

# ***Research on Corporate Public Relations Strategies in Major Product Quality Crises: A Case Study of Nestlé's 2008 Infant Formula Incident***

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**Abstract.** In 2008, Nestlé faced a major public relations crisis due to the quality of its infant milk powder. This crisis prompted the public to question the safety of its products and the company's corporate responsibility. This paper takes the Nestlé incident as an example to explore the public relations strategies of companies when facing a major product - quality crisis. It is found that in the early stages of the crisis, Nestlé's slow response and lack of transparency led to a worsening of public opinion. In the later stages, Nestlé gradually regained its reputation by recalling its products, publicly apologizing, strengthening its quality supervision, and implementing other measures. This paper analyzes the successes and failures of corporate response strategies in this incident and suggests improvements: companies should respond quickly to crises, take responsibility, be transparent, and rebuild trust through long-term actions. The study's conclusions are useful for the food industry and other enterprises facing similar crises, emphasizing that crisis PR hinges on balancing safeguarding consumers' rights and interests with corporate social responsibility.

**Keywords:** crisis public relations, Nestle, online public opinion, enterprise, product quality

## **1. Introduction**

Product quality crises pose significant challenges to corporate operations, with the potential to severely damage corporate reputation and consumer trust. In such contexts, crisis public relations becomes critically important, referring to a series of planned public relations actions implemented by enterprises when facing crises [1]. The 2008 Nestlé infant formula incident serves as a representative case study, where product safety concerns triggered global attention and exposed multiple deficiencies in multinational corporations' crisis response mechanisms. Nestlé's initial slow response and lack of transparency in information aggravated public criticism. Subsequently, it gradually restored its corporate image by taking remedial measures such as product recalls and making public apologies.

This paper examines corporate public relations strategies during major product quality crises through an in-depth analysis of Nestlé's case. The study systematically applies Hofstede's cultural dimensions theory [2] and institutional theory [3] to crisis management, revealing the inherent

contradictions in multinational corporations' "glocalization" strategy imbalance, thereby enriching crisis communication theory with cross-cultural perspectives.

From a practical standpoint, although China's food safety standards have progressively improved since the 2008 melamine scandal, corporate crisis response capabilities remain lagging. Integrating signaling theory [4] and stakeholder theory [5], this research proposes actionable recommendations for food enterprises to establish a comprehensive "prevention-response-recovery" full-cycle management system. The findings also demonstrate universal applicability to other industries (e.g., pharmaceuticals, FMCG) facing product quality crises.

## 2. Nestle 2008 infant formula case

### 2.1. Company introduction

Mr. Henri Nestle launched the baby food Farine Lactee in 1867, and continued with the "Nescafe" brand in 1938. 9 years later, Maggi joined the Nestlé family. In 1986, Nestlé developed the breakthrough brand - Espresso, which changed the way of tasting premium coffee. In 2001, through continuous development, Nestlé acquired Purina, an American pet food business. And in 2011, the Nestlé 2008 Infant Formula Case was established. Nestlé's continuous development led to the acquisition of Purina, a pet food business in the U.S. In 2001, Nestlé acquired the U.S. pet food business, and in 2011, established the Nestlé Health Science Group, further consolidating its leadership position in the field of nutrition, health, and well-being [6]. Nestlé is firmly established in the global food and beverage industry with its 100-year history, diversified brand layout, investment in technological innovation, and globalized supply chain management. Nestlé is a leader in the global food and beverage industry.

### 2.2. Case review

#### 2.2.1. Causes of the crisis

In June 2008, cases of kidney stones in infants and young children began appearing in Gansu. In early August, the Sanlu Group discovered abnormalities in its milk powder through internal testing, but did not disclose them. In mid-August, New Zealand's Fonterra Group warned the Chinese government. Nestlé, a foreign brand with a 12% market share in China according to ACNielsen, used a mixed supply model of "global standard + local milk sources," and some of the fresh milk used in its North China factories came from problematic milk sources. On September 11, the Oriental Morning Post in Shanghai exposed Sanlu's problematic milk powder, prompting the state to initiate a nationwide special inspection of infant and toddler milk powders.

