The Breadtalk Crisis â?? A Case Study of Poor PR

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Breadtalk. Once touted as a local pride and the darling brand of Singapore, the company has come under fire recently over allegations of deception over their â??freshly preparedâ?• soya bean.

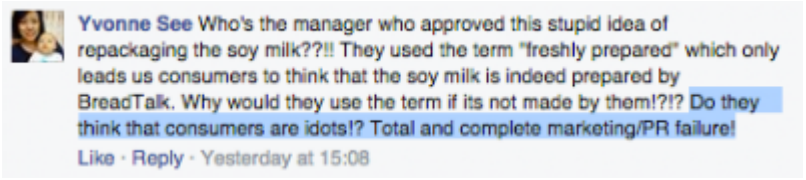
Iâ??m not a huge fan, but when companies canâ??t get their PR right, it tells me a lot about their management, and also signals to me why I shouldnâ??t buy their stock.

Many people have also previously asked me what I think about the stock. My usual response is that while thereâ??s no doubt Breadtalk is a growing company, Iâ??m not convinced whether it truly has a good moat around it.

With their recent PR backlashes (two within a single year is a lot!), it suggests to me that the management does not know its consumers very well. Either that, or they donâ??t have any good PR folks in the team.

If youâ??re wondering how soya bean kicked up such a big brand, hereâ??s my take on why I think Breadtalk failed terribly in their PR department.

1. They made their consumers feel stupid.



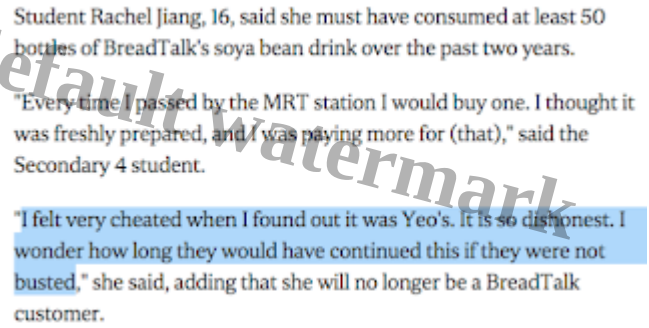
Source: Facebook comment on a Breadtalk post

Thereâ??s nothing wrong with marking up prices when you sell someone elseâ??s stuff. Movie-goers willingly pay extra for their $3 ice lemon tea when a bottle can be bought for half the price at the 7-11 outlet downstairs. McDonalds continues to profit from their expensive ice milos and cups of Coke.

When you are transparent about it, consumers accept and willingly pay the higher prices. But when you pass it off as your own in-house brand, consumers believe the premium price is for the effort and homemade â??qualityâ?• that goes into the drink. Even I had bought their soya bean drink before, thinking it was okay that I was paying more because it was made by Breadtalk themselves instead.

Given that their soya bean drinks have been sold for such a long time, and that the truth has only just come to light, it is no wonder people are feeling cheated.

2. What took them so long to disclose the truth?



Student Rachel Jiang, 16, said she must have consumed at least 50 bottles of BreadTalk's soya bean drink over the past two years.

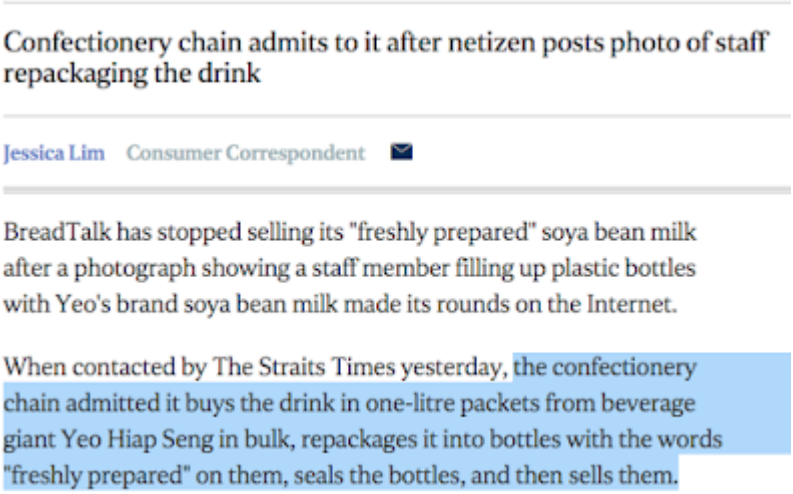
"Every time I passed by the MRT station I would buy one. I thought it was freshly prepared, and I was paying more for (that)," said the Secondary 4 student.

