Crisis Diagnostics

Assessing Brand Damage.
Restoring Brand Equity.

By James R. Gregory, Richard S. Levick and David Reibstein

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James R. Gregory is the founder and CEO of CoreBrand, a global brand strategy, communications and design firm. The company helps clients develop strategies to improve their corporate brands and bottom-line performance. James develops pioneering and innovative tools for measuring the power of brands and their impact on a corporation's financial performance. He has written four acclaimed books on creating value with brands: Marketing Corporate Image, Leveraging the Corporate Brand, Branding Across Borders and his most recent work, The Best of Branding. For more information, James can be reached directly at (212) 329-3055 or JGregory@corebrand.com.

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Richard Levick, Esq. is the President and CEO of Levick Strategic Communications, which represents countries and companies in the highest-stakes global communications matters — from the Wall Street crisis and the Gulf oil spill to Guantanamo Bay and the Catholic Church. Mr. Levick was honored for the past three years on NACD Directorship's prestigious list of "The 100 Most Influential People in the Boardroom" and has been named to multiple professional Halls of Fame for lifetime achievement. He is the co-author of three books including The Communicators: Leadership in the Age of Crisis. He is also a regular commentator on television, in print and on the most widely read business blogs. Richard can be reached at RLevick@levick.com or on Twitter at @richardlevick.

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David Reibstein is the William S. Woodside Professor and Professor of Marketing at The Wharton School, University of Pennsylvania. He is the incoming Chairman of the American Marketing Association and has previously served as Executive Director of the Marketing Science Institute. Dave's primary research interests are marketing metrics, competitive marketing strategy, product line management, market segmentation and marketing models. Dave has co-authored seven books, most recently the second edition of Marketing Metrics: The Definitive Guide to Measuring Marketing Performance. He has authored numerous articles in major marketing journals, including the Journal of Marketing Research, Marketing Science, Harvard Business Review, Journal of Advertising Research, Journal of Marketing and Journal of Consumer Research. Dave received his PhD at Purdue University, was in the MBA program at Tulane University and obtained a BA and BS at the University of Kansas. He received an honorary Masters from the University of Pennsylvania. Dave can be reached at reibstein@wharton.upenn.edu.

ABSTRACT

Crisis Diagnostics

Assessing Brand Damage. Restoring Brand Equity.

Every company has a brand, whether it is tightly managed or not. A brand is not one-dimensional in character but has many dimensions in which to be assessed. Nor is a brand merely a symbol of corporate identity. It not only plays a role in growth, but also serves to confirm the financial well-being of the firm, which is never more apparent than when the company is confronted with a crisis. During a crisis, the brand undoubtedly is threatened or damaged. The questions are to what extent and what steps are necessary to restore its well-being.

Today's business leaders certainly have a visceral sense that protracted controversy somehow hurts them, and that effective remediation of negative public perceptions will safeguard and reinvigorate their brands, thus providing direct bottom-line benefits.

Their sense is visceral but also vague, with few metrics to codify the harm a crisis causes, or to identify and justify the best corrective actions. Therefore, as the sheer volume of corporate crises exponentially increase on a daily basis, the challenge facing C Suites – and the crisis and communications managers who advise them – is to evolve a more concrete understanding of what's at stake, with measurable indices of how certain strategic responses to a crisis succeed or fail.

Measuring Corporate Brands

CoreBrand has conducted continuous benchmark tracking over a twenty-year period (involving 1,000 companies across 54 industries). This research is focused on corporate brands, not product brands. It is conducted among business decision-makers, defined as vice president-level executives at major corporations in the United States. It is based on measurements of "Familiarity" and three measured attributes that form "Favorability:" Overall Reputation, Perception of Management and Investment Potential.

