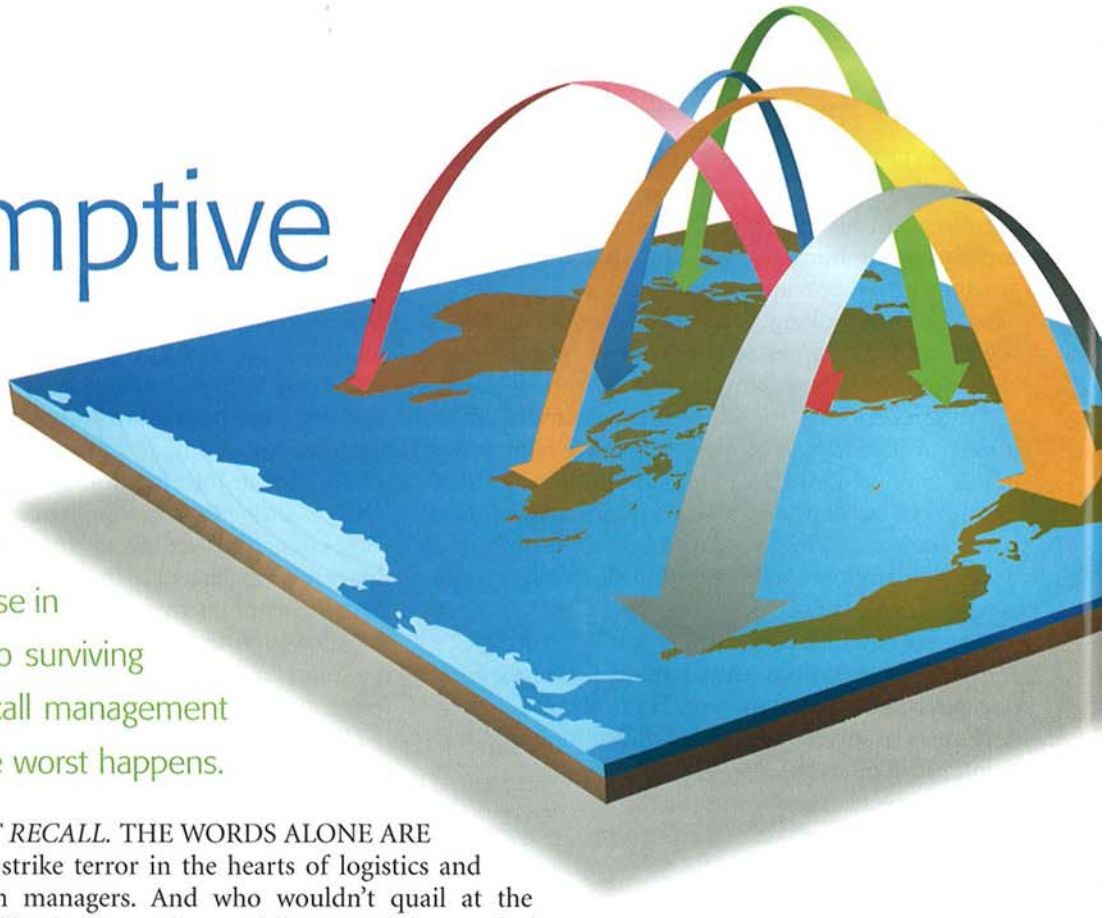
BY TOBY GOOLEY, MANAGING EDITOR

REVERSE LOGISTICS

pre-emptive strike



No one wants to think about the possibility of a product recall. But those in the know say the key to surviving the crisis is to put a recall management plan in place *before* the worst happens.

PRODUCT RECALL. THE WORDS ALONE ARE enough to strike terror in the hearts of logistics and distribution managers. And who wouldn't quail at the prospect of having to retrieve and dispose of thousands (perhaps millions) of individual items—usually with little or no advance notice?

Even companies with reverse-logistics systems already in place may find product recalls daunting. After all, there's so much at stake: In addition to the cost of retrieving and repairing or destroying recalled items, companies may rack up millions of dollars in transportation, inventory, and other costs to replace faulty merchandise.

Most costly of all, perhaps, is the loss of customers' confidence. Just ask Topps Meat Co., which went out of business less than a week after recalling more than 21 million pounds of frozen beef. Or ask Mattel, which now faces a shareholder lawsuit over allegations that it mishandled recalls of unsafe toys.