"I felt very cheated when I found out it was Yeo's. It is so dishonest. I wonder how long they would have continued this if they were not busted," she said, adding that she will no longer be a BreadTalk customer.

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Source: The Straits Times

The soya bean drinks have been sold in this manner for a long time. Why wait until now, after a photo surfaces online, to say that their soya bean drinks are actually not brewed in-house after all?



Confectionery chain admits to it after netizen posts photo of staff repackaging the drink

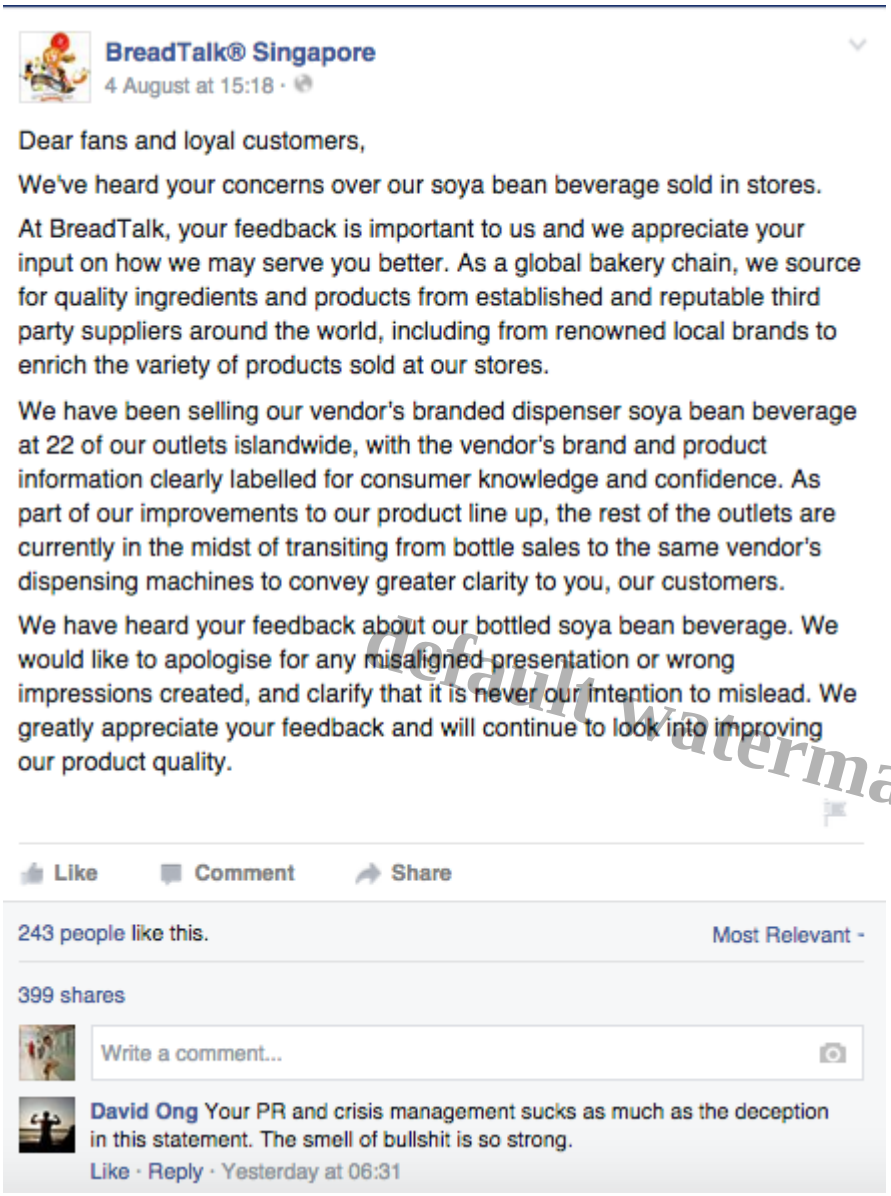
Jessica Lim Consumer Correspondent

BreadTalk has stopped selling its "freshly prepared" soya bean milk after a photograph showing a staff member filling up plastic bottles with Yeo's brand soya bean milk made its rounds on the Internet.

When contacted by The Straits Times yesterday, the confectionery chain admitted it buys the drink in one-litre packets from beverage giant Yeo Hiap Seng in bulk, repackages it into bottles with the words "freshly prepared" on them, seals the bottles, and then sells them.

