

ANATOMY OF A RECALL

FAPCO: Industry White Paper



Fapco, Inc., an Experienced Integrated Parts Management Supplier Shares Insider Insights to the Various Types of Recall Programs and Campaigns OEMs Should Understand

The integrated parts management and logistics experts at Fapco, Inc. have partnered with the largest names in the automotive and industrial world with many recall programs and campaigns over the years. These are tough, fast-paced parts fulfillment programs with a great deal at stake that requires the utmost attention to detail.

“The word ‘recall’ has almost become a dirty word in the automotive industry because of all the bad publicity that has been associated with many of the more critical, safety-related parts that must be replaced in the field,” explained President and Founder of Fapco, Larry Gardiner. “We have come to refer to this work as ‘parts campaigns’ or ‘programs.’ This just illustrates how volatile this work can

be. Especially with critical parts, the reputation and future sales of any given model may be on the line. This is a time when a company can shine with prompt service, or tarnish their image and lose brand loyalty with current and future customers. We understand the urgency, and therefore these programs are the most critical work we do here at Fapco,” stated Gardiner.



An Experienced OEM Supplier

Founded in 1970, Fapco has been providing OEM and Tier One suppliers with custom solutions in packaging and integrated parts flow management for over 30 years. Fapco pioneered North American certified packaging as the first company of its kind to receive ISO 9002 certification in July 1994 and added QS9000 certification in June 1997. In February 2004, Fapco became certified to the ISO 14001 environmental standard for that year followed in 2006 with certification to ISO 9001:2000. Fapco continues to meet and exceed the logistics parameters of North America’s largest manufacturers from multiple facilities totaling 500,000 square feet in the heart of the Midwest near the I-80/90 corridor.

“Detroit, we have a problem.”

It all starts with a phone call from the manufacturer. Fapco’s “campaign” veteran, Operations Manager, Scott Sloniker, explained, “They know they have a problem in the field. The field instructs the manufacturer to replace the part. An assessment period ensues where the manufacturer must find out how many cars or units are in the field, how many are still in the production line, and how many are scheduled for production.”

Once a baseline number is established of how many units are affected, and federal law requires that the manufacturer must mail a notification to owners in the field to inform them of the recall problem with instructions to contact the local dealer or retailer to fulfill the recalled part.

Sloniker stated that Fapco goes into action with the first phone call to assess the situation, “When we get the phone call we ask ‘how far along are you in this process? What is the time constraint?’ Typically on a recall, if there is a warranty issue, there is an actual date that our customer needs this fixed by. It then becomes our goal to try and exceed this expectation.”

DAMAGE ASSESSMENT

Fapco then begins the process of allocating its resources inside and further assessing the situation. How close is the fulfillment date? How fast can the Tier One suppliers work to make this part?

“Asking these questions and gathering all the

information serves us to determine which way to proceed,” said Sloniker.

If the OEM has a recall action plan in place, prior to the notification of the recall, the company will have the manufacturer of the replacement part begin to send the recalled replacement part to Fapco.

“Once we are notified by our OEM customer about the recall, they will begin to communicate how many parts will be coming to us. It could be thousands or potentially hundreds of thousands of parts or pieces headed for our docks.”

Fapco has been in the recall campaign game for over 25 years. From parts for the major automakers including light bars, shock absorbers and moldings, to more critical parts such as brake hoses. The experienced team at Fapco understands each program is different and must be handled with the utmost care as a stand alone campaign.

“Each program has its own nuances. Depending on how far behind the eight ball they are, our customers can choose several different ways to integrate our services. There are basically three scenarios we deal with,” Sloniker elaborated.



Recall Campaign Solution #1

ADVANCED NOTICE WITH A PARTS PRODUCTION STRATEGY IN PLACE

For lower volumes, or if a recall plan is solidly in place and the OEM has adequate advance notice of the recall, the logical step is usually to adhere to the normal supply distribution chain which is already in place. In this case the Fapco team follows its standard parts flow management for the customer by receiving the parts from the manufacturer, packaging the part appropriately for OEM, and sending the parts to the Parts Distribution Center (PDC). The PDC then sends the part on to the regional distribution centers where the new part can be distributed to owners through the dealership or retailer.

