

Food Manufacturing: Product Recall Statistics

**Results of a survey conducted in August/
September 2004**

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Introduction

Product recall is a recurrent and expensive problem for the food industry. However, companies are reluctant to publicise incidents or the costs of managing them. No reliable source of statistics is available. Risk managers cannot easily assess the need for specialist insurance, or the potential damage to their companies. Incident managers have no benchmarks outside the experience of their own companies. Insurers have difficulty in pricing their policies and setting the terms.

This survey was conducted by an email questionnaire to food and beverage manufacturers, growers and distributors, in August/September 2004, as well as some retailers and distributors. Whilst the results are not statistically rigorous, they give a good cross section of the issue.

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How common are product recalls?

We asked:

Has your company been involved in a product recall or withdrawal in the past 12 months?

Approximately how many cases of product recalls, not involving your company directly, do you know of, in your sector of the food industry, in the last 12 months?

Of those who responded, just over 45% have had one or more product recalls in the last twelve months. (Compares to 70% in 2003 and 53% in 2002.)

‘Large companies’ in our survey (turnover above £100m) averaged one recall in the last year per £300m of turnover. Medium and small companies (turnover below £100m) had had one recall per £76m of turnover.

However, companies who have recently had a recall were probably more likely to respond to our survey than those who had not.

Those who responded claimed to have heard of an average of just under 3.5 product recalls in their own industry sector over the last 12 months. (Compared to 9 in 2003 and 7 in 2002.)

Indications:

Our respondents reported fewer recalls this year. 45% have had a recall in the last 12 months. (70% in 2003, and 53% in 2002). We do not believe this is a ‘trend’, it simply shows that the number of recalls varies.

On average, respondents had heard of three other recalls in their own product sector within the last twelve months.

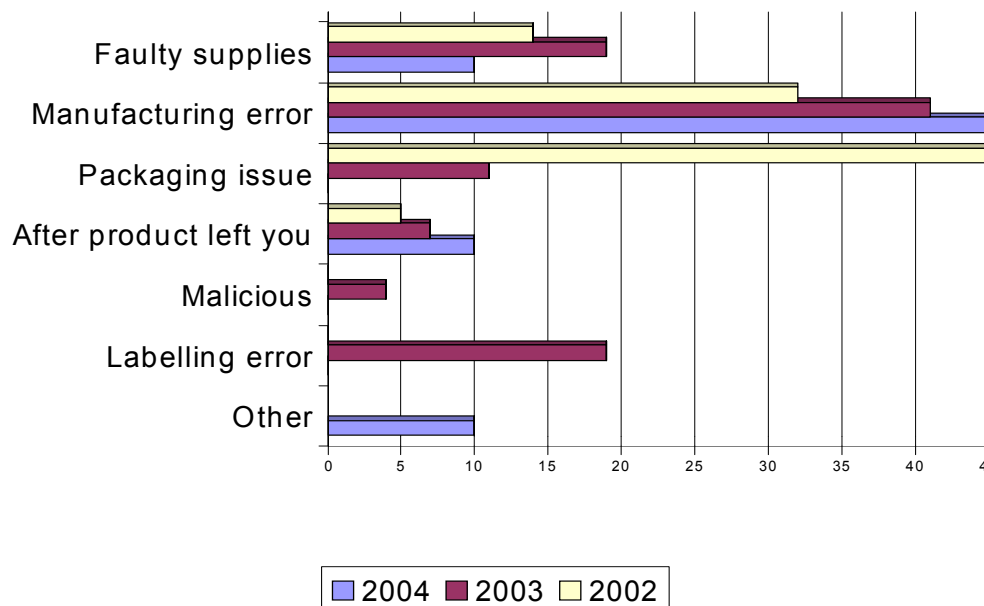
Even though the frequency of recalls is variable, the fact remains that over the three years this survey has been conducted, more than half of respondents have experienced a product recall, and on average each respondent knew of six recalls in its own sector.

What caused the recall?

We asked:

“Was the most probable cause a fault in goods supplied to you, a manufacturing error, a problem with packaging, a problem arising after the product left you, malicious activity, incorrect labelling, or some other cause?”

The responses were as follows:



Indications:

Once again, manufacturing error is the major reason for recalls. Despite the care that most manufacturers take, procedures and systems still fail sometimes, for unanticipated reasons.

