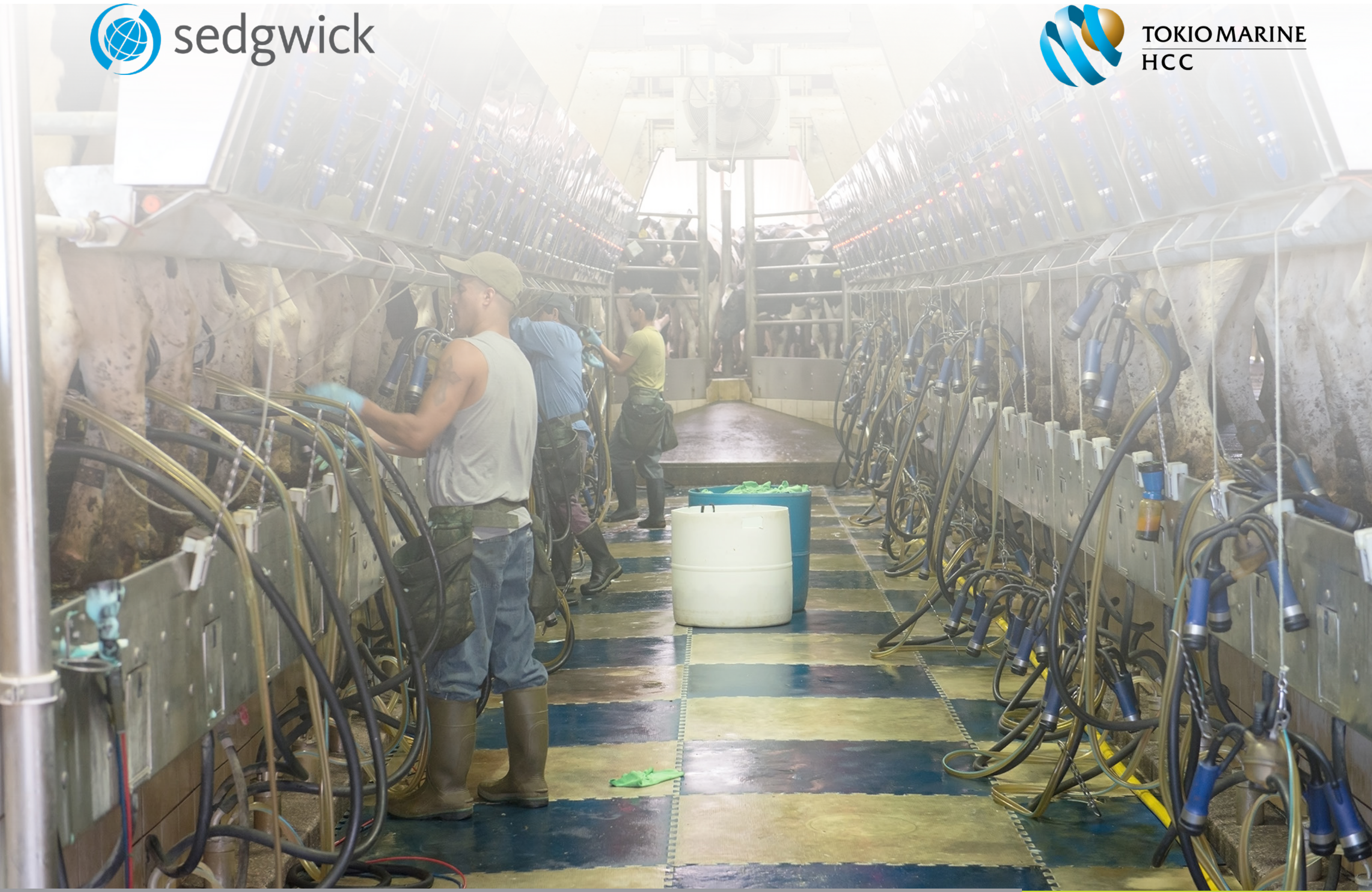

# Protecting your brand during dairy recalls

The dairy industry is facing more scrutiny than ever as regulatory agencies return to pre-pandemic inspection schedules and officials begin to enforce more strictly rules established under the U.S. Food and Drug Administration (FDA) Food Safety Modernization Act (FSMA).