“The first scenario is the best,” said Sloniker. “The OEM had ample notice of the recall and Fapco becomes the standard packager, although perhaps in larger volumes.”

“It may be huge volumes for a week or a month through OEM’s standard logistics chain until the recall numbers are met,” he explained that this is dependent on the manufacturer’s ability to produce the number of parts needed for the crisis. “But on major programs, the parts supplier is not ramped up to provide the parts that quickly,” stated Sloniker.

RECALL CAMPAIGN SOLUTION #1 DETAIL

The best of all recall scenarios, recalled parts ship through the regular supply chain.

7-14 Day Turnaround

- Fapco receives parts from tier manufacturer
- Fapco packages parts
- Fapco ships parts to Processing Distribution Centers (PDC)
- PDCs in-turn ship to regional distribution depots
- Regional depots ship to dealer/retailer
- Recalled parts replaced at dealer/retailer

Recall Campaign Case Study #1: Automotive Critical Brake Parts

Fapco handled a campaign for a major automaker for a critical brake hose clamp. There were almost 700,000 parts needed to fulfill the campaign. This was a critical part and the company was about four weeks away from the actual auto-owners receiving the notice in the mail that there was a recall. Fapco knew that the manufacturer of this part could produce about 70,000 per week. This broke down to a nine-week program for them to produce the needed parts.

Fapco was packaging the parts within a 24-hour period to the automaker's distribution center that would then ship direct to the dealers. The option remained on the table for Fapco to ship direct to the dealer if the demand from the field, and backorders, became too high. Fapco avoided this higher cost scenario by processing the parts so fast that the regional distribution centers for the automaker had all the parts needed to begin fulfilling the campaign well before customers received the mailers to alert them of the recall.

Fapco's flexibility to expedite the program through packaging and processing with automated equipment fulfilled the campaign on time and under budget. Other factors allowing Fapco to increase the cycle included: preprinting the chipboard needed for the job in advance, pre-labeling early in the process, and other pre-processes and preparation only experience brings.

"When you're moving 500,000 to a million pieces, you can add some front-end cost in preparation to benefit your customer," stated Operations Manager, Scott Sloniker. "We make up for these expenditures on the back end by reducing our labor costs for the job. When your customer needs it this fast, you put it on the equipment and tailor each job to the right equipment. We look at everything—is it the right box, the right fit, the right packing—we do whatever it takes to be effective and fast. We even put multiple

shifts on it. These are urgent jobs and our customer's reputation may be on the line. We take that very seriously," he concluded.

THE PITFALLS OF ATTEMPTING RECALL CAMPAIGNS IN-HOUSE

"Most OEM and Tier One manufacturers are about as ready to respond to fulfilling a recall campaign of 750,000 parts as Fapco is of manufacturing those parts," stated Larry Gardiner, president and founder of Fapco. "OEM and Tier One manufacturers of a wide variety of products must take a hard look and question how robust their packaging capabilities are. What kind of lot sizes can they produce and get out the door in one day? How many units or models are in circulation in the field? Are these total figures in the millions? We encourage everyone we talk to about the subject of recall programs to at least develop a contingency plan with us," he stated.

Gardiner explained that over 25 years of recall program experience, he has seen dozens of companies that could handle 5,000 or 10,000 parts in short order that choked on 100,000 or half a million. "They're already taking a financial beating on the production of the replacement parts, I'll never understand why they would dedicate further resources off of their regular product production to try and fulfill a massive recall in-house as well," he said.

Gardiner explained that the automotive companies recognize their strengths and weaknesses and send the work to a specialized packager such as Fapco.

"They'll still have complete involvement in the process, but they understand that it's our specialty--providing them expedient service is our job. It's their brand name that's on the line and they understand we're more nimble and able to handle the kind of volume it takes to do the job right," he concluded.