The infrastructure, processes, and technology needed to protect your company's interests during a recall are complex. They take time to develop, test, and implement. If you wait until a "red alert" occurs, it will be too late. The only way to successfully manage one of these nerve-wracking situations is to launch a pre-emptive strike—putting a plan in place *before* the worst can happen.

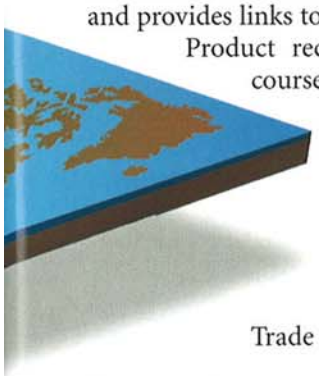
Make a federal case of it

Before you put together an action plan, there's research to be done. "One of the most important things to recognize is that there are very defined disciplines and procedures that need to be followed," says Tom Giovingo, executive vice president of Fidelitone Logistics, which handles recalls for automotive and other manufacturers. "You need to make sure you have fully explored all the requirements and procedures."

Many of those requirements come straight from the U.S. government's playbook. The Food and Drug Administration, National Highway Traffic Safety Administration, Consumer Product Safety Commission, and several other agencies get involved in recalls. Each has its own rules—and if you don't

follow them, you could be in violation of federal law.

If you're unfamiliar with those rules, help is available. Six federal agencies have launched www.recalls.gov, a Web site that consolidates news about recalls by product category and provides links to more detailed information.



Product recalls aren't a U.S.-only problem, of course. "Any company doing business in any market across the globe has to know the rules and regulations that apply in that market. You have to be proactive in knowing the rules for all recalls, whether domestic or international," says Despina Keegan, a senior trade adviser in JPMorgan Chase's Global Trade Services group.

Plug up the holes

Knowing the rules up front lets you design processes with regulatory compliance in mind, says Giovingo. For example, the sorting process has to be paired with careful documentation because manufacturers must report to government agencies how many pieces were received during a recall, and of those, how many were deemed to be suspect or bad.

Effective recall management also depends on making sure *now* that you have the information you'll need later on. It makes perfect sense: You won't be able to identify the source of a problem if you haven't been tracking the origin and disposition of raw materials all along. And you won't be able to retrieve individual items if you don't know exactly where each one went.

Many companies have a basic system for identifying lot or batch numbers and for tracking cases or pallets, but they may not know precisely who the end customer is for a specific item or what ingredients went into which batch, observes Jack Walsh, director of sales for brand-protection solutions at Videojet Technologies Inc., a provider of marking solutions. Without that level of visibility, they may have no choice but to recall an entire product line just to be safe. "Those are the 'black holes' of the chain of custody," he says. "There's a cost associated with plugging those holes; people have to balance that against the risk and cost of having to conduct a massive recall compared to a specific recall."

The technology to plug those holes does exist. There are systems and software that can identify the sources of raw materials and track them before and during manufacture. Others label or mark goods in a way that will be useful during a recall, enabling tracking of individual orders, lots or batches, and stock-keeping units (SKUs) all the way from manufacturing to the end consumer and back again.

Some systems used for managing recalls are so sophisticated that they can pinpoint an item's exact location hour by hour. Tim Konrad, president of GENCO Supply Chain Solutions' reverse logistics unit, tells this illustrative tale: A consumer who returned a suitcase for repair later realized that she had left a jewelry case with a wedding ring inside. Using bar codes assigned to the suitcase and to the pallet on which it was strapped, GENCO was able to track the pallet and find out where the suitcase went, when it arrived at the

Recall dos and don'ts

Here's some practical advice from those in the know:

Jack Walsh, Videojet Technologies Inc.: Keep your product and customer database accurate and up to date. Pay attention to how the product code needs to be read downstream. Don't just put a code on the package; make sure it will serve a purpose and that it will be readable by the time it gets to the consumer level.

Despina Keegan, JPMorgan Chase Global Trade Services: Act quickly when a crisis does arise, and show the federal agency regulating your product that you didn't sit on the information. Your paramount goal should be consumer protection. That's what will help maintain your reputation with customers and protect your brand.

Tom Giovingo, Fidelitone Logistics: Recalls are not the time to be conservative and cautious. If you're unsure of your potential exposure, bring it all back. Step up to the plate and do what you need to do to make it right. You can't put a price on potential lost sales.

Kevin Brady, Satellite Logistics: Most state regulations make the manufacturer responsible for proper disposal of products. Make sure your recalled products don't end up being resold on the gray market and that you can accurately document disposal for regulators.