Following the FDA's pandemic-related postponement of all domestic and foreign routine facility inspections, the agency has released a detailed plan to move towards "a more consistent state of operations."

By necessity, the FDA will continue using virtual inspections, such as livestreaming voluntary check-ins, screen sharing and – an element that is troubling for many companies – proposed new legislation requiring companies to send their private records to the agency as part of the virtual inspection process.

In addition to these challenges, companies must comply with long-standing regulations, including the FSMA, which requires food manufacturers to maintain a written food safety plan, identify potential hazards and implement preventative measures to control them. They are also required to monitor those controls closely and maintain records of regular monitoring practices. In addition, many dairy producers may be affected by the FSMA's Intentional Adulteration Rule, which requires a documented plan to address potential terrorist attacks against the food supply. Bulk liquids are considered to be particularly vulnerable to such threats.

But it isn't just guidelines within the U.S. As the market grows increasingly more global, companies operating in multiple countries face a complex patchwork of regulations. One main reason for this is the varying levels of dairy consumption around the world. Such regional differences, along with an increasingly strict regulatory environment, make recall readiness more important than ever.

## Mismanaging a recall can have serious consequences for a company's brand and bottom line, including:

- Regulatory fines
- Civil lawsuits
- Criminal prosecutions
- Loss of customer trust and loyalty
- Charge backs and other fees incurred from retailers

Layer in the fact that competition in the dairy category is high. Not just within the confines of a clearly defined product category, but the ever-growing number of alternative "dairy" products. One misstep in outbreak or recall management has the potential shift consumer loyalty from a well-established milk provider, to plant-based options.

With so much at stake, it is important that companies understand the most common causes of recalls within their industry, keep up to date with the changing regulatory environment and prepare for the likelihood of a recall by developing a comprehensive plan.

# Recall risk landscape

Recalls are a significant issue within the dairy industry. Dairy recalls accounted for nearly 10 percent of FDA food recalls from 2015-2020, with 224 companies announcing more than 280 recalls. More than 70 percent of these events were the result of bacterial contamination or undeclared allergens. These recalls impacted nearly 90 percent of all recalled units.

While recalls dipped slightly during the pandemic, activity is expected to rebound once oversight activities resume and expand. But the real risk companies face is not whether they encounter a recall. It is how that event will impact the brand and reputation in an era marked by diminished consumer loyalty, increased competition and changing consumer behavior. That will be largely determined by how well the event is managed and how the corrective action is communicated.

# Recall management

When a food recall is announced, even established brands can feel like they are facing a bet-the-company crisis. That's because the task of managing the details of a recall situation is dramatically different from a company's regular day-to-day operations.

The truth is an effective product recall quickly removes impacted products from shelves and restores consumer confidence. If not executed properly, however, this event can expose companies throughout the supply chain to potential litigation and brand damage. To compete in this ever-changing environment, dairy companies need a combination of unparalleled experience, field-based services and data-driven technology.

As supply chains and industry regulations increase in complexity, dairy recalls are becoming more prevalent. Companies facing recalls will need to effectively execute critical recall tasks such as:

- **Satisfying complex regulatory compliance obligations**. Companies must understand the regulatory environment, effectively communicate the recall to those affected, choose the right remedy and close out the recall as quickly as possible. This requires accurate, detailed recordkeeping from the first complaint investigation through to product disposal.
- **Identifying and notifying affected parties throughout the entire supply chain.** Companies must alert distributors, wholesalers, retailers, customers and other stakeholders in order to ensure affected product is no longer sold. Depending on the level of severity, a news release may also be required to notify the public. A combination of notification services, contact center support and an agile, global product removal team make the difference between a successful recall and a brand in crisis.
- **Coordinating seamless communication with all parties through a multi-channel communication center.** Once the recall is announced, it is critical to have an effective means of responding to consumer questions, including a well-staffed contact center and a dedicated website. A third party may be required to assist with this, depending on the scope of the issue. Customers should be advised of what action they should take and informed of what the remedy will be, such as a reimbursement or refund.
- **Evaluating claims and executing remedies.** When evaluating claims, companies should consider whether offering reimbursement and other remedies that go beyond standard compensation would help protect the brand.
- **Managing recall logistics and product reconciliation.** It is important to quickly coordinate shipment returns from distribution centers and remove affected products from store shelves. In doing so, the instructions for handling recalled products must be crystal-clear. Otherwise, companies can end up throwing other profits down the drain by removing non-recalled products with similar packaging or different batch, lot or code numbers. A field force can also help keep this type of shelf sweeping from occurring. Companies must also consider how they will handle, document and sustainably dispose of any returned product so it is never combined with unaffected product, inadvertently reentering the marketplace.
- **Conducting on-site effectiveness checks and monitoring compliance with product handling requirements through quality audits.** As affected product is removed from the market, effectiveness checks should be performed to validate the process and ensure data is accurately collected for regulatory reporting.