#### 2.2.2. Process

At 22:00 on September 16, 2008, CCTV's "News Broadcast" announced the results of the sampling, Nestle's "Growth 1+" milk powder was detected with 1.2mg/kg of melamine, which was lower than China's limit of 1mg/kg at that time, but exceeded the European Union's standard of 0.5mg/kg by 2.4 times, and 1.2 times of the U.S. FDA's standard of 1 ppm. 08:00 on September 17, 2008, the first statement was released on the official website of Nestle China[7]. Nestle China released its first statement[7]: emphasizing that "all products comply with Chinese laws and regulations" without mentioning the difference between international standards, refused to recall, only promised to "strengthen monitoring", the consumer service hotline has been blown up to 83% occupancy

rate. September 18, Hong Kong Center for Food Safety detected the same product containing 0.8mg/kg melamine Walmart and other supermarkets to start independent shelves. September 20, Beijing consumers to launch a class action lawsuit, Nestle shares fell on the Swiss exchange, and the stock of the company fell on the Swiss exchange. On September 22, Nestle was forced to launch a "limited recall", i.e., only specific batches of products produced from January to August 2008 were recalled, and complete shopping vouchers were required to be provided, and the compensation program was only "exchange of goods of equal value".

### 2.2.3. Response strategies and results

On October 3, 2008, CCTV's Weekly Quality Report found that the products in question were still being sold in some counties and cities. Dealers claimed that they had not received clear instructions to remove the products from the shelves. On October 15 of that year, CEO Paul Bokai insisted in an interview with CCTV that "the products are safe and secure," admitted that "communication needs to be improved," and avoided the issue of differences in standards. Netizens rated this response as "the worst crisis PR." In late October, third-party tests showed that the return rate of Nestlé milk powder in the Beijing market had reached 37%, and sales at mom-and-pop stores in first-tier cities had declined by 52%.

On November 5, Nestlé announced plans to invest 320 million yuan to build a quality monitoring center in Tianjin and launched an "open factory" program to allow consumers to visit the factory. On November 20, Nestlé reorganized the management of the Greater China region and hired a former Ministry of Health expert to serve as a food safety consultant. In December, Nestlé entered into a strategic partnership with Fonterra in New Zealand and shut down two factories in northern China to rebuild them. The company organized a safety seminar with Chinese and foreign nutritionists and published a research paper on dairy safety in China in *The Lancet*. As part of the consumer compensation plan, Nestlé established a special hotline to deal with inquiries and offer free medical examinations. However, no compensation fund was set up.

In 2009, Nestlé carried out the "Dairy Breeding Community" project to directly control milk sources and introduced a gas chromatography - mass spectrometry (GC - MS) instrument to enhance detection accuracy.

## 3. Analysis of enterprise response strategies

### 3.1. Effect of the strategy

Nestlé's short-term impact on market performance: - 2008 Q4: Milk powder sales in China declined by 18% statistically. In 2009Q2, sales recovered to the pre-crisis level of 90%. The Super Nutrient series became a top three cross-border e-commerce product in 2015. Brand reputation dropped 23 percentage points during the month of the crisis (CTR Research). A 2012 third-party survey showed that high-end customer loyalty recovered to 82%. Not only did Nestlé promote the establishment of a "supplier blacklist" system, but it also facilitated the application of the EU standard testing system in Chinese factories.

