

Crisis Control Newsletter



Crisis Control Newsletter from RQA, Inc. - A Catlin Preferred Provider to
Foodservice, Food Processing and Consumer Products Industries

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The Financial Impacts of Product Recalls

Well-publicized product recalls have topped the news for the past several years. While the primary concern should be for public health and safety, one has to wonder what impact these recalls have to a company's financial results. There is no doubt that product recalls are expensive, but what activities or events contribute to the costs of a recall?

The financial risks involved in a product recall can be broken down into two major categories: tangible/hard costs and intangible/soft costs.

Tangible costs are those that can be measured in actual dollars. Direct losses include the cost of press releases and communications to regulatory agencies and all affected customers, consignees and stakeholders. An outside PR firm may be hired to develop the company's message to the public. In addition to this, are costs associated with checking and sorting good and bad products, the logistics cost of product retrieval, the labor to destroy retrieved product, including affected product in inventory, and the value of those destroyed products. Other tangible costs include inventory or production to replace the affected product and the logistics costs for re-distribution of replacement product. Legal counsel may be hired to address pending legal action. Fines may be assessed for regulatory violations. There may also be costs associated with the dismantling and re-installing of faulty production equipment or production lines. However, the greatest tangible cost impact is due to business interruption as evidenced in a study done by Sterling Reed, LLC.

When a company goes through a recall, there is a substantial re-allocation of human resources. Employees at all levels stop what they should be doing to attend to the activities necessary to address the recall issue. Outside resources may also be hired to handle recall matters such as product testing, retrieval, destruction, and performing effectiveness checks. All of these costs are a large contributor to the overall tangible costs of a product recall. Keeping track of all of these costs is a monumental effort in itself for accountants.

Intangible or soft costs are those that are not easily quantifiable but have a significant impact to the company's financial results. They include such things as the negative affect on a company's brand and the efforts to revitalize the brand as well as the negative impact of a company's reputation and the efforts to rehabilitate the company's good image. The residual effect of this is a drop in sales and market value. The rebuilding of consumer confidence in your brand and company is an immense undertaking.

By properly preparing for product recalls and purchasing recall insurance, a company can mitigate the costs of a recall and avoid the devastating impact to the company's financial future.

Table 1 - Financial Impacts of Past Recalls

In a study done by AMR Research, 40% of write-offs associated with recalls totaled at least \$20 million in 2007 and over half were in excess of \$10 million. Below are some historic examples of the financial impacts of recalls:

- Odwalla, 1996 Apple Juice (*E.coli*)- \$6.5 million direct costs
- Bilmar (Sara Lee) 1998 Hot Dogs (*Listeria*) - \$76 million
- Pilgrim's Pride, 2002 Sliced Deli Poultry (*Listeria*)— stock price down almost 25%
- Menu Foods, 2007 Pet Food (*Salmonella*)- \$40 million direct costs
- Topps Meat Co., 2007 Beef (*E.coli*) – Goes out of business 1 week after recall
- ConAgra, 2007 Peter Pan Peanut Butter (*Salmonella*)- \$50 to \$60 million direct costs
- Mattel, 2007 Toys (lead paint) - \$20 million in recall expenses and \$12.7 million in inventory loss plus an estimated \$36 million in lost sales
- Maple Leaf Foods, 2008 Meat (*Listeria*) - \$20 million direct costs
- Tomato growers, 2008 (suspected *Salmonella* Saintpaul) - \$100 to \$250 million in lost sales
- Nielsen Co. reports January 2009 sales of jarred peanut butter fell 22% due to lack of consumer confidence after PCA recall. (Jarred peanut butter was not included in the recall.)

By: Carol Kozlowski, CPIM—Manager of Crisis Management,
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Recall Re-Caps

Product: Turkey Soup Products
Incident: Undeclared Allergen - Milk
Date: April 17, 2009

A Mukilteo, WA firm is recalling approximately 37,776 pounds of turkey soup products because they may contain an undeclared allergen, milk. People who have an allergy or severe sensitivity to milk run the risk of serious or life-threatening allergic reaction if they consume these products. The turkey soup products were produced on various dates between Feb. 28, 2008 and April 7, 2009, and were shipped to institutional establishments in California, Idaho, Oregon and Washington and are not available for direct consumer purchase. The problem was discovered by a routine product inspection conducted by the establishment. FSIS has received no reports of illness due to consumption of these products.

Product: Fat Free Plain Yogurt
Incident: Contaminant – Food Grade Sanitizer
Date: April 3, 2009

A Londonderry, NH firm is recalling approximately 44,000 quarts of fat free plain yogurt because the product may contain a presence of food grade sanitizer. The company has received several complaints of the product having an off flavor. There have been no reports of illness associated with this matter. The issue was the result of human error. Corrective actions have been put in place to prevent this from happening again. Consumers are advised not to consume the product and to return opened and unopened containers to the store where it was purchased. Anyone returning these products will be reimbursed for the full value of the purchase.

Product: Flat Panel LCD Televisions
Incident: Hazard: Fire and Burn
Date: April 2, 2009

A Richfield, MN company is recalling approximately 13,300 flat panel LCD televisions due to fire and burn hazards. The television's power supply can fail, posing a fire and burn hazard to consumers. The company has received two reports of fires that included damage to the television and wall. One consumer reported minor burns to the hands. These units, made in China, were sold at a major electronics store from August 2005 through June 2006. Consumers should immediately stop using the recalled televisions and contact the store hotline to receive a gift card for the value of a replacement television.

Sources – www.fda.gov, www.usda.gov, www.cpsc.gov

Recall Matters is a newsletter jointly published by RQA, Inc. and Catlin Group. For more information about these topics and more, please contact:

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Product: Frozen Meat and Poultry Pasta Products
Incident: Adulterated and Misbranded
Date: April 26, 2009

A Canton, MI establishment is recalling an undetermined amount of frozen meat and poultry pasta products, which are adulterated and misbranded, because they were prepared without the benefit of federal inspection. The frozen meat and poultry pasta products were produced from May 1, 2008, through April 24, 2009 and were distributed to restaurants in southeast Michigan and to brokers and distributors in California, Florida, Georgia, Illinois, Michigan, Missouri and Ohio. FSIS was notified of this problem by the USDA's Office of the Inspector General. FSIS has received no reports of illness due to consumption of these products.

Product: Cheese Products
Incident: Undeclared Allergen - Anchovies
Date: April 9, 2009

A Nashville, TN company is recalling all lots of cheese products, including spreads, dips and salads due to undeclared anchovies. These products were distributed through retail grocery and dollar stores in Kentucky, Indiana, Tennessee, Alabama, Mississippi, Georgia and West Virginia. The Worcestershire sauce used in these products contains anchovies, and people who have an allergy or severe sensitivity to fish run the risk of serious or life-threatening allergic reaction if they consume these products. The company has received no complaints or reports of an allergic reaction to the products. Consumers who have purchased the products are urged to return them to the place of purchase for a full refund.

Product: Security System Control Panels
Incident: Hazard: Failure to Operate
Date: April 7, 2009

A Melville, NY distributor is recalling approximately 7,000 security system control panels due to failure to operate. Security systems programmed with a wireless silent panic feature can fail to operate properly the first time the panic button is pressed on the remote transmitter. If the panic button is pressed only once, this can unexpectedly leave residents without a triggered alarm during an emergency. There have been no reports of incidents related to this issue. This product was made in Mexico and was sold by security and alarm dealers nationwide from October 2007 through January 2009. The distributor is contacting dealers directly and is providing free replacement software to consumers.

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