

# **Product Recalls: Marketing Failure and Implications**

## **Part 1**

### **Product recall:**

A product recall is a request to return to the maker, a batch or an entire production run of a product, usually over safety concerns or design defects or labeling errors that we will see in below list of cases compiled for diverse companies and product categories.

### **The issues:**

Product recalls are not uncommon phenomenon as evident from below given compilation and best of the companies and brand leaders are involved in this from time to time. When there is too much outsourcing to lower costs so that US CEOs can play golf and show company efficiency to shareholders, it gets worse.

1. Do product recalls relate to negligence on part of manufacturers in supply of goods? Do they damage Brand image or enforce it by effective and quick replacement of defective product/ repair? We may also call it damage control.
2. The decisions have to be taken fast on receiving a significant number of initial complaints about safety concerned defects common to all users or accidents that might have taken place or there is serious design or component problem in product which may create problem for image of company and drag them into litigations for costly settlements. Consumers' life may be at risk.
3. What about failure of service provider like lawyers, doctors and others (Called service failure and service recovery processes), because in this case recall is not possible.
4. What local governments do about this issue and what are laws in various parts of world (We shall take only USA and India in this article) about these issues of product defects and safety concerns-specially for drugs, children products, and automobiles, home gadgets and food items. Of course in any product, safety concern may exist like clothing or even bibs used for children.
5. What are consequences of defective product supplies and its cost of calling back?
6. WTO agreement has a chapter relating to Sanitary and Phyto-Sanitary (related to plant material sources) conditions for imported food and other related items,

which is being criticized by India and many other developing countries as non-tariff barriers. But recent incidents seem to justify such controls especially in food products, drugs and electric goods and even textiles (flammable skirts scandal that took place a few years back exported from India to USA buyer) and those that come in body contact like Toy paints or decorative items and cosmetics, of course.

7. How the product recalls can be handled and is it possible to build in a system for possible product recalls like that for disaster management systems and Information system crashes in companies? How companies can ensure quick and safe recalls and ensure traceability of goods down the channel of distribution, the response time to recall and the reverse logistics for customers returning goods and getting refund or replacement. Customers may ask for damages in courts (USA). The delay may be fatal for consumers in certain products like electric appliances, automobiles and food items/medicines. The recalls do have financial implications for companies and some may get doomed even.

8. Why these product quality failures (technical, functional or ingredients quality) occur and are these avoidable by process control models and advanced quality control systems? Many failures are accounted for by poor design and ignoring safety aspects, like sharp corners in toys or loose parts or buttons on children garments which can be swallowed by kids.

Generally speaking Companies recall products when defects seem to have safety concerns for customers and affect large number of customers. Otherwise normal warranty procedures are adequate as part of standard marketing practice. Thus recalls are more of preventive in nature and to pre-empt costly litigations and financial and goodwill losses.

### **The story of Product recalls:**

My first encounter with product recall in market was when I was undergoing my MBA summer training at Glaxo Laboratories, now Glaxo Smithkline Beecham (GSK), Mumbai at their Worli, plant. Glaxo had a unit at Aligarh (U.P) to make Baby powder/foods like Farex (Remember the then famous 'bony bony baby – Farex baby' radio jingle? Later Aftab Shivdasani, now film star, had modeled as farex baby). This brand is now with Wockhardt. Wockhardt acquired Dumex India; Protinex & Farex (News item dated July 1, 2006). Before that Heinz (USA food Giant) bought it from Glaxo 11 years back when Glaxo globally moved out from food business.

Due to some problem in composition of powder then in some batches, the product was recalled from market and I witnessed a flurry of activities by Glaxo staff, the effort being colossal even in those times (1977) of smaller sales volumes to contact various drug stores and other stores that marketed baby food

and allied items. There were no faxes, TVs in small cities and emails (internet); phones were only in D.O.T monopoly and sluggish.

This process of recalling products from sales channel partners or consumers may be called Reverse logistics (read my paper on this on indianmba.com) and costs are enormous. To call back widely distributed consumer products like battery cells, toys, and baby powder is quite cumbersome and expensive with time shortage ( One can't wait for disaster to happen).

Frankly speaking I was wondering if there was no immediate threat to life of babies, why Glaxo had gone to such a length and did all efforts to call back product from markets and of course it had no alternate use except for making a bonfire, may be. But the Glaxo brand made deep impression on me as a socially responsible, ethical and professionally managed company. Remember there were no Consumer Protection laws then and concept of Corporate Social Responsibility and Corporate Governance did not exist in India, at least. It was License Raj in full swing and most of goods were in short supply.

Things have not improved since then and product recalls continue unabated across a cross section of industry and products by best of companies.

Let us have close look at some past and current cases of product recalls. These recalls are either for replacement or refund (return) or simply for repair or replacement of defective part(s) from product that is not meeting standards or is unsafe. Very recently following product recalls have taken place (at the time of writing this article):

### **USA/Globally-**

Mattel Inc. toys, manufactured for them by a Foshan based Chinese company (the owner, Zhang Shuhong has already committed suicide (August 14, 2007 news item) for small detachable and swallow-able magnet in toys and lead (in paint) health hazards allegedly in some other toys. The recall runs into millions of toys.

The U.S. Consumer Product Safety Commission has issued more warnings, this time recalling thousands of SpongeBob SquarePants journals, various spinning tops and children's jewelry, following Mattel episode.

A class-action lawsuit has already been filed against Mattel related to its recent recall of more than 1 million lead-tainted toys.

Nokia- Mobile phone batteries BL-5C (manufactured in China but for Matsushita, Japan) have been recalled for getting overheated and bursting during charging- Although most of mobile sets heat up while in use for a longer period continuously-this is yet to be addressed by mobile manufacturers who are busy

reducing instrument size. Another issue related to safety in Mobile hand sets is micro/radio wave emissions that emanate from handsets and being doubted as health hazard (no conclusive studies are yet available). In perhaps the largest product recall in India, mobile giant Nokia recalled 46 million batteries pursuant to customer complaints across the globe.

A couple of days ago, Nokia issued a 'product advisory' (the company does not call it a recall) for these BL-5C batteries having certain period of manufacturing. On the first day of the opening of its centre (August 16) for advice on the faulty batteries, Nokia India answered 20,000 calls and received 1.45 lakh SMSes , according to Devinder Kishore, Director- Marketing. Product Recalls: Marketing Failure and Implications

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**- To be continued**