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## Be Prepared Managing Product Recalls

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# 'Be Prepared' Is Motto that All Companies Should Follow When It Comes to Recalls

BY JEAN V. MURPHY

*Companies need a rigorous, multi-pronged approach to prevent faulty products from ever reaching the market, and careful plans for efficiently executing a recall should one become necessary.*

Last summer's spate of headline-making product recalls was a frightening reminder to many companies of the quality and safety risks lurking in global supply chains. The loss of visibility and control that often occurs when sourcing and manufacturing move offshore is one major contributor to risk. But there also are factors closer to home, where competitive pressures for a constant flow of new, low-priced products can easily lead to design flaws.

Toy maker Mattel had to deal with both situations during 2007's "summer of recalls"—high lead levels in paint on products manufactured in China and design problems that allowed powerful magnets to come loose, posing a danger to toddlers who might ingest them. Mattel took aggressive action in all cases, recalling millions of toys, beefing up its testing procedures and quickly changing the flawed designs. Still, the recalls cost the company millions of dollars and untold damage to its brand.

To mitigate and manage such risks, experts say, companies need a multi-pronged approach that includes rigorous measures to prevent faulty products from ever reaching the market and careful plans for efficiently executing a recall, should one become necessary.

With recalls, "preparing for the worst" is the only policy to have, says Gil Hobson, vice president of sales, Carolina Logistics Services (CLS), Winston-Salem, N.C. "Being prepared is the primary way that companies can mitigate their risk and properly control a recall," he says. CLS provides reverse logistics services, including recall

management, to leading companies in the consumer packaged goods and health care markets. It processes more than a billion items annually of returned, recalled or withdrawn products as well as conducting thousands of audits and mock recalls.

The best first step in planning is to develop a recall protocol, Hobson says. "Multiple people within the organization need to be included in the protocol planning—anyone that is part of the supply chain. This includes logistics, marketing, sales, finance, legal, IT and quality. Each area plays an important role."

Hobson says that a contingency plan for recalls should be reviewed with all the parties involved once a year, at a minimum. "People change positions, so those that initially understood all the details may no longer be part of the team and new members need to be updated," he says.

Some of the elements that Hobson says a protocol should include are:

- How to communicate information on the recall, internally and externally
- Methods for notifying customers, such as email, fax, letter or business reply cards
- Product retrieval procedures
- Product storage and disposition
- Credit or payment procedures
- Reporting to executive management and any government agencies.

"Plan A for most companies is to assume that they will never have a recall," Hobson says. "When a situation develops that requires Plan B, a well-established recall protocol and experience with mock recalls can make a huge difference."

This is a theme that the Supply Chain Risk

Management Practice at Marsh Inc., New York, also preaches to its clients, says Alan Schoem, senior vice president of Marsh's Global Product Risk Practice. "If a crisis erupts, everyone needs to know exactly who is responsible, what to do and how to do it so that product can be located and pulled back as expeditiously as possible."

A recall situation is "one time when you absolutely don't want chaotic procedures. It is important that everything be handled in a controlled and systematic way," agrees Dennis Reimer, owner of the Baltimore office of SEKO Worldwide, a global logistics services provider. "That means making sure that your team has all the right people, including people at your logistics partner; identifying IT resources that need to be brought to bear; defining the types and levels of data that need to be exchanged between parties; and making certain that everyone knows which operating procedures they are to follow," he says.

Most large companies do, in fact, have well-defined policies in place on what to do in the event of a recall, says Krish Mantripragada, global head of supply chain management and RFID solutions at SAP, Newton Square, Pa. "The challenge typically is being able to execute on that plan when something happens," he says. This is especially true when companies are dealing with off-shore suppliers that may not be as sophisticated or have the necessary IT systems in place to automate key processes, he says. "Then you may have to rely on human intervention to be able to execute, which is always more difficult."