Manufacturers and retailers can ensure the quick removal of all affected products from stores by proactively defining a recall management process before events occur. Organizations that take swift action in putting their recall plan into effect are best positioned to mitigate risk and prevent irreparable brand damage.

# Recall planning

Creating and maintaining a recall plan – and then testing that plan with mock recalls – should be a top priority. The plan should include:

- **A designated recall management team with specific responsibilities.** This will help hold individuals accountable for their role in effective recall execution.
- **Consumer complaint evaluation and investigation process.** Companies should determine the process for identifying the root cause of the issue. Companies must also have a detailed plan for determining the nature of the health hazard, with guidelines for actions and remedies necessary depending on the severity of the risk.
- **Process for accurate recall scoping.** Companies need to be prepared to quickly and accurately identify where the product is being sold and how to get it off shelves, out of homes and back to the company for storage and ultimate destruction.
- **Notification procedures for informing regulatory agencies involved and partners upstream and downstream**. It is important to consider the pressures and challenges facing retailers, who may feel compelled to respond to product shortages, recalls and other supply related issues by reallocating shelf space or discontinuing a product line entirely. Failure to take this into account when working with your customers may keep your products off store shelves. If the product is sold direct to consumer, companies should be prepared to handle the complexities of an e-commerce recall.
- **Consumer engagement plan.** Communicating with consumers under normal business conditions is more challenging than ever before. But when food safety concerns make headlines, these challenges increase exponentially. Intense media coverage often leads to a deluge of calls, even from customers who have not purchased or consumed the product in question. Plan now for how to provide immediate, concise and helpful information to consumers and customers across all communications channels. The ability to do so will build rapport and trust with customers while significantly reducing potential miscommunication and opportunities for error.
- **Reverse logistics and product handling process**. Determine how to effectively remove products throughout the supply chain in a way that minimizes risk to manufacturers and grocers around the globe. Consider reconciliation, storage and disposal requirements once the product is retrieved.
- **Process for identifying and providing recall remedies.** When it comes to recall remedies, companies have several options available. A full refund or coupon for replacement is a common option. Be prepared for when a health issue arises, as many consumers will appeal for reimbursement of medical-related costs.
- **Detailed method for closing out the recall.** This depends on detailed data for regulatory reporting. Too often companies need to expand a recall after an initial announcement. These organizations have a much harder time recovering from the regulatory, retailer and consumer fallout. But effective recall planning – from initial investigation through to event close-out – can mitigate these risks.

By starting with a robust recall insurance policy and a comprehensive recall preparedness strategy, companies big and small are better suited to handle these complex scenarios. Delivering high-quality products is easier when the proper regulatory reporting data is organized and ready at a moment's notice.

# Conclusion

When it comes to food and beverages, brands and products can be intertwined with personal memories. That will never change. But don't be fooled into thinking that correlates to loyalty. Brands that are willing to tackle recall management plans before problems arise are better equipped to navigate the challenges with confidence.

In the food industry, recalls come with the territory, so it's often not a matter of if that storm will hit, but when. While the costs associated with a recall can have a major impact on bottom lines, the costs of poor recall management are far greater. But in our experience, organizations that commit to reviewing and testing their recall plans regularly are more likely to have the speed, agility and expertise needed to effectively navigate the recall process and protect the brand.

In addition to these planning efforts, companies should consider investing in recall insurance to protect the organization in the event of a recall. While many standard liability policies already have a "recall" endorsement, they often fall short of covering the wide range of expenses incurred, including logistics and crisis communications.

The steps involved in recall planning may sound overwhelming, but dealing with a recall on the fly is even more daunting. Recall ready companies can respond quickly and efficiently - and having expert advice throughout the entire process can help mitigate risks to companies and consumers alike.