FROM ACADEMIC RESEARCH TO PRACTICAL USE

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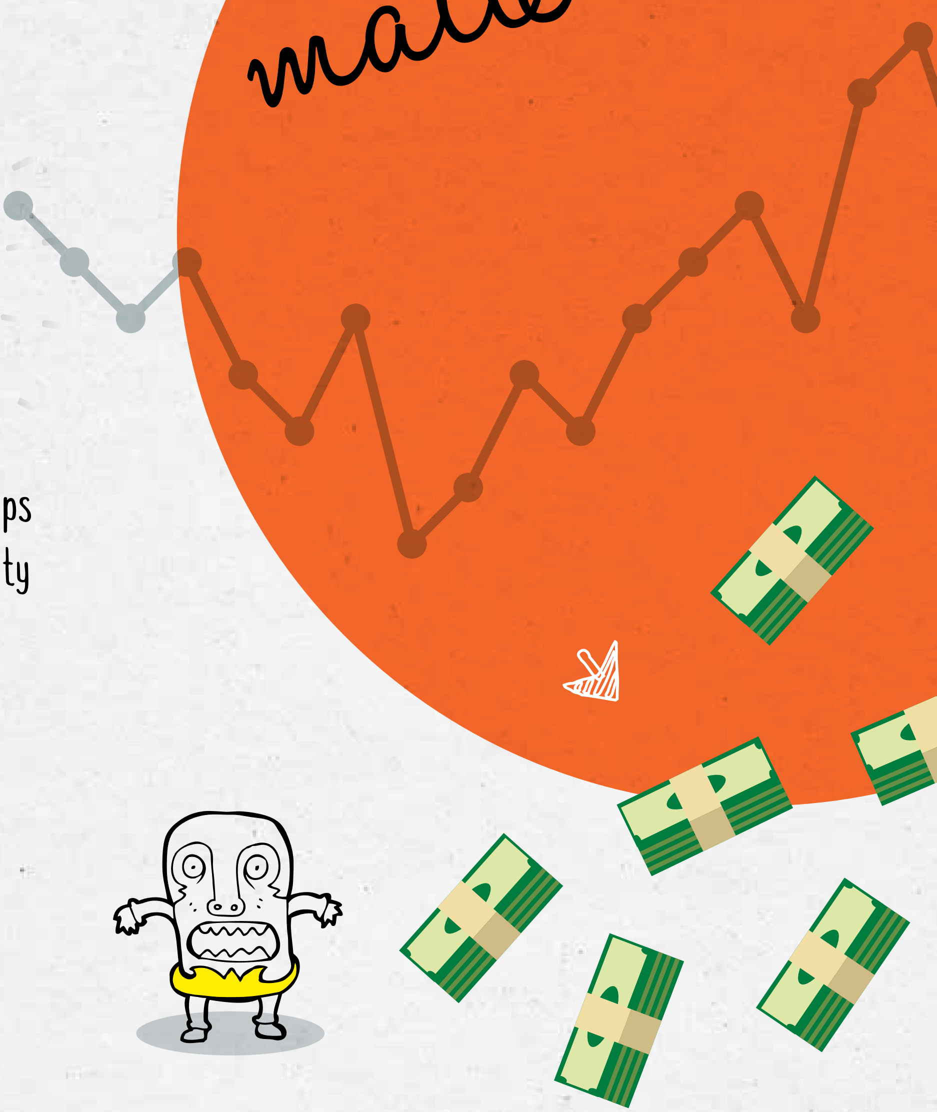
MARKETING
INTELLIGENCE
REVIEW

BRAND RISK matters

Fake News
Negative Brand Knowledge
Human Brands
Brand Cannibalization
Socio-Economic Risks
Brand Dilution
At-Risk Brand Relationships
Brand Performance Volatility



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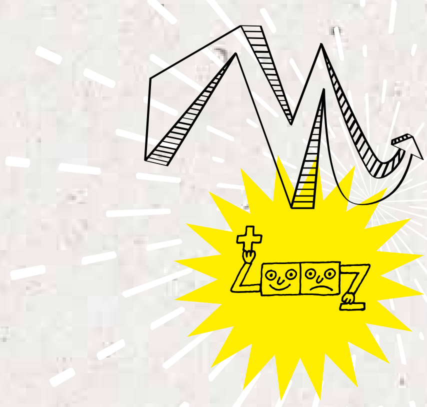

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Every light has its shadow. Most people, though, prefer the sunny and bright side over shades and darkness, and so do most marketers, according to our experience. Typically, brand building is associated with big opportunities, higher returns, and increased shareholder value – the sunny side. This is what brand managers are trained for and talk about. But opportunities do not come without risks, and marketing as a discipline has tended to leave the focus on this darker side to finance and accounting control. But ignoring or facing brand-related risks too late can entail a loss of revenues, cash flow decline and volatility, brand equity erosion, and lower shareholder value. Only recently have marketers entered the risk conversation. Our position is that if markets want to proactively manage the specific risks that brand management decisions involve, they need to understand the nature, sources and dynamics of these risks.

To encourage marketers to actively incorporate risk considerations into their branding strategies, we dedicate this issue to the potential dark sides of building strong brands. We live in a social media-driven world that is clouded with fake news and all matter of new forms of risk. The popular strategy of using real persons and celebrities to promote brands as namesakes or endorsers can be very rewarding – or a death warrant. Not every extension is good for the brands that birth them, and brand cannibalization or brand dilution can turn out to be real threats. Even the long-held wisdom that only no news is bad news turns out to be a risky assumption when messages travel in uncontrollable ways and at unprecedented speed.