Fast food chains have never lied about their Coke drinks, so neither should Breadtalk.

3. Their apology comes off as insincere.



As a customer of their soya bean drinks, this was how **I** interpreted it:
Dear customers,

Yes, we have received your complaints.

Look, this is how great we are.

At almost half of our outlets, we already have a Yeoâ??s dispenser. It has been clearly labelled, so if you didnâ??t know, it is your own fault. If you thought our soya bean drinks are actually brewed in-house, youâ??re just stupid and naive.

Fine, we hear all the noise youâ??re making, and we will make sure ALL our outlets have the dispenser from now on.

I actually had to reread their statement twice before I realized that there was actually an apology in it, as it only emerges 155 words later i.e. only the last 20% of their statement was the actual apology.



â??We would like to apologize for the misaligned presentation or wrong impressions createdâ?• is too bombastic, and clouds the real problem.

â??We are sorry forâ?¦â?• would have been so much better.

4. Thereâ??s really no reason for using the bottles in the first place.

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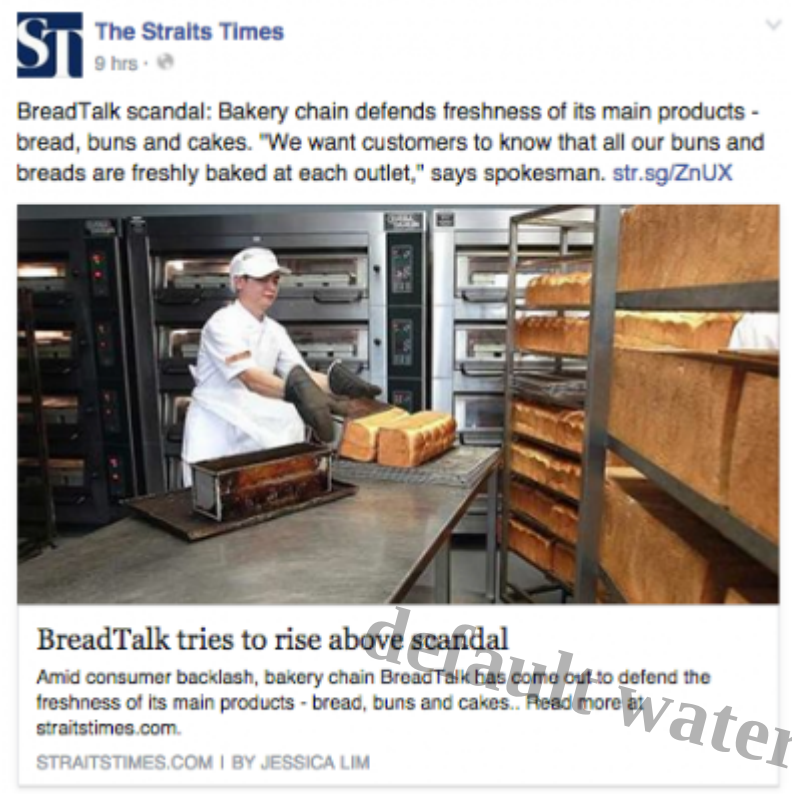
With Singaporeâ??s high literacy rate, I do not believe that none of Breadtalkâ??s staff had seen the â??freshly preparedâ?• label on the bottles before they were sold in stores.



If your bottles are supposed to be for your juices, then why use it for packing another different drink altogether?

It just sounds like a really lousy excuse to me.

5. They made things worse with a follow-up statement on the freshness of their breads.

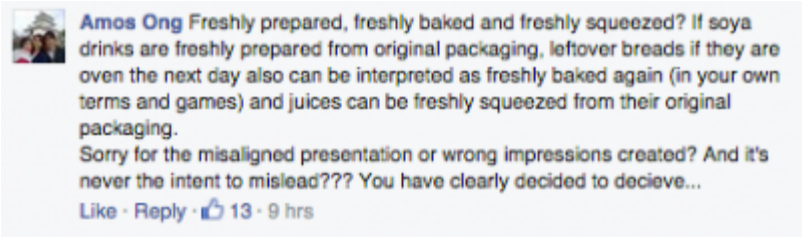


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Yes, the Bengawan Solo cake photo was another problem, but after clarifying that it was an external cake bought by a staff for personal consumption, that should have been enough.

It is also worth noting that after this clarification, the original user removed her Facebook post of the alleged Bengwan Solo cake.