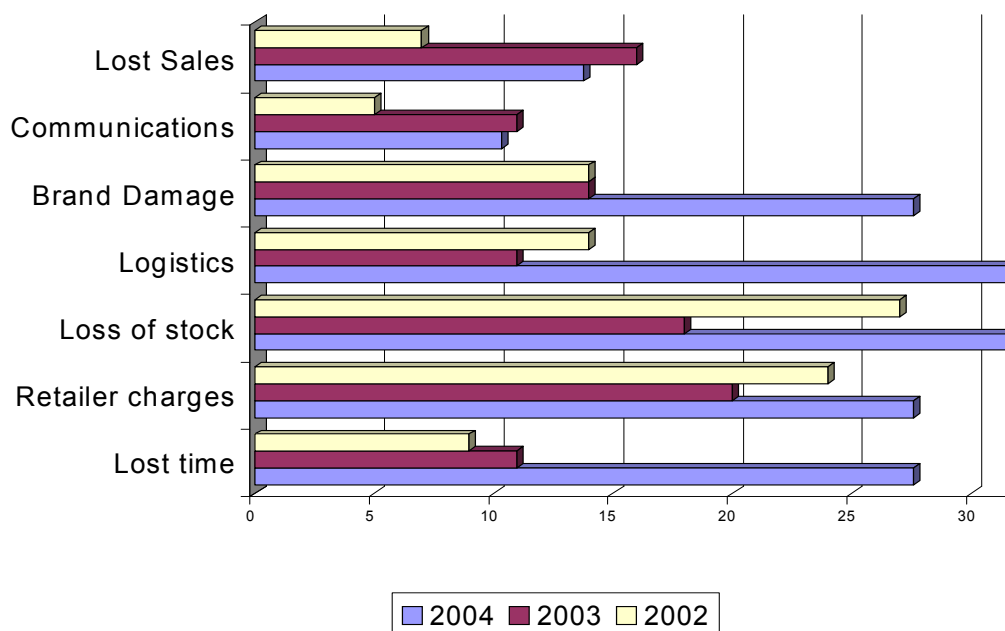
Second, but varying from year to year, come supplier faults, packaging issues, and product deterioration after it has left the manufacturer.

Recalls due to malicious contamination are relatively rare. (Though we believe that a higher percentage of companies take insurance cover against malicious contamination than against accidental damage. This is perhaps due to the feeling that manufacturing errors can be controlled and limited.)

What were the cost factors?

We asked:

“How would you estimate the cost of a recall to your company? What would be the major cost factors?”



Major cost factors identified by respondents were as follows:
Some respondents estimated the actual cost of a recall. Estimates varied from £500,000 to £40,000, with an average of just over £138,000. (2003: £37,000). Not only the frequency, but also the cost of recalls, is highly variable.

Indications:

Loss of stock and logistics costs were seen as the most likely cost drivers. Retailers charges come second, together with brand damage, and lost time/ extra work.

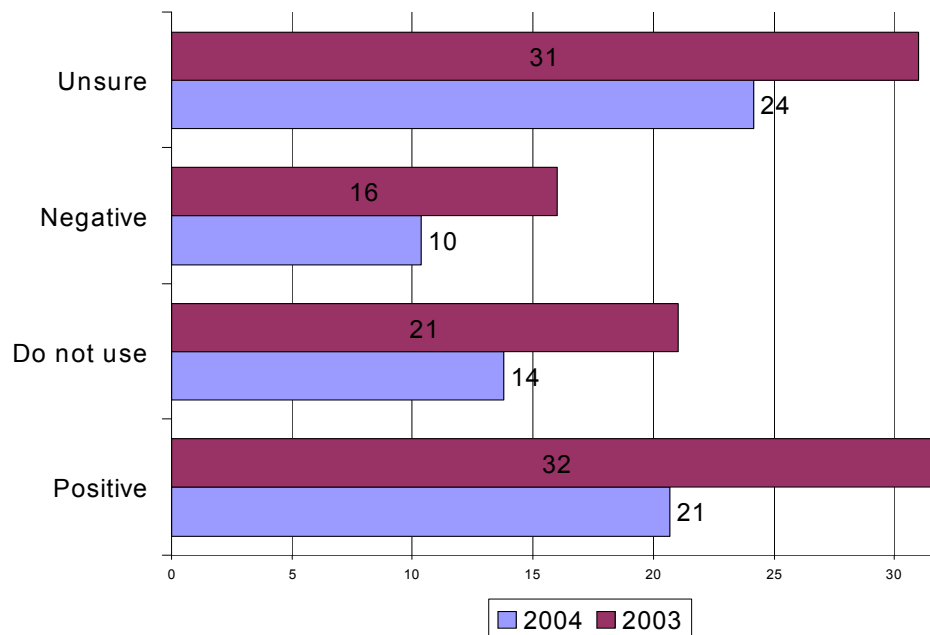
Average recall cost was just over £138,000, (2003: £37,000) The costs of recalls vary widely, as well as their frequency.