We invite you to find out more about recent findings on brand risk, get ready to face the darker side of brand management, and implement a more balanced approach for managing brands in the 21st century.

Happy reading!

Susan Fournier

Shuba Srinivasan

Boston, December 2017

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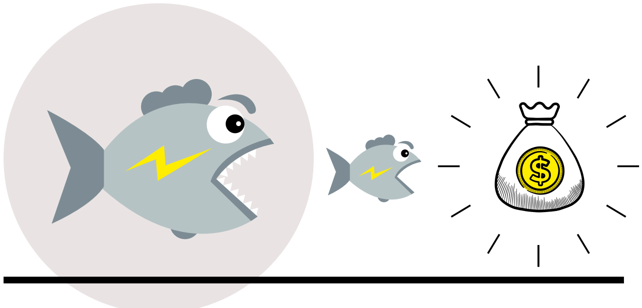


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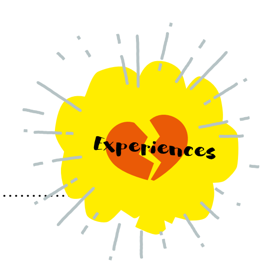
Experiences

Executive Summaries

Branding and the Risk Management Imperative

Susan Fournier and Shuba Srinivasan

In an increasingly risky socioeconomic environment, management needs to proactively consider brand-related risks. To understand brands as tools for risk management, they need to understand four types of brand risk: brand reputation risk, brand dilution risk, brand cannibalization risk and brand stretch risk.

Risk management is not a natural act for brand managers trained in astute execution of the 4 Ps, and contemporary market factors make this more challenging still. With an increasingly polarized society, it is almost impossible for brands to remain untouched by ideologies. In addition, the growth in digital advertising gives brand managers less control over advertising placement and context, and the mandate to keep growing adds executional risk.

The more exposed a brand is to brand risk, the more attention this topic will need in the boardroom. To shift a company's marketing philosophy toward risk, it is important to define marketing competences in a broader way, to be self-critical and to be proactive.

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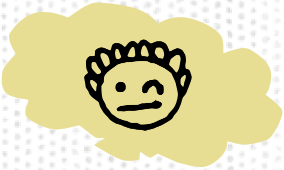
How Truthiness, Fake News and Post-Fact Endanger Brands and What to Do About It

Pierre Berthon, Emily Treen and Leyland Pitt

Brands can interact both directly and indirectly with fake news. In some instances, brands are the victims of fake news and, other times, the purveyors. Brands can either finance fake news or be the targets of it. Indirectly, they can be linked via image transfer, where either fake news contaminates brands, or brands validate fake news.

To control the risk of negative image transfer, the authors propose technical actions to address false news and systemic steps to rethink the management of brands in order to inoculate against various forms of "fakery" and to reestablish stakeholder trust. Systemic solutions involve a rethinking of brands and branding. Too often, brands have become uncoupled from the reality of the offerings they adorn. But brands are not ends in themselves, they are the result of outstanding offerings. They can act as interpretive frames, but they don't unilaterally create reality, as many seem to believe. Brands should not be seen and managed as objects but as perceptual processes.



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When Brand Familiarity Breeds Risk: The Curse of Negative Knowledge

Chip Walker

In today's world, knowing more about a brand can make people think worse of it. Rather than helping a brand, increased familiarity can actually add risk. This is a phenomenon referred to as "negative knowledge." It happens when the more consumers know about a brand, the less they like it. Possible reasons can be that consumers feel embarrassed by the brand, that they have bad brand experiences or learn about them in the media or from friends, or that they dislike a company's business motives.

Once consumers know something about a brand, it is hard for them to "un-know" it. During a time of media fragmentation when all managers are struggling to gain more fame for their brands, it's critical to realize that brand knowledge comes with a potential dark side. While it's always wise to avoid brand obscurity, marketers must be ever cognizant that what customers know about a brand really can do more harm than good.

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Managing the Risk in Human Brands

Susan Fournier and Giana Eckhardt

The physical and social realities, mental biases and limitations of being human differentiate human brands from others. It is their very humanness that introduces risk while generating the ability for enhanced returns. Four particular human characteristics can create imbalance or inconsistency between the person and the brand: mortality, hubris, unpredictability and social embeddedness. None of these qualities manifest in traditional non-human brands, and all of them present risks requiring active managerial attention. Rather than treating humans as brands and making humans into brands for sale in the commercial marketplace, our framework forces a focus on keeping a balance between the person and the personified object.

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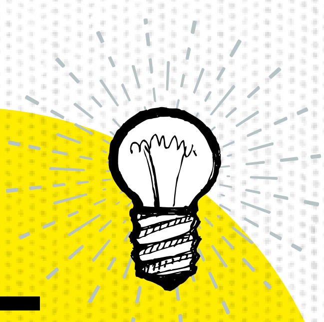
Don't Get Eaten! Understanding and Handling Cannibalization Risk

Charlotte Mason and Kaushik Jayaram

To minimize the potential loss of market share and profits, it is important to understand factors that drive cannibalization. Key brand variables for cannibalization risk concern how the new product compares in price and quality to existing products. Other relevant variables are the category, the type of product and a company's distribution system. Also, whether a new product will coexist with or replace the existing product needs to be considered.

