## MANAGING PRODUCT RECALLS



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# WHY PRODUCT RECALLS MATTER

Don't eat Kinder products linked to salmonella over Easter, officials warn

Health agencies warn of Kinder Surprise, Mini Eggs and Schoko-Bons after 70 cases in UK linked to outbreak

Boy, three, is hospitalised with 'salmonella poisoning after eating a Kinder egg' as para-

DAILY SABAH

INVESTIGATIONS

MINORITIES

EXPAT CORNER

DIASPORA

TURKEY

Turkish ministry recalls Kinder products over mella fears utreds för salmonella fears

• UK agencies warned people to look out for eggs that may have been bought and stored as gifts or for an Easter trail. Photograph: Caren Firouz/Reuters

# WHY PRODUCT RECALLS MATTER

GOING OFF ROAD Faulty airbag CONSTITUTE FULL list of cars affected including Toyota after 37 deaths bankruptcy, gets Chinese backing



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**FEDERAL CHAMBER OF AUTOMOTIVE INDUSTRIES** 

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By Naomi Tajitsu

Is your vehi

Japan's Takata Corp 7312.T, at the center of the auto industry's biggest-ever product recall, filed for bankruptcy protection in the United States and Japan, and said it had agreed to be largely acquired for \$1.6 billion by the Chinese-owned U.S.-based Key

CONSUMER GOODS & RETAIL JUNE 26, 2017 / 1:21 AM / UPDATED 5 YEARS AGO

Japanese airbag maker Takata files for

You can check if your vehicle is affecte brands below. Selecting a brand will take you to their room number ready. If you are unsure of your vehicle's VIN, you can check for its loc visiting the brand website or via your owner handbook.



# Hoax vagen.

The Largest Automobile Scandal in the history!



#### WHY PRODUCT RECALLS MATTER

### Why is this relevant?

- Product recalls are omnipresent
- Occur across industries, products, and countries
- Harm both firms and consumers but differently
- Can have market-altering consequences

#### But...

- Consumer products are involved in the deaths of an estimated 23,000 people and cause injuries to 31 mil. others each year (USA)
- Average rates at which consumers participate in corrective actions is only around 6% for all product types (EU)



- Why Product Recalls Matter
- Product-harm Crises and Product Recalls
- Managing Product Recalls
  - Regulatory Process & Actors
  - Protecting Customer Satisfaction
  - Improving Recall Effectiveness
- What is next?



#### PRODUCT-HARM CRISES AND PRODUCT RECALLS

Product-harm crises are "discrete, well-publicized occurrences wherein products are found to be defective or dangerous." (Dawar & Pillutla, 2000:215)

#### Firm Performance

- Disruptive effect on customer-firm relationship (Harmeling et al., 2015)
- Negative impact on financial performance
  - ... sales (e.g. Liu & Shankar, 2015)
  - ... firm value (Chen, Ganesan, & Liu, 2009)
  - ... CEO pay (Liu et al., 2016)

#### Dominant strategic decisions:

- a) Recall timing: When to recall the product
- Remedy choice: What compensation to offer (Full vs. partial)

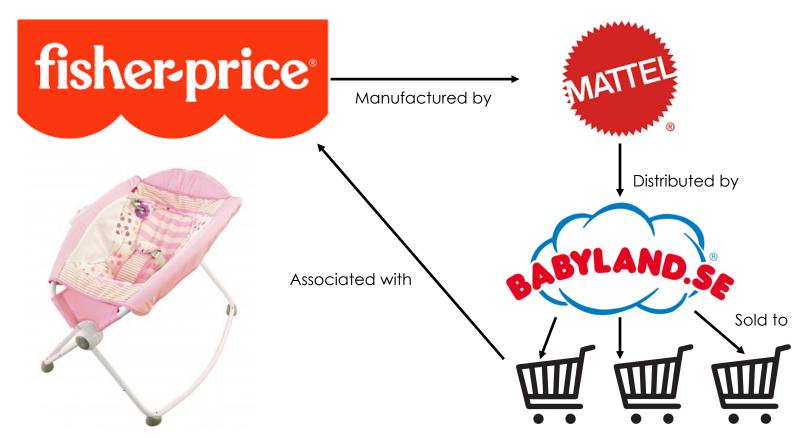
#### **Consumer Outcomes**

- Strong negative impact of failure situations on satisfaction (Smith & Bolton, 2002)
- Negatively affects consumers 'trust and loyalty (de Matos, Henrique, & Rossi, 2007)
- Full vs. partial remedies offer different benefits (Liu et al., 2016)
- a) Full remedies are more likely to restore satisfaction
- b) Partial remedies are less expensive



