

# Ready for anything

## How to protect revenue and reputation when a product recall goes sour

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Heightened consumer demands for safe, reliable products and stricter regulations are without doubt increasing the risks for product manufacturing companies – large and small.

Today's risk managers have to be ready to face the potential hazards of handling an expensive product recall campaign. Companies have the legal obligation to ensure that products are safe and, should that prove not to be the case, to demonstrate that they have the right systems and procedures in place to remove them from the market. As the financial and reputation stakes grow, it becomes vital to be able to manage a recall crisis effectively. While crisis management is perceived to be reactionary, it is most effective when used as an integral part of the risk management process. The key is: knowing in advance what you will do when the problem arises.

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In a brand-conscious marketplace it is the damage to a company's reputation which can result in the most significant costs, often well beyond those of the actual recall. If poorly handled, a major recall can destroy a company's reputation; if managed well, it could actually

enhance reputation and sales. Effective crisis management will be critical in differentiating between a positive and negative outcome.

Product recalls have been well publicised around the globe and some of the companies involved have been caught on the back foot at a time when they needed to act quickly with a proactive message, reassuring the public in response to media reports. The response to a product recall therefore needs to be handled quickly especially in these days of 24-hour TV news services and the internet, when journalists are working to increasingly tight deadlines to satisfy their audience's expectations of instant information and analysis. Fortunately, these events are relatively rare but with the potentially high cost of getting it wrong, it is important for every company to be fully prepared for the worst.

Quick, honest and effective messages to customers and the media are essential to limit negative publicity about a company's products and brand. At the same time, the company must be prepared to deal with regulators and satisfy them that the correct action is being taken, all of which may require the help of external specialists.

New European food regulation, for example, has led to a far more onerous legal



environment and regulators are getting tough in response to product contaminations. Food business operators are now required to “immediately initiate procedures to withdraw the food in question from the market” if they have “reason to believe that a food which (they have) imported, produced, processed, manufactured or distributed is not in compliance with the food safety requirements”.

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Interpreting these requirements correctly and making the right decisions is not simple in practice, yet the new legislation holds the company firmly responsible for taking the necessary action and alerting the regulator. Not surprisingly, as a result

of this tougher regulation, food recalls in EU member states have been more frequent over the last few years and this trend is expected to continue.

While most companies will dedicate time and resources to ensuring high standards of quality control, few have adequate systems in place to handle a situation when things go wrong. A fully-tested crisis plan will help a company prepare for the worst. Specialist consultants can not only assess existing procedures and develop responsibility sharing and communication in a mock environment, but they can also bring their experience to the table in a real-life scenario. A product contamination crisis, however large or small, can be mitigated by careful planning and preparation. Getting it right will go a long way towards protecting a company’s reputation — and revenue. **XL**

## Product Recall insurance

*Coverage is provided for recall expenses through to the policyholder’s loss of profit and rehabilitation costs. The policy also gives 24/7 access to dedicated crisis management consultants in a number of specialist fields. Part of the premium will usually be dedicated to pre-incident crisis*

*management projects. This enables the policyholder to work with experienced specialists who can advise on implementing best practice systems and also assist in managing a crisis situation.*