

# CUSTOMER FOCUS ON LOSS CONTROL

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## Product Recall Risk Management

Any company or organization that manufactures, assembles, processes, wholesales, or retails products could be financially impacted by a the direct or indirect costs of a product recall.

*Direct costs* can include wages (regular and overtime) for staff who redirect their capabilities toward the implementation of the recall plan. Other direct costs include communications; this could entail purchasing air time on radio and television and notices in newspapers or industry publications.

*Indirect costs* can include lost production time for staff who must now focus on the recall process, as well as the hiring of temporary employees to assure continued production. However, the greatest indirect cost is the impact that adverse publicity could have on a company's share of the market (i.e., loss of its customer base).

To reduce these financial risks, management must know when and how to conduct an effective product recall:

- Protect the end user or customer from bodily injury or property damage
- Remove the product from the market, from inventory, and from production
- Comply with federal and/or state regulatory requirements
- Protect the company's assets

To ensure that these goals are met requires effective utilization of sound management techniques and positive, *proactive* leadership.

**Patience.** A product recall is a business crisis or emergency, and as such, must be handled in a calm, logical, systematic manner. Firms that have successfully survived product recalls have exercised patience during the recall process.

**Preparation.** At a minimum, good preparation requires that a firm have a contingency plan already in place and have designated a Recall Coordinator. As with any crisis, time can be

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critical; should a recall be necessary, precious time would be lost if all the planning had to be done from "scratch."

**Prevention.** The best way to eliminate the potential for a recall is to assure product safety. This is accomplished not only by performing in-depth hazard analysis during product design, but also by having in place all the elements of a sound product liability loss prevention program: quality assurance, product serialization and traceability, complaint management, inventory control, customer education, etc.

**Documentation.** Organized and complete records facilitate *traceability*, or accurate, complete tracking of a product. Records should reflect the product life, from raw materials or components, through production, to final distribution. An important part of this process is *serialization*, or marking, of the product, either individually, or by batch.

**Accountability and Responsibility.** Follow your recall plan. Once the decision has been made to recall a product, management should give full backing to the Recall Coordinator. Measure the effectiveness of the recall. How many products are in the market place? How many have been returned? Depending on the severity of the hazard, federal agencies that oversee recalls may require specific levels of effectiveness. Be sure to know the various effectiveness requirements that affect your firm.

**Evaluation and Investigation.** Several record sources can assist in identifying product hazards. These include customer complaints, warranty claims, test and inspection records, repair and service records, and product liability claims. Evaluate each record to determine if the condition addressed is safety-related. Could the condition result in harm to a customer, either bodily injury or property damage? If "yes," send the record to the firm's Product Loss Prevention Coordinator for investigation. Analyze these records to identify any common trends that would imply that a "problem" product exists.

**Be Decisive.** Once the evaluation and investigation have been completed and a product hazard has been identified and confirmed, be decisive: implement a recall. In the context of a product recall, "time" may be defined as the speed with which customers are notified of a product hazard. Reducing the time factor reduces the potential for bodily injury or property damage, and thus reduces the potential for a product liability claim.

**Coordinate.** Just as a recall plan should be developed *prior* to the crisis, a recall team should be designated, including assignment of responsibility. A recall coordinator should be the team leader. He or she should be responsible to senior management for the coordination of all elements of the plan, and should be focused on achieving the desired or required degree of effectiveness of the recall.

**Communicate.** Timely, accurate, communication is a critical component of any product recall. Notification of customers, retailers, distributors, and regulatory agencies is vital to reducing the risks associated with the presence of a hazardous product on the market. However, remember that distribution of premature or incorrect information can create unwarranted problems for the organization. Be sure that all communications are accurate, and presented in a professional manner.