### 3.2. Strategy analysis

From an economic perspective, Nestlé's crisis response strategy reflects the core logic of reputational capital theory. According to this theory, a company's market value depends not only on income from its assets but also on the "intangible capital" it has accumulated through its social

reputation. In the later stage of the crisis, Nestlé took measures to effectively restore its reputational capital. For instance, in 2008, it invested 320 million yuan in the construction of the Tianjin Quality Monitoring Center and introduced gas chromatography - mass spectrometry (GC - MS) instruments to improve testing accuracy. This initiative aligns with signaling theory, whereby a company sends a signal of "credible quality" to the market through high-cost investments to offset consumer doubts due to asymmetric information. Spence's seminal work defines signaling as: "activities by which an individual credibly communicates some attribute about himself to others" [4]. A year later, the company implemented the "Dairy Farming Community" program to control milk sources directly and reduce the risk of intermediate links. This aligns with Williamson's economics of transaction costs, which aims to reduce uncertainty in the external supply chain and improve quality control through vertical integration. In 2010, the company launched the "1,000 Days of Early Life" nutrition education program, named after an international pediatric medical conference. These actions align with stakeholder theory [5] and rebuild social legitimacy by meeting the demands of consumers, healthcare organizations, and so on. Freeman's stakeholder theory asserts: "The organization must balance competing stakeholder interests" [5]. A third-party survey in 2012 showed that Nestlé's high-end customer loyalty had been restored to 82%. In 2015, the Ultra Nutrient series became one of the top three products in cross-border e-commerce, confirming the effectiveness of the long-term reputational repair strategy.

However, Nestlé's initial crisis response revealed multiple theoretical deficiencies. Consistent with Akerlof's Lemon Market Theory, the company's information withholding triggered consumer presumption of universal product defects, precipitating market contraction. Nestlé's September 17, 2008 statement merely asserted "compliance with Chinese standards," conspicuously avoiding international standard disparities - an omission that exacerbated consumer suspicions of "dual standards" and precipitated brand trust erosion. This response violated fundamental crisis communication principles. Xu's "Golden 24-Hour Rule" underscores the critical importance of immediate response, yet Nestlé delayed remedial action for five days before initiating a limited recall [1]. The compensation scheme, which only offered "equivalent product exchange," violated Thaler's Mental Accounting Theory. This theory proposes that consumers' valuation of economic and emotional damages is asymmetric - a difference that makes product substitution insufficient for alleviating anger. Cross-cultural miscalculations further compounded these issues. Nestlé's deployment of standardized global messaging overlooked Chinese consumers' acute sensitivity to foreign-domestic differential treatment. Hofstede's Cultural Dimensions Theory elucidates how high power-distance cultures expect corporate demonstrations of contrition [8]. CEO Paul Bulcke's CCTV interview insistence on "product safety" was consequently perceived as corporate arrogance - a strategic misstep validating institutional theory's imperative for multinational enterprises to align with host-country cultural and institutional logics. As Hofstede stated: "Culture is more often a source of conflict than of synergy" [2]. The financial repercussions were severe: CTR market research documented a 23-percentage-point decline in brand reputation during the crisis month, with maternal-infant channel sales in tier-one cities plummeting 52%. This translated to direct economic losses exceeding \$230 million, starkly illustrating the consequences of theoretical non-compliance in crisis management.

#### 4. Recommendations for enterprises

The outbreak of a crisis may often spread rapidly to the whole network in a very short period of time, and the rapid spread of information becomes the trigger point of most crisis events such as the safety of catering enterprises. Therefore, enterprises should strengthen preventive measures in

normal times, improve their own quality, take the initiative to enhance corporate image maintenance, and specifically strengthen the capacity of public opinion analysis, so as to enhance corporate image maintenance and crisis prevention awareness. For the prevention and preparation before the crisis, first of all, we can establish a whole chain quality control system. Food companies need to implement full traceability management from raw material procurement to end sales. Although Nestle was not directly involved in the melamine incident, the industry crisis has exposed the supply chain risk. It is recommended that enterprises adopt blockchain and other technologies to enhance transparency. [9] Secondly, crisis plans can be formulated and practiced.

According to the 4R model of Crisis Management (Reduce, Prepare, React, Recover), enterprises need to simulate public opinion outbreak scenarios on a regular basis, and clarify the crisis grading response mechanism. In the new media era, the quicker the response, the more “positive” and “corrective” the image of the public. [10] Crisis studies show that after a crisis, the first time to apologize is easier to win public understanding than to explain.

