

## Case #8. Kaufland Sells Contaminated Biscuits in the Czech and EU Market

**Kaufland** is a chain of German supermarkets, hypermarkets and departments stores operating in Germany (with 500 markets it is the biggest retail chain in former east Germany), and in the Czech and Slovak Republics, Poland, Romania, Croatia and Bulgaria. The company, part of the Lind Swarz-gruppe, and is the most successful retailer in Europe. In the Czech Republic, Kaufland has more than 120 stores, with ~3000 m2 sales in each.

Over the past year, Kaufland has encountered a number of problems relating to contamination in its food products sold in the Czech market. Early in 2013, biscuits produced in Poland and sold in Kaufland stores in the Czech Republic were found to contain raticide (rat poison). Kaufland immediately withdrew the biscuits from its stores. There were two types of contaminated biscuit products, both produced by the Polish company **Magnolia Sp.Ltd.** in Lubsko, which were found to potentially contain the raticide. As **Polish Hygienic Control** stated, the contaminated biscuits, probably from contaminated powder milk, had also been sold in Polish markets and exported to 4 other EU countries. All distribution of the suspicious foods was stopped immediately. **The Czech State Agricultural and Food Inspection**, the sister agency to **Polish Hygienic Control**, advised Czech consumers not to eat the biscuits already in their homes.

On 21 January 2013, the **Czech Press Agency** stated that Kaufland had also withdrawn from its Czech shops 9920 pcs of Waffles and 2070 pcs of Stilla Dolce cocoa rolls 2x50 produced by **Magnolia Sp.Ltd.**

A few months later, the **Czech State Agricultural and Food Inspection** warned Czech consumers not to consume the Stille Dolce Cocoa Rolls and Waffles biscuits with minimal durability dates between 4. 7. 2013 and 8. 8. 2013.

Also during 2013, **Magnolia** sent to the EU **RAFFS (Rapid Alert System for Food and Feed)** (used for alert of any direct or indirect healthy risk for the members of the system - European commission, EU and EFTA countries) the message about risky biscuits produced after 22.11.2012.

There are 4 types of notice in **RAFFS**: warning, information, border stop and news. In its database are 2 warning articles about raticide in **Magnolia** biscuits sold in **Kaufland** stores, dated 21. and 22.1.2013. The second included the complete list of affected products and sellers. In addition to Kaufland products, the list also included biscuits sold by Tesco a.s. and Bakeries and Confectionaries a.s. Náchod, with 6 product types in total.

In Czech television, on 21.1.2013 the **Studio 24** talk show presented as the first topic of the day, a dialog that included a **Czech State Agricultural and Food Inspection representative Mr. Kopřiva**, about the steps undertaken for consumer protection with posted pictures of related products everywhere on internet and in the press. Also on the show, the head of the **Toxicology Information Centre, Daniela Pelclová**, emphasized that the type of rat poison found in the **Magnolia** biscuits in small batches is not deathly toxic. To be seriously endangered, consumption needs to be repeated. In case of some stomach issues, she recommended to eat the pastil of activated coal.

After the first panic about such finding, stoppage of production at **Magnolia**, stoppage of distribution, and withdrawn of affected food from the stores, more question came up. Between the affected dates, between 22.11.2012 - date after which the food could be contaminated, and 21.1.2013 – date the alert came, 2 months had passed. Based on the traceability, the question was raised: why did it take so long time for a warning to be issued and the products withdrawn?

In the official press announcements, **Kaufland** on 21.1.2013 informed: „Food contamination can occur in the production process. **Kaufland** has withdrawn these products from its distribution system. The customer can return the product in each market in the Czech Republic without proof of purchase and will receive full money back. In case of necessity contact our customer hot line.”

### Historical Context

Kaufland is known as a low cost retailer, but low prices are unfortunately sometimes balanced by low quality. There have been numerous issues found by trade inspection at Kaufland stores in recent years, including in 2006 wormy eggs from Poland, in 2007 wormy pate and bacon with listeria, and in 2008 fungal wines from Hungary.

At **Kaufland**'s web sites in the last year, 4 similar issues were published where the food product was withdrawn from the stores and customers had been asked to return the food for a refund, including May 2013 where tuna conserves contained histamine, and at the end of 2012 related to Roibos tea with salmonella.

### Poland's Deteriorating Reputation

Import of Polish food in the Czech Republic increased 4 times in last 12 years. According to **State Agricultural and Food Inspection** data, the percentage of unsatisfactory products from Poland is the larger than from any other country. However, because of food safety issues currently regarding Polish products for sale at Czech markets, there is significant decrease of confidence of Polish product resulting to the decrease of sales.