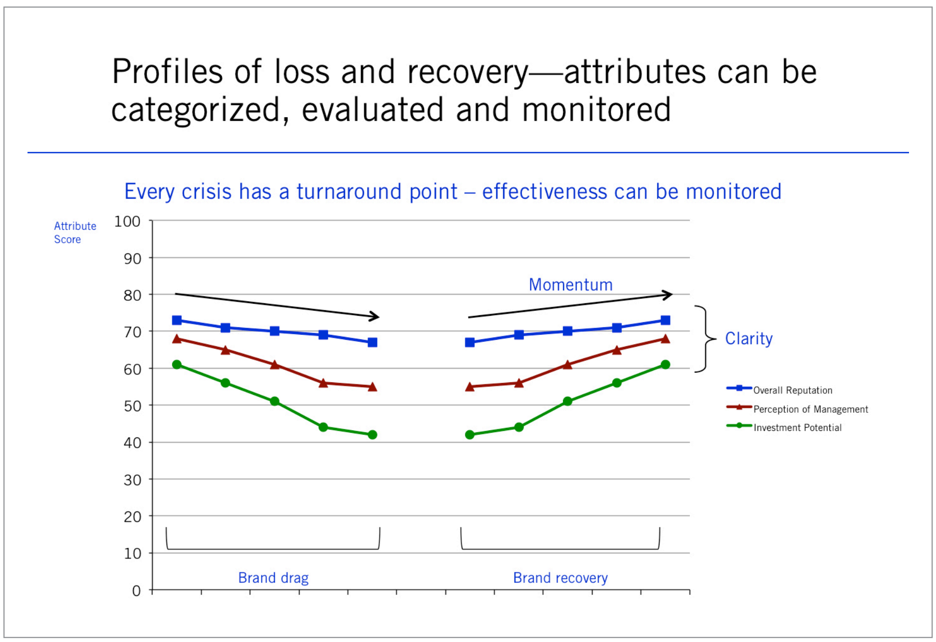
Through this longitudinal research combined with regression models, we can further link the resulting scores to financial performance — a relationship between both revenue and market capitalization. The first part of financial performance is logical. People like to do business with companies they know and trust; revenue, cash flow and earnings benefit accordingly. The second part, market capitalization, is less known but equally important. The corporate brand represents, on average, 5-7% of market capitalization of the 1,000 companies tracked. The biggest and best known corporate brands can represent as much as 21% of market capitalization.

Corporate Brands Under Crisis

We find this research is directly applicable to the study of a crisis' impact on the financial well-being of a firm during such dilemmas. Managing a corporate brand in a time of crisis is definitely a high-stakes game.

In our examination, we found consistent patterns of distribution in the data both before and after a crisis had started. We also found the depth of a crisis could be evaluated. The three attributes measured also provide deeper insights into where the company is most impacted. Was the crisis damaging to the reputation, management or investment potential of the company?

We have three specific impact measures: Drag, clarity and momentum. Drag represents a lack of belief in their opinions, while clarity conversely identifies a strong conviction. Momentum is good if improving, but is a signal of growing damage if declining.



The data also illustrates a crisis is effectively over when Familiarity and Favorability have returned to normal, expected levels. Predictably, our research confirms that, during a crisis, Familiarity increases and Favorability declines – significantly. Media feed on negative news, and there is nothing like a corporate crisis to generate heavy media coverage.

Types of Crisis: Cultural

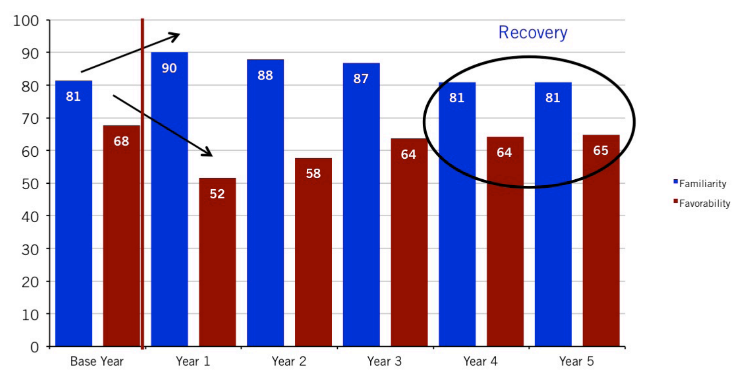
We find that not all crises are alike. Clearly, there are different types of crises and they are reflected differently in the Corporate Brand Indices. In addition to “legal crises” that occur when there has been a law broken or blatant wrongdoing by senior management (e.g., Enron, WorldCom, etc.), we have identified three distinct typologies of a crisis. Provided below are brief historical examples of their impact.

