

Damage Control

Product recalls have serious financial implications for companies. With consumer safety and brand perception on the line, ensuring timely action and customer convenience can mitigate the costs involved

The cost of preparedness is high. In recent weeks, General Motors India has learnt that the cost of unpreparedness is far higher. At the time of going to press, the world's second-largest carmaker was facing a fine of at least Rs 3.4 crore for violating technical specifications in the manufacturing of its sport utility vehicle. While the company had suspended production and sales of two Tavera variants earlier, last month it recalled over 1.14 lakh units of the brand sold since 2005. GM has also reportedly sacked more than two dozen executives in the country for possible oversight and was facing a big blow to its brand image.

India is not new to product recalls. But things have come under the spotlight because of the intense media gaze and the proliferation of social media now. Sectors like automobile seem most vulnerable. Data made available by the Society of Automobile Manufacturers (SIAM) shows that between July 2012 and June 2013 more than 3 lakh vehicles have been recalled in the country by Honda Motorcycle and Scooters (HMSI), Ford, Mahindra & Mahindra, Toyota, Nissan, Honda Cars, and Renault put together.

Vishnu Mathur, director general of SIAM, says even until a few years ago, car manufacturers recalled vehicles without using the term 'recall'. "Earlier a product recall situation was disguised as 'special service'. Today no company can resort to such camouflage and put consumers at risk," he says.

VG Ramakrishnan, MD, Frost & Sullivan South Asia, adds, "Consumers in India are exceptionally well-informed about their rights. While product failure rates are higher in categories like toys and fast moving consumer goods (FMCG), it is not easy for consumers to swallow the bitter pill of recall in automobile as the upfront payment is way higher."

Indian corporations are still not comfortable discussing the issue. When The Strategist approached the country's top five car manufacturers to understand the challenges related to product recall for this article, all of them declined to participate. "Even when recalls are done by companies voluntarily, the average consumer looks at it with suspicion," says a marketing executive with one of the auto companies, who didn't want to be identified in the article. "Manufacturers consider this a sensitive matter which should be resolved without it impacting their brand image. Also, marketers think the moment you utter the word 'recall', the competitor will use the opportunity to gain some sort of mileage," he adds. Eventually, most of them degenerate into PR crises with the company, the government and consumer forums and NGOs pitted against one another. And the whole issue of protecting consumer interests gets lost in the kerfuffle.

So what is the best way to handle a product call-back so it doesn't turn into a full-blown PR crisis? Are there any international experiences from which companies in the country can pick up cues?

“COMMUNICATION NEEDS TO BE TRANSPARENT AND TIMELY”

In the last few years, the Indian auto industry has not just risen in numbers but also matured in perception. The recall of vehicles is a serious situation that needs a measured response. The Society of Indian Automobile Manufacturers put in place a Voluntary Code on Vehicle Recall last year, which draws from global best practices in handling such situations. The biggest take-away from the Code is that a recall is not something that is necessarily negative. As norms and regulations change, vehicles may need to be recalled to adapt them to new norms. It can be seen (and communicated) as a proactive step by the company to ensure consumer comfort and safety and address environmental concerns. The company must put itself in the shoes of the consumer. These are some of the must-dos:

Have a communication SOP (standard operating procedure) in place so that you can get into gear quickly

Communicate proactively once you take the decision to recall

Take your dealers into confidence and include them in your plan

Be transparent about the situation and the reason for recall, both with consumers and with other stakeholders, including the media

The biggest concern should be the convenience of the consumer; so there should be clear communication about which vehicles are being recalled, what the process is and who he or she should get in touch with (ideally, there should be a helpline)

Make the use of digital platforms like Facebook and Twitter because they give consumers a sense of real-time ‘human’ support

Step one: Own up

Many companies have faced the dilemma facing GM now. What is worth noting is the way they have swung into action.

Take Nokia. In 2007, Nokia issued a recall (the company prefers to call it a 'product advisory' and not a recall) for certain BL-5C batteries, manufactured in China for Matsushita, Japan, between December 2005 and November 2006. These batteries were used in a broad variety of phones, from the bargain basement Nokia 1100 up to the Nokia N91. While the risk of the battery overheating or bursting appeared to be fairly small - Nokia claimed 100 minor incidents worldwide against the possible 46 million batteries being recalled - the company announced the recall through the media, set up a separate website and put the entire service machinery into action. 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 the company.

Now come to the Tylenol recall of 1982. In October that year, Tylenol, the leading pain-killer medicine in the United States at the time, faced a huge crisis when seven people in Chicago were reported dead after taking extra-strength Tylenol capsules. Once the connection was made between the Tylenol capsules and the reported deaths,

McNeil Consumer Products, a subsidiary of Johnson & Johnson, conducted an immediate product recall from the entire country, which amounted to about 31 million bottles and a loss of more than \$100 million dollars. The company also halted all advertisement for the product, its most profitable.