Krish Mantripragada and Sven Denecken, SAP: Not all suppliers are able to deploy an automated solution to manage the recall process effectively. By using existing automation to deploy standard, template best practices, they can achieve some level of quality-control compliance in manufacturing, logistics, and distribution.

processing center, and where it was located inside the facility. Voilà: One wedding ring returned to a grateful owner.

The ring episode shows the value of creating software-enabled associations between each link in the chain of custody. Another example: By associating the lot numbers on medicine bottles with the bar codes or RFID tags on cases and pallets, a manufacturer could trace individual bottles to a specific customer order and a particular delivery location.

ON THE MARK: HIGH-TECH MARKING SYSTEMS CAN HELP COMPANIES TRACK ITEMS ALL THE WAY FROM MANUFACTURING TO THE END CONSUMER AND BACK AGAIN.

An effective recall system should use such associations to collect, process, and share relevant information among multiple sources, says Sven Denecken, vice president of ERP market strategy for SAP. Connecting material tracking with regulatory restrictions helps to ensure compliance. It also helps to create the audit trails required by regulatory agencies as proof that potentially dangerous products have been properly destroyed or neutralized, he says.

One of the most important of those connections is the one between operations and finance; without it, you can't accurately determine the financial implications of a recall, says Krish Mantripragada, SAP's head of solutions management for RFID and supply chain management. That's especially clear when taxes and import duties are involved, notes Kevin Brady, president of beverage industry specialist Satellite Logistics. When alcoholic beverages have been recalled and destroyed, for instance, companies can file for a rebate of the excise tax—but only if the relationship between the product that was destroyed and the taxes already paid on that specific product lot can be accurately documented.

Protect yourself

The final area to consider in your plan is the recall equivalent of the "last mile": Once you have the faulty items back in hand, what will you do with them? The choices regarding product disposition, also known as material recovery, range from repair and resale to recycling of salvageable parts and materials to the total destruction required for regulated materials.

Protecting your company's brand undoubtedly will factor into that decision. "If you're a name brand with a billion-dollar marquee, you want discretion when it comes to material recovery," Brady says.

Whatever course you choose, it should be part of a comprehensive, detailed plan that lays the groundwork for handling a recall long before such an event occurs. "You want to be all dressed up and ready to go instead of scrambling," Giovingo says. "Anybody who's been in that kind of negative situation is definitely thankful they took the time to prepare beforehand." □

PHOTO COURTESY OF VIDEOJET TECHNOLOGIES

an ounce of prevention

Most of the recalls in the news recently have involved imports from China. Is it possible to prevent quality problems if you're located here and the factory is over there? "Maybe not 100 percent, but you can get pretty close," says Despina Keegan, a legal expert and senior trade adviser for JPMorgan Chase's Global Trade Services group. She advises her clients to be specific about product quality and testing requirements in contracts with suppliers. She also recommends making both scheduled and unannounced visits to check on production: "You can't rely on the product samples you got when you started doing business with a supplier," she says.

Verifying product quality requires a significant commitment. "You have to have systems in place just like we've seen for supply chain security and for checking that working conditions are safe and no child labor is being used," Keegan says.

Knowing exactly who the supplier is can be challenging in China, where layers of subcontractors are common and manufacturing "towns" are swiftly springing up throughout the country. Investigate carefully, remain vigilant, and regularly re-evaluate—and that goes not only for new suppliers and venues but also for long-standing relationships, she adds. The bottom line: "If you can't verify who you're doing business with, you don't have the resources to do it, or you're not allowed to do it, then you have no business doing business there."

The fault may not always be with the supplier, however. Research by professors Hari Bapuji of the University of Manitoba and Paul Beamish of the University of West London (Ontario) found that product design was the most common cause of recalls. Of the 550 toy recalls since 1988, 420 (76.4 percent) could be attributed to design flaws. Only 54 (9.8 percent) of the recalls were attributable to defects such as poor craftsmanship, overheating batteries, lead paint, and inappropriate raw materials.

Importers of Chinese goods may be setting themselves up for failure by focusing on making a product to certain specifications as cheaply as possible, says Sven Denecken, SAP's vice president for ERP market strategy. "They tend to look at it from a money perspective and from the perspective of ensuring that they always get the product on time," he observes. "They are not taking into account the possibility that one kind of supply is cheaper but it could cause product problems later on."