First, a “cultural crisis” is where company management has mismanaged its fiduciary responsibility.

Cultural Crisis: Texaco
The Texaco racial discrimination litigation offers a textbook case of a crisis. It has a clear starting point, has a long recovery phase and has a clear ending. It started in 1996, when Texaco was the subject of negative publicity due to alleged racial discrimination and had to pay $178 million in legal judgments.

Crisis defined: when Familiarity increases and Favorability decreases dramatically

Case Study: Texaco — Familiarity increases due to media coverage, Favorability declines because the coverage is generally negative

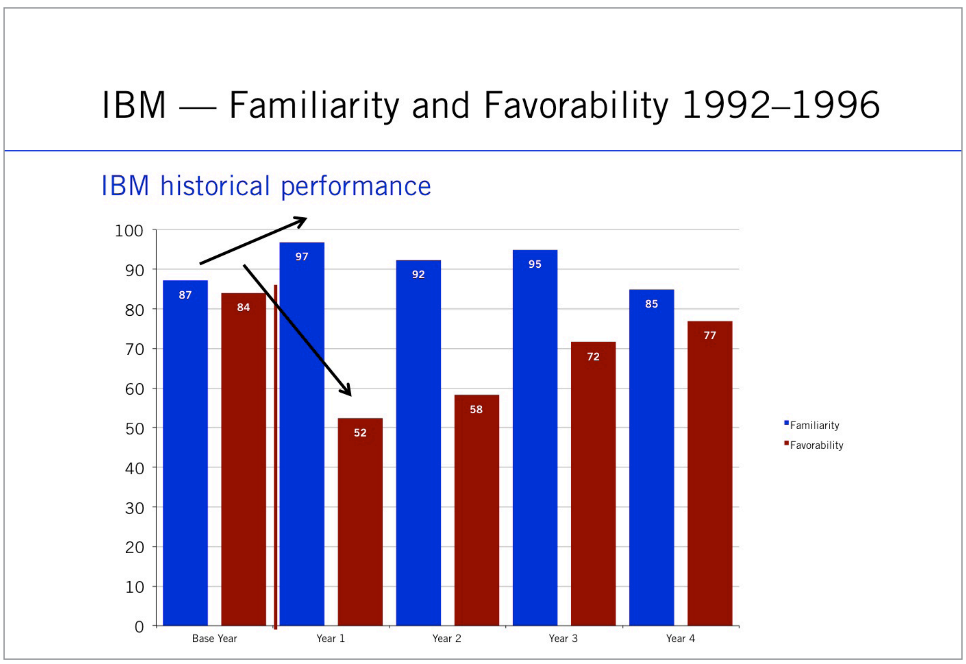


As in the case of BP, Familiarity jumped and Favorability declined. Texaco’s management took the allegations seriously. Although it took five years to do so, the company built a strong corporate communication program, internally and externally, which helped mitigate the crisis and regain its favorable brand position (from an outside perspective). However, as Texaco eventually merged with Chevron, it is plausible that the brand crisis contributed to the loss of the company’s independence.

Types of Crisis: Business Process

Second, a "business process" crisis is where there is a sudden or protracted loss of confidence in a company. This can become a vicious circle if the perceptions of stakeholders and observers actually make it all the more difficult for the company to perform to its potential.