But instead of letting a (already-settled) issue die down, Breadtalk proceeded to fan the flames by issuing a public statement that their baked products are all freshly made in-house.

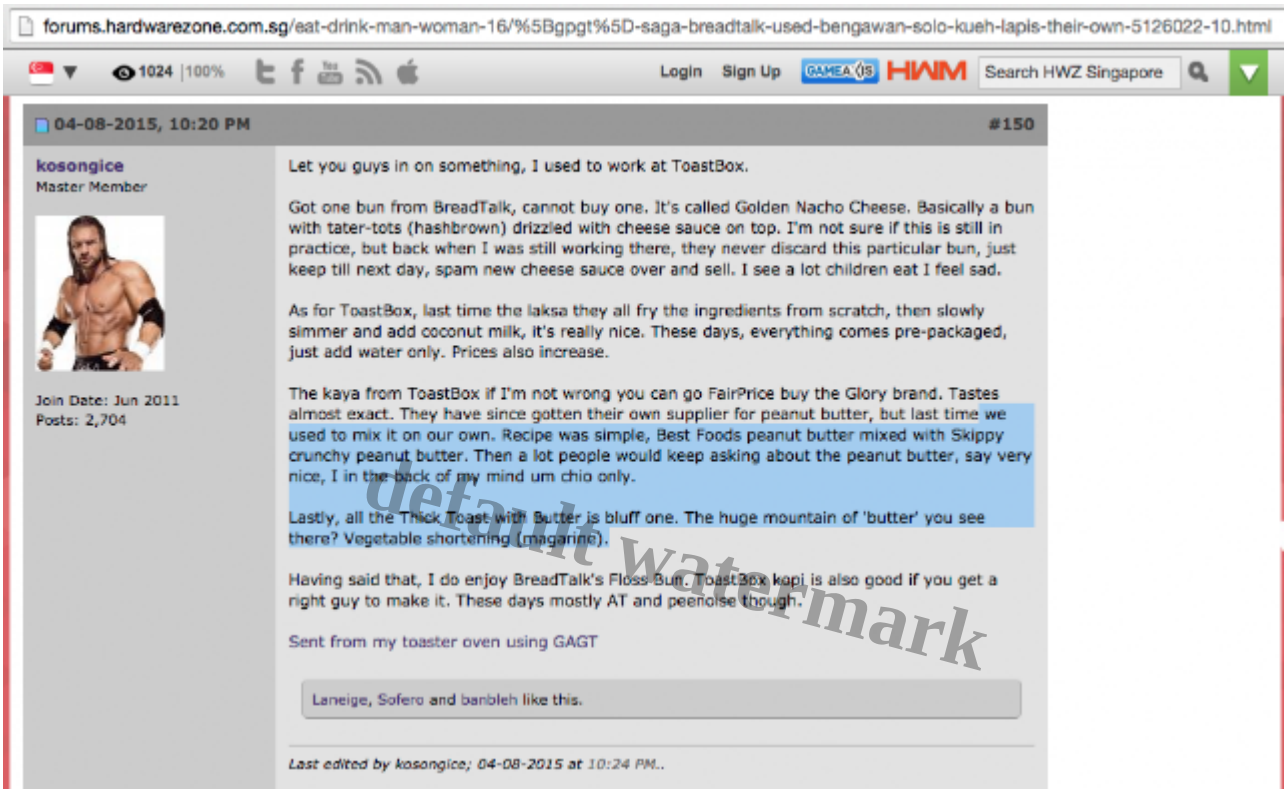


Wrong move. By trying so hard to defend themselves, theyâ??ve only made consumers even angrier.



Conclusion: Why such a big fuss?

Breadtalk fails to realize that the root problem is not about their soya bean drinks, or the freshness of their breads, or mixing external peanut butter on their toasts.



The **real problem is that consumers are angry.**

Consumers feel cheated and betrayed by the brand. Breadtalk has just made its loyal customers feel stupid for believing them all this while, and their statements are not helping to resolve these feelings.

This is not the first time the brand has committed such a faux pas either.

Earlier this year, they got slammed for launching an expensive, $2 LKY bread right after Mr. Lee Kuan Yewâ??s demise.



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Someone should just tell Breadtalk to hire better PR staff so that such mistakes can be avoided in the future.

What about Breadtalk as a stock?

Like I said, Iâ??m not convinced Breadtalk is a good stock. It is currently also trading at near historical highs.



