Responding to Recall in the Food Industry

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In these uncertain times of economic instability businesses that operate in the food industry rely heavily on their ability to deliver consistent quality in their product lines. Whether they are a grower, a grocer or a restaurant, the success of their business depends upon their reputation for quality. Unfortunately we've seen recall after recall affect various product markets, most recently peanuts, peanut butter including related and downstream products.

The effects of a food-borne illness outbreak and the related recall of product from the marketplace can be, at best, expensive and at worst, irrecoverable. It is not only the upfront cost of destroying a recalled product that factors in; a company must also consider the reach of the recall into the business's outlook: the loss of future revenue while the company struggles to rehabilitate its reputation. Take for example Topps Meat Company, a 65-year old New Jersey institution that was forced to close after suffering the second-largest meat recall in U.S. history. Topps was unable to finance the cost of recalling their product and survive the loss of customer confidence and related downturn in sales volume.

Fortunately many other reputable companies involved in large scale food-borne illness related recalls have weathered their respective recall storms, but not without serious financial consequences and damage to their reputations. Food-related businesses (growers, manufacturers, processors, restaurants, canneries, packers or grocers) should learn from the ill fates of others and do what they can to protect themselves now against potential damage in the future. The best protection is to have Product Recall insurance.

There are primarily two contamination exposures that affect food-related companies: the bodily injury that occurs when a person consumes a tainted food product or the financial injury that arises from the public release of tainted product. The damages which arise from bodily injury are typically covered by the standard general liability policy. But, the latter, being the financial loss and the damage to reputation of a company, have previously been left to chance. One of the cornerstones of Product Recall coverage relates to crisis consulting to preserve the reputation of the company while the policy funds the recall of the product from the marketplace so that it doesn't cause further injury or damage.

To gain an appreciation of what extent the cost of recalling a product entails, envision the following scenario:

As food producer, you prepare and distribute 10,000 units each across the country. Somewhere in the process your products become implicated in an E.coli incident because they weren't cooked to temperature at your plant. Many consumers become ill, the E.coli is traced back to your company and the FDA orders you to recall your product from the market.

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You now have hundreds of thousands of recalled units in or on their way to market. As a result, you will incur the expense of tracing, recalling, transporting, storing, testing and destroying the tainted product. You will also incur the cost of the materials and labor of the destroyed product itself.

Besides the actual financial loss, your company's reputation has taken a severe hit. Your competitors are now capitalizing on the opportunity to show that, not only are their products superior, they're still available in the market. Meanwhile, you still have bills to pay, a mortgage on your building, leases on your equipment, contractual obligations, payroll and taxes. Your expenses continue but your income has gone to zero.

A properly structured product recall policy covers several exposures: the cost of the incident response, the recall expenses, the cost of the product, the cost of crisis consultants and public relations and the loss of future earnings including the cost of continuing expenses. The policy can be designed to cover these expenses when they arise from accidental contamination, malicious tampering and product extortion. The policy can be structured to cover similar expenses incurred by your customers as a result of the ordered recall of your product.

Most importantly, it pays expenses while the reputation of the company is restored in the marketplace. The question a company must ask itself in considering product recall coverage is, How long (or how many years) will it take us to rehabilitate our reputation and our sales volume so we can cover our expenses and restore our lost profit margin?

Product recall coverage is in no way a "blanket policy". It is not one size fits all. It is crucial to ally with a broker who understands this very specialized form of insurance so the policy terms can be specifically negotiated to address the unique exposures of a particular business. Businesses that carry product recall coverage are carefully vetted and must meet certain criteria such as having easily traceable distribution channels and meticulous records; third party Quality Assurance reports; and internal audits with records exceeding industry standards and regulations that govern products (FDA or USDA).

Because Product Recall coverage is so individualized, it is still affordable for mom-and-pop businesses or for a small group of restaurants to protect their brand. Once a restaurant's contaminated food has been consumed, the only plan of action is reputation repair. While this may be as small an expense as destroying the food in the restaurant's refrigerator, the real danger lies in the scenario of a franchisee's contamination: that one experience can affect all others in the franchise or chain.

To gain coverage, the policies, processes, procedures and protocols of the insured party are evaluated by the insurance carrier. Underwriters apply best practices as their standards, thus an underwritten provider will naturally yield a safer product.

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The end benefit to the consumer, therefore, is indirect: peace of mind from knowing a business passed strict requirements to attain coverage.

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