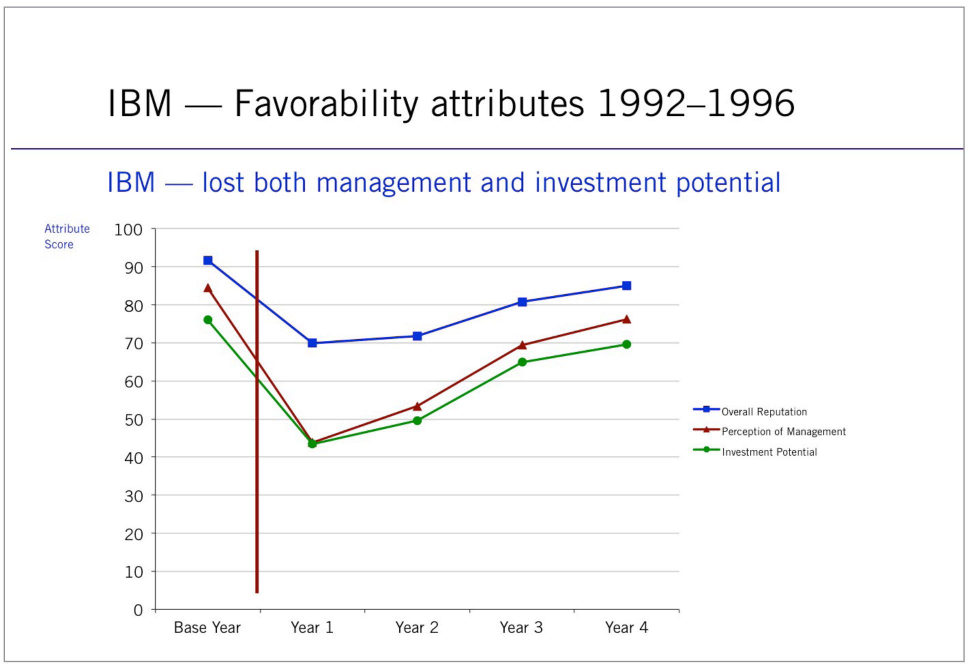
Business Process Crisis: IBM
Many books have been written about the IBM crisis of confidence in the early 1990s. The public perception was that its business model might no longer be viable. Negative perceptions were exacerbated when the then-CEO John Akers started selling off division after division, effectively breaking up the company. Lou Gerstner, who was the first non-IBMer to run the company, reversed the centrifugal spiral and restored a single company vision. The data related to this crisis illustrates its depth, how long it lasted and the genius behind its recovery.



Types of Crisis: Business Process

In this business crisis, the perception of both IBM’s management and its investment potential plummeted, but the overall reputation was less affected. In other words, our respondents thought breaking up the company was a very bad business idea and that IBM wouldn’t make a good investment.

However, because there had not yet been fundamental damage caused to the IBM reputation, the corporate brand was available as a life raft for a new leader to navigate. Gerstner not only grabbed the life raft, he turned the IBM corporate brand into a flagship. He consolidated advertising agencies, seeking one voice and one vision for the company.



Types of Crisis: Business Process

Business Process Crisis: Firestone

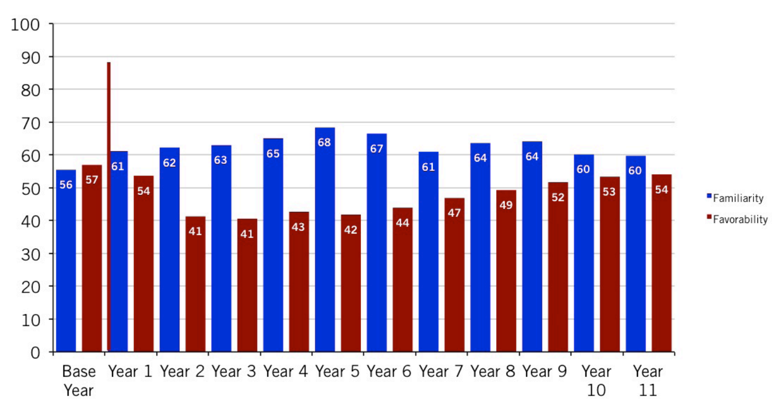
It is instructive to also include in this context an example of what happens when a company does not respond quickly to a business process crisis. Bridgestone, the parent company of Firestone, offers a powerful example of a lethargic response.

