

Recall Survey – Survey Synopsis

January 31, 2023



In 2011 the Grocery Manufacturers Association (GMA) published a study, “Capturing Recall Costs – Measuring and Recovering the Losses.”¹ The study was based on a food, beverage and consumer industry survey plus other independent research and work by Covington & Burling LLP and Ernst & Young. At that time, three major food safety initiatives were advancing in the United States (U.S.). The first was the passage of the Food Safety Modernization Act (FSMA) into law in early 2011. The second was the establishment of the Reportable Food Registry that occurred four years earlier. The third was the introduction of Current Good Manufacturing Practices (cGMPs) regulations. These milestones, along with advances in whole genome sequencing and online regional reporting systems for recordkeeping and documentation of food safety events, led to recalls as we know them today – an expected part of food industry life.

The International Fresh Produce Association (IFPA) recently completed a recall study with the goal of better understanding the business and financial impacts product recalls have on the fresh produce industry. As with the GMA study, the survey did not address the impact of a recall on consumers, nor the advancements industry has made in reducing the need for, or scope of, recalls. Instead, the survey focused on how companies manage recall risks through business planning and during actual recall experiences. With this information, IFPA can work with the industry, FDA, and others to help improve the overall recall process.

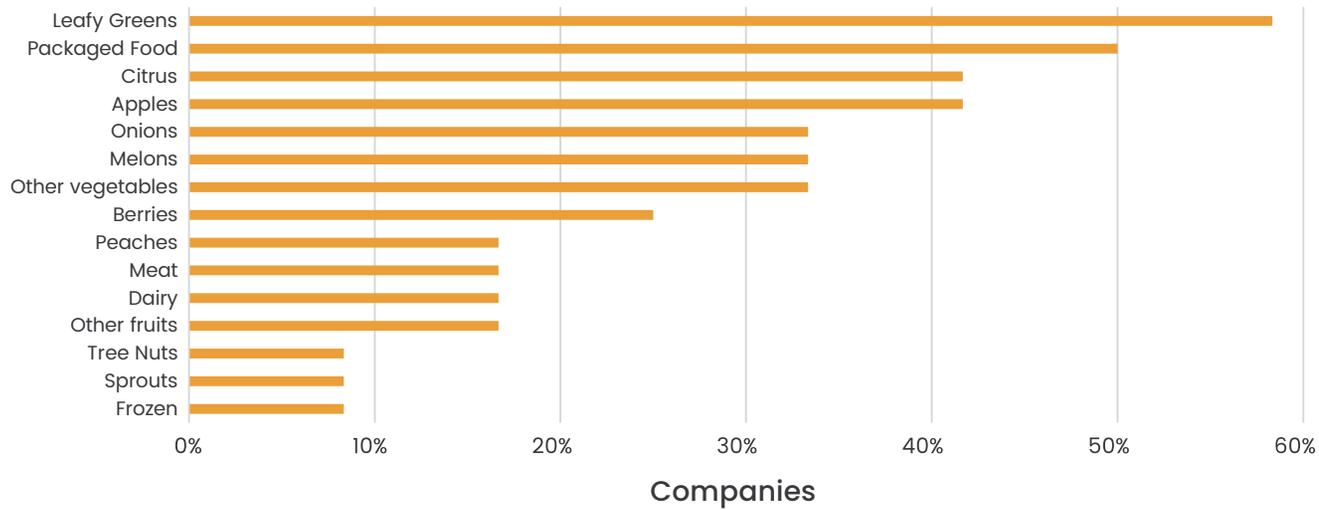
For the IFPA study, a survey was designed to capture the impact of recalls on produce companies. The survey included questions about a company’s demographics, recall financial planning, and recall experience (Class I, II and III)². An expanded version of the survey included questions designed to capture further details about the recall experience and its financial impacts.

The IFPA survey provides an updated view of the GMA study specifically focused on the fresh produce industry. Key differences between GMA and IFPA studies and results include:

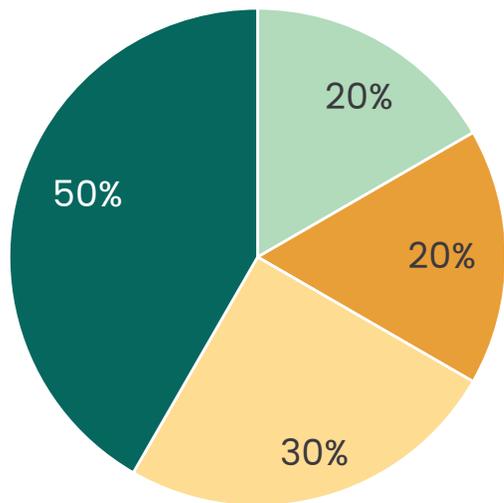
- In the GMA study, 36 food, beverage, and consumer products companies completed the survey. Eight companies completed a more in-depth interview. The majority of the companies were food companies but fewer than 10 are in produce. With the IFPA study, 12 companies completed the survey; four companies completed the expanded survey. All IFPA survey responses are from produce companies.



