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The Surprising News About Product Recalls

No company wants to face a product recall. But a new study shows that handling them well can actually increase customer loyalty

By Chris Malone

Virtually every company has had the experience of making a significant and embarrassing mistake they'd rather not have their customers know about. If the humiliation alone weren't bad enough, the mistake's discovery might also have sizable financial consequences that rub salt in the wound. Our natural impulse is to fix the big problem quietly, hoping our customers don't notice so we can minimize the damage.

It turns out this is actually the worst thing we can do, since inadvertent mishaps create rare and powerful moments of truth through which customer loyalty can be strengthened and preserved. That's the surprising finding of a nationally representative study of customer attitudes and behavior in response to the recent spate of high-profile product recalls.

In September 2010, my firm, the Relational Capital Group, collaborated with Dr. Nicolas A. Kervyn at Princeton University and independent market research provider Candice Bennett & Associates to conduct an online survey of 1,000 U.S. adults regarding several recent product recalls. Importantly, we examined customer beliefs about the handling of these recalls, as well as the purchase intent and loyalty for each recalled brand relative to its key competitors.

HONEST AND FORTHCOMING

Overwhelmingly, respondents indicated (93 percent) that product recalls reveal the "true colors" of companies and brands, presenting a unique opportunity for them to demonstrate they care more about the safety of customers than their own profits. Moreover, 87 percent agreed they are more willing to purchase from, and remain loyal to, a company that handles its product recall in an honest and responsible way. These startling findings fly in the face of our instincts to hide our mistakes from customers.

The truth is that customers are very understanding and forgiving about inadvertent mistakes, as long as companies and brands are honest and forthcoming about them. In fact, 91 percent of those surveyed agreed that "despite modern technology and honorable intentions, even the best-run companies and brands can make mistakes that lead to product recalls."

Consider the case of Johnson & Johnson (JNJ), maker of Tylenol—a brand that successfully navigated a product-tampering crisis in the 1980s. Recent manufacturing problems led to a string of recalls and a plant closing earlier this year that have kept the brand off retail shelves for months. Surprisingly, our study found that customer purchase intent and brand loyalty remain slightly above that of Advil, largely due to the way Tylenol recalls were handled recently and in the past.

TOYOTA'S MISSTEPS

By contrast, the massive Toyota (TM) gas pedal recalls of the past year were viewed as posing far more risk to consumers than Tylenol's recent product-quality issues, since the faulty accelerators had been a factor in several deaths. In the wake of the seriousness of the risk faced by Toyota's customers, only 62 percent of our respondents believe that Toyota has handled its recalls honestly and responsibly, vs. 88 percent for Tylenol. As a result, Toyota's purchase intent and brand loyalty are now 18 percent below those for Honda (HMC), a brand it previously outsold for the better part of a decade.

The reason for this striking customer dynamic has its roots in evolutionary psychology. For decades, social psychologists have been validating and refining a universal framework of how humans judge and behave toward one another. It's called the Warmth & Competence Model. Dr. Kervyn, my collaborator on this recent study, is a leading researcher in this area, and our work has shown that customers use the same instinctive thought process to judge companies and brands that they do other people.

It turns out that instinctively, humans are highly sensitive to the perceived honesty and intentions of others toward them and that judging these quickly and accurately in other people became a critical evolutionary survival skill. In essence, determining the "warmth" of others' intentions proved even more important than their "competence" to carry out those intentions.

As a result, customers have come to view mistakes that lead to major product recalls as critical tests of character that reveal the true intentions of companies and brands. Short-term lapses in competence are forgivable, but fundamentally dishonorable intentions are not.

So what are the takeaways for managers?

Genuinely inadvertent mistakes offer a rare opportunity. With the fast pace of innovation and product development today, true differentiation from competitors and durable customer loyalty are harder and harder to achieve. Transparently and courageously admitting a significant mistake to protect your customers' interests is something they don't see very often, and it leaves a powerful and lasting impression on them.

Customers are forgiving, if companies respond properly. They understand that mistakes can happen in even the best-run companies. There's no better way for a company to show it cares more about its customers than its own profits than to be honest and transparent when mistakes happen, especially when it's obvious that doing so will be painful and costly.

Honest and selfless actions are key. We are all subconsciously hard-wired to be highly sensitive to the honesty and intentions of others towards us. These trust instincts are the source of all lasting loyalty among customers, much more so than product features and benefits. Getting defensive or placing blame on others when mistakes occur will only make matters worse. Offering the mea culpa immediately when mistakes occur is the key to customer relationships that last.

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