This crisis started when the media discovered the connection between Ford SUV rollover accidents and Firestone tires. The situation grew ugly when the management of the tire and auto manufacturers, two iconic brands with a heritage of cooperation extending back to their founders, began trading public accusations. The media had a field day and the news was sensationalized.

While Ford's corporate brand hardly registered a blip over the news, Bridgestone, a Japanese company, began to feel the heat from the news coverage. Instead of relaying its story out to the public, it chose a more culturally ingrained approach by remaining silent. The results guaranteed Bridgestone's dismal and protracted corporate brand performance.

Bridgestone is the parent company of Firestone which is implicated in the Ford SUV rollovers

Familiarity increases with media exposure and Favorability declines.
Favorability did not recover quickly due to a lack of an active response.



Types of Crisis: Financial

Third, a "financial" crisis is the most common type. Missed earnings may not cause a crisis, but a misstatement of earnings will certainly generate meaningful headlines and almost certainly create a crisis.

Financial Crisis: PNC

A threat to PNC's brand arose following an earnings restatement in 2002, which occurred in a relatively stable financial period. This is a particularly telling example of how our crisis-related metrics provide practicable guidelines for crisis managers and crisis communicators. We have here specific data on ROI indices that can be directly related to actions taken to improve a brand after it had been damaged.

PNC fully cooperated with the SEC both proactively and visibly during the immediate aftermath, volunteering whatever resources were needed to rectify the situation. The problem was their timing, as the event occurred during a period when major corporate scandals were particularly numerous and making daily headlines everywhere. Despite all its good efforts, PNC's brand Favorability nosedived.

In response, PNC launched a high-immersion, multifaceted campaign to create altogether different public narratives about itself. They chose a communications agenda to emphasize positive points about their company to balance and eventually drown out the negative, brand-threatening tumult.

The critical steps included persistent public focus on the strength of PNC's business. New advertising investments were made, especially to highlight corporate values. Top executives met with key clients and employees in all their markets. Analysts were given unusual access to business managers as transparency was palpably the order of the day. New branding initiatives were launched, including an Economic Outlook Survey that underscored PNC's marketplace expertise. A new signature philanthropy, "PNC Grow Up Great," emphasized the company's commitment to education.

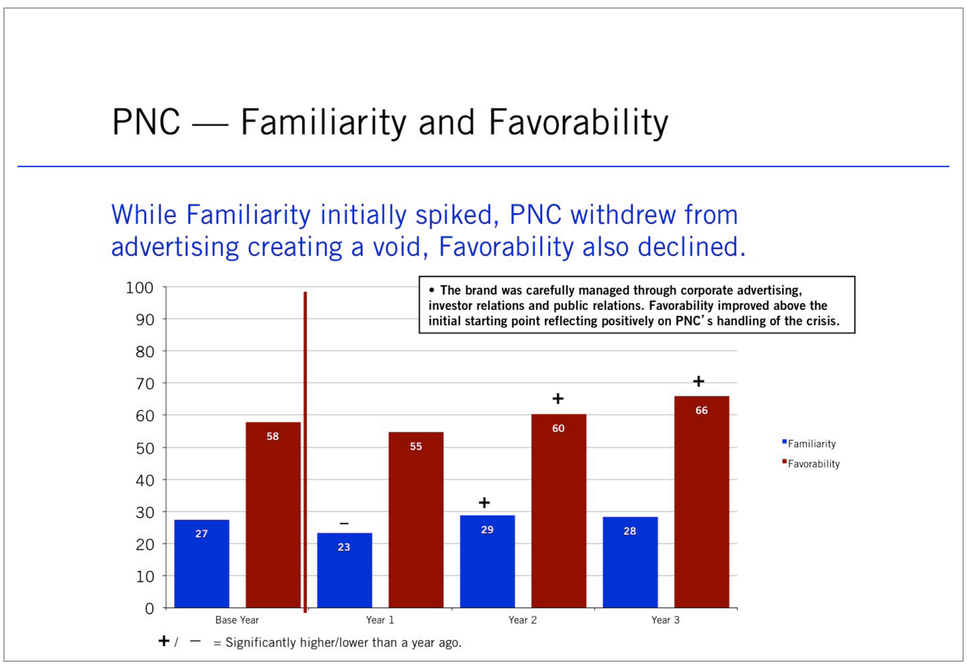
Ongoing monitoring of stakeholder perceptions and customer satisfaction justified additional investment in what had been, before the crisis, an under-funded brand communications program. Accordingly, PNC increased the funding for the brand by 19.4% over its previous levels.

