

Global Perspective and Issues Relating to Product Recall

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Abstract : The paper aims to analyze the various issues related to a product recall in the globalized world where the market has become a single trading place. A recall acts like an alarm that makes the company realize that it is the time to take corrective action by reviewing and making changes in the required areas. It is very important to understand the various issues related to the product recall like the factors related to costing, legal framework, recall planning, and management's perspective and so on. The paper aims to discuss the issues identified with recall with the examples of global companies that have faced a recall. Further the paper also focuses on the recall framework with respect to India. The paper has a practical implication both for the academicians and for the readers in terms of their concern with the aspect issues regarding product recall.

Keywords: Product Recall, Recall, Recall Strategy, Consumerism, Consumer Protection

I. Introduction

It has been seen that once a product is in widespread use, uncertain problems can at times lead to a recall. A product recall is often a result of poor quality test or improper designing of the product. In case of a product recall, the reputation of the brand and the future prospects of the company are at stake. Despite a company's best efforts to design, manufacture and sell safe and reliable products, the possibility still exists that dangerously defective products may reach the customers. These products may cause accidents, leading to adverse verdicts in product liability litigations. The very survival of a firm may depend on how well and how quickly it can respond to the first notice that a product recall may be necessary. Product recalls are certainly expensive, but attempting them without adequate planning can be much more costly and this requires an understanding of the important issues or the factors that are associated with a recall process.

II. Review Of Literature

David Burke (2012) stated that 'a well-managed recall can have the opposite effect, although the costs involved to manage the incident and restore the standing of the business will be high.' In his paper he discussed about the product recall as a threat to business reputation and the trends in recall strategy. The factors of globalization, regulatory complexity, power of consumer, risks, costing, insuring the risk and Caltin's crisis management had been elaborated thoroughly. **Kasthuri Rengan P & Sriprada K.S. (2009)** discussed about the Food and Beverage industry. The paper discussed about product traceability by defining it as 'Traceability involves the use of tracking and tracing systems and processes that match the attributes of incoming raw materials to outgoing product specifications for the purpose of improving business and/or product performance.' The Drivers, Dimensions and Benefits of traceability in Food and Beverage industry had been highlighted by the authors. Further the paper also discusses the various codes of traceability, role of ERP in traceability, benefits to supply chain, recall planning and recall execution. The paper also provided illustrations for product identification, data capturing & linking as applicable in the F&B industry. **Nicole J. Kaplan (2007)** focused on China by stating that 'a number of highly-publicized recalls of such widely diverse products as pet food, seafood, toothpaste, tires, and children's toys have focused Americans' attention on the potential dangers of products imported from China.' The author focuses on the violation of laws regarding quality in china made toys that was causing harm to the society at large. The paper stated that the effects of the fragmented economy and weak regulation have been particularly acute in the Chinese toy industry. The paper gave certain suggestions regarding avoidance of violations in trade with China. **Smith L.(2011)** conducted a case analysis of Mattel's 2007 Product recall strategy. The paper highlights the effectiveness of public relations strategies during consumer product recalls.

III. Research methodology

This research paper is mainly based on secondary data analysis. Various documents obtained were reviewed and analyzed. The sources of secondary data were as follows:

1.1 Paper-based sources – books, journals, periodicals, abstracts, indexes, directories, research reports, market reports, annual reports, published records of organizations, newspapers and magazines

1.2 Electronic sources– CD-ROMs, on-line databases, Internet, videos and broadcasts.

IV. PRODUCT RECALL- THE CONCEPT

Consumer the most predominant term and the ultimate confluence of all the business activities, simply putting all the business activities revolve around and towards the attainment of a healthy relation and satisfaction of this entity, and with the relation a firm builds a brand recognition which in turn generates intangibles such as goodwill & loyalty from its user groups. The above four lines as simple as it may sound turns out to be a lot tricky path with a lot of tedious work for a prolonged amount of time to nurture the desired results of Brand equity, goodwill and loyalty the path gets even riskier when it comes to a point in which a company has to decide keeping Business ethics and responsibilities at one end and the attainment of its projected financials at the other, one such decision is to be highlighted in this paper i.e, Product Recall.

