In the intensely competitive cellular phone market, manufacturers are constantly pushing the envelope to develop new smartphone models that are high in performance yet compact and lightweight. Consumers clamoring for higher speed, increased storage capabilities, additional features and rapid charging times in lighter devices drive manufacturers’ demand for performance over stability. A small battery size is thus a desirable feature.

However, this small battery size has a downside – lack of failsafe. Cell phone batteries are lithium-ion batteries, perfect for charging and powering gadgets, but their “energy dense” character makes them vulnerable to catching fire. Furthermore, cell phones do not have internal fans or liquid cooling mechanisms to prevent overheating.

This is the crux of the problem with Tanaka’s much-anticipated Cosmos 6 smartphone, released in August 2016. It boasted a battery that remained charged well over a day, charged to 70% in less than one hour and included a USB-C connector. But in September reports of devices exploding and/or catching fire began emerging in the company’s North American and South Korean markets. Tanaka traced the problem to the smartphone’s battery, which potentially becomes unstable when fully charged and overheats. It issued a global replacement program, offering new phones with batteries that cap the charge at 60% to prevent overheating and issue a warning when devices power on.

The overall incident rate of exploding phones is extremely rare. Of the over 2.5 million cell phones on the market, reports of phones catching fire or exploding are in the dozens. The typical battery fail rate is 1 in 10,000,000. However, Tanaka’s handling of the situation carries the perception of a cover up and that it cared more for its reputation than customer safety. It was reluctant to issue an outright recall, it dragged its corporate feet before issuing a warning to consumers to power down and exchange their first model for a replacement model and it took a week to react to exploding replacement phones. Though not representative of the hundreds of diligent Tanaka customer service representatives, the news of a text between Tanaka employees about slowing down the complaint process of a customer (the employee accidentally misdirected his text to the customer, not his fellow employee) was damaging.

As a result, two major cell phone service providers stopped selling Tanaka products, and Tanaka reported a $10 billion loss. Stock prices initially dropped 8% but are recovering. In October, the Federal Aviation Administration (FAA) banned air travel passengers from carrying the device on their person, in their carry-on baggage and in their checked baggage on all flights within, to and from the United States. Tanaka must move quickly to ensure the safety of its customers and restore customer and stakeholder trust, thus bolstering the company’s reputation and securing the livelihoods of its employees.
TANAKA CASE STUDY

PERSPECTIVES TO CONSIDER

CHIEF EXECUTIVE OFFICER

Tanaka has broken the trust of our customers and the public. My most urgent task is first to remove harmful products from the marketplace and win back trust for Tanaka. I have traced defective batteries to one supplier, but I must make certain all other sources of batteries are safe. In doing the above, I aim to secure the jobs of our thousands of employees.

CHIEF MARKETING OFFICER

The marketing department has a huge challenge ahead. We need to formulate a recovery strategy within our marketing plan then assess, and hone accordingly, our existing plan to ensure brand integrity. If necessary, we must create a new marketing plan to carry us strongly into the future.

CHAIRMAN OF THE BOARD OF DIRECTORS

We feel responsible to our shareholders and Tanaka employees and therefore must consider our dual bottom line: profit and people. There was a failure in accountability in our materials sourcing and how leadership handled the ensuing product problems.

EMPLOYEE RELATIONS

Tanaka employees represent the company to the public and must act accordingly. They are the “face of Tanaka.” Mishandling customer complaints is damaging to the company, and what damages the company in the court of public opinion threatens job security of fellow employees.

SHAREHOLDERS

It is essential that Tanaka first re-establish customer trust and loyalty and strengthen company image by owning the problem and its perceived mishandling. Next, it must take steps to replace defective devices. Then we may move forward to develop new products to regain revenues, profit and marketshare.

LOYAL CUSTOMER

I have been a longtime Tanaka customer because of its long history of superior products and customer service. I am shocked that this could happen in such a stable company. Tanaka should offer Cosmos 6 customers replacement options: either a different Tanaka phone or a complete refund so we can take our business elsewhere. This action would go a long way to restoring trust in Tanaka.

TANAKA’S BUSINESS PARTNERS

Our business relationship with Tanaka, up until this point, has been mutually beneficial. Fallout due to defective parts supplied by a single Tanaka business partner has resulted in Tanaka halting production—and rightly so—of its Cosmos 6 to ensure the safety of its customers. As a result, Tanaka has cancelled existing orders with us, which has adversely affected our company’s financials.

REGULATORS

Tanaka dragging its corporate feet in issuing a recall of a clearly unsafe product is proof that without vigilant watchdogs, like the US Consumer Products Safety Commission and FAA, corporations that place consumer safety over corporate profits by promptly issuing recalls of unsafe products will be at a competitive disadvantage.

CELL PHONE PROVIDERS

We now have inventory that is either impossible to sell, in the case of the Cosmos 6, or difficult to sell, in the case of other Tanaka products, due to Tanaka’s faulty technology and mishandling of the recall. As a result, we must now, like Tanaka, create incentives and/or reward programs to maintain customer loyalty and entice former customers to return.

TANAKA COMPETITORS

What an outrage! Tanaka’s product reliability and subsequent handling of its product’s malfunction have cast consumer doubt on smartphone battery safety. Tanaka rushed an unsafe product to market to beat a competitor’s latest model, not only damaging its reputation but calling into question smartphone safety. It behooves us to double-check our own safety procedures and that of our suppliers to prevent us from falling into Tanaka’s disastrous situation. At the same time, we have an opportunity to increase our customer base with incentives that encourage wary Tanaka customers to try our products.