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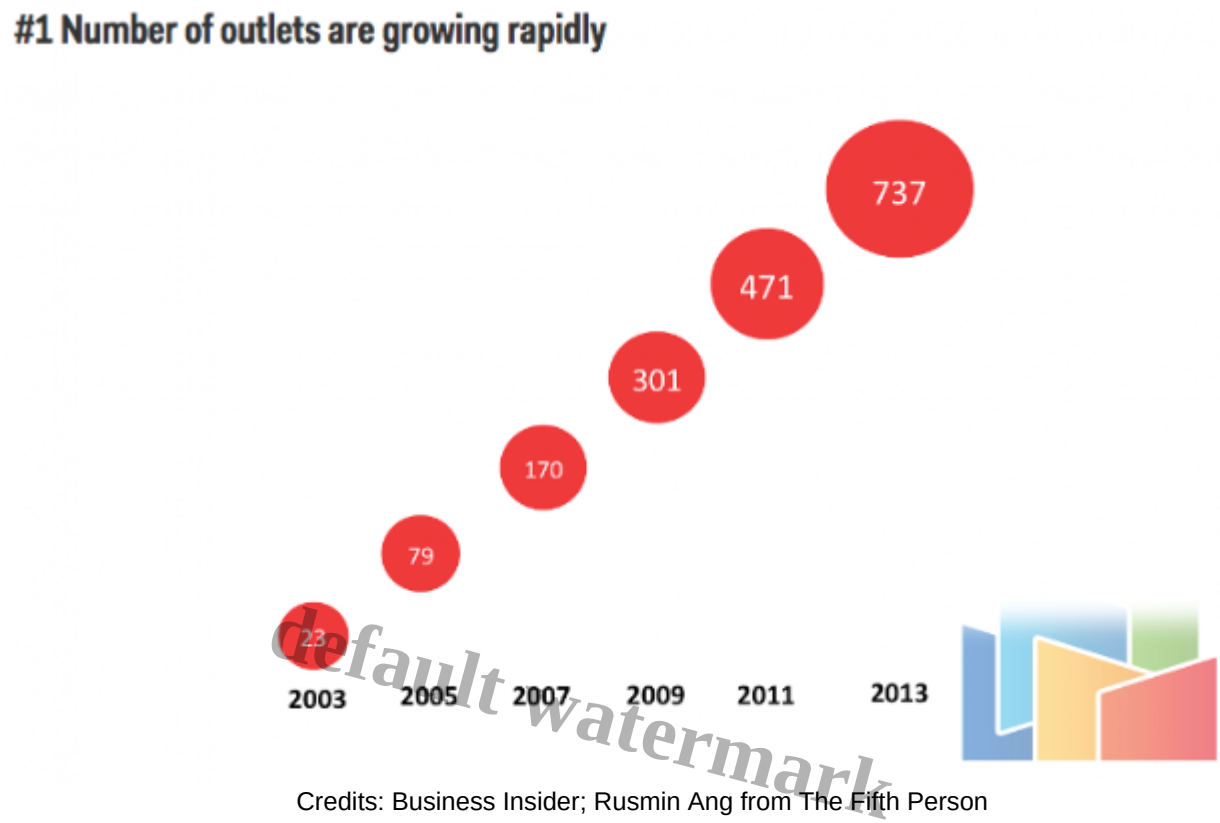
The Group operates in a very competitive F&B industry. Its key brands have strong direct competitors (if not stronger) â?? Breadtalk vs. Four Leaves, Ding Tai Fung vs. Crystal Jade, RamenPlay vs. Ajisen, Toast Box vs Ya Kun, Food Republic vs. Koufu, etc.

And given these options, I would choose to eat at their competitors any time. Itâ??s no secret that Iâ??m a huge Ya Kun Kaya Toast fan.

Consumers today tend to go for novelty (trying new cafes, the latest restaurant, etc), and eateries have been drawing in the increased traffic by paying up to $3,800 for food bloggers to promote their stores. (Iâ??m baffled. I literally gain NOTHING from reading a food blog except more calories and paying for the latest overpriced cafe or restaurant foods, yet these people get paid so much? At least beauty bloggers help us to look prettier. Or finance bloggers who help us become richer.)

At their 2014 AGM, their Chairman George Quek announced plans to launch a loyalty card programme. With their latest hiccup and all the above factors, Iâ??m not sure how well this will fare.