Executing a recall broadly includes

four steps, Mantripragada says. The first is identifying the magnitude of the problem. This requires understanding the cause and then narrowing the scope of potentially affected products to as few as possible. The second step is locating the product in the supply chain, which requires knowing where those specific products were sent and whether they are in storage, on the shelf, or have already been purchased by a consumer. The third step is notifying customers and physically getting the affected products back. The fourth is properly disposing of affected product and taking care of required documentation, reporting and reimbursements. SAP has created recall templates for various industries designed to help companies with all these steps, he says.

### How Big is the Problem?

Identifying the magnitude of the problem is crucial to containment and depends largely on good record-keeping.

“When there is a problem, most of the time only 1 percent to 2 percent of product is affected, so having to bring back everything is a huge waste all around,” says Jon Rasmussen, director of consumer goods at Intermec, Everett, Wash. “Being able to identify just that small percentage of flawed products begins at the source, with identifying and tracking the raw goods or components,” he says.

“If the problem stems from an ingredient, you have to be able to find everything that ingredient went into,” says Beth Berndt, director of product management and industry solutions, CDC Software, Atlanta. “Each lot of ingredients has to be traceable to specific products.” One way that this typically is done is by time-stamping and otherwise coding production or machine runs, which enables a company to keep track of which lots of an ingredient or which components went into the products manufactured on a specific line between specific times of a specific day.

Berner Foods, Dakota, Ill., relies on the CDC Factory solution for its record-keeping. “CDC factory gives us real-time data that supervisors, managers, and even operators all can access, so if we need to go back and look at the time-stamp data, we can get that and pull it into reports very quickly,” says Gary Gold, vice president of quality. Berner is the industry’s leading private-label manufacturer of premium process cheese sauces, spreads and toppings.

Federal food and drug regulations require that food companies like Berner be able to trace products within several hours, but “that is not good enough for our standards,” says Troy Grove, IT director. “We want to be able to identify all the ingredients that went into a product and where all of the suspect product is within one hour.” When dealing with ingestible products, the time factor is critical, he says, and “CDC has really helped us” meet this stringent time goal.

Berner has never had a recall due to its products, but did experience a recall because of defective glass containers from a supplier. “We were able to go in and look at all the different types of product that used that container. We found all the locations and within the hour were able to let customers know what product we needed to quarantine,” says Troy.

Time-stamping also is important when a product’s quality is impaired as a result of a manufacturing problem. “If you have the right controls in place, you can narrow

Some industries are making innovative use of leading-edge technologies like radio frequency identification and global positioning systems to help establish from-the-source visibility. “Intermec has worked with food growers that use GPS to determine where in the field something was picked, within a pretty narrow area,” says Rasmussen. Then, using RFID tags on the containers, companies can track this produce all the way to where it is handed off to the cleaning and packaging realms. The GPS and RFID data can be saved and tied to the lot number assigned the produce during processing, he says.

Pharmaceutical companies also face stringent requirements to identify and track all ingredients that go into specific manufacturing batches. One best practice among these companies is to make certain that lots of active ingredients are not split among packages, says Anand Iyer, a fellow at i2 Technologies, Dallas. “If you get a bottle of pills, you can be guaranteed

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— Gil Hobson of CLS

down the time when a machine malfunction might have resulted in inferior products,” says Tom Kozenski, vice president of product strategy at RedPrairie, Waukesha, Wis. “If you know what inventory was made in a specific time frame, you know which products to go after. If the problem lasted for only a short period of time, having to call back everything that you made that day or that week is just tragic.”

Based on its many years of work with major food and beverage clients, RedPrairie has built into its solutions inventory controls that include time stamps, lot controls and expiry dates based on shelf life, Kozenski says. “Because we have been doing that for decades with our food and beverage customers, we had the structure in our system to support these functions and have evolved a best-of-breed offering.” RedPrairie’s solution, QA Recall, is a web-based application that can be run from anywhere, he says.

that every pill in that bottle came from the same manufacturing lot, so if you identify one lot as defective, you can cleanly identify the subset of bottles that have pills from that particular lot.” Pharmaceutical manufacturers have a handbook of good manufacturing practices that cover these types of safety issues, Iyer says.

