

How big are the risks to a company's brand?

In direct proportion to one's unwillingness to find out.

# Managing Brand Risk

**Many companies** are now comfortable with the idea that a brand has value, however difficult that value may be to measure.

Likewise, executives are familiar with the benefits of a relatively strong brand, including stronger loyalty, a premium price for products and services, the ability to attract and retain good people and a higher stock price relative to rivals.

Yet this knowledge has failed to generate the same interest in guarding the brand against threat – or even a desire to understand the likely threats and their often swift and certain consequences.

Clearly, if brands have value they can lose value. Strong brands can go off course, suffer a blow or simply fall apart. And, unlike the difficulty of measuring brand value in good times, when a brand weakens, the ramifications for the underlying business will be all too easy to gauge in lost market cap, profits, revenue and future sales. You never know how good you've had it until it's gone.

Moreover, for most managers, the notion of "risk" usually evokes something catastrophic – a natural disaster, an act of sabotage, a technological meltdown – when, in fact, the risks most companies face are from strategic missteps. In a study of Fortune 1000 companies that lost at least 25 percent of their market capitalization in four weeks or less during the mid to late 1990s, 58 percent of those declines were from strategic error and many were brand-related (see chart on page 16).

This brief article discusses ways companies can understand and minimize brand risk. The idea is not just to prepare for the worst but to put in place a process that manages brand risk – including a plan to control any potentially harmful situation to maximum advantage.

## Three types of risk

A great brand is inseparable from a company's business. Its strength courses through every



decision, outward gesture and personal deliberation the company makes as it moves forward and upward. Such a brand does not live in a vault without time or threat. In fact, among the ways a company can lose value rapidly – management change, departure of a major customer, catastrophe – serious brand damage is high on the list.

Definition: Brand risk is the threatened loss of value due to a change in people's perceptions about the company.

These changes in perceptions can impact the demand for a company's products and services and, in the worst-case scenario, its license to operate.

We believe there are three different types of risk. It is important to distinguish among them because each requires its own approach. This is particularly important when two or three risk types are prevalent at once, with one risk masking another and the risks multiplying the danger.



**Brand Equity Risk:** The loss of what differentiates a company from its competitors. Without this, the company is selling a commodity.

**Reputation Risk:** The loss of the quality and trust built over time – what a company must provide to attract customers, employees and partners.

**Marketplace Risk:** A change in the economy, industry or marketplace – circumstances a company may share with others, but unevenly.

### Major risks and some results

The three general types of brand risk can produce a variety of harmful results, some more apparent than others.

**Portfolio Weakness:** If a portfolio of closely related brands is not strategically sound, brands can overlap, lose distinctiveness in the minds of managers, or otherwise damage each other. The risk of this is greater immediately after a merger, but it can occur whenever a large, healthy company fails to clearly define distinct paths of growth for each of its brands. Recently, the major accounting firms all made brand decisions to distinguish an accounting practice from a consulting business. When and how this separation was managed will have big implications for each company's brand and future. Another example: After much initial struggle under the athletic-shoe companies (Nike and Reebok) that acquired them, two quite different brown-shoe brands, Cole-Haan and Rockport, found their niches – which are wisely worlds apart from their parent brands.

**Commoditization:** Companies do this to themselves when they decide to compete on price alone. Soon the brand is far less compelling. The counter-strategy is to build strong brand preference through brand positioning, brand differentiation and brand management. Many personal computer makers perished in the price wars of the last decade; that few of their names leap to mind today is precisely the point. Oil companies, by contrast, are confronting the consumer perception that gasoline is a commodity by building brand preference with extra services and on-site convenience stores.

**Cultural Shifts:** The reality of this risk is a decline in desire for a company's products or services. Some cultural changes are easier to spot and adjust to than others. Oldsmobile, once one of

# When unanticipated change occurs, brand can be hard hit crisis management does

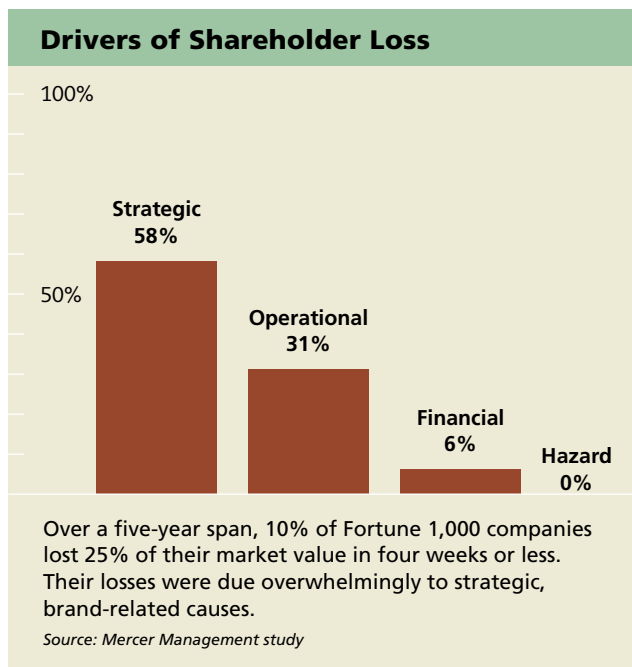
GM's premier, most profitable and best-loved brands, seemed perfectly positioned to take advantage of the graying of the U.S. population. What the brand didn't count on was that people don't want a car preferred by the elderly – particularly if they are elderly. The brand has lost so much value it is being nudged into oblivion.