Types of Crisis: Business Process

Continued monitoring disclosed that, as a result, PNC's brand favorability increased dramatically, by 10.2%. The results in the three Favorability attributes were likewise dramatic. Overall reputation improved 10%, perception of management improved 14% and investment potential improved 7%.

If a brand crisis is defined as an unwelcome increase in Familiarity as Favorability decreases, the successful resolution of a crisis occurs when those trends reverse themselves. Indeed, PNC's Familiarity declined 1.7% as Favorability grew 10.2%.

Clearly, the negative impact of negative press was short-term in the wake of PNC's concerted messaging.

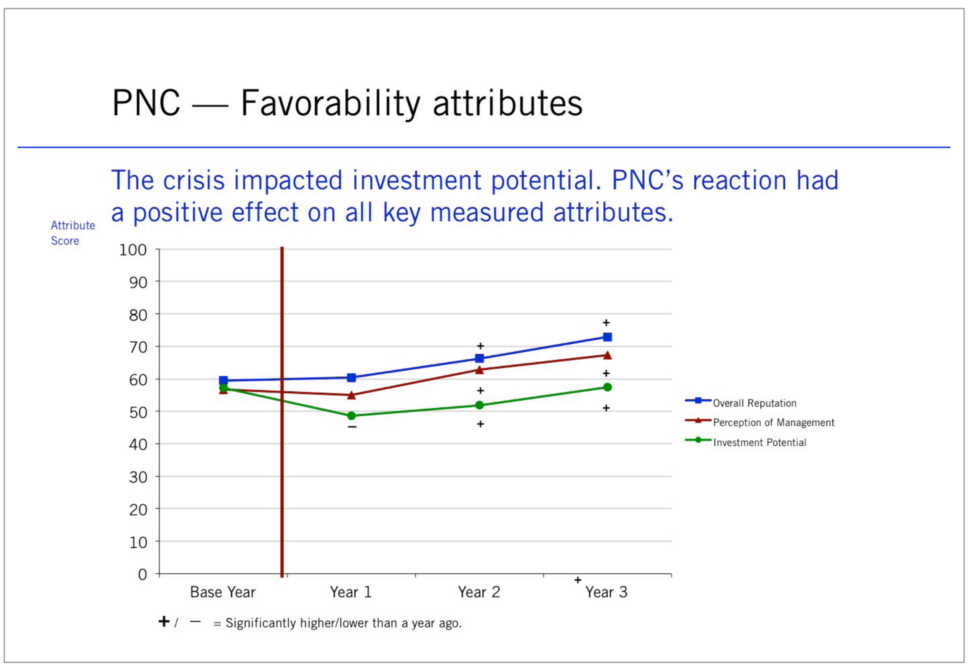


Types of Crisis: Business Process

For business crisis managers, these data are extraordinarily heartening. It underscores the extent to which negative brand impact is tractable, given the will and the means to respond strategically. The value of the PNC brand grew by 15.1% in one year, not only in terms of revenue, but in ancillary efficiencies, such as a reduction in needed future advertising expenditures (while achieving the same or better results).