Step two: Don't delay

The second challenge for companies doing recall is how to compress the time frame of executing a recall activity. This depends on the number of vehicles to be covered in a given recall. For instance, Ford wrapped up a recall programme for the diesel variant of its newly launched EcoSport in three weeks. As part of this, 972 vehicles were recalled to relocate the glow plug control unit within the engine bay to avoid the component from catching moisture. However, one should keep in mind that EcoSport was into its third week when the problem was diagnosed and recall issued. It will take longer to execute recall for a batch of 50,000 or more vehicles. Usually the cost incurred in a recall is shared between the manufacturer and component vendor.

Also a recall is even more challenging in a low-ticket product category like FMCG. That is because it is impossible to trace the consumer as a major chunk of the transactions are made in cash and happen at kiranas. Do you know a customer who would retain receipts of every chocolate, wafer and baby care product she buys?

To understand the repercussions of any delay at any stage on brand image, let us recall the infestation case in Cadbury chocolates. In 2003, expired inventory worth Rs 40 crore was found in the warehouse of one of the Cadbury distributors. Unfortunately, this came to the notice of the Maharashtra Food and Drugs Administration before the company could pick up the expired inventory. It was a double whammy when insects were found in this batch of products. The controversy threatened to blow up Cadbury's face and erode its reputation in India.

Since product recalls are relatively a new animal for consumers in India, the company realised it was crucial to take that extra step to re-establish lost connection with the consumers. After some initial hesitation, Cadbury responded with a two-pronged strategy. First, it changed the packaging to minimise the scope of infestation later. Second, veteran actor Amitabh Bachchan was roped in for a new advertising campaign that was aimed clearly to win back consumer confidence. In his latest book Darwin's Brands, brand expert Anand Halve says, "His deep baritone was the 'voice of reassurance' that informed us of the measures the company had taken to ensure quality and safety."

Step three: Involve all stakeholders

While robust product design, right packaging and a closely-monitored supply chain can significantly reduce vulnerability to recall, it helps to be recall ready. A strong communication system is indispensable in this. The onus of keeping consumers, distributors and retailers in the loop lies with the company facing the challenge. Says Niranjana Nadkarni, South Asia CEO of Munich-based consulting, testing, certification and training company TÜV SÜD, "For this, companies can create teams specialising in product recalls. This can be done without incurring any additional hiring cost. Rather sales and marketing teams can be trained in product recall

management."

If employees with desired skill-sets are not available in-house, a company should not shy away from seeking help outside. Jyorden T Misra, managing director of Spearhead InterSearch, says that the communication mandate for product recalls should come under the purview of the CEOs and the board members. Many companies have senior communication specialists to assist them but few give them a free hand to tackle such situations. "Though a paradigm shift in hiring is yet to happen, things are changing as more and more companies demonstrate they are willing to press experts into service to handle product recall programmes," he says.

In November last year, HMSI recalled 11,500 units of CBR 250 (standard variant) to rectify a defective front-brake system. Executing a recall programme for two-wheelers is far more challenging because of the low awareness levels among the target audience. HMSI was fortunate because the CBR owner came from a more affluent segment and was digital savvy, says Yadvinder Singh Guleria, vice-president, sales & marketing, HMSI. So after making arrangements for a thorough assessment of stock and logistics, the company began its recall drive by educating channel partners on the nature of component replacement and the right way to get in touch with bike owners.

The procedure was clearly defined. The company shared a list of vehicle owners with dealers who made phone calls informing customers about the recall. Under the service tab on Honda's website a webpage was created for customers to check if their CBR 250 model is covered in the recall programme by punching their vehicle identification number. By March this year, the company had covered 72 per cent of the overall bikes eligible for recall. Today Honda claims to have met 80 per cent of its recall target. Honda's marketing team stayed away from putting together a mass media campaign to drive awareness about the recall. "We have chosen to report the progress of our recall programme to the government and the media from time to time. I believe this recall has strengthened the bond between Honda and its customers," adds Guleria.

Nadkarni says, "In a mature market like the US, companies understand that during a recall the risk to one's brand is way higher than visible financial loss." But in India, product recalls continue to be closed-door affairs. Talking of the auto sector, VG Ramakrishnan, MD, Frost & Sullivan South Asia, observes customer representation is missing in this equation and the recall is a three-way exercise involving SIAM, the government and original equipment manufacturers. "The stakeholders must find a way to make consumers part of the recall process," he says.

That said, it may not be appropriate to blame the auto industry for so all the bad things associated with recalls. On an average, a car has more than 15,000 components outsourced to different vendors. Even when a company has set standards for these components, there is room for quality lapses as quality checks can at best be random.

The second challenge relates to handling the reverse logistics. The average vehicle ownership cycle in India is five years. There is a registration process that needs to be followed once vehicle ownership changes from one person to another. This is one of the pain points during product recall. Owners of second-hand vehicles take the registration formalities casually and often don't bother to get a new registry on their

names. This makes it difficult for a manufacturer who is trying to get in touch with the owner during a recall programme. Says Mathur of SIAM, "As the second hand market mushrooms in coming years, it will become tougher to track the current owner. If the batch of vehicles to be covered in a recall was manufactured 10 years ago, it will be difficult to trace the owner."

Evidently, a strong consumer movement together with tough legislations will drive product recalls by brands that cannot afford costly litigations and the possible loss of goodwill in the market. In such a situation, the faster and low-profile a recall, the cheaper it will be for the company in the eye of the storm.