Recall Campaign Solution #2

SUPPLY CHAIN STRESSED BY INADEQUATE PARTS PRODUCTION

Sloniker related the story of a recalled part from a major automaker that was normally produced in volumes of 650,000 over the course of two to three years. With the onslaught of the recall campaign, what took three years for the parts producer to make at a rate of two or three thousand a month, was now needed at the rate of 600,000 in four to five months to handle the automaker's recall.

"Now we have the manufacturer of the part struggling to make it as fast as they can. At this point in time the OEM will come to us and ask us to package the parts but instead of shipping through the normal distribution channels, Fapco takes the place of the normal supply chain."

In this scenario, Fapco receives, packages, warehouses and loads to become the provider as well. After the part is warehoused and accumulated in the established shipping quantities, Fapco "bundles and ships" the parts directly to the regional distribution center and on to the dealer/retailer.

RECALL CAMPAIGN SOLUTION #2 DETAIL

In the case of higher volumes or the manufacturer of the recalled part is slow in producing the part, the time constraints get tighter.

4-7 Day Turnaround

- Fapco receives and packages parts
- Fapco warehouses parts
- Fapco takes the place of the PDC and consolidates freight into full truckloads or containers
- Fapco ships full truckloads direct to the regional distribution center
- Regional depots ship to dealer/retailer
- Recalled parts replaced at dealer/retailer

Recall Campaign Case Study #2

Establishing a Partnership with an Integrated Parts Flow Management Supplier

So how does a manufacturer prepare and then incorporate an integrated parts management supplier into its systems and processes to handle high volume work at the drop of a dime? The first part of the process is to choose an experienced supplier that can handle this critical business. Fapco's Operations Manager, Scott Sloniker, spoke to his company's track record. "From North America's largest automakers, to smaller companies that just received an approval and must fulfill massive quantities of products to high visibility retailers, we have the experience and capacity to handle any parts flow integration challenge. That's the first two things any manufacturer should ask of a potential supplier, 'Have you done this before?' and 'Do you have the capacity to handle the volumes we may require in this plan?' If both answers are yes, and a facility visit and walk-through checks out OK, move forward in the process," said Sloniker.

PACKAGING AND THE PROGRAM

When it comes to fulfilling faulty parts in a retail setting, after a notification that the part is available at local stores has hit the end user, Sloniker explained that the recall process becomes even more specialized.

"This is a different game all together, these parts may not be as critical, it could be a primer knob on a lawn mower or a gas cap on a leaf blower, but retail parts are in the 'point of purchase' environment and must be packaged as such. There's a different look to something that's going out to the general public and hanging on a pegboard at a retailer. The question to ask your supplier at this point is 'Do you have the packaging capabilities to do this in-house?' and 'Will the parts flow times get extended and the cost increase because they have to outsource

these services?' Fapco has all these resources in-house to better service our customers needs," he said.

Sloniker went on to explain that Fapco is a full-service parts flow management supplier: Bagging, Carton Packaging, Shrink Wrapping, Cold Seal Packaging, Kitting and Sub Assembly, Parts Return Packaging, Automated Kit Packaging, Blister Packaging, Clamshell Packaging, Skin Packaging, Bundling Services, Private Labeling, Warehousing and Fulfillment.

He explained that when it comes to the retail aspects of a recall, the integrated parts flow management supplier may also have some questions of the manufacturer. Be ready to answer some questions.

"In our initial information gathering phase of the project we will have some serious questions as well. Do they strictly need speed of packaging? How are they currently getting these parts shipped out? Do they ever want to touch it again or can we just fulfill directly from our facility? Is there another distribution provider in the picture? How fast do they need these shipped? If they're under a warranty issue, they're probably in a jam and can't package it in-house. They usually want to make the part, not package it. That's what we are here for," he said.

DON'T LET INFORMATION TECHNOLOGY AND INTERCONNECTIVITY STALL THE PROCESS

According to Fapco, the integration of information technology (IT) should not be a barrier for new customers when choosing a qualified supplier. Since Fapco currently has interconnectivity with many of the largest automakers, and various other manufacturing industries and their supplier bases, experience in expedient integration of

various logistics software and systems is paramount.