Recall has been a familiar word in the west largely due to their strong legal framework and existence of various legal provisions that a citizen enjoys, some of the major recalls which have made headlines done by major global giants have taken place in the west be it Toyota's recall due to faulty accelerator paddles, Mattel's toy recall due to the lead based paints and detachable magnets, Firestone/Bridge Stone's recall of the tires with issues in their threading patterns, Audi's and Intel's recall fiasco which marked a lesson of what not to be done in a recall.

ISSUES RELATED TO PRODUCT RECALL

The main issues identified through research that are involved in a Product Recall are as follows:

4.1.1 Effect on market share

The effect a recall on the market share has been mostly noted to be negative for a temporary period as it might also affect the growth in the market share for a temporary period but if the recall process is clearly marked out keeping in mind the effectiveness of the process and making it simpler and easy for the consumers it generally ends up in strengthening the loyalty among the current user groups and adding to the goodwill of the company/brand and further creates an honest image of the company. 'In 1982 Tylenol made a \$100 million gamble and recalled its best-selling pain reliever after it discovered its products, laced with cyanide by a criminal, were linked to several deaths in Chicago. It put its brand reputation on the line. And although Tylenol initially lost \$100m, it regained market dominance within a year' (*Andrew McFarland, 2010*). Similar instances has been noted in the cases of Honda City cars and Philips Electronics where loyal consumers of the car took the recall in a positive manner which eventually strengthened the image of the company and received commendable applause for the voluntary action initiated by both the companies.

4.1.2 Management's state of denial

'A company faced with a product recall can sometimes mitigate much of the fallout by meeting up to the problem promptly and taking measures to prevent its recurrence.'(Investopedia, 2010) Arrogant management at times might not only hamper the brand image but will also hurt the company's future growth prospects in a major way. One such case is of famous German car maker Audi. 'Despite the growing number of accidents blamed on the Audi's sudden acceleration, Audi AG - the West German affiliate of Volkswagen that makes the Audi 5000 - had steadfastly denied that the car was defective. Instead, Audi had consistently blamed the cars' drivers for the mishaps. But despite the company's claims, as accident reports had climbed sales for the Audi 5000 had plummeted largely due to the U.S. consumers who had waged an unprecedented fight against the giant West German automaker' (*Thomas A. Wathen, 1987*). Despite Audi's shift-lock recall and new public relations approach, sales for February, 1987 were down 56 percent from the year before for the 5000 series and down 58 percent for Audi cars overall. Thomas Wathen in his research found that in April, Audi took two new steps to bolster its declining image. First, the company sent certificates worth \$5000 off the purchase of any new 1987 Audi to owners of 1984 to 1986 cars. "What we're trying to do is show our loyal owner base that we're absolutely committed to the American market," an Audi spokesperson told Automotive News. 'Audi also announced that they were discontinuing the Audi 5000 name and starting in 1988, the car would be known as the Audi 100, a name the car started under in Europe. But Audi Victims Network, said cosmetic changes aren't the answer. "Audi can't hide from this problem or try to buy off the consumers," Weinstein said. "People know that this is a bad car and nobody is going to buy it until the company finds the problem and fixes it." (*Thomas A. Wathen, 1987*). Similar case was encountered with Intel processors when the company initially failed to admit the fault and tried to convince the customer that nothing is wrong with the chip.