Estimating cannibalization risk should assess possible effects on company operations. The positioning of new products needs to be planned and communicated carefully. Too many similar options may confuse the consumer. Brand and category factors as well as the consumption context can help managers mitigate the extent of cannibalization. Profit impact is more relevant than changes in sales figures. A lower-margin product cannibalizing a higher-margin product eats away at profits, but a higher-margin product cannibalizing a lower-margin one is potentially worth the cannibalization risk.



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How Consumers' Styles of Thinking Can Control Brand Dilution

Alokparna Basu Monga and Liwu Hsu

Understanding consumers' ways of thinking can help identify strategies to limit brand damage and elicit more favorable reactions from disapproving consumers. Analytic thinkers' beliefs about a brand are diluted when they see negative information; those of holistic thinkers remain unaffected. While both analytic and holistic thinkers blame the brand equally for quality and manufacturing problems, holistic thinkers are more likely to blame contextual factors outside of the brand than analytic thinkers. This ability of holistic thinkers to focus on the outside context is the reason why their brand beliefs are not diluted.

State-of-the-art crisis management should be proactive vis-à-vis potentially negative events. Crisis communications that highlight contextual factors as triggers of negative incidents offer a powerful mechanism to restrict brand damage. Additionally, elaborational messages that clarify the nature of the brand extension can curb negative thoughts from analytic consumers and boost their responses.

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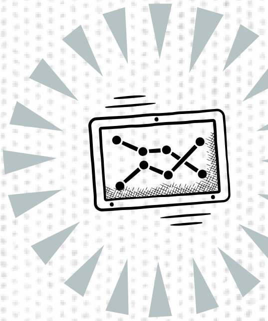

Marketing Spending and Brand Performance Volatility

Marc Fischer, Hyun Shin and Dominique M. Hanssens

If company revenues fluctuate, the resulting volatility makes it more difficult to project the company's future revenues and earnings and ensure a steady cash-flow. This lessens investor confidence and, as such, can harm the financial health of a brand. So, effective marketing can have undesired financial side effects.

The optimal marketing behaviors derived with and without volatility calculations will be quite different. Analytically savvy companies will be able to gain competitive advantage from this realization.

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At-Risk Brand Relationships and Threats to the Bottom Line

Oliver Hupp, David Robbins and Susan Fournier

Like a stock portfolio, each relationship type offers a brand higher or lower growth opportunities and risks. The type of relationship is particularly relevant in brand crisis events. When a brand is hit by a crisis, it is not necessarily the most successful strategy to focus exclusively on protecting positive emotional relationships. At-risk relationships are affected more than others and can lead to a significant decline of brand value.

Our cases highlight that at-risk relationships represent a critical, but often overlooked, aspect of a brand's relationship portfolio. Risks range from negative word-of-mouth that might have a negative impact on potential new customers to clear retention risk. Marketers should manage these risks proactively by identifying and investigating the nature of their customer relationships and by responding frankly and credibly to crisis events.

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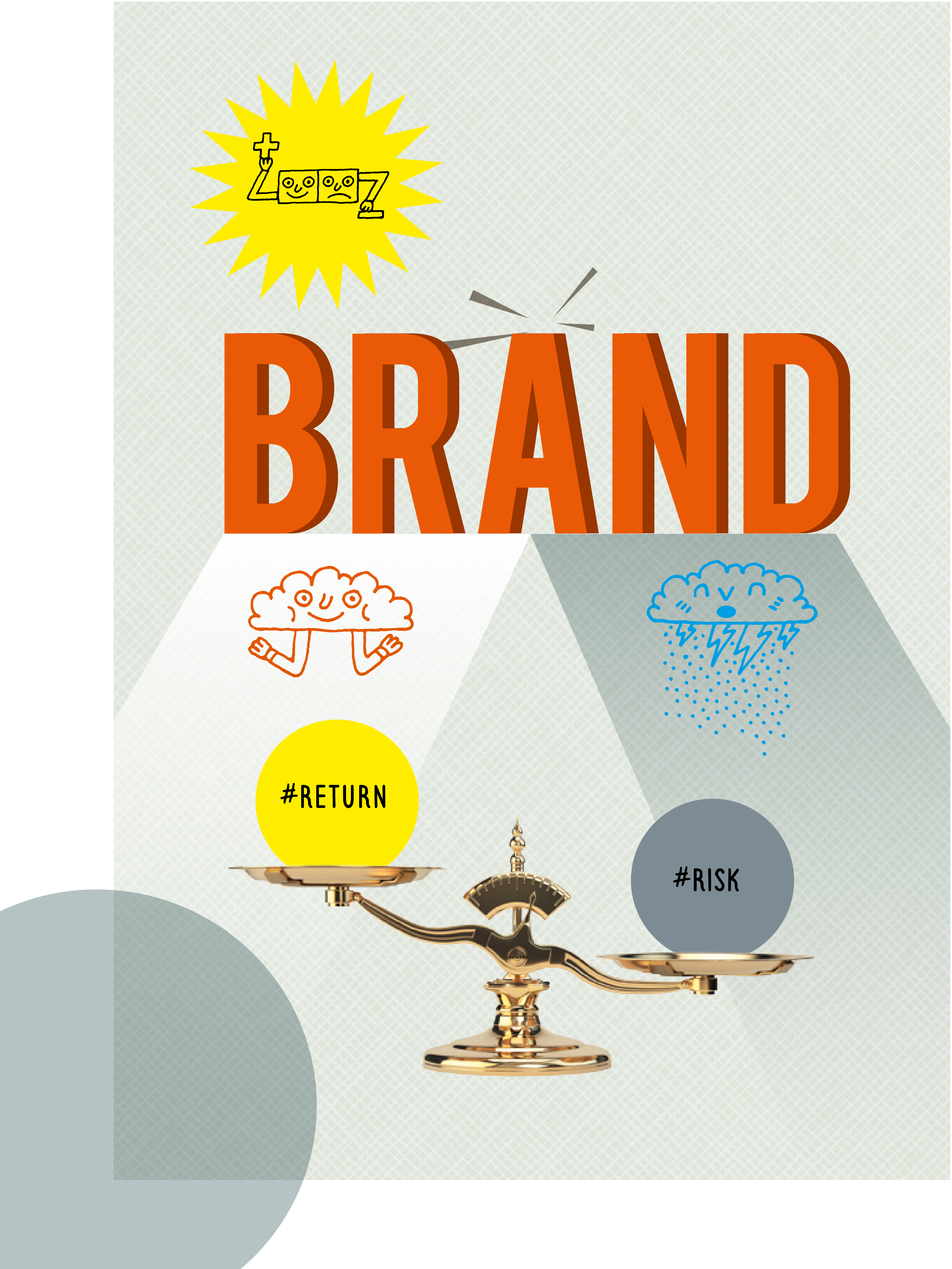
BRAND
#RETURN
#RISK