**Brand Misalignment:** A brand can become distanced from what is true and valuable about it in people's minds in many ways. The following four are common:

- **Extension:** When a company grows too rapidly or broadly, the brand starts to lose strength, focus and relevance for core customers and new prospects alike. One needs to be particularly mindful of this risk when considering a merger, acquisition or spin-off, as well as during the adjustment phase that follows. As Seagram's, a well-respected spirits brand, expanded into entertainment, brand confusion ensued. The same occurred as Vivendi, a French water utility, bought entertainment properties. In each case, more attention to the consequences for the corporate brand would have

yielded a smoother business transition. When executives plan expansions without a clear sense of the brand's definition in consumers' minds, trouble can result. Example: Isuzu's attempt to become a car company, when it only had credibility as a truck and SUV maker.

- **Partners:** Partners can have a large impact on a company's brand, positive and negative. As companies make joint marketing agreements, a solid strategic brand effort needs to occur to prevent risk to both brands. The Ford and Firestone partnership is a perfect example of how things can go wrong.
- **Employees:** Who you hire can put the brand's promise and image at risk if they don't buy in. Companies that fulfill the brand promise through all of their employees tend to dominate their categories. But missteps are common. Saks Incorporated, which grew from five Knoxville, Tennessee stores under one brand in 1987 to 340 stores and ten brands a decade later, sought cost savings by using the same call center for upscale Saks customers and its discount department stores. Understandably, Saks customers expected better service and the brand suffered. The clothing brand Diesel, on the other hand, is so careful about its hiring of clerks that it doesn't just interview them – they must audition!
- **Promise:** When the promise a company projects is different from the actual experience its customers have with its products or services, either the promise is wrong or it's time to fix the business. Coach, the one-time darling of a whole generation of urban women, fell from grace by failing to update its products, stores and image. Once it did so, Coach reclaimed its core consumers and in the process attracted a whole new set of fans. The venerable department store brand Lord & Taylor is in the midst of a similar process.



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## **Brand vulnerability assessment: tools to manage the future**

Clearly, the business world is full of brand risk. Enron and Andersen are timely examples. And the future will happen, whether or not one is prepared for it. Companies should have a brand risk measurement process in place. When unanticipated change occurs, brand can be hard hit for a simple reason: Senior managers tend to focus on the hot spots and neglect the guidance brand should provide. They become crisis managers without also being brand managers.

- The impact of catastrophic occurrences, some that will be covered by insurance (storm, malice, theft, accident) and some that won't
- Where the brand is eroding or might easily do so
- The effects of brand damage on various internal and external constituencies
- Risks to the brand posed by a disaster at key customers, partners or suppliers
- Likely risk combinations including a "perfect storm" of converging risks
- Required action steps



For example, a brand-driven approach can help decide among an array of crisis-response options that not only solve the problems, but do so in a way that supports and protects the brand.

For most brands, a Brand Vulnerability Assessment<sup>SM</sup> makes sense on a number of levels. Essentially an analysis of the brand to determine what risks it faces and which, if any, are threatening, the process examines all of the brand's potential risks among all its key audiences – e.g., customers, employees, the financial community, influencers and regulators, as well as competitors. The result is a tool the company's senior executives and risk managers can use to put brand risk in perspective – to weigh it intelligently among other business risks, and identify and address real threats to the brand. The benefits of this analysis are to identify:

- The full range of major risks – financial, legal, strategic, personnel, technological, political, environmental

The next important step is a plan for ongoing risk management and potential response to brand damage. Its first and most essential piece: a communications plan to keep all constituents promptly and fully informed. Second, a pledge to do the right thing at all costs. Companies should also be building reservoirs of good will in the communities where they live and operate. Good will can be an effective barricade against short-term brand erosion in a crisis.

Good brands are both resilient and fragile. This seeming contradiction is simply an accurate reflection of the world we live in – by and large secure and predictable but occasionally full of danger, disruption and plain old distraction. Companies need to be particularly alert to brand risk during periods of rapid transition in which they seem fully in control such as a merger, acquisition or spin-off.

In sum, it is far easier to create a plan to combat risk than to recover lost brand strength and focus.