

For Information

LegCo Panel on Food Safety and Environmental Hygiene

Supply Chain of Powdered Formula: Stress Test

Purpose

This paper aims to brief Members on the latest development of the stress test to be conducted by the Government on the supply chain of powdered formula.

Background

2. As stated in the paper submitted to the LegCo Panel on Food Safety and Environmental Hygiene (the Panel) for its meeting on 28 May 2013 (LC paper No. CB(2)1182/12-13(03)), the Government is of the view that the supply chain failure in relation to powdered formula has a major bearing on the serious shortage of powdered formula early this year. As such, we consider that suppliers of powdered formula must step up their efforts to improve the supply chain management to ensure a sufficient and stable supply of powdered formula for Hong Kong people.

3. In this regard, we have requested local suppliers of powdered formula to -

- (a) increase the efficiency of stock replenishment from places outside Hong Kong by reducing the time required;
- (b) enhance the capacity for distribution and delivery of goods to improve the supply chain management at the retail and wholesale levels and replenish the stock at retail outlets expeditiously;

- (c) commit additional resources to boost the number of hotlines for taking purchase orders and establish a mechanism for promptly increasing the number of hotlines and staffing level under exceptional circumstances to handle the purchase orders; and
- (d) examine and set up services for advance order of powdered formula at retail outlets of different regions throughout the territory.

4. Seven major suppliers of powdered formula¹ subsequently joined hands with the Hong Kong General Chamber of Pharmacy and proposed a series of measures in response to the four areas outlined above to improve the supply chain of powdered formula, including the “milk powder coupon scheme” (coupon scheme)².

5. We have pledged to conduct a review in October 2013 to examine and assess the effectiveness of the supply chain improvement measures. In this regard, we have mentioned that a committee comprising members from different sectors would be set up to take forward the work of improving the supply chain. We consider that any proposed improvement measure has to be sustainable and able to cope with the peak demand periods (for instance, the National Day Golden Week, and if necessary, in the run-up to the Chinese New Year). In this regard, the Government has to conduct stress test on the improvement measures.

¹ The seven major suppliers are Mead Johnson, Friso, Wyeth, Abbott, Cow & Gate, Nestle and Snow Brand. They account for over 95% of the market share.

² According to information provided by the trade, the coupon scheme is a “pre-order system” set up at designated pharmacies as a “safety net” to ensure sufficient local supply. Parents of local infants and young children may call the powdered formula suppliers for registration and be given “coupons”. With these coupons, parents may purchase the powdered formula they need at designated pharmacies, with the maximum amount of six cans per month. In cases where parents are unable to acquire the powdered formula they need from the designated pharmacies readily, the trade has pledged that the powdered formula would be available within three working days (excluding Saturdays, Sundays and public holidays).

6. If the improvement measures are proven to be effective and sustainable, we will consider repealing the provisions introduced by the Import and Export (General)(Amendment) Regulation 2013. We also undertake to report the progress of the work to the Legislative Council.

Progress

7. In July 2013, we appointed a Committee on Supply Chain of Powdered Formula (the Committee) which is tasked to study and recommend to the Government a proposal on improving the supply chain management of powdered formula. The Committee comprises 14 non-official members (**Annex**), including major powdered formula suppliers, retailers, parents, representatives from the logistics sector, relevant academia and those representing consumer interests. The Committee has held three meetings to discuss and examine the effectiveness and sustainability of the improvement measures proposed by the major suppliers of powdered formula and the Hong Kong General Chamber of Pharmacy, and comment on the design of the stress test.

8. The Government has also engaged a consultancy firm to assist in examining the improvement measures proposed by the trade, as well as to provide professional input and support.

Stress Test

9. Through the stress test, the Government hopes to evaluate whether the improvement measures can still work effectively under stress by employing certain model scenarios in the real life environment. To achieve this purpose, the stress test must be of suitable strength and breadth. The Government has also commissioned a marketing consultancy firm to assist in conducting the stress test. The firm will be responsible for the detailed design of the test, manpower arrangement and training, test execution as well as data analysis.

10. In view of the nature and confidentiality of the stress test, only the design principles and framework of the stress test will be set out in the ensuing paragraphs.

11. The test will be conducted during the National Day Golden Week as well as the days immediately before and after it. The reason for choosing this period is that the number of Mainland visitors coming to Hong Kong will typically reach its peak during this time, thus creating a huge demand for powdered formula and exerting pressure on the local retail market of powdered formula. The stress test will cover the following areas:-

- (a) the improvement measures proposed by suppliers of powdered formula: including the level of stock reserved for local infants and young children; the capacity for local stock replenishment; the ability of the hotlines to cope with the incoming calls; and the operation of the coupon scheme;
- (b) taking into account the market share of different brands, the test will touch on how the powdered formula suppliers implement the aforesaid measures; and
- (c) the test will be conducted in different districts across the territory, including pharmacies participating in the coupon scheme, warehouses for storing powdered formula, etc.

12. During the test, field workers will record the implementation of the improvement measures, the relevant data, as well as their observations on various aspects of the measures. Based on such information and observations, the consultant will conduct analysis on areas including the overall effectiveness of the measures, the stability of their implementation, the operational details, and whether the implementation is in line with the established indicators, etc. Afterwards, the consultant will submit a report to the Committee to assist it in formulating its suggestions to the Government on the supply chain improvement measures.

13. We have to emphasise that the stress test is one of the very important aspects in assessing the effectiveness of the supply chain improvement measures. Given the nature of the test, its smooth execution will rely on the active co-operation of the major suppliers of powdered formula and the pharmacies participating in the coupon scheme. Inevitably, the test process will generate certain amount of work and cause inconvenience to the participating parties, thus incurring some costs. As it should be the responsibility of suppliers and individual retail outlets (including pharmacies) to introduce measures to improve their supply chain, they should contribute towards the costs of the stress test. The design of the test has also struck a balance between the operational details of various parts of the supply chain and the integrity and reliability of the test, so as to ensure minimal impact on the operation of the trade.

14. We will inform the Panel in due course of the results of the test.

Advice sought

15. Members are invited to note the above information.

Food and Health Bureau
September 2013

**Membership of the Committee
on Supply Chain of Powdered Formula**

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Chairman, Hong Kong Retail Management Association

Members

Mr Clarence Chung

President, Hong Kong Infant and Young Child Nutrition Association

Ms Florence Wong

General Manager, Mead Johnson Nutrition (Hong Kong) Limited

Ms Bonnie Cheang

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Mr Taky Woo

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