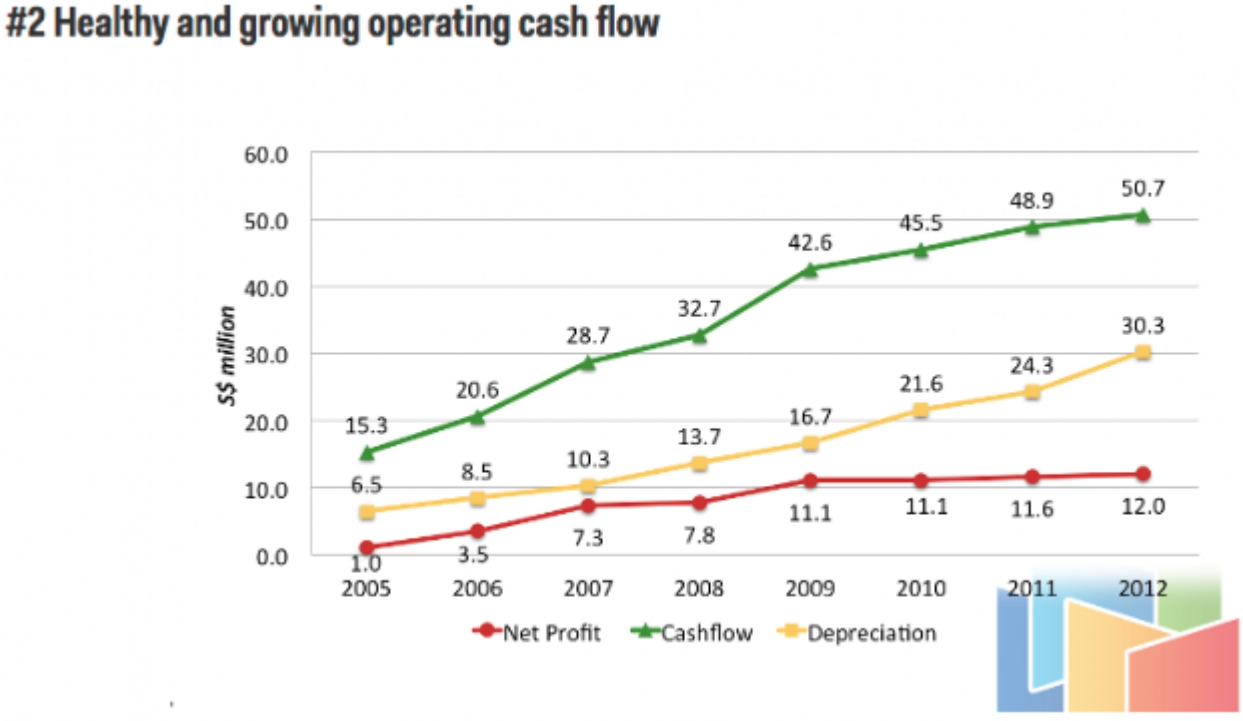
Rusmin Ang from The Fifth Person is a prominent retail investor in Breadtalk, so I examined some compelling reasons that made him buy into the stock:



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Credits: Business Insider; Rusmin Ang from The Fifth Person

No doubt if you were an early investor like Rusmin, catching it between 2008 â?? 2009 (30 cents range) would have given you over 300% at todayâ??s share price of $1.33. However, what about purchasing it now, if you werenâ??t lucky enough to have gotten it back then?



Credits: Business Insider; Rusmin Ang from The Fifth Person

The above graph looked persuasive, until I looked into their financials in detail. I realized that while cash flow has indeed been rising steadily, their **free cash flow hasnâ??t**. In fact, FCF was even negative in 2012 and 2013.

P/E is also over 30, which is frankly quite ridiculous to me. While high P/Es can be justified especially for growth companies, I donâ??t think Breadtalk as much of a growth stock. Also, consider that Googleâ??s P/E is slightly under 30 now. Do you think Breadtalk is like another Google?



Breadtalk also has a relatively high debt to equity ratio, which is aligned with how theyâ??ve been aggressive in financing its growth over the last few years with debt. While this is not necessarily a bad thing, however, in light of rising interest rates to come, Iâ??m not sure how much of their debt financing will be affected.

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TLDR: I wonâ??t buy Breadtalk stock.



Will they recover from this PR crisis? Perhaps, but it is going to take a long while. Perhaps it is best for Breadtalk not to say anything for now, since they apparently donâ??t seem to know how to craft very pleasing statements for the public.

What do you think about Breadtalkâ??s crisis? Or are you invested in Breadtalkâ??s stock? I would love to hear your comments!

With love,
Budget Babe

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