This variability makes it very hard to quantify the ‘bottom line’ risk from recalls.

Attitudes to product recall insurance

We asked:

What are your views about product recall insurance and the services offered by insurers?



Indications:

Between 21% - 33% of companies responding to this question have product recall insurance.

Another 31% are not aware of it, or do not have enough information to make a judgement.

See links on our website (www.stirlingreid.com/recall.htm) to sources of information on product recall insurance.

Respondents' comments about Product Recall insurance

On product recall insurance itself

“Did not know that you could insure against product recall. I believe that if your due diligence states that you have done everything possible to avoid contamination, and you have, there should be no financial recourse.”

“Too expensive.”

“I have never been offered this insurance. I do not feel it is necessary so I have no views on it.”

“Currently considering this. Generally cover applies to direct impact costs of a recall and does not extend to the consequential costs which ensue and which can be the greater part of recall costs.”

On the training and advice provided by some insurers

“A good thing for companies without the resource to do it in-house. We have our own Crisis Training and management programme. To my knowledge minimal input from Insurers.”

“Our excess is £5m so don't meet the insurers very often!! “

“Advice tends to push high insurance costs with little awareness of the degree of risk by product and knowledge of the specific customer requirements.”

“Training and crisis response services can be very beneficial. It is vital to be prepared for a product recall - they happen quickly and progress even faster.”

“Am not aware of this service from insurers.”

“Very poor service, with little or no security/support offered.”

Indications:

Respondents' attitudes to product recall varied greatly, as this sample shows.

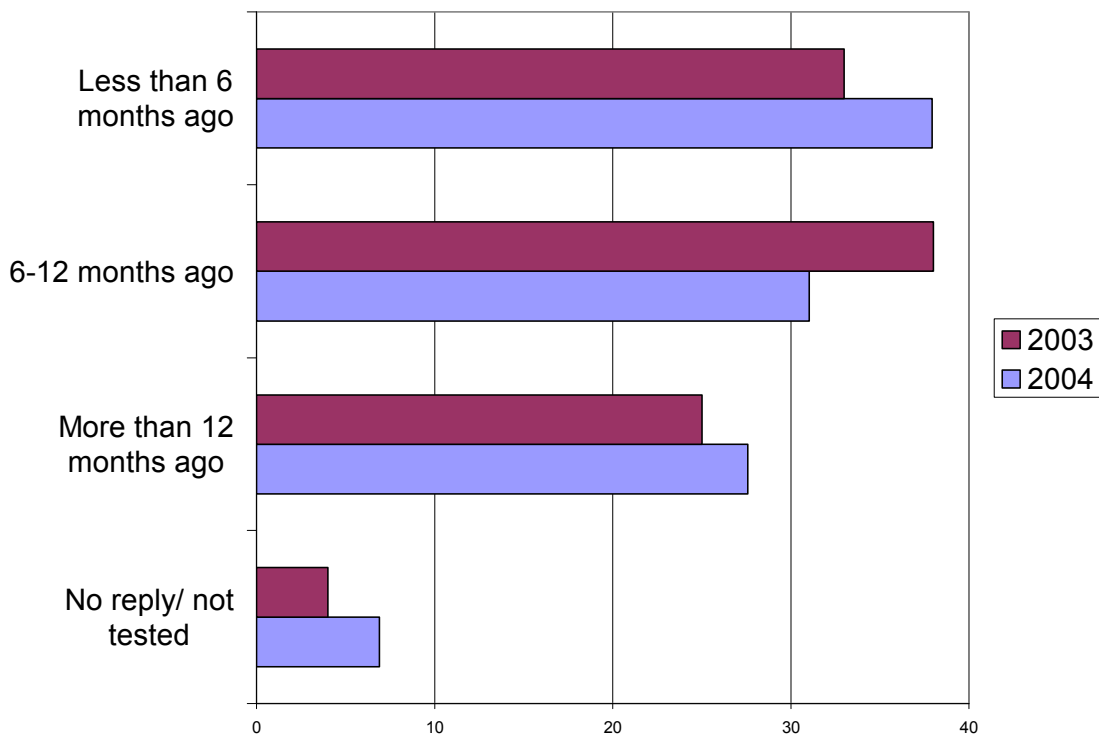
Insurers and brokers are clearly not reaching their target audience. Some of the assumptions made by respondents are not accurate – for instance, cover can apply to consequential costs (loss of profits, brand damage) as well as 'direct' costs.