Study	Outcome	Firm action	Relevant findings  Proactive strategies have a more negative effect on firm value than reactive strategies	
Chen, Ganesan and Liu 2009	Stock performance	Announcement timing		
Eilert et al. 2017	Stock performance	Announcement timing	Severity of failure enhances time to recall less for brand with high reliability and greater past recall intensity. Time to recall relates negatively to stock performance.	
Germann et al. 2014	Stock performance, brand attitude	-	High levels of brand commitment attenuate negative consumer responses in low-severity product recalls but augment them in high-severity product recalls.	
Borah and Tellis 2016	Stock performance, product sales, word-of-mouth	Advertising	Negative WOM after a product recall spills over to the same brand across segments and across brands within segments. Spillover is stronger from a dominant brand to a less dominant brand.	
Gao et al. 2015	Stock performance	Advertising	Adjustments to pre-recall advertising expenditures mitigate (vs. sharpen) negative stock performance effects when the product is new (vs. old), and hazard is minor (vs. major)	
Liu, Shankar and Yun 2017	Stock performance	Advertising	Brand (vs. promotion) advertising has a positive (vs. negative) effect on performance. Voluntary recall initiation and remedial efforts moderate the impact of the recall on long-term performance.	
Liu and Shankar 2015	Product sales	Advertising	The negative effect of a product recall on sales increases with media coverage, recall severity, and consumers' expected quality. Advertising featuring recalled products (vs. the brand) is less effective.	
Zhao, Zhao and Helsen 2011	Product sales	Advertising	Brands with a strong reputation weather a crisis more effectively than their weaker counterparts. Advertising becomes less effective after a product recall occurs	
Cleeren, Dekimpe and Helsen 2008	Product sales	Advertising	Pre-crisis loyalty and familiarity form a buffer against product recalls, but resilience decreases over time. Advertising is effective for stronger, but not for weaker brands.	
Rubel, Naik and Srinivasan 2011	Product sales	Advertising	Adjustments to advertising can be used to mitigate the negative impact of a recall event. Managers should reduce (vs. increase) advertising spending prior (vs. after) a recall.	
Mafael et al., 2022	Customer satisfaction	Remedy choice 9	Impact of remedy on satisfaction is moderated by severity and brand equity (three-way interaction). Evidence that the effect of brand equity is non-linear, i.e., full remedy outperforms partial remedy for firms with low and high to very high (vs. medium) brand equity especially if severity is high.	



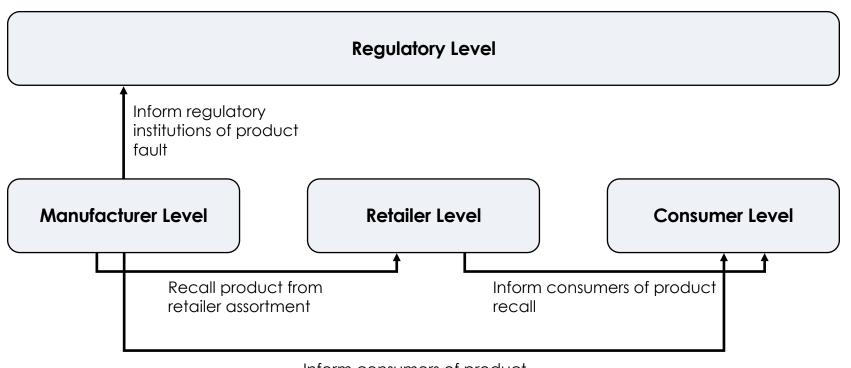




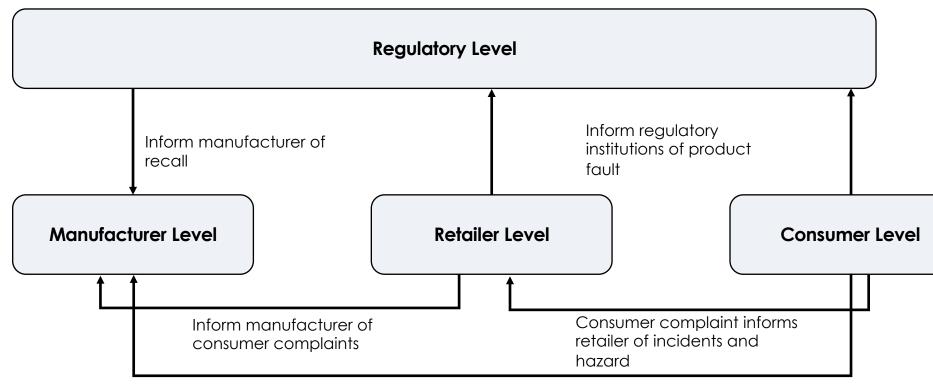
#### Recall Timing is a key element of recall management

- Recall Timing can be the result of strategic choices or regulatory rules
- Proactive recalls are better for consumer welfare, but worse for financial performance
- Reactive recalls often signal strategic decision-making by the firm









Consumer complaint informs manufacturer of incidents and hazard



Firms can offer full remedy (e.g., new product, full compensation, free repair) or partial remedy (repair-kit, partial compensation) after a failure occurs

- Full remedy is more likely to restore satisfaction relative to partial remedy
- Full remedies signal that the firm does everything in its power to restore the relationship
- → High (low) equity firms raise higher (lower) expectations
- → Partial remedy is more disappointing if expectations are high, while offering full remedy may reap additional benefits when expectations are low







