



The Importance of Recall Effectiveness

Product recalls can be one of the most detrimental events for a company and can carry overwhelming consequences for both the company and their customers. Ineffective recall execution is a ubiquitous issue that can be ascribed to the lack of adequate preparation on the part of manufacturers and retailers – coupled with an inability to promptly and efficiently remove recalled products from the supply chain.

The Struggle to Comply

As many new laws and policies are implemented, companies attempting to manage their own product recalls are bound to struggle with compliance difficulties. Your company's core experience is in delivering product to the market, not retrieving it. Therein lies the logistics quandary - how will your company reverse the flow of recalled products either back to the original source or to disposal in a well organized, cost-effective, and customer-conscious manner that abides by all relevant regulatory agency policies?

Work Overload

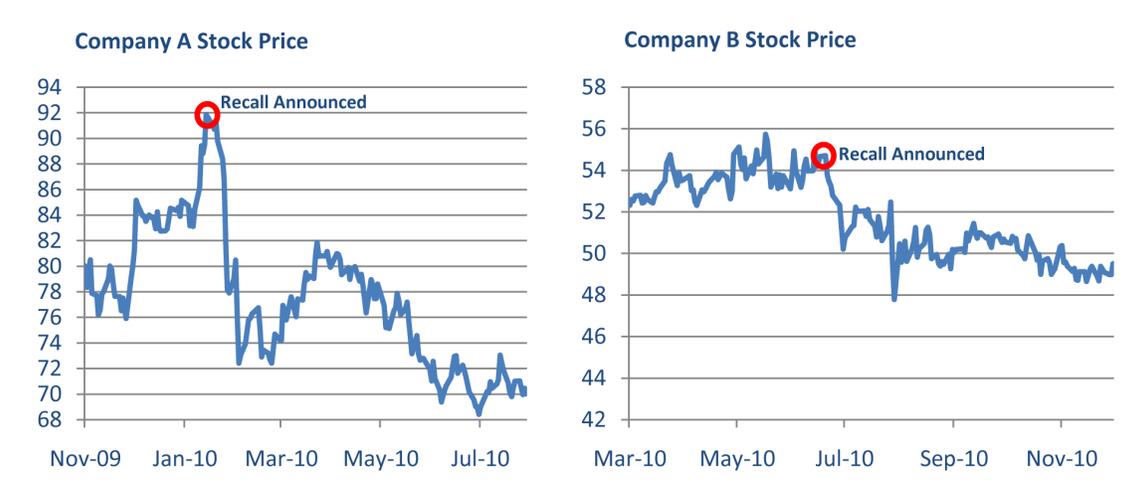
In direct conflict with product manufacturers' goals to quickly remove affected products from the supply chain, there are reports from the field that many retail store managers are experiencing 'work overload' and are neglecting the timely and effective recall execution necessary to comply. Normal day-to-day management challenges seem to take precedence over product recall activities.

The Overwhelming Consequences of Ineffective Recalls

Collaborative research by the Grocery Manufacturers Association, Food Marketing Institute, GS1, and Deloitte LLP found that companies with poor recall processes could see a financial impact of up to 22 percent within two weeks of an announced recall as evidenced in the chart below (Figure 1). In addition, the study found that the way a company manages product recalls and how it communicates to the public have a direct impact on its stock price in the longer

term as well shown in the chart below. Proper and timely action in retrieving products from the marketplace will give a company its best chance of surviving a recall.

Figure 1: Evidence of stock price declines after recall notification



Manufacturer Risk

In addition to the financial and reputational damage of ineffective recall execution, manufacturers could also lose prime retail shelf space due to their inefficiencies. In many cases, when retailers must remove recalled items themselves, they clear entire shelves of both affected and unaffected product. Retailers have no option but to fill empty shelf space with comparable products – quite possibly from a competitor. This could result in permanently losing preferred shelf space positioning that may reduce visibility and hinder future sales opportunities.

Retailer Risk

For retailers, the gravity of a recall crisis is its impact on consumer safety and the huge liability they may face if they miss a recall notice. Some of the risks inherent in non-compliance include:

- Negative impact on customers' health and safety
- Plummeting consumer confidence
- Revenue decline
- Fines and prison time
- Potential litigation based on negligence to properly remove affected products from shelves

Conclusion

Manufacturers and retailers face significant challenges when dealing with product recalls. The precision and accuracy with which recalls are executed are critical to success. By developing a strategic recall plan in advance, companies can avoid many of the negative consequences that can stem from ineffective recall management and maintain brand loyalty.