Branding and the Risk Management Imperative

Susan Fournier and Shuba Srinivasan

KEYWORDS

Brand Risk, Reputation Risk, Brand Dilution Risk, Brand Stretch Risk, Brand Cannibalization Risk, Socio-Economic Risk

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Every light has its shadow /// Of all the assets under marketing control, brands are perhaps the most valued. A strong brand attracts new customers, retains existing customers and offers a platform for the introduction of new products. A strong brand can reduce risk by encouraging broader stock ownership, insulating a company from market downturns, granting protection from product failures and reducing variability and volatility in future cash flows. A landmark study by Madden and colleagues confirms that by cultivating strong brand assets, companies not only generate greater returns but also do so with less risk. At the same time, a company's branding strategies can exacerbate its risk profile, thus endangering revenues, cash flows, brand equity and shareholder value. The history of the Martha Stewart Living Omni Media brand (Box 1) serves as an example highlighting the strategic role that brands play, not just in driving top-line revenue but also in implicating a company's risk exposure. Given that investors seek to maximize returns while minimizing risk exposure, it is crucial that management proactively considers brand-related risks. The problem is that marketers have only recently entered the risk conversation. If managers are to understand brands as tools for risk management, they need to understand four types of brand risk (Figure 2).

Four brand-relevant risks

Brand reputation risk /// is the possible damage to a brand's overall standing that derives from negative signals regarding the brand. It destroys shareholder value by threatening earnings through negative publicity that exposes the companies to litigation, financial loss or a decline in its customer base. By selecting certain strategies, brands may become more exposed to reputation risk. Extensions into downscale markets endanger a brand's standing and damage a brand's quality associations or its perceived exclusivity.

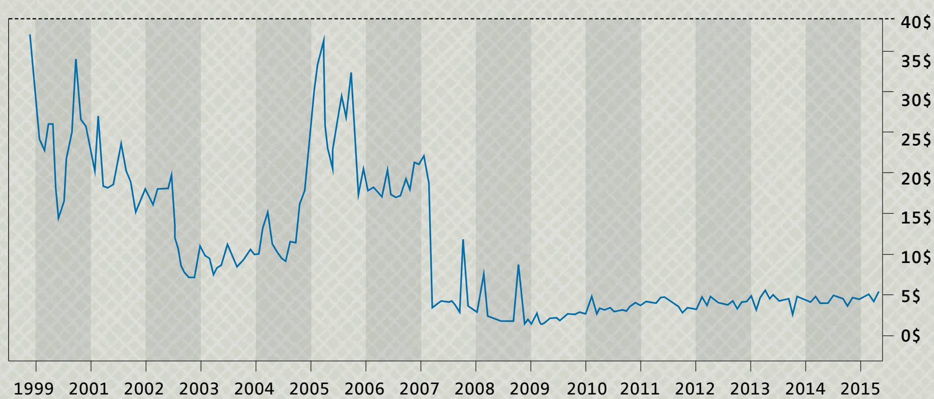
{*Box 1*}

THE RISE AND FALL OF MARTHA STEWART LIVING OMNIMEDIA, INC. (MSLO)

Martha Stewart first appeared on the cultural landscape in the late 1970s as a caterer. She steadily built her reputation as a homemaking guru and expanded with a line of housewares sold through mass-market retailer K-mart in 1987. In 1990, Time-Warner took notice and launched the monthly Martha Stewart Living magazine. A media empire quickly grew and a lifestyle maven was born.

Martha Stewart Living Omnimedia (MSLO) went public in 1999 at $36.88 a share. By 2001, Martha Stewart stood as a cultural icon and her eponymous lifestyle brand was one of the world's strongest. One short year later, MSLO traded as low as $1.75 in the height of a scandal that eventually landed the founder in jail. MSLO never recovered. It was purchased in 2015 by brand management and licensing company Sequential Brands Group for $353 million, at $6.15/share. Although analysts highlight the benefits of authenticity and intimacy that came with Stewart's human brand, they also point toward the risks inherent in using a living person as the core of a brand.