Reactions to services provided by insurers suggest that these services are perceived to be of varying quality - from 'very beneficial' to 'very poor'.

Product Recall Plans

We asked:

How often do you test your in-house product recall plan?



Indications:

One quarter of respondents have not tested their product recall plans for at least one year. However, the 'best industry practice' seems to be to run a thorough test at least once a year. See our website (www.stirlingreid.com/recall.htm) for advice on how to do this.

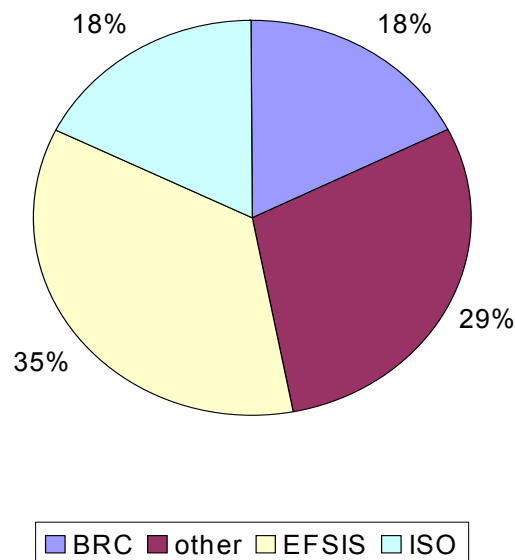
Respondents' comments suggest that traceability is tested more frequently than the recall plan.

We asked:

Is your plan written to conform to any specific standards, and if so which?

62% of those responding said that their plans were written to conform to a specific standard (43% in 2003).

Of these, approximately 18% said the standard they used was, or included, the British Retail Consortium (BRC) standard. (38% in 2003). 35% said they used EFSIS, and 18% "ISO".



Indications:

More respondents this year have plans written with a specific standard in mind.

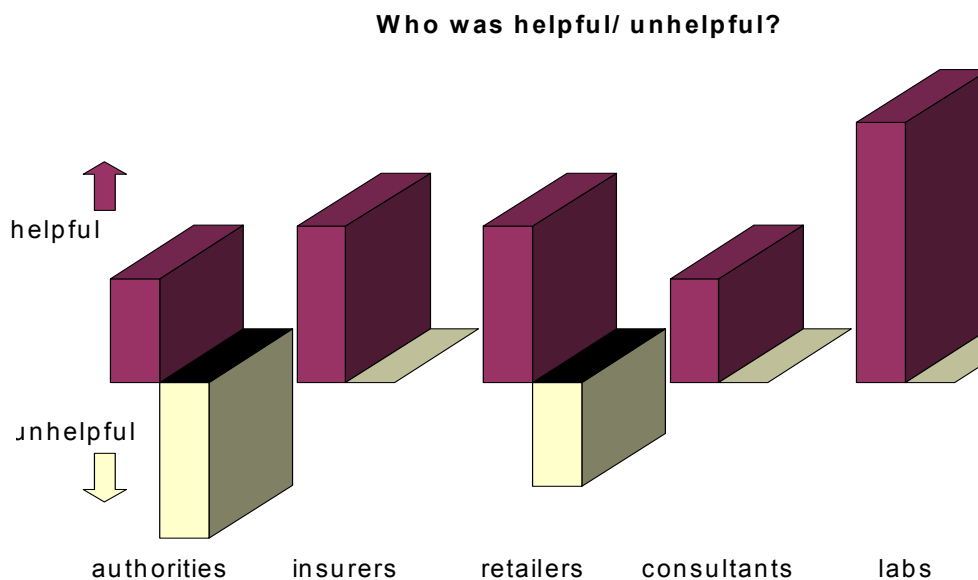
However, there is still no one standard emerging as the leader in this field. See our website (www.stirlingreid.com/recall.htm) for some comments on the present situation.