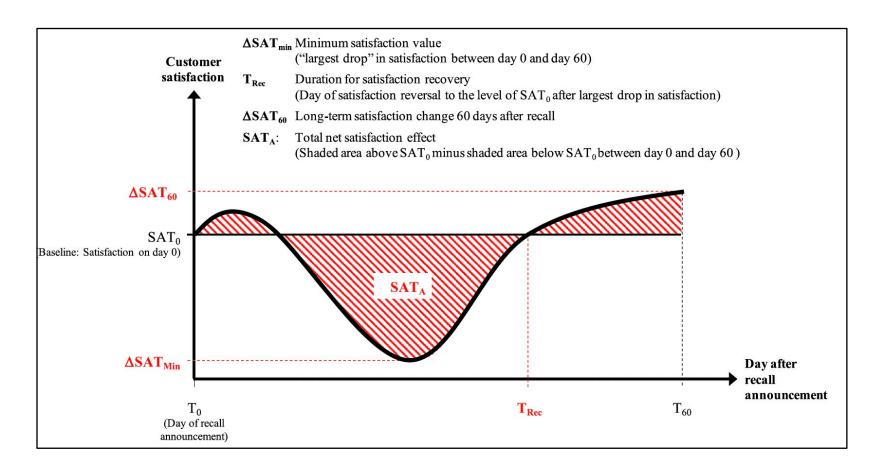
#### **Data: Product recalls**

- Product recalls from 2008-2020, provided by CPSC
- Standardized recall information based on official recall announcement date
- 159 distinct product recalls involving 60 brands across different industries (e.g., electronics, appliances)
- No overlapping events (two or more recalls within 100 days)

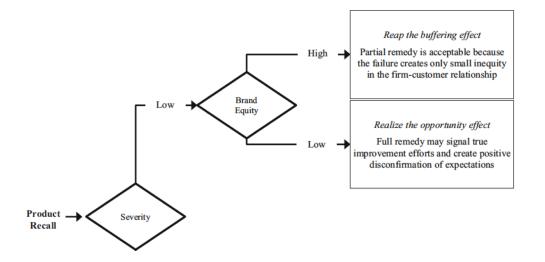
#### Data: Brand equity and customer satisfaction

- Daily consumer brand evaluations from YouGov's BrandIndex (Luo, Raithel, & Wiles, 2013)
- Daily survey of a sub-sample from up 2 million adults in the US
- Monitors a variety of brand-related metrics, e.g. awareness, satisfaction, quality perceptions, value for money.

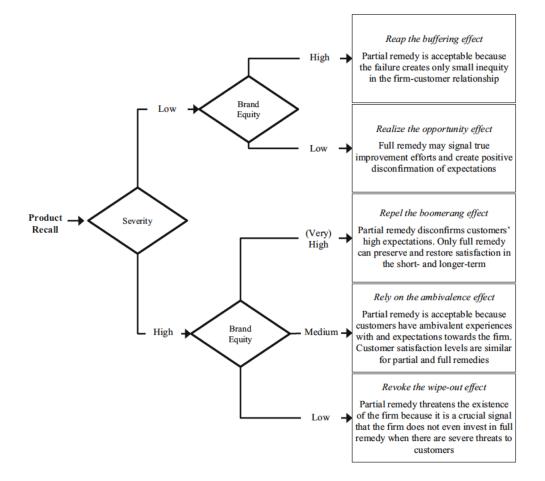














#### IMPROVING RECALL EFFECTIVENESS

#### Regulatory agencies monitor recall effectiveness

- Number of products remedied divided by total number of products recalled
- Remedied: Return, replacement, repair, disposal, and deactivation
- At each level of the distribution chain
  - the number of products with manufacturers
  - the number of products with retailers
  - the number of products with consumers



#### IMPROVING RECALL EFFECTIVENESS

Metric	Overall Product Recall Effectiveness				
Dimension	Urgency of Recall Completion	Recall Timing and Recall Effort			
Construct	Recall Importance	Pre-Recall Effectiveness	Recall Effort	Post-Recall Effectiveness	
	Hazard Type	Detection Procedures	Remedy	Compliance Rate	
Exemplary Components	Danger to Use	Detection Speed	Communication	Completion Time	
	Recall Volume			Prevention of Further Incidents	
	Number of Incidents	20		Prevention of Future Recalls	



#### PRODUCT RECALL MANAGEMENT - NEXT STEPS

#### **Increasing Product Recall Effectiveness**

Despite the harmful consequences of using faulty products, most recalls are ineffective when it comes to consumers returning the product

# Product Recall Announcement Campaigns

Recall announcement procedures are regulated differently across countries and industries

Which announcement campaigns are most effective in driving the return of recalled products?

#### **Supporting Regulators**

Many regulatoy agencies do not have the resources to monitor recall effectiveness – all actors need to support the process.

#### **Providing Actionable Recommendation Tools**

Existing research offers robust procedures to estimate the impact of different recall management decisions on consumers and firms

Development of a repository of existing findings in combination with simulation tools to help firms estimate the impact of recalls on their bottom-line

Soon to come... http://productrecallresearch.com



#### THANK YOU FOR YOUR ATTENTION



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Open Access to our paper on protecting customer satisfaction



Report by the European Commision on improving recall effectiveness