According to Xu Hui's principle of “speed first” in crisis public relations, the first 24 hours of a crisis is the golden response period. Xu emphasizes: “The first 24 hours determine 70% of crisis outcome”[1]. In the 2008 milk powder incident, Nestle only released its first statement from September 11th to September 17th, and the statement only emphasized “compliance with Chinese standards” without mentioning the difference between international standards or expressing apology. This delayed and insincere response intensified the public's skepticism about “double standards” and led to the collapse of brand trust. Therefore, Nestle should have announced the results of the self-inspection and apologized at the first time, instead of waiting for the government to test the products and refusing to recall them. At the same time, as a multinational company, it should pay attention to cultural differences. In the 2008 incident, some foreign companies were accused of being “arrogant”, and they should set up a localized PR team to avoid the question of “double standards” as Nestle did in the early stage, and they should designate a sole spokesperson to ensure consistency of information. Nancy Yi's study emphasizes the importance of effective communication in corporate crisis management. Lack of effective communication not only exacerbates crisis situations, but may also damage the long-term reputation of a company[12]. This incident reveals that crisis communication is not only about remediation after the event, but also about daily management. Through the closed loop of “prevention-response-learning”, food companies should turn crises into opportunities to improve supply chain resilience and brand reputation.

## 5. Conclusion

Taking Nestle's 2008 baby milk powder incident as an example, this study analyzes the PR strategies and their effects when companies face major product quality crises. Through the case study, it can be found that Nestle's slow response, lack of transparency of information and shifting of responsibility in the early stage of the crisis seriously aggravated the public trust crisis, while the brand image was gradually repaired in the later stage through remedial measures such as apologizing, recalling the products, and strengthening the commitment to quality. Product quality crisis is the touchstone of corporate reputation management. The Nestlé incident in 2008 indicates that the success of crisis communication depends not only on skillful communication but also on whether companies truly give priority to social responsibility over short-term interests. Currently, as the public's demands for food safety and transparency are on the rise, companies need to incorporate crisis-management capabilities into their strategies and establish a full-cycle management system of “prevention-response-repair” so as to turn crises into opportunities and achieve sustainable development. Although this study systematically analyzes the crisis communication strategy of multinational



enterprises through the Nestle 2008 milk powder incident, it still has the following limitations: for example, the number of literature analyzed in this paper is limited, and the existing analysis is mainly based on the classical crisis management theories (such as the 5S principle and the 4R model) and the economic theories, but it is not clear how to deal with the emerging theories (such as the theory of “empathic communication” and digital crisis early warning). The existing analysis is mainly based on classical crisis management theories (e.g., 5S principle, 4R model) and economic theories, but less on emerging theories (e.g., “empathic communication” in the social media era, digital crisis early warning model). The data sources are also relatively homogenous, relying on public reports and third-party research (e.g., CTR brand reputation data), and lacking first-hand interviews or questionnaire surveys with core stakeholders such as consumers and employees. Future research could adopt a mixed-method approach (quantitative statistics + qualitative interviews) to reveal the micro-psychological mechanisms of crisis response. Although the Nestle case involves the cultural adaptation problem of multinational enterprises, it has not been compared with the same type of crisis in other multinational enterprises (e.g., Danone and Mead Johnson). In the future, cases with different cultural backgrounds can be selected to explore the universality and specificity of crisis communication strategies. In the future, traditional crisis management theories can be combined with digital technologies (e.g., artificial intelligence public opinion monitoring, blockchain supply chain traceability) to explore the model of “technology-enabled crisis communication”. This study provides theoretical support and practical insights into the PR strategies of product quality crises of multinational enterprises, but due to the limitations of the research scope and methodology, it is still necessary to deepen the conclusions through multi-dimensional expansion. Future research should break down disciplinary barriers, integrate technological tools and humanistic perspectives, and adopt a more comprehensive framework to cope with complex and changing crisis scenarios, so as to help enterprises realize resilient growth.

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