Recalls: An Inevitable Obstacle in the Manufacturing World

Prepare Your Business For When Disaster Strikes

Manufacturers have a responsibility to produce quality products that uphold consumer safety. Every manufacturing company tries to establish the highest level of quality control in their products. Even with the best design efforts and production planning, no manufacturer can be completely immune from a product recall and the resulting costs. This is especially true in subindustries like medical device products (441.3million recalls in 2019), automobiles (53million recalls in 2019), children's products (an 11.5% increase in recalls 2018-2019), and food products. Defective products in each of these industries pose a significant threat to consumer safety and result in significant injury or even death.

A product recall is a process of retrieving and replacing defective goods for consumers. The manufacturer absorbs the cost of replacing or repairing defective products and reimbursing customers when necessary. When not appropriately addressed, recalls can result in tarnished brand reputations, hefty legal fees, or even bankruptcy. There are currently six organizations within the US that monitor and recall manufactured goods, including the Consumer Product Safety Commission (CPSC) and Food and Drug Administration (FDA) (1).

> "Using lot number tracability with SAP Business One we can now trace every raw material back to a single vendor and in fact, we can perform a complete recall just by pressing one button. Before, we had to search through piles of paper to find this information, which was exasperating. Now we can find it in seconds!"
>
> -Juan Pablo Viejo, Chief Operations Officer, Easy Foods

What are the Impacts of Recalls for Midsize Manufacturers?

The rising pressure for manufacturers to produce new and innovative products as quickly as possible and at the lowest cost has resulted in more recent recalls. To stay competitive, companies are focused on fast production and the rise of e-commerce has caused companies of all sizes to increase their global footprint. Furthermore, increases in technology mean that manufacturers are developing brand-new products faster than ever before. The sheer volume of products in the market means the overall number of recalls is also increasing. For example, medical devices saw a 70.69% increase in the average number of units recalled per quarter between 2016 and 2019 (3).

Small and midsize businesses especially need to be prepared for product recalls. Nearly one-third of product recalls are from companies with five or fewer employees (1). While large corporations have the capital and brand recognition for recovering from recall repercussions, smaller companies are at high risk of going bankrupt if they do not manage recalls optimally. Midsize manufacturers need to establish best practices to conduct recalls quickly and efficiently, promoting customer safety and minimizing losses. Luckily, manufacturers can establish best practices for having a successful recall such as: optimizing lot and batch traceability, communicating with customer effectively, pinpointing and reducing costs, planning ahead, and reporting quickly and accurately.

Optimize Your Lot Traceability and Locate Batches Efficiently

Many small and midsize businesses only have internal traceability functionality, providing a one-up, one-down view for each product batch. To run a successful recall, you

Medical devices saw a 70.69% increase in the average number of units recalled per quarter between 2016 and 2019.(3)

need to know exactly which product batch is affected, where it came from, and where the product is distributed. This chain of events requires full end-to-end visibility into each product throughout the entire supply chain.

An Enterprise Resources Planning (ERP) technology gives you full visibility into your products, both during and after production. You have advanced lot traceability technology that allows you to maintain better inventory accuracy and ensure compliance with customers and industry requirements. Inventory batches represent a subset of inventory items that share the same properties, which usually include being received on a specific date, specific costs from a particular supplier, the location it was sourced from, expiration dates, and more. ERP allows you to locate batches of product at any point in your supply chain, including raw materials sourcing, distribution paths, storage procedures, and product delivery. You can view exactly where the defective products came from and where they are located now. This level of visibility allows you to identify exactly which customers are affected by the recall, so you can alert them as quickly as possible and take necessary action to ensure their safety. You will also identify the exact nature of the defect and where it occurred in the production process to avoid similar situations in the future. Standardized labels can be used to scan inbound and outbound product shipments. This gives you complete information on each of your products, simplifying the recall process.

Pinpoint Costs to Minimize Losses

It is no secret that recalls can result in massive fiscal losses for companies of all sizes. Considering lost sales, replacement costs, refunds, government sanctions, and lawsuits, a single recall can become a billion-dollar ordeal. For example, the recall of Takata airbags in 2016 was the costliest worldwide, affecting 19million cars and resulting in a $26billion loss (2). While difficult to quantify, the impact on brand reputation and decreased consumer trust can incur even greater losses than the short-term impact of a recall. This is especially trying for small and midsize manufacturing companies, who do not yet have a huge customer base or capital to fall back on when something goes wrong.

ERP technology allows you to exactly match the cost of each of your product recalls. Your inventory information and accounting are automatically synced, so you have an accurate view of pricing, orders, and refunds when applicable. Statistics on recalls can be easily displayed, including actual and estimated costs associated with each recall that you can easily extract into reports. Furthermore, being able to respond as quickly and efficiently as possible minimizing the logistical costs of a recall, prevents more customer injuries and ensuing lawsuits from delayed communication, and minimizes the decrease in consumer trust.

Meet Regulations with Rapid Reporting

To provide the necessary reporting for government regulations on your recalls, accurate reporting is essential. Organizations like the FDA and CPSC need to be alerted of the product recall and your plan to execute it, and often action cannot occur until your recall plan has been approved. Regulatory organizations also require detailed reporting around the nature of the recall and the products affected, which can be time consuming without automated reporting and easy access to product data.

An ERP system hosts end-to-end supply chain information on each of your products, starting from raw material sourcing to delivery and in field-tracking. Being able to produce this level of reportingon each of your product batches on the fly makes it easier for regulators to approve your recall plan as soon as possible, so you can act quickly and mitigate losses.

What was the most costly recall recorded? A recall of Takata airbags in 2016 affecting 19 million cars and resulting in a $26 billion loss

Have a Plan to Reduce Response Time

The longer it takes for you to perform a recall appropriately, the higher the damage to your brand and the higher your recovery costs. It is incredibly important to have a recall plan so your team is not fumbling to correct the situation. Having set processes in place for communication, returns, and reporting allows you to respond to unforeseen product defects as quickly as possible, so you can minimize losses and reduce the threat to your customers' safety

Business planning software that allows you to run a "mock recall" allows you to develop a game plan for when recalls happen, so you can respond swiftly and effectively. You can also set up reverse logistics, so you have a set process for completing returns, reimbursements, and other necessary actions for when you encounter a recall situation.

Conclusion

Optimizing your recall functionality is important to reduce costs not only due to the recall itself, but also to prevent the loss of customer loyalty and future sales. Having a system in place that simplifies recall processes allows you and your team to focus on what is most important: producing quality, innovative products for your customers.

SOURCES:

1. https://www.hanover.com/resources/tips-individuals-and-businesses/prepare-now-learn-how/product-recalls-growing-concern

2. https://www.statista.com/topics/3798/product-recalls-in-the-united-states/

3. https://www.qualio.com/blog/medical-device-recall-statistics

4. https://www.statista.com/topics/3111/food-recalls/