



Supply Chain Whitepaper

Why wait for a food recall to get your supply chain under control?



Introduction

Safe, quality products earn the trust of the consumer. This trust is easily lost in the event of product recall due to contamination. Many issues contributing to food recalls are a result of supply chain controls that have failed, with effective supply chain management being a common issue in the industry. Although the initial cost of a recall can be determined, the long term impact from damage to brand and organizational reputation may be difficult to regain.

The purpose of this paper is to define the impact of a food recall and the negative effects it may have on an organization. In addition, this paper will look at supply chains and how their failing to manage their inherent risks could result in a damaging food recall.



Food recalls and the damage to your business?

A common misconception is that food recalls and food withdrawals are similar processes.

A food withdrawal is where an organization removes food from the supply chain for reasons other than protection of public health and safety. This is typically for product quality reasons, and a withdrawal generally is conducted prior to the product reaching the consumer.

A food recall is the removal of products that may pose a health or safety risk from distribution, sale and consumption. A food recall will be completed for food deemed to be unsafe or if the food does not meet regulatory requirements. Examples typically include products packed in the incorrect packaging, resulting in undeclared allergens, product contaminated with foreign matter, products contaminated with food poisoning bacteria and underweight retail products.



Food recalls are classified under the following categories:

- Microbial
- Labelling
- Undeclared allergen
- Foreign matter
- Chemical or contaminant
- Biotoxin
- Tampering
- Packaging fault

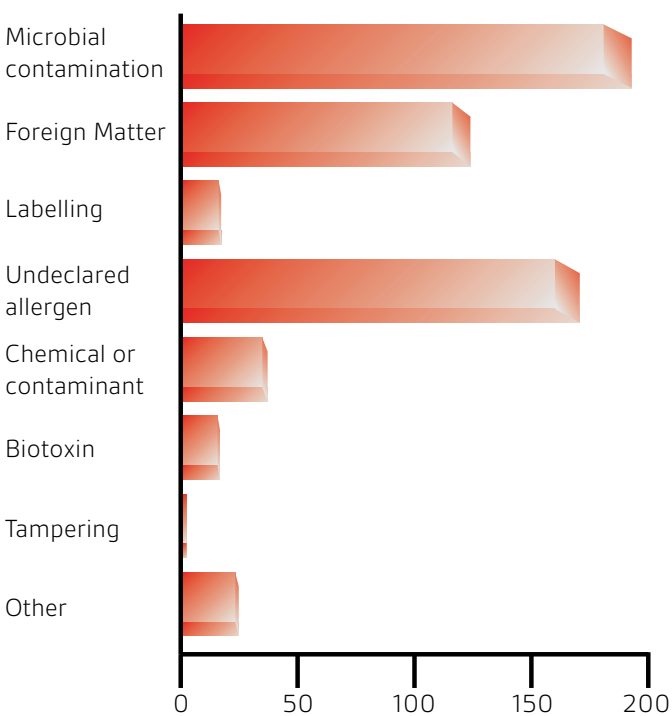
Food recalls may be initiated from a report or complaint from a manufacturer, wholesaler, retailer, government department or a consumer. It may also occur as a result of an organization conducting internal testing and auditing.

A country's consumer protection laws will have specific requirements in regard to product recalls. Food Safety Australia and New Zealand (FSANZ) coordinates and monitors food recalls in Australia. Recalls occur as a result of consultation between state and territory governments and a sponsor (usually the manufacturer or importer of the food product). In New Zealand, food recalls are coordinated by the Ministry for Primary Industries. Food businesses are responsible for ensuring that the public is notified of a recall.

FSANZ have collected statistics on Australian food recalls since 1990, including the causes of all recalls and their domestic or overseas origins. Between 1 January 2005 and 31 December 2014, FSANZ was notified of 586 recalls. The average number of recalls per year for the last 10 years is 59 recalls per year.

Recall Reason	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Microbial contamination	18	22	21	15	28	14	13	25	12	26	194
Foreign matter	10	18	14	15	7	10	18	12	7	14	125
Labelling	1	3	4	2	1	1	1	2	2	0	17
Undeclared allergen	20	19	9	10	17	13	24	17	16	27	172
Chemical or contaminant	7	4	3	4	1	10	5	1	0	1	36
Biotoxin	2	0	0	2	1	2	4	1	2	3	17
Tampering	1	0	0	0	0	0	0	0	0	0	1
Other	5	1	0	3	0	3	2	2	3	5	24
Total	64	67	51	51	55	53	67	60	42	76	586

Table 1: Number of recalls coordinated by FSANZ, by year and classification, between 1 January 2005 and 31 December 2014*



Graph 1: Total recalls coordinated by FSANZ, by classification, between 1 January 2005 and 31 December 2014*

In the past 10 years, the majority of recalls have been conducted due to 'microbial contamination' (~33% of all recalls during this period), and 'labelling/undeclared allergens' (~30% of all recalls during this period). The number of recalls due to 'foreign matter' has fluctuated over this period.

The number of global food recalls has dramatically increased. The amount of recalls in the US alone has jumped four-fold in just five years. There are multiple reasons for the spike in the number of recalls, but contributing factors include the increasing complexity of the food supply chain, the globalization of the food industry and the increase in regulatory scrutiny.

In today's connected world, consumers are more informed than ever of food recalls. Media outlets and social media rapidly report and users share the information through their networks. The damage this can cause to a brand can be devastating.