The **Czech Minister of Agriculture Petr Bendel**, during his meeting with his **Polish counterpart, Stanislawem Kalemba**, in Luxemburg, in spring 2013 stated: „Poland has to address the issue of food quality in Poland. If you want to improve the image of Polish products, you need to do more. From the Polish side. we expect immediate interference and penalty for everyone who distributes bad quality food. Poland insists the controls of quality are reliable and done according EU standards!”

**Magnolia** has been a producer of wafers since 1980. As per the web sides <http://magnolia-wafle.pl/> the company “participates in many trade fairs and has received numerous awards for taste and quality of its products. To ensure high quality products, the company conducts a careful selection of suppliers of various raw materials, works according to the-house quality control systems, which is adapted to the standards of the European Union.” But the website contains no information about its product quality problems.

### A Possible Contamination Source

In the Polish village Szczekociny, powdered milk is produced by the **Regional Milk Cooperative Rokitnianka**. This is as the raw material used at Magnolia for their production. In an official announcement, Magnolia stated that the contaminated powder milk contained in its contaminated biscuit products was produced at **Rokitianka**, but was not used to any other

products then already known. A spokesperson for the **Polish Hygienic Control Poland Jan Bondar** confirmed that the poison has been detected by an employee of **Rokitnianka**.

**Jan Ruprich of the Czech Health Institute** stated in his notification 30.1.2013, that the withdrawal of the suspected products from the markets after this detection was a good decision, as the laboratory tests of sold biscuits confirmed the presence of bromadiolol – the active substance of raticide. Because of quantity detected (the maximal exposure shot was measured) in the biscuits and quick reaction of the markets the real health danger is minimal.

#### Half year after the raticide story.

On the web site called "Food at stake" on 19.6.2013 was published a claim that the butter produced by **Rokitnianka** is a nonconforming product because of bad taste and smell.

A representative of the **Czech State Agricultural and Food Inspection Mr. Kopřiva** stated in another TV discussion: „There is no chance to monitor all food/products in our markets, as there are thousands of different contaminations which can possibly occur. To do it more frequently is not possible due to time and finance reasons.“

#### Kaufland's Reputation

**Kaufland** has been rated as a top retailer 2012/13 in the Czech Republic by Czech consumers, according to a consumer newsletter that comes to **Kaufland** customer post boxes every week. 22% of all Czech citizens buy there regularly. This consumer evaluation was based on all aspects of retail operations, including price, quality, customer satisfaction, extended warranty (for electronic products), free of charge tasting, etc.

**Kaufland** says it takes care about the quality, especially by fresh goods, own meat products and provides audits in form of "testing purchases". Testing in cooperating laboratories is done on regular basis. The core value of the company is presented as "customer satisfaction, to be reached by rules, team culture and compliance." Another part of the company's published policy is ecological and social responsibility. More articles explaining what is behind have been introduced.

The **Kaufland** websites are clear and structured. The customer services structure is user friendly, split to the sections: contacts, newsletter, often questions, customer responses, quality assurance, warranty and service. In the published "often questioned" section is no question related to "product quality." In the next section, where you can click on "important announcement" are 3 products with bad quality discovered by a **Kaufland** employee or by the **Czech State Agricultural and Food Inspection** in September and October this year. All noted products have been withdrawn from distribution and sale.

No statement on the "raticide issue" from a **Kaufland** representative has been found in media. Information is provided via press announcement on the mentioned web sides. The customer hot line is available every day 7-20.00 free of charge.

#### **Questions:**

- 1) **Identify the property rights issues raised in the case and show how Kaufland has balanced them to reach its definition of its social contract. (100 word maximum)**
- 2) **Diagram the Kaufland supply chain and then explain how far back in the supply chain your definition of Kaufland's social contract extends—to Kaufland**

inspection of the cows that provide the milk that ends up as powdered milk in the Magnolia biscuits? If not, how far? (diagram + 100 word maximum)

- 3) Using a power diagram as a basis, argue that Kaufland need do no more than it does now to respond to product quality issues? (Remember, summarize what the diagram tells you; don't simply review it.)

NOTE: most students in the past misread Question 3 and give their opinion as to what Kaufland should do. I want you to support the Kaufland decision to do no more than it is already doing! )

(diagram + 200 word maximum)

**Remember you are writing from the Kaufland perspective in Q's 1 and 3, and your perspective in Q2.**

*This case was originally prepared by Lubica Cinkanova, a student at Technical University of Liberec, under the direction and with the assistance of Professor Earl Molander. It has been slightly modified and edited from the original.*