4.1.3 Financial cost of the Recall decision

Investopedia in its article on 'Recall Recoil: Will Toyota recover' stated that "Negative effects of a product recall include direct costs such as fixing the problem that caused the recall, litigation costs arising from class-action lawsuits, loss of market capitalization due to the stock's decline and loss of revenue if production and sales of the faulty product are halted until the problem is resolved. Other longer-term, indirect effects

include loss of market share and the negative impact on corporate reputation and goodwill.” Though recall itself incurs a heavy cost the effect of the recall on the shareholder’s wealth is negative, largely when the company has chosen a proactive approach rather than a passive recall strategy. The statement is very prompt in stating the effect of financial impact of a recall ‘The pivot point is that not only do customer service and profitability intersect, they overlap’(Andrew McFarland, 2010). In a research study conducted by Yubo Chen, Shankar Ganesan, & Yong Liu regarding the impact of the strategic alternatives (proactive product-recall strategy and passive recall strategy) on firm value using Consumer Product Safety Commission recalls during a twelve year period from 1996 to 2007, it was found that regardless of firm and product characteristics, proactive strategies have a more negative effect on firm value than more passive strategies. Further the research also showed that the stock market interprets proactive strategies as a signal of substantial financial losses to the firm.

4.1.4 Framing a proper recall strategy

A company should keep in mind that it has a clear strategy prepared in advance in case a recall is required. Obtaining a proper product recall insurance cover, an effective recall team, understanding of channels and customers so that proper communication modes can be adopted. Identification of the person who will communicate with the media, setting up of a proper infrastructure such as, recall websites, dealers/retailers support and customer support mechanisms, outsourcing of customer support and other recall functions if required, disposal of recalled products and parts, remedy for consumers, legal preparations.

4.1.5 Identifying the safety issue

Investigating “what went wrong” and locating the “where” is of utmost importance, the issue of identifying remains to be the main focal point as it will highlight the amount that has to be recalled, the problem has to be identified as in the product design or there is a problem with the manufacturing process.

Miscalculation of any kind in this exercise is hazardous if unnecessary large quantities of a product are recalled it will tend in heavy financial costs and on the other hand if efforts to recall all the affected products from the market fall short it might result in loss in brand equity and the company may have to face legal challenges.

4.1.6 Reporting to the administrative agency/governing body

In some countries failure to report a safety issue to the governing bodies under which that product falls is considered as a penal mistake. Further in countries like U.S the Consumer Product Safety Commission helps and guides the company in their recall process assisting them with a Fast Track Program for companies willing and able to move quickly with a voluntary recall of their product. The governing bodies might even help the companies in communicating with the consumers etc. Therefore, the issue of reporting holds invaluable importance in a product recall.

4.1.7 Legal Issues arising out of a product recall

Recall generally is followed up by litigations; therefore the issue must be properly addressed with proper documentations to support your efforts for recall if challenged in the courts. It has to be kept in mind that a recall does not provides you a protection from lawsuits, there has been cases where companies are held liable due to an improperly conducted recall.

V. PRODUCT RECALL SCENARIO IN INDIA

‘Product recalls are increasing globally. In 1988, the U.S. Consumer Product Safety Commission was involved in some 221 recalls covering about 8 million product units. Five years later, in 1993, those numbers had risen to 367 recalls covering about 28 million product units. Recalls for both new and established products occur all too often, and they can have serious repercussions. In some cases, they have destroyed brands and even companies.’ (N. Craig Smith, Robert J. Thomas, and John A. Quelch, 1996)

As stated in the article entitled ‘A Year In Product Recalls’, “In 2009, the range of products recalled literally ran the gamut from vaccines to canned soup. Some product recalls were voluntary, while others were ordered by regulatory agencies charged with overseeing safety.” In India however, product recall has not been much of a practice, though, the phenomenon is not new. According to the Cover Story published in October 2011, ‘The first instance of recall in India is said to have been announced in the year 1997. Maruti then, is known to have issued an advertisement, recalling approximately 50,000 Zens due to a defect in the steering column. The second recall in the Indian auto industry is again claimed to be related to Maruti, the company recalling 76,000 Omni vans due to a defect in the wiring harness, which was a safety related issue. Only 75% of car owners are known to have come forward and got the part replaced.’ Honda, announced the recall of as many as 72,115 units of its City model to guard against a potential power window switch problem in those that were manufactured between 2005 and 2007.

