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Strategic issues in product recall

A. V. Vedpuriswar

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ON SEPTEMBER 30, a leading global pharma company announced a recall of its best selling arthritis drug. Sales of the drug were estimated to be $2.5 billion a year. The recall came after strong media publicity that the drug had doubled the risk of heart attacks and strokes in long-term users.

As soon as the company made the announcement, its stock price fell about 27 per cent. The company also took a major public relations hit. Since its inception, several decades back, the company had been considered ethically upright and socially responsible. But following the latest recall, many wondered whether the company's business philosophy had changed. There was also speculation that the company had been aware of the side-effects and had not taken seriously the feedback received from some leading clinics and hospitals. Meanwhile, there were fears of vast numbers of lawsuits and of claims running into millions of dollars.

The product recall dilemma is not a new phenomenon. In recent times, the frequency of product recalls has increased presumably because of growing public awareness and the activist role played by the media.

Well-known is the 1999 Coca-Cola crisis in Europe. Reportedly, thirty-three school children took ill on June 8 1999 after drinking the beverage bottled at an Antwerp plant. Later, 80 people in France were afflicted by intestinal problems, bringing the total number of those affected to about 250.

European authorities responded by stopping sale of the drink. Coca-Cola recalled and destroyed 17 million cases from five European countries. Of course, Coke set right its production facilities and eventually regained its reputation.

This highlight the challenges of recalling a product. Indeed, companies can find themselves in big trouble if they do not handle product recalls carefully. On the other hand, well-managed product recalls will not only ensure damage control but even enhance the reputation of the company with its good intentions. For example, the recall of Tylenol by Johnson & Johnson in 1989, a celebrated case study, enabled the company turn an adverse situation into a great opportunity. Similarly, Black and Decker's handling of its defective coffee-makers in 1988-89 generated tremendous customer goodwill for the company.

The key to a successful product is identifying problems relating to defective products early.

Whether or not to recall the product depends on the nature of the defects and whether the problems can be attended on-site. Recall procedures should be planned well in advance. Most important, product recall must be treated as a strategic issue, involving the personal involvement of the top management. A strategic product recall implies a cross-functional approach cutting across planning, product development, logistics, information systems and pubic relations. Training and documentation play a critical role. Employees should be sensitised to the linkages between product recalls and customer satisfaction, and should be encouraged to speak out whenever they notice any problem.

A recall manual can be prepared and a team of managers set up to handle product recalls. When a crisis occurs, the team should make a quick assessment of the situation and decide on the scale of response — free repairs, selective recall or complete recall.

Product recall is not about withdrawing products from the market quickly, at the slightest hint of customer dissatisfaction. While speed is important, a hasty recall decision without a proper investigation can be counter-productive.

According to researchers Smith and Thomas: "Although delaying the recall of an unsafe product may increase the size and number of claims against the company-not to mention potentially endangering consumers and creating ill will — issuing a recall amounts to admitting that there is a problem and may open the door to a flood of lawsuits. The recall response team should weigh all the factors carefully before making a decision." In 1993, Pepsi, after investigating the contamination of its canned cola beverages decided that the blame lay elsewhere and decided against a recall. This turned out to be a wise decision.

At the same time, once a recall is announced, the company should wholly commit itself to the task and make the process as customer friendly as possible. Goals must be set for closure of the programme. How to reintroduce the product in the market is another key issue.

The recall process should be thoroughly audited to enhance organisational learning. The product development team should also make a detailed assessment of the technology behind the development process, reappraise quality control procedures and identify opportunities for re-design, in anticipation of future problems. The communications function plays a critical role during product recalls. All the stakeholders must be carefully identified and the company must communicate with them clearly. During the recall, the response team should keep customers properly informed and encourage them to exchange the defective product for a replacement.

Logistics and information systems have to be in place to facilitate an efficient product recall. The company should check whether the existing distribution system can handle the product recall. Mock recalls can be run to test whether the company can isolate product defects by batch, plant and process.

Recalls can shatter customer confidence and disrupt relationships with other supply-chain partners. They can also allow competitors to take advantage of the situation and invite government action. Yet, if handled properly, they can also be turned into an opportunity. That happens when the company is perceived to be fair, honest and transparent when dealing with defective products.

Instead of looking at a product recall as an irritant that must be got out of the way quickly, companies must devote time and money to handling it carefully. If so done, a recall can well generate a competitive advantage.

(The author is Dean, Institute of Chartered Financial Analysts of India, Hyderabad.)