FIGURE 1:
MSLO Stock price evolution from IPO to Sale



From: https://finance.google.com/finance/historical?q=NYSE:MSO
https://finance.yahoo.com/

Connecting a large portfolio of products with one single brand name and logo can make brands vulnerable to this type of spillover risk. As the piece by Fournier and Eckhardt (pp. 30) demonstrates, reputation risk is exacerbated through person-brand strategies, as for Calvin Klein and Martha Stewart. They highlight the importance of consistency and balance between the person and the brand. Misconduct within a company poses risk, also for non-person brands. Consider Uber, the highest valued pre-IPO firm in history. It suffered financial losses and was downgraded 16 % by mutual funds following a series of high-profile reputational crises involving CEO Kalanik and the Uber organizational culture. In a similar way, celebrity endorsements expose brands to spillover reputation risk. Research on the Tiger Woods scandal links celebrity endorsement not just to stock market effects but also to damage affecting the entire companies of the sponsors.

The contemporary marketing landscape with ongoing co-creation, social media interconnectedness and fake news increases reputation risk even more. The article by Berthon, Treen and Pitt (pp. 18) illustrates how truthiness, fake news and a "post-fact" culture endanger brands and increase brand risk and proposes several solutions for risk management.

Brand dilution risk /// concerns the loss of meanings that differentiate a brand from its competition. Brand differentiation, more than any other brand quality, drives market share and penetration. Conversely, losses in brand differentiation comprise the first step in the erosion of brand equity. The loss of unique brand meanings negatively affects cash flows because customers might switch to other brands or become unwilling to pay price premiums. The frequency, depth, range and quality of brand extensions increase a company's exposure to dilution risks. Consider Harley Davidson's decision to enter the food category and introduce beef jerky: Line extensions serving the current category with new varieties or category extensions into markets not previously served distance the brand from what is unique about it in consumers' minds and dilute the brand. Nabisco's introduction of Watermelon Oreos is another example: Focal meanings of the Oreos brand become diluted as the new extension adds additional meanings relating to watermelon flavor that must somehow be accommodated in the brand's meaning mix. Burger King's launch of its so-called "healthy" Satisfries, complete with salt and grease, has the potential to obliterate the favorable and dominant brand associations that drive the strength and value of the Burger King brand.

Companies with multiple offerings in a category also risk dilution simply because such brands are more likely to overlap and lack distinctiveness in consumers' minds. Mercedes' C-class stands as a powerful case in point. As Chip Walker's article (pp. 24) shows, new brand and line extensions raise awareness but can add risk when such knowledge makes people think worse of the brand. As Monga and Hsu (pp. 40) point out, culture and its associated style of thinking is a powerful predictor of how consumers react to brand extensions and companies need to consider culture carefully when leveraging and protecting brands.

Brand cannibalization risk /// leads to sales or revenue losses that accrue when customers buy a new product at the expense of other products offered by the same company. Cannibalization, or intra-brand substitution, is a type of spillover risk and managers strive to minimize competition within product lines. Multiple line extensions within the same category risk considerable overlap in their brands' value propositions and poorly differentiated brands suffer greater cannibalization. On page 34 Mason and Jayaram explain the dynamics of cannibalization risk and recommend investigating factors that drive cannibalization, measure the cannibalization effect on existing products and consider organizational implications.

Fighting brands such as Kodak's FunTime film, designed for "less important" photographic occasions, attempt to defend a company against price-based competitors but can exacerbate cannibalization risk when they substitute other brand offerings. Vertical line extensions into value-based markets, such as Porsche's introduction of the Cayenne model, incur the same risk. They become counter-productive from a margin standpoint when customers who would otherwise purchase the costlier version trade down to the cheaper alternative. Tesla's introduction of the Model 3 provides a case in point with investors foreshadowing the erosion of the Tesla brand at the hand of profit declines. Also, luxury fashion houses launching low-price/low-quality fighting brands are entering a slippery slope. Experts generally agree that there can be negative spillover risks to the main brand, although new clients can be cultivated. Outlet channels present a similar dilemma: Louis Vuitton is not available at the outlets, but Burberry and Armani are. The trade-off between reaching more customers and keeping brand values is difficult to balance. Access to upscale markets

»
Political risk is increasingly a source of risk to companies and their brands.
«

FIGURE 2:

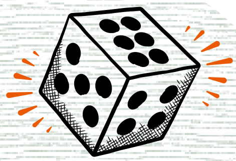
Types of brand risk and their drivers and effects in today's market reality

through supra-branding, as Volkswagen attempted with the Phaeton, is also high risk as this strategy often pushes the brand beyond its natural boundaries.

Brand stretch risk /// reduces a company's ability to take advantage of new market opportunities, new technologies or changing consumer tastes through the introduction of new, tailored offerings. A main motivation for building a brand is to leverage it, but certain brand meaning characteristics can increase a company's exposure to brand stretch risk. A brand with concrete meanings has less room to grow and hence greater stretch risk. Coach recently rebranded itself as Tapestry to allow for growth beyond the leather handbags and accessories that have borne the Coach brand name.
Dominant meanings tied to a specific category – such as with Kleenex and tissues or Levi's and jeans – further limit opportunities and increase stretch risk. A brand can also face growth restrictions through dominant meanings that strain the credibility of new offerings. American restaurant chain Hooters' decision to launch an airline was ill fated because its dominant association with frivolity clashed with the need for safety in air travel.