It is the result of globalization, the rise in consumerism, intensified competition in various sectors, and the advent of internet that has changed the playfield significantly for the companies, but still the Indian mindset has not been very open when it comes to product recall. One of the major factor for this is the lack of effective legal frame work though various laws, such as, The Consumer Protection Act, 1986, The Sales of Goods Act, 1930, The Monopolies and Restrictive Trade Practices Act, 1969 (hereinafter referred to as the “MRTP Act”), The law of Torts, The Foods Adulteration Act, 1954, The Food Safety and Standards Act, 2006, The Drug & Cosmetics Act, 1940, The Indian Penal Code, 1860, The Standards of Weights and Measures Act, 1956, The Agricultural Produce (Grading and Marking) Act, 1937 for marking and grading of commodities like vegetables, butter, etc., The Indian Standards Institution (Certification Marks) Act , 1952 to formulate a number of standards for different products by ISI, The Bureau of Indian Standards Act , 1986 but still the effectiveness as per the article named “ Product Recall Policy : India On The Backfoot” published in the Economic Times on 29th Nov 2010, “Aggrieved consumers unhappy with a product or its performance are first expected to approach the company for relief. If the company does not own up responsibility or fails to provide relief to the consumer, then the consumer can approach the designated consumer courts and this can be a long-drawn legal battle.

Sometimes, consumers may not even have access to complete information relating to the faulty product which could weaken the case and work in favour of the manufacturer. Besides, the legal fraternity in India concentrates on securing relief to individuals rather than addressing the issue through mass lawsuits, as is the practice in many developed countries.”

There is a requirement of a strong regulation to enforce product recalls. “In the US, the federal regulatory agencies can order product recalls for safety reasons. Agencies have specific product mandates, such as Consumer Product Safety Commission is responsible for toys and household products, Food and Drug Administration mandates medical devices and drugs, National Highway Traffic Safety Administration oversees cars, trucks and automotive equipment and the department of agriculture monitors meat and poultry products.”

(Economic Times on 29th Nov 2010). Another article entitled “Total Recall: Product liability in India” published in the Economic Times on 25th April, 2010 throws a more detailed spotlight on the issue of product recall in India by stating that “Even as more Indian manufacturers exporting goods to the overseas markets opt for the product recall insurance plan, insurance experts say the time has come for India Inc to look at this policy as a ‘risk management tool’ and not as a mere obligation.” “Given the legal framework in India, there are limited damages slapped by consumers on to the manufacturers,” feels Shashwat Sharma, director at KPMG Advisory Services, adding that “the product has a great future with the consumer market becoming more sensitive to safety standards and regulatory provisions more stringent.”

In India, if the defect is a recurrent phenomenon in a multiple number of products, the manufacturer is duty-bound to recall it. But manufacturers in India often get away with not doing it because few consumers bother to take them to court as litigation can be expensive time taking. Lack of awareness is another reason why few consumers take manufacturers to court. ‘The Indian Consumer Protection Act, 1986, does not contain any provision for product recall, and consumer products in India are sold with a guarantee or warranty. This limits the extent of liability of the seller to just the replacement of the product or attending to the defects in the product’ (*The Telegraph, Aug 1, 2011*). There is a requirement of a strong regulatory framework and its implementation. ‘Until that happens, it would seem that consumers will just have to be inspired by the slogan “Jaago Grahak Jaago” and be more vigilant.’ (*The Telegraph, Aug 1, 2011*)

VI. CONCLUSION

It is very important for any company to consider the aspect of product recall and it should continuously strive to prepare itself for any recall situations. A proper understanding of the issues associated with product recall will help the company to develop an effective recall strategy and this would benefit it in the long run and at global levels. The highlights of the paper can be used for further research purpose and provides knowledge base to the readers. The paper is original in nature. This paper provides historical context for recent developments in the area of product recall.

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