A recall can put large financial strain on an organization, and it can have both direct and indirect costs:

Direct costs

- Notification to regulatory bodies
- Notification to the supply chain
- Notification to consumers
- Product retrieval (reverse logistics)
- Storage
- Destruction and disposal
- Unsaleable product
- Additional labor costs
- Root cause analysis

Indirect costs

- Litigation
- Agreed or mandated governmental oversight post-incident
- Loss of sales
- Impact to market value
- Brand reputation



*As per the food recall statistics from Food Safety ANZ: <http://www.foodstandards.gov.au/industry/foodrecalls/recallstats/Pages/default.aspx>



What is a supply chain and how does it affect your business?

A supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.

Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistical management activities. It includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies.

With quicker and more efficient means of communication and transportation, the global supply chain has witnessed unprecedented transformation. A number of everyday products can now contain raw materials or elements manufactured from multiple global locations. In an attempt to remain competitive, companies have increased global outsourcing and offshoring and this can be at the cost of the product's reliability and quality.

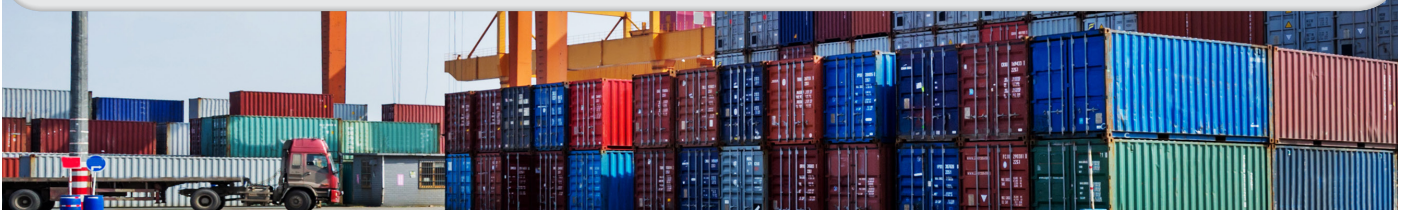
If a supply chain is not effectively managed, the inputs an organization receives may be corrupted in some way. A supplier's lack of diligence can lead to undeclared allergens ending up in ingredients, foreign matter ending up in a final product or packaging not properly sterilized against harmful microbes. Each of these flaws can go undetected if a supply chain's risk is not managed properly, and once discovered, this will force a food recall at the cost of the business.

In addition, if each product is not checked along every manufacture or packaging point of the supply chain process, it can be hard to track where the issue has arisen, making it impossible to fix the problem without shutting down the whole supply chain.

Product safety, sustainability and quality criteria are all essential components to the food industry. A supply chain that works effectively will include suppliers with likeminded corporate values. The best way to check if an organization in your supply chain is working towards your core values is to have those organizations third-party assessed to your criteria. If this is conducted regularly, then you can be sure that your inputs will be to your specifications, drastically reducing the risk of a food recall.

Whether existing suppliers are in place or sourcing new suppliers, there are fundamentals that all businesses should consider, such as but not limited to:

- **Background** – Do they meet all the necessary legal requirements as a registered food business? Does the business have a history of legal noncompliance or product recall? How many times have they conducted a product withdrawal?
- **Traceability and contingency** – Ensure your supplier is able to trace their own ingredients or products through their process. Are they willing to conduct mock recall exercises? Do they have contingencies in place to ensure you're adequately supplied if something goes wrong?
- **Quality and food safety policy** – What does the business's quality and food safety policy actually state? Has it been developed with meaning and purpose? Does this line up with your business' objectives and policies?
- **Management systems and certification** - What standards are the suppliers currently certified to? Are they independently assessed by an approved certification body? Are they willing to allow you to review their external audit reports?



➤ What can your business do to drive Supply Chain excellence?

We live and work in the age of information and we have many resources available to assist us with our supply chain management. News sites and social media allow us to become aware of how our supply chain members are conducting themselves.

Food fraud and substitution has existed for thousands of years, but developed rapidly in scale in recent times, in the form of adulteration, tampering or misrepresentation. Companies that don't address these issues as a matter of priority are leaving their customers and their brand exposed. Also, the reputation of suppliers, manufacturers and distributors is a key risk factor that requires comprehensive continual assessment.



There'll always be new methods of criminal fraud, but now we have information that can be used to identify if your raw materials or product could be affected. Supplier compliance audits are the best way to ensure the inputs you receive meet your standards, so you can produce safe quality products.

Currently, it's common industry practice to accept announced third-party certification certificates as a way of approving suppliers. There has been a shift towards increasing unannounced second and third-party supplier audits recently. These are conducted by independent bodies focussing on specific criteria, and tests both the supplier's capabilities and the culture of the business and its staff. If your business is capable of conducting unannounced supplier audits, this should cover the Global Food Safety Initiative (GFSI) and retailer standard requirements, as well as the good business practices your organization expects from its suppliers.

➤ The future of Supply Chains

Recently, some global suppliers have found themselves in the headlines for all the wrong reasons. Having your brand reputation damaged is not worth the risk. That's why it's imperative to quantify supply chain risk, so your company can trade with confidence and build lasting resilience with suppliers.

Today we move between domestic, regional and global supply that's increasingly complex. Customers, journalists, directors, Non-Government Organizations (NGO's), shareholders and investors are interested in your supply chain and how it's managed against quality, safety, environmental and social issues. How would your organization measure up to a stress test on public opinion against your supply chain?

As supplier management evolves, you can obtain better information. Through programs like Supply Chain Risk Exposure Evaluation Network (SCREEN) you can identify risks from social, environmental and security issues in real time. Using living heat maps of the world, you can evaluate which countries are reliable and which ones are risky.

~Authored by BSI Food Safety Auditors, Domenic Rossitto and Richard Holohan