Every year, products are recalled or withdrawn from the marketplace. This year one of the largest food recalls in history occurred. The recall started with bulk peanut butter, spread to crackers and cookies, and eventually expanded to include products as diverse as pet food, pad thai and trail mix. Ultimately, the U.S. Food and Drug Administration (FDA) asked retailers, manufacturers and consumers to discard every product made in the past two years from peanuts processed by a Georgia plant at the heart of a deadly nationwide outbreak of salmonella.

Challenges and Opportunities

Is your company ready? Companies that are not ready are subject to brand damage, customer loyalty concerns, and significant financial and legal exposure. Manufacturers and retailers alike face similar challenges in a variety of industries: food products, hospitality, pharmaceuticals, chemicals, consumer products and more.

During such a crisis, the critical element for success is the timeliness of response and full traceability of inventory identification and destruction. Appropriate recall processes rarely exist, and if they do, they are not well-defined or documented, are ad-hoc in nature, and lack the simplistic controls to enhance the expediency, consistency and integrity of the recall.

Inconsistent or disparate processes across corporate offices, stores and/or distribution centers lead to inefficient processes, duplication of efforts or gaps in performance. Just some of the many issues companies experience in the recall process include:

- Inability to demonstrate effective recall procedures and validate that affected inventory has been removed from public access
- Lack of a consistent, documented recall process and related tools that are well-understood across the company
- No clear owner of the recall process
- No clear definition of individual department or team roles and responsibilities
- No single point of contact for suppliers or understanding of what information must be shared
- No single point of contact for committing resources to address the recall
- No formal method for tracking the financial exposure (e.g., replacing recalled SKUs with sellable product or billing back the cost of a recall)
- No formal system to track decentralized action items at various locations (warehouses, distribution centers, retail stores)
- Recalled SKUs not consistently blocked at point of sale (POS) or not blocked in a timely manner
- No formal quarantine area or sufficient space for recalled products
- No clear method for physically marking recalled merchandise
- Co-mingling recall merchandise returns to distribution centers with non-recalls
- Limited corporate-level automated reporting for monitoring compliance with action completion

Our Point of View

The goal of a recall process is to retrieve as many hazardous or defective products as possible from the distribution channel in a practical and cost-effective manner. These procedures also must comply with the expectations of both the state and federal regulatory authorities in the United States. Reaching this goal often requires creative planning.
How We Help Companies Succeed

Protiviti’s global inventory management and supply chain risk management experts work with more than 20 percent of the FORTUNE 1000®, including manufacturers, suppliers, retailers and logistics companies. We have helped small, large, public and private companies reduce their financial, legal and market exposure as it relates to routine and time-sensitive recalls. The following are key services we provide to mitigate these risks:

• **Organizational design/roles and responsibilities** – Identify the organizational structure involved in all aspects of the recall process, from planning and confirmation to execution, monitoring and closure.

• **Procedure development** – Conduct a gap analysis on current recall procedures. Develop and document detailed and comprehensive recall procedures, closing the identified gaps. Facilitate sessions with project sponsors and key stakeholders, including selected members of store and distribution center management, to review and revise draft procedures.

• **Testing and mock recall compliance** – We work hand-in-hand with your team to execute a mock or pilot recall. The benefits of executing the pilot include communicating and training employees on new procedures and continuing to refine documented procedures to a more practical state.

Protiviti’s methodology and approach to developing and implementing an enterprisewide recall program will deliver value to your company in the following ways:

• Reduce legal and financial exposure and increase operational productivity (minimizing operational downtime) by proactively developing, communicating and implementing recall procedures.

• Stabilize revenue and margins by replacing recalled SKUs with sellable product and billing suppliers for due expenses.

• Protect shareholder value and company profitability by reducing financial exposure (increased reserves) set aside for future liabilities related to recall incidents and accidents.

**Example**

A leading retail company had significant issues during a worldwide food contamination problem originating in Asia. The company engaged Protiviti to design and implement a recall program across approximately 1,000 retail stores and 20 distribution centers. Working with our client, we focused on critically defining what constitutes a recall, and who in the organization is responsible for initiating, monitoring and closing the recall in accordance with FDA guidelines. Furthermore, we implemented key process, system and personnel changes that now drive a high level of integrity into relieving the proper inventory within eight hours on a national basis. The critically time-sensitive process was successfully reduced by several days and, as a result, customer health issues are now minimized while financial and legal exposure is held to a minimum.

Within one hour of a potential recall scenario, a team of executives with decision-making authority was organized to determine the entire organization’s response. They were able to utilize our suite of tools to broadly distribute roles and responsibility across the country, and the corporate office was able to monitor the extent of compliance on an hourly basis through standardized inventory reporting. With this process now in place, the company has enhanced the safety of its customers as well as the protection of its brand reputation.

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**About Protiviti**

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 40 percent of FORTUNE 1000® and FORTUNE Global 500® companies. Protiviti and its independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies.

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