

food advisor

A RISK AND INSURANCE BULLETIN FOR FOOD AND DRINK MANUFACTURERS

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PRODUCT RECALL PROTECTING YOUR BRAND AND REPUTATION

In a product recall situation, the recall itself is often just a small fraction of the overall loss suffered; a large and growing part of the potential damage is to the company's brand. In this bulletin we look at the importance of good crisis management in the event of a product recall, and discuss the steps that firms can take to protect themselves and minimise the impact of negative publicity.

In today's commercial environment, a large and growing part of the potential damage revolves around the impact a recall can have on a company's brand, the way it is perceived and the impact on future sales.

The majority of product recall policies give clients access to a crisis management consultant, the value of which cannot be underestimated. Imagine, for example, the plight of a food manufacturer that has just discovered salmonella in one of its sauces.

How is the source identified? How is the production site sealed? Was the contamination accidental or malicious? Who carries out tests to verify the discovery? Who manages the communications to staff, customers and suppliers? Who liaises with the Food Standards Agency and the Health and Safety Executive? What information do they need and what format must it be supplied in?

These are just some of the questions that need to be answered immediately, and

the responses provided must be effective, accurate and assured. If not, companies will lose control of the situation. Once this happens, it becomes very difficult to manage the crisis and the negative publicity generated by the event which will have a direct impact on commercial relationships and future sales.

Managing the Crisis

Simon Weaver, client manager at consultancy Red 24 explains "it is exactly this ability to manage the situation that a crisis management consultant provides, and in doing so they will help the company minimise the loss suffered. This is particularly relevant with today's various social media channels and 24-hour news wires, as evidenced by the horsemeat saga in early 2013".

But it is not enough to simply have this expertise on hand - there should also be an understanding of how it will work in a real life situation. Crisis management consultants can provide onsite crisis scenario training, where

they will put together a relevant and live scenario and play it out. This lets everybody see how the crisis management team reacts to the scenario and where improvements can be made.

There are also other pre-loss services to help contain a loss, including a documentation review, crisis management training and mock audits. These audits let firms see if their processes and practices are compliant and can be extended to examine the entire length of the supply chain. Whilst training will help companies keep employees up to date with the latest industry guidelines and regulations.

For food and drink companies in the UK, the challenge is to ensure their product recall plans are of the same standard as the rest of the quality control standards they operate to.

If companies are incapable of managing the message and containing the crisis, then it becomes very difficult for them to minimise the loss, protect their brand and move forward positively.

Cover aimed specifically at the effects of negative publicity

The insurance market is increasingly focussing on the liabilities created by adverse publicity, and we are working with underwriters to explore these risks and develop policies to cover them.

Most product recall policies will have cover to rehabilitate a product and restore sales or market share back to pre-recall levels. However the availability and extent of this aspect of the cover varies and it generally only applies to the individual product in question, which must be contaminated to the point of causing bodily injury to trigger the cover. However, when a large food producer has a recall, negative publicity associated with the event can affect the entire brand and not just that specific product, whether it is harmful to consumers' health or not.

In an environment where anybody can say virtually anything about anyone and the message gets heard straight away, this can quickly put companies in a position where consumers stop buying from them.

In light of this, a bespoke policy has been developed that focuses purely on the loss of profit created by negative publicity flowing from a number of incidents, such as product recall, supply chain fraud (as with the recent horsemeat scandal), or even events such as the inappropriate actions of a celebrity endorser or a data breach that becomes public. Cover is not just restricted to products that are potentially harmful to health, as with conventional recall insurance.

Insureds are responsible for detailing the scale of the loss, which could be through their

electronic point of sale systems or information supplied to them by third parties. In the wake of bad publicity, the insurance will make up the loss of profit suffered, up to a defined indemnity period.

Given the restrictions of standard product recall cover, companies with strong brands or products sensitive to media flurries may feel the need to extend or replace their current cover to better cater for their specific risk profile. The fact that the market is moving in this direction underlines just how important it is to manage a crisis properly and contain the negative publicity that is generated.

Indeed, those that do this effectively can actually use the situation to their advantage as the example below of Plum Organics demonstrates.

Case Study

Faced with an outbreak of Botulism in 2008, baby food manufacturer Plum Organics used the power of social media to control and manage the impact on its brand.

Using social media sites including Facebook and Twitter, the firm put out press releases, issued information regarding the nature of the risk and set up an open dialogue with consumers to answer their questions.

By being so open and transparent about what had happened, it managed to generate a lot of consumer confidence in its values and create a lot of valuable brand resonance.

"It was also able to prevent misinformation getting ahead of the news story and creating unnecessary negative publicity because it was so proactive in releasing consistent, timely facts and responding to inaccuracies whenever they appeared" says Richard Matthews, Partner at Eversheds.

The way Plum Organics responded to the voluntary product recall, and the surrounding negative publicity, created a very positive outcome. Its revenue grew from less than \$1m in 2008 to over \$38 million by 2011. The company has also won various awards reflecting both its tremendous growth in market share and the success of CEO Neil Grimmer's 'twitter' presence.

JLT's Food and Agri practice incorporates insurance broking professionals, risk management, supply chain and environmental consultants, plus technical claims management specialists, who have provided industry specific insurance and risk management solutions to the food and drink industry for over 20 years.

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