of such data would make a recall inefficient and expensive. Because it owns the transportation and logistics infrastructure it uses, MilkCoffee can optimize a product recall by collecting items at the distribution centres during the process of product delivery. The returned goods will then be kept separately in the distribution centre and await confirmation from the investigation team as to whether they need to be disposed of, or can be put back on sale. What is most important is that the information on the product recall needs to be provided to the initiator of the complaints or feedback, especially when it came from a consumer.

Convinced that the application of the product recall system is effective in the local market in Malaysia (i.e. Samosa in July 2016 and Lai Fun – Chinese noodles in February 2017), MilkCoffee’s directorate decided to improve its product recall system, to take it to a global scale, due to the expansion of MilkCoffee into neighbouring countries. It therefore, needed to develop a product recall strategy based on international requirements. An important element is a flowchart that describes a complaint/condition evaluation and product recall. In addition, a recall procedure needs to be established outlining the activities MilkCoffee will have to undertake and manage. The development of the product recall process needs to take account of the complexity of the globalized supply chain.

Questions

1. Identify supply chain problems that may pose a risk to an efficient product recall. Suggest how to mitigate the risk (e.g. a technological approach, redesigning the supply chain).
2. Develop a product recall procedure for MilkCoffee’s international trade. Remember to take into account international and regional requirements. For regional requirements, you may choose any countries.
3. Draw a flowchart that shows: (1) complaint/condition evaluation, and (2) product recall. Remember to incorporate a time frame, relevant documents and responsible persons.

References

Further Reading