"The difficulty with many new customers is typically there is some IT or interconnectivity issues that they are reluctant to open up to a supplier. Sometimes it is best to test the waters and begin the relationship by providing them raw bulk services--we pack it and return it to them to ship. Once we establish a solid relationship things start to evolve from there," Sloniker said.

After the initial assessment of damage and speed on a recall campaign, IT and connectivity is the next step for a new client. The company contracting Fapco must ask itself if it wants its systems to be transparent with the integrated parts supplier. If the answer is yes, the window to start the campaign becomes a little bit longer as the connectivity is established.

"These are all challenges our IT staff is used to dealing with," said Fapco President, Larry Gardiner. "Is it a web-based system? Are they doing Electronic Data Interchange (EDI)? And then there's the company that provides us access to their systems for total integration. We can do all this successfully because we have a dedicated IT team here on staff that can handle any situation. Once we've tied into the customers systems, and proven that we are a capable provider of services on this level, it builds a great deal of loyalty and respect with our clients. We're about long-term relationships here," said Gardiner.

The IT team at Fapco can build connectivity for accounting, operations, shipping, replenishment and restocking plans, warehousing inventory, bar coding, efficient LTL programming, or custom combinations therein. Fapco remains transparent throughout these processes so all activities look as though they are from the OEM.

Recall Campaign Solution #3

CRITICAL PART

Sloniker explains, "In a true hot campaign scenario the part number is in massive back order from the dealers. You may have thousands of back orders piled up from dealers. If the manufacturer determines that Solution #3 is the way to proceed, backorders are dramatically reduced as we drop orders direct to the dealers right from Fapco. We fill the inventory requirements as fast as the Tier One manufacturer can produce and ship the part," he said.

In the case where the recall is critical and the advanced assessment time is limited dramatically, parts ship daily from the parts manufacturer right to Fapco where they are packaged and turned around in 24-48 hours directly to the dealerships. In this case, as the integrated parts flow management supplier of record, Fapco completely expedites the process by taking the place of the normal supply chain depot and the regional to ship the hot, backordered part directly to the dealer.

RECALL CAMPAIGN SOLUTION #3 DETAIL

In a super hot recall campaign Fapco integrated parts flow management entails packaging, and shipping direct to dealer/retail backorders cutting out two stops and three carriers.

24-48 Hour Turnaround

- Fapco receives parts from Tier One manufacturer
- Fapco packages parts
- Fapco warehouses all parts
- Fapco ships directly to dealers
- Recalled parts replaced at dealer/retailer

Recall Campaign Case Study #3 Creative Packaging Solution for a Transmission Component Recall

When a major diesel transmission producer needed a recall campaign for a specific component inside the transmission, Fapco designed a program to help the manufacturer collect the faulty recalled part for remanufacturing, while at the same time replenishing the new part in the field.

The manufacturer knew the recalled component had only one bad part and was still very valuable. Once the bad part was replaced, it could then be sold as a re-built, replacement part, or integrated into a remanufactured transmission.

To solve the problem, Fapco developed a dual box system. Once the order for the recalled component dropped into the Fapco system, the part was pulled from the shelf and packaged into the box. A box inside of a box, one with the new replacement component, warranty information and instructions for the installation was housed for shipping. In the other box, a special poly bag designed to keep the used part from leaking transmission fluid was housed along with a prepaid shipping label to the remanufacturing division.



Upon receipt of the new part, the service department working on the transmission was instructed to install the new part, put the used recalled part in the poly bag, place the UPS shipping label enclosed on the fresh box, and ship the bad part to the remanufacturing facility. The only thing needed at the dealership was tape.

"This worked out very well for them because it helped to recoup some of the cost of this recall to the remanufacturing side of the business. They're at least getting something back," concluded Sloniker.



Contact Fapco Inc.:

Voice: 269.695.6889 • Toll Free: 800.782.0167

Fax: 269.695.5145 • E-mail: sales@fapcoinc.com

Write: Fapco, Inc., 216 Post Rd., Buchanan, MI 49107

Contact Fapco, Inc. Online: www.fapcoinc.com and click on the Contact Fapco link to request specific information and begin the quoting process.