In terms of real dollars PNC's total return on investment was a gain of $21 for every dollar invested.

The data confirm another salient bit of good news. It is fair to say that the PNC brand was stronger after its campaign than before the restatement crisis that inspired it. In a time of crisis, such as the current 2008-2011 financial collapse, business leaders needn't just feel embattled. These assaults are actually business opportunities to elevate the brand to unprecedented heights.



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The Critical Preparation

The height of a crisis is a really bad time to start quantitative market research on your corporate brand. Without ongoing brand benchmarking prior to a crisis, it is impossible to chart how the crisis has influenced the brand's decline, how long the crisis is lasting, when the crisis has past and what steps are needed to restore corporate brand equity. Continuous benchmark tracking is fundamental to brand stewardship.

The investment is comparatively small. Yet, surprisingly few companies are far-sighted enough to develop these data-based tools. For some companies, that too could be very good news as it ensures a competitive advantage over marketplace rivals who may someday find themselves in a hole from which they cannot escape.

Conclusion

Many companies invest in creating a well-known and well-regarded corporate brand. They invest in logo design, signage, advertising, social media and definitely in public communications on behalf of the firm. It is relatively easy to track the impact of these investments by regularly measuring the corporate brand among key stakeholders (e.g. employees, customers, stockholders, regulators, media, etc.). The need for firms to regularly measure and monitor their corporate brand becomes abundantly clear during times of crisis. Continuous measurement of corporate reputation also helps the company to manage the brand.

The response to a crisis depends greatly upon the nature and scope of the issue causing the problem. The more insight and information provided senior management the better they will understand the crisis the more resources will be used for taking prescriptive actions.

We live in an era of tremendous brand risk when a full-blown crisis can start with a tweet of 140 characters. One of the best defenses for your firm's protection is to continuously monitor the health and vitality of your corporate brand.

Method for Management

All research and data are taken from CoreBrand's Corporate Branding Index®:

- Proprietary quantitative brand reputation research has been continuously conducted since 1990 on over 1,000 companies across 54 industries in the field.
- Brand image ratings (Familiarity and Favorability) are derived from an annual telephone survey of 8,000 business decision-makers from the top 20% of U.S. businesses. Approximately 400 respondents rate each brand every year.
- The phone interviews are conducted continuously throughout the year, rolled up on a quarterly basis. They represent the previous four quarters.
- Research is conducted horizontally across industries; there is no vertical industry bias.
- This senior audience of "business decision-makers" represents the investment community, potential business partners and business customers. It also repre sents high-income, well-educated consumers.

Two types of reputation research are collected in the Corporate Branding Index®

- Familiarity
– A weighted percentage of survey respondents who are familiar with the corporate brand are questioned.
– Familiarity is determined with a five-point rating scale.

- Favorability
– An average of three corporate attribute ratings by respondents familiar with the brand produces the following: Overall Reputation, Perception of Management and Investment Potential.
– Favorability attributes are rated on a four-point scale.

About CoreBrand

CoreBrand

Always independent since 1973, CoreBrand has 30 focused and dedicated professionals at offices in New York and Los Angeles. They have satellite offices in Minneapolis, Kansas City, Philadelphia, Pittsburgh and Tampa. CoreBrand correlates brand and financial performance offering a full range of branding services with a proven process to make an accountable difference (intelligence, strategy, communications and management).

Intelligence: business process, culture and communications measurement, qualitative and quantitative research, benchmark tracking, brand equity valuation, ROI projections and custom modeling

Strategy: vision development, corporate and product brand positioning, brand platform and architecture development

Communications: identity development, naming, logo, visual identity, communications systems, messaging, digital asset management and interactive branding

Management: management consulting, brand culture evaluation, alignment and training, online brand asset management tools and training

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