



Case study

## Stock surprise

Soup manufacturer falls fowl in stock shock

A growing soup manufacturer\* in North America with facilities throughout the US recently introduced a range of vegan soups under their own brand, and also holds contracts to manufacture similar soup flavours for external brands under a white label. The company's revenues in the last year were USD 30,000,000.

The soup manufacturer imports their raw ingredients from suppliers around the world, including different types of pre-made stock which are commonly used in these products. The ingredients come with certificates of analysis and the company completes random batch testing once the ingredients arrive in their warehouse.

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## Did you know?

Vegetarianism and veganism is a growing lifestyle choice in the USA with sales of plant based food increasing by 8.1% over the last year. With this dietary choice increasing in popularity it is important that vegetarian and vegan food manufacturers don't tarnish their brand by providing a product that doesn't meet the criteria.



## Broth bewilderment

Despite a thorough and regular testing procedure, in November 2018 a large quantity of chicken stock had been mislabelled as vegetable stock by their supplier. The error went undetected and consequently, the mislabelled stock was incorporated into a number of different vegetarian and vegan product lines, both under the customer's own label and external branding. Speculation that the soup contained chicken

rather than vegetable stock began spreading online, with customers suspecting a problem with the vegetarian and vegan soups. Whilst the soup manufacturer tried to manage the situation, the allegations continued to increase. ▶



The Food Standards Agency (FSA) decided to test the validity of the claim, and reported that the soup did in fact include chicken.

▶ As backlash spread online across various social media platforms, national news outlets also picked up on the story increasing public awareness of the issue. The Food and Drug Administration (FDA) decided to test the validity of the claim, and reported that the soup

did in fact include chicken. The FDA issued the manufacturer with a written enforcement order for a recall of a number of different varieties of soup. Internal investigations revealed that one of their newer suppliers had unknowingly **mixed up a shipment of vegetable stock with chicken stock, meaning all products produced using this shipment had been incorrectly labelled as vegetarian or vegan.**

The written enforcement order issued by the FDA meant that five product lines had to be recalled from across the country.





## Recalling the product

The initial costs for the recall event and product testing were upwards of USD 50,000. The manufacturer had CFC's Animal By-Product Contamination Extension in their insurance policy, so they were reimbursed for testing the product to confirm that it did contain an animal by-product (this carried no deductible). The CFC policy also covered the costs of the manufacturer, their customers and retailers all recalling the product. These included the costs associated with publicising the recall event, including a crisis PR campaign and consumer care line, as well as the transportation, labour and disposal of the product. This amounted to USD 750,000.

In addition to recall expenses it cost the manufacturer USD 100,000 to source replacement ingredients and re-manufacture the product which were indemnified through CFC's policy.

Immediately following the recall, one of the company's white label partners cancelled their manufacturing contract, and a second large US retailer stopped selling all of their product lines. The

policy covered the manufacturer for 12 months loss of sales, their loss amounted to USD 1,500,000, which was subsequently covered under CFC's policy.

These additional costs were also paid for by the policy and provided an effective way for the manufacturer to access alternate platforms

The event also had a significant impact on the reputation of the brand, and thanks to the rehabilitation costs cover afforded in the CFC policy, additional in app advertising costs were also incurred. These additional costs were also paid for by the policy and provided an effective way for the manufacturer to access alternate platforms, sourcing new customers and changing the negative narrative surrounding their soups online.



## Financial protection

Despite the company utilising tight quality controls and procedures, a supplier error resulted in a significant cost to the company and damaged their reputation as a quality soup manufacturer.

The supplier was a start-up with insufficient funds in the bank or insurance to afford to reimburse the manufacturer for their error. Had the manufacturer not purchased a recall insurance policy, the impact of the recall would have been a significant hit to their reputation and their balance sheet, threatening the viability of the business. ●

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*The companies and circumstances in this case study are fictional, but the scenarios are realistic and reasonable based on our experience.*