How were recall incidents handled?

We asked:

Who did you find most helpful in any product related incidents you have handled? (eg FSA, retailers, consultants, insurers, laboratories?)

Who did you find least helpful?



Indications:

As in our 2002 and 2003 surveys, retailers are both the least helpful (except for the authorities) and among the most helpful.

Once again, this suggests to us that getting your relationship with the retailers right is the single most important factor in a successful product recall.

For the first time this year, we asked:

How do you handle complaints from the public about your products?
How would you identify any significant "clusters" that might point to underlying problems?

Approximately half of the respondents answering this question have a computerised complaint tracking system.

Approximately two thirds appear only to look at complaints on an 'ad hoc' basis.

This does not vary, as you might expect, with the size of companies. As high a percentage of small and medium companies use computer systems to track complaints, and regularly analyse the results for clusters, as do large companies.

Indications:

Complaint tracking is an essential fore-runner of good product recall, since it helps to identify problems more rapidly.

Our evidence suggests that not all companies apply it systematically.

This is not a function of the size of the company.

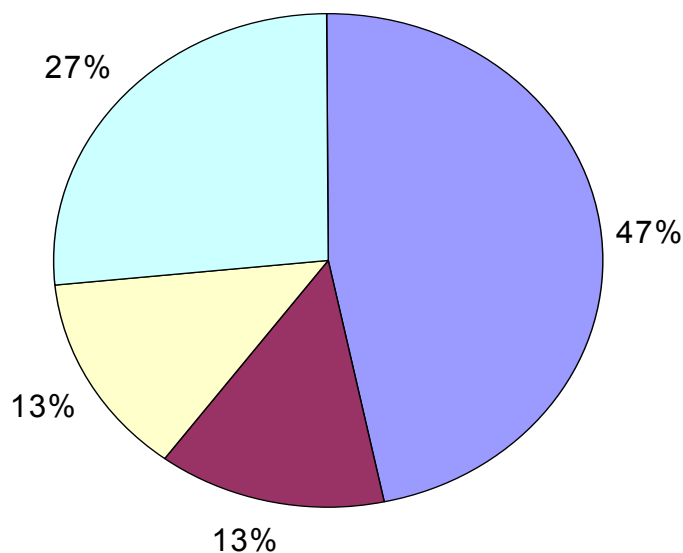
The EU General Product Safety Directive

We asked:

The European Union General Product Safety Directive comes into effect on the 1st of January 2005. Have you updated your plans to reflect this?

The most common responses (by percent of respondents identifying them) were:

■ Not updated ■ Don't know ■ No impact ■ Updated



Indications:

Excluding the 13% of respondents who believe that the Directive will have no impact on their business, 60% of respondents either do not know if they will be affected by the Directive, or have not yet updated their plans to cover it.

See our website. (www.stirlingreid.com/recall.htm) for information about the Directive.

Note on methodology

We successfully sent out a total of just over 1325 emails to selected food and beverage production or distribution companies. (Some wrongly addressed emails which 'bounced' are not included in this total.) Because many email users are suspicious of spam and viruses, we also sent out copies by post and through other contacts, such as insurers.

The questions were as set out in the sections of this report. Recipients were asked to answer them 'off the top of their heads' (ie without undertaking specific research) and not to answer any questions they didn't want to answer. Respondents were offered a summary of the results in return for completing the questionnaire. We undertook to aggregate the responses and summarise them, but not to release any individual replies.

We received replies from 67 companies, or 5.05% (Not all respondents answered all the questions). We are very grateful to those companies who responded.

This is the third annual survey. It is our intention to repeat this survey in future years, to build up a statistical picture over a longer time period. Although we ask a core set of standard questions each year, in order to build up a time series, we also try to include one or more topical questions each time. We welcome suggestions from readers of this survey.

Please address any questions or comments to David Upton at davidupton@stirlingreid.com

Stirling Reid Limited
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