

Study describes what companies should do to recover from a product recall

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Manpreet Hora, an assistant professor in Georgia Tech's College of Management, examined more than 500 toy recalls between 1988 and 2007 and suggests ways firms can minimize the business impact of a recall. Credit: Georgia Tech

A product recall can significantly affect a company's bottom line and its reputation, but a swift recall and restitution to purchasers can minimize harm to the company - and even improve customer satisfaction. A study examining more than 500 toy recalls between 1988 and 2007 suggests ways that firms can minimize the business impact of a recall.

The results of the study, conducted by researchers at the Georgia Institute of Technology and the University of Manitoba, were described on May 2 at the Annual Conference of the Production and Operations

Management Society. This research was funded by the Social Sciences and Humanities Research Council of Canada.

"Recalls undermine trust in a specific brand and it can take the company a long time to recover from the damage to its reputation, but it doesn't have to take a long time if the company uses good crisis management tactics," said Manpreet Hora, an assistant professor in Georgia Tech's College of Management. "Reducing the time it takes to recall a product will have a positive effect on consumers' willingness to purchase other products from the same company and if the recall is handled well, the [stock price](#) may recover to the same level as before the incident."

The best example of how to deal with a product recall is the Tylenol tampering case in the 1980s. Johnson & Johnson demonstrated that the safety of consumers was paramount by swiftly recalling the product, cooperating fully with regulators, and communicating openly about the issue, the researchers noted. Subsequently, the firm undertook a series of operational and design measures to ensure that such tampering would not occur again.

According to Hora and Hari Bapuji, an assistant professor at the University of Manitoba, effective recovery from a product recall begins with the way in which the company announces the recall. The firm should engage the public and immediately disclose all relevant recall and replacement information as soon as possible. Even if the recall was the result of a purchasing, out-sourcing or off-shoring decision, the company should take shared responsibility for the error, the researchers say.

"Consumers are forgiving, so if a firm apologizes, acknowledges the problem, and doesn't make the mistake again and again, consumers will continue to be loyal to that brand," said Hora.

After apologizing, the firm needs to get the product off store shelves and

out of consumer' hands as quickly as possible. To do this, the firm must choose the best way to compensate the product purchasers and who will interface with the customer to price the restitution. There are many choices - the manufacturer, distributor or retailer can collect the recalled product and restitution can be provided by repairing or replacing the product or refunding the purchase price.

"Firms must keep in mind that the best choices are those that decrease the time it takes to recall the product and our analysis shows that it takes much longer to recall the product if the company that announces the recall is further away or upstream from the consumer," explained Hora.

Therefore firms need to collaborate and communicate well with their downstream distributors and retailers so that the distributors and retailers are willing to handle the recall for the manufacturer, leading to much faster recalls. However, if there are millions of units being recalled, it can be a logistical nightmare for the retailers to handle the issue.

When it comes to the type of restitution, shorter recall time is associated with exchanging rather than refunding the recalled product. The firm will fare better if the consumer doesn't have to jump through a lot of hoops for restitution, which may mean allowing consumers to visit a local retailer to return the item for a refund. In other words, companies fare better if they recall the product and provide a refund through a retailer.

The researchers also studied how different types of recalls and defects affected the time it took to recall a product. Their results showed that manufacturing defects, such as lead content in toys, took much less time to recall than design defects such as detachable magnets. They also found that reactive recalls - recalls due to an incident, injury or death - were more likely than preventive recalls to result in exchanges, which dramatically reduced the recall time.

Hora and Bapuji are currently expanding their study to investigate how other industries recover from product recalls and whether firms learn from product recalls outside of their own industry. Since product recalls occur in many industries, the researchers are studying whether recalls by other firms lead companies to investigate their own production and supply chain processes to avoid the same issues.

"Having effective recovery strategies for dealing with product recalls efficiently and in a timely manner is imperative," noted Hora. "If a firm handles a product recall crisis well, it can be turned into a positive advantage for that company by actually increasing consumer satisfaction beyond where it was before the recall."

Source: Georgia Institute of Technology

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