New realities enforce the need to manage brand risk /// Risk management is not a natural act for brand managers trained in astute execution of the 4 Ps to drive revenues, and contemporary market factors make this more challenging still.

Brands and politics: a risky couple /// Anyone familiar with risk management within the world of economics and finance understands political risk as a macroeconomic factor affecting certain markets as a whole: The geopolitical instability in the Middle East, censorship of information in China, or the turmoil in the EU caused by Brexit all pose systematic risks to global brands. What is less obvious is that political risk is increasingly a source of risk to companies and their brands. The politically-charged environment created in the United States around Trump's presidency has made every news story an opportunity for brand meaning making. Whether unintended or intended, political affiliation has looming consequences for dilution and reputation risks. Movements such as "Grab Your Wallet," founded in response to Trump's treatment of women, encouraged a boycott of Trump-branded products and companies associated with Trump. Even distant personal connections to Trump have increased brand risk and destroyed brand value in associated companies. A boycott against L.L.Bean was initiated after Linda Bean, one of the 50 family members associated with the company, donated money to the Trump campaign. The Carrier and Ford brands were caught in the crosshairs of a debate to build a wall between Mexico and the U.S. and



» Ad-hoc brand architectures can impose great risk and managers often underestimate it. «

shift manufacturing stateside. The pull of brands into the political arena extends beyond reactions to the current U.S. presidential office to a more hyper-charged cultural world. Nike, Adidas, Under Armour and others found themselves in political territory after President Trump decided to take a public stance against NFL players who failed to stand for the U.S. national anthem. Weinstein Productions, The New York Times, National Public Radio's Prairie Home Companion and Charlie Rose, NBC's Today Show; a short list of media brands embroiled in nationwide political debates in the wake of high-profile sexual harassment scandals.

What is interesting is that some brands are willingly injecting themselves into this contested environment. They ignore the well-worn advice that brands won't do well when they involve themselves in ideologies. Politics polarize and most likely alienate a portion of a brand's customer base. Starbucks felt compelled to react to Trump's immigration ban by announcing that it would hire 10,000 refugees in its stores worldwide. Lyft stood firmly against the ban on immigrants and made a $1 million donation to the American Civil Liberties Union, while rival Uber took a hit for its seemingly opportunistic response. Managers need to be cognizant of how exposed their brands are to political risk and how social media might intensify the risks before stepping into the political realm. With an increasingly polarized society, it may be impossible for brands to remain untouched by ideologies. Our interviewee Patrick Marrinan stresses that being right for half of the people means being wrong for the other half and suggests strategies for managing increasing social-political risk (pp. 52).

Less control over advertising context /// With the growth in digital advertising, brand managers increasingly have less control over advertising placement and context. In the traditional brand-building world, managers controlled media exposure by targeting particular demographics and refining content to optimize brand messaging. BMW carefully placed its Z3 in James Bond movies to emphasize synergistic associations and target audience characteristics between the BMW and James Bond brands. Today's digital world is different, and placements result from programmatic algorithms driven by consumer histories rather than managerial decisions. Such consumer-initiated ad targeting introduces vulnerabilities. For example, P&G found its brands on extremist websites on YouTube, prompting a $140 million reduction in digital advertising spending.

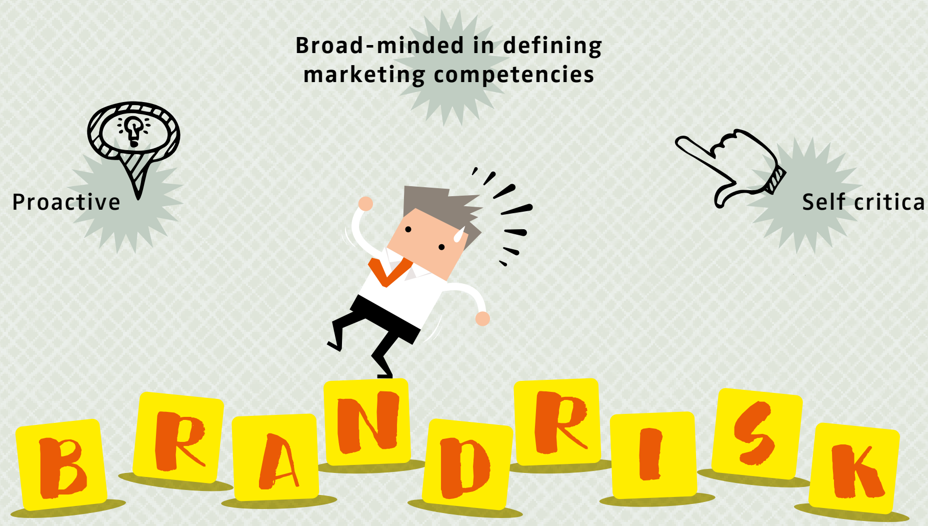
{Box 2}

TEN KEY QUESTIONS TO HELP MANAGERS ASSESS BRAND RISK

1. Is your product category or brand heavily exposed to political risk?
2. Judging from social media and press mentions, is your brand significantly embedded in the cultural conversation?
3. Are your brand's dominant meanings narrow in scope and tied to a particular product category?
4. Is your brand heavily extended across multiple lines, a broad range of price points, or over multiple categories?
5. Is the level of consumers' brand knowledge and awareness higher than the level of brand liking?
6. Is your brand strongly interconnected with a human such as a founder or celebrity endorser?
7. Does your CEO or company founder have a blog or other public venue through which s/he regularly communicates with the public and media?
8. Does your brand management team lack professionals skilled in crisis communications, media and public relations and the legal side of risk management?
9. Is a high portion of your advertising budget for consumer traffic spent on digital advertising?
10. Does your brand architecture connect brand offerings under the same brand umbrella?