In many other industries, however, companies are not ensuring this backward visibility or are using time parameters that are too large, says Marsh’s Schoem. “Some change time codes every month, which means that, at a minimum, they would have to recall a month’s worth of production,” he says. “Changing the date code daily or even hourly can dramatically limit the scope of a recall.”

Another area that companies need to work on is in monitoring calls from customers concerning problems with a product, Schoem says. “Call centers need to be instructed in how to handle these calls and



need escalation procedures to get that information to the right people.” In some instances, the company may need to get a product back from a customer for further testing and evaluation. Schoem recommends having a standing relationship with a testing lab. “If you have a testing lab on retainer, which we encourage, you can be assured of getting them to focus on your problem without delay,” he says.

### Recall Avoidance

“The best recall is NO recall,” says Counihan, and the best strategy to achieve this goal is to have rigorous quality assurance programs that prevent faulty products from reaching the market. “Quality inspections need to be enhanced and risks reevaluated continuously,” he says. “Every time a company makes changes to a product line or to a source of supply, it needs to identify where the risks of a recall might be and take appropriate preventive action.”

“We really need to think back to the TQM philosophy of the ‘60s and ‘70s,” says Iyer. “The mantra then was that you can’t inspect quality in, you have to build it in. That’s still true.”

Avoiding recalls needs to start at the R&D and design phase, says Sven Denecken, vice president of ERP market strategy at SAP. “Today, when you design something you had better look not only at the costs but also at a supplier’s ability to meet all compliance requirements. It requires a very collaborative approach.”

SAP’s best-practice templates for different industries help companies establish manufacturing practices that ensure that quality and compliance requirements are embedded into the process, as well as enabling visibility and collaboration, he says. “At SAP, our primary focus is to enable companies to avoid recalls to begin with.”

TradeStone, Gloucester, Mass., also focuses on helping companies avoid recalls with its Factory Footprint solution. During the design process, as traits and characteristics of a product are established and sources of supply identified, Factory Footprint automatically recommends the types of tests, certifications and inspections that need to be done, says CEO Sue Welch. “So while a company is in the design process, it can start to collaborate with suppliers on these requirements and force them early on to

agree to comply with the requirements and to show that they are capable of doing so.”

The TradeStone application also includes processes for evaluating factories on social, ethical and legal compliance, she says. “Factory Footprint is able to take information from the factory, from on-site inspections and from audits to make sure this factory is qualified to do business with the buyer.” In the next stage, it analyzes the products to be made and lists the types of certifications required for those products to be imported to the U.S., so the company can confirm that the needed certifications are in place, she says. “This is all about determining if the supplier is a valid one for that buyer and then monitoring and auditing compliance on a continuing basis,” she says.

“Anyone who imports anything needs to either develop more discipline with their overseas partners or put people on the street overseas to do inspections,” says Kozenski. “The other alternative is to increase inbound inspections here in the states when goods arrive. If someone from the government comes in and asks to see a record of your inspections of imported products for the past six months, you are going to need to have all your ducks in a row.”

One of the issues that led to Mattel’s recalls last summer was that a trusted 15-year supplier in China subcontracted work to a supplier that used the high-lead-content paint. Mattel at that time allowed the original supplier to do its own testing. It has since increased its quality assurance budget by 25 percent and significantly increased product testing.

Finding suppliers with whom you can develop long-lasting relationships still is the best strategy, says Mantripragada. “What we are seeing is that leading companies are taking extra steps to educate their suppliers regarding manufacturing best practices and, in some cases, are helping them deploy the right IT infrastructure to ensure that these best practices are adhered to. That’s the way to go, because for long-term competitiveness, long-term supplier relationships ultimately are a necessity.”



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