Products sold



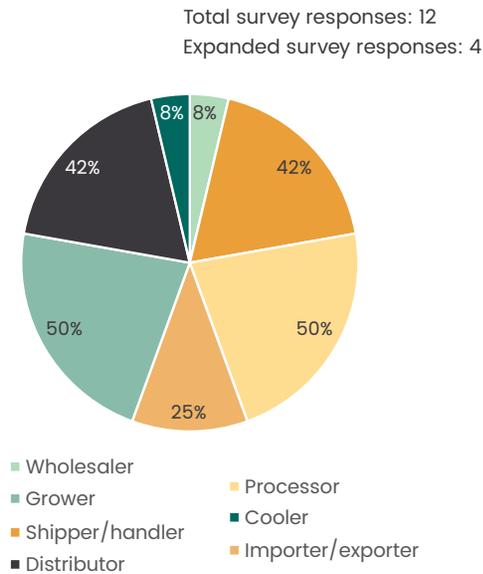
- Individuals completing both the GMA and IFPA surveys had similar roles in their companies, e.g., CFOs, Vice Presidents of Finance, risk managers, legal officers, and food safety officers.



- CEO
- COO
- CFO or financial officer
- Other Officers



- The IFPA study’s target population was companies that have had produce recalls; therefore, all companies responding to the survey had a recall in the past five years. Approximately half of the companies in the GMA study had a recall experience.



- Company size varied in both the GMA and IFPA surveys. In the GMA study, company revenues were mostly \$500M-\$1B and >\$1B. Although a number of companies that responded to the IFPA survey have revenues \$500M- \$1B and >\$1B, the majority of companies have revenues <\$500M.
- There were significant differences in the financial impacts of a Class I recall in the two studies. Most company recall costs were <\$30M in the GMA study; whereas most company recall costs in the IFPA study were <\$1M. In the GMA study, most respondents indicated the financial consequences of a recall were “significant” or “catastrophic” and in the IFPA study, financial consequences were described as “minor” or “significant”.



- Managing business and financial risks were crucial elements in both surveys. The GMA survey focused on three means of managing risks: reducing or avoiding it (focus is on improving quality control and crisis management processes), assuming it (through insurance or self-insuring), and transferring it (have others pay for recalls). The IFPA survey did not address quality and crisis management processes per se although company responses did appear to address the topic. Still, when either survey asked how companies manage risks (financial risks in the case of IFPA) associated with recalls, the top answers were the same: insurance and indemnification contracts. IFPA survey respondents did indicate training workers to minimize recall time was as important as insurance for risk management.
- The two surveys differed in terms of ranking financial costs from recalls. The top three costs mentioned in the GMA study were product disposal, business interruption, and customer reimbursement. In the IFPA study, the top two costs were internal time and expense and customer reimbursement. Product disposal costs and business interruption both ranked third along with professional services fees and supplier reimbursement.

The GMA study predicted more frequent recalls post-2011 given supply chain complexities, improved traceability, foodborne illness detection and increasing regulatory enforcement. Food recalls had been increasing prior to FSMA enactment and continued to increase post-2011 through 2017 when recalls started to trend downward.³⁻

⁴ While the total number of events has trended downward in the past six years, not all recall classes have declined. In fact, Class II recalls have increased most likely as a result of the Food Allergen Labeling and Consumer Protection Act the U.S. Congress passed in 2004 and the implementation of FSMA in 2011. ⁵

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Fielding a survey focused on recalls is challenging, particularly one involving companies having a branded product named in a recent Class I, II or III recall. Companies may be reluctant to share their experiences as they want to move past the experience or have legal reasons as to why they are not willing to discuss the topic. Nevertheless, survey respondents provided valuable insight into the produce industry recall experience. The potential impact a recall can have on a produce business should encourage all companies to prepare and plan for events as part of their risk management strategy. Even

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if a company's products are considered to be low-risk or have never been the subject of a recall, every step in bringing a fresh produce product to market involves risk. While growing and processing are recognized as major areas where safe practices are critical, handling, storage, packaging, and refrigeration are additional areas where risk can be introduced. To manage risks, companies need to have all aspects of a recall risk management strategy well-defined and operational.

The companies responding to this survey have all had recalls, and they all plan for the eventuality of another recall. Frequent mock recall exercises help, but additional work is still needed to reduce the overall recall time. For example, if internal time and expenses are the greatest recall costs, what can management do to decrease these expenses? Can companies enlist retired employees and other trained consultants to offload employee time spent on recalls? Are internal data systems and supplier systems impediments to promptly ending recalls? Does the produce company have an effective customer (consumer) outreach system with the ability to learn about potential issues in order to prevent or limit the scope of a recall? Is the company's insurance coverage sufficient?

These questions are indicators of the changing nature of recalls in the produce industry. The study findings are beneficial for working with regulators and others to formulate ways to improve the recall process and reduce the time and financial exposure while protecting consumers.



1.0 REFERENCES AND NOTES

¹Grocery Manufacturers Association, 2011. [Capturing Recall Costs, Measuring and Recovering the Losses](#).

²Class I, II and III recalls defined by the FDA. U.S. Food & Drug Administration, [Recalls Background and Definitions](#). 2023.

³U.S. Food & Drug Administration, 2023. [Recalls](#). Compliance Dashboards.

⁴Page, Elina Tselepidakis, 2018. [Trends in Food Recalls: 2004-2013](#). EIB-191. USDA, Economic Research Service. April.

⁵Food Allergy Research and Resource Program, 2023. [USA: FDA and USDA Food Recall Incidents](#). University of Nebraska-Lincoln.