The more often your answer is "yes," the more exposed your brand will be to brand risk. Each individual "yes" demands attention and thoughtful management intervention to prevent possible brand damage.

FIGURE 3:
Mindset qualities to manage brand risk successfully



Brand managers face a choice: They can follow the digital traffic and accept attendant consequences of higher risks and potentially higher rewards, or they can attempt to manage the seemingly uncontrollable by imposing increased vigilance. Abdicating responsibility to machine learning requires ad placement monitoring solutions that minimize brand reputational risk. Managers can also manage risk exposure through a balanced advertising portfolio that combines company-initiated traditional advertising with better control over placement with digital advertising offering better consumer targeting, albeit with less context control.

The growth imperative /// Driven by the shareholder imperative of driving growth in revenues, companies have become addicted to opportunities that expand their brand portfolios through mergers and acquisitions, new product introductions and line extensions. How new brands are incorporated into existing ecosystems – what is known as brand architecture strategy – is often ad-hoc rather than strategic and planned. These ad-hoc architectures can impose great risk and managers often underestimate it.

Our research shows that in contrast to predictions from marketing research, a sub-branding structure such as Apple's i-products or BMW's 7-, 5- and 3-series does not control risk, but in fact exacerbates it. This strategy registers the highest risk profile of all architectures. Managers pursuing sub-branding perceive a false sense of protection against risks of overextension, dilution and cannibalization. The reality is that the very qualities that commend this strategy – its ability to encourage broader participation in markets and extensions that are farther afield from the base brand – exacerbate risk. Endorsed branding architectures like Post-it Notes by 3M create distance from the corporate brand. These are effective risk control mechanisms, but costs for building what are in effect two brands are higher and associated with returns lower in response. Managers who seek ultimate risk control are advised to pursue the house-of-brands strategy with different brand names, albeit with costs to returns. If managers think they can control risk by diversifying brand architecture strategies, they should think twice: The hybrid mix does not offer enhanced risk control.

How to successfully integrate a risk perspective into branding /// Managing brands by managing risk is inherently different from managing brands according to a revenue rubric. The more exposed your brand is to brand risk (see Box 2 to assess your risk potential), the more attention this topic will need in your boardroom. Three mindset qualities are relevant in shifting marketing philosophy toward risk.

> ***Be broad-minded in defining marketing competencies*** /// The risk-savvy brand manager needs to rethink the skills that define marketing competency. Crisis management is the backbone of the playbook, but in today's hyper-sensitive marketplace, crisis management skills are not "emergency resources." They are called upon to negotiate consumers' brand meaning making each and every day. Ours is a world where threats to brand value can come in a lone tweet, a Facebook post, or a celebrity blog. Identify the specific risks confronting your brand. Estimate the potential for those risks. Determine a crisis response action plan. When training brand managers, take lessons from public relations and media professionals who truly understand how to embed brands in the fabric of daily living. Engage legal professionals skilled in the art and science of risk management. Enrich your management team with sociologists who understand the nature and dynamics of co-created brands.

> ***Be self-critical*** /// Risk management focuses on the negative – threats, weaknesses and vulnerabilities rather than opportunities that drive top-line results. This requires a managerial mindset that is self-critical, a willingness to accept that conventional wisdom might not hold. In the world of risk, awareness can be harmful. Brand extensions can destroy brand assets. Brand risks may not diversify through a mixed portfolio strategy. The risk manager must take care not to assume in a game whose rules are changing. Thoughtful after-action reviews will provide needed insight into failed strategies.

> ***Be proactive*** /// Effective brand risk management requires managers to think systematically about the types of risks facing their brands. A risk assessment will reveal not only individual vulnerabilities but also category differences in inherent risk profiles, and this will inform marketing actions. Luxury brands are more susceptible to dilution risk than any other category because of their exclusivity associations. Lifestyle brands are exposed to greater reputation risk because they tap deep, sometimes hotly-charged cultural values. Person brands such as Martha Stewart face a completely different set of risks as compared to packaged good brands: persons die, they have families and friends, they act spontaneously, and these human qualities affect risk-return profiles. The type of relationship that consumers form with a brand also matters from a risk perspective. Hupp, Robbins and Fournier (pp. 58) identify "at-risk" relationships that need special attention in times of crisis to stem the loss of brand value. Hanssens, Fischer and Shin (pp.46) note that marketing managers need insight into how marketing decisions affect cash flow volatility, and offer recommendations on how volatility risk can be monitored and managed.

Opportunities and risks in brand management are as inextricably linked to each other as light and shadow. Being aware of the shadow – its possible shapes, its different intensities and all the angles it can emerge from – will cultivate preparation and prevent stumbling in the dark.

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NEWS
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no?
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Algorithm
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News

How Truthiness, Fake News and Post-Fact Endanger Brands and What to Do About It

Pierre Berthon, Emily Treen and Leyland Pitt

KEYWORDS

Brand Management, Brands as Processes, Truthiness, Post-fact, Fake News

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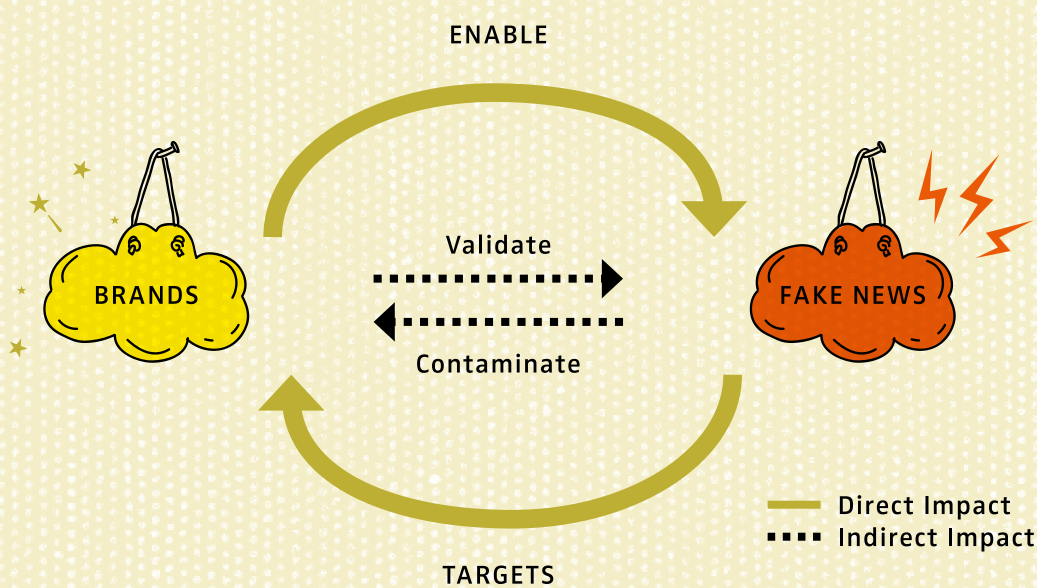
The Age of Truthiness and Post-Fact /// "Are alternative facts, facts?" In the post-fact world, the validity of something is based on how it feels (truthiness). The "post-fact" world is, simply, what you wish it to be, regardless of objective, verifiable statements. Marketing and post-fact merge on mainstream and social media and can often be tied to one another. This not only spells trouble for brands, it places them at risk. One such area of trouble for brands is fake news. Fake news is nothing new. However, in the recent past, the scale of the problem has grown exponentially. Incongruously, the information age has simultaneously given us the misinformation age. When individuals select both the stories they read and the people they interact with, opinions and views are reinforced in an echo chamber driven by positive feedback loops. The truth more and more becomes my truth. Thus, the social media Internet's truth is rather popularity and truth is my truth. These two tendencies both crave and fuel the spread of fake news.

Brands and fake news /// Brands can interact both directly and indirectly with fake news. In some instances, brands are the victims of fake news and other times, the purveyors (see Figure 1). Directly, brands can either finance fake news or be the targets of it. Indirectly, they can be linked via image transfer where either fake news contaminates brands, or brands validate fake news.

Brands as victims of fake news /// As targets, brands can be fake news casualties. Pepsi stock fell around 4 % just prior to the 2016 US presidential election when a fake news

FIGURE 1:
Brand interactions with fake news



story about Pepsi's CEO, Indra Nooyi, telling Trump supporters to "take their business elsewhere" went viral. Brands can appear associated with spurious stories, and this can tarnish or contaminate them, while lending validity to the content. Consumers reading of an apparent affair between Yoko Ono and Hillary Clinton might have been reassured of the story's validity because Fiat-Chrysler's Ram Trucks brand prominently sponsored the page. Brands also risk consumer backlash if consumers interpret that brands support suspect or misleading news. For instance, this was the case when Kellogg Co. was forced to pull its sponsorship of the "alternative fact" site Breitbart.

Brands as purveyors of fake news /// Alternatively, brands can propagate fake news. Searching for greater reach, brands tend to associate themselves with the most popular stories – whether these are true or fake. Ironically, brands may be the primary force behind the fake news explosion: Fake news attracts eyeballs, and eyeballs attract advertisers.

Brands can also fund fake news sites. They fund them directly by simply targeting popular sites, because web traffic attracts advertisers. Also, they target sites based on the information search profiles of likely customers, centered on the type of content to which potential customers are attracted. In addition, they may fund them indirectly by tracking customers as they surf from site to site.

Managing brands in a post-rational world /// By being purveyors of truthiness (see Box 1), brands place themselves at risk. However, the abundance of fake news and post-fact in our post-rational era are even more powerful forces imperiling brands. We propose two kinds of solutions for both sources of risk: First, technical actions that can be undertaken to address false news and, second, systemic steps that can be undertaken to rethink the management of brands in order to inoculate against various forms of "fakery" and to reestablish stakeholder trust.

Technical actions to prevent brand damage /// Technical solutions involve addressing each of the four types of relationships that brands have with fake news that are summarized in Figure 1: enabling, validation, contamination and targeting. Obviously, enabling (through funding), validation and contamination are interrelated and are underpinned by two issues. First, how to minimize the placement of brand adverts adjacent to fake news stories and second, when such pairings do occur, how to minimize the damage.
The minimization of pairing of brand advertisements and fake news involves changing the ways in which marketers target consumers. Ideally, algorithmically selected sites should be screened by trained observers, just as Wikipedia screens dubious content. In the longer term, humans can be augmented by deep learning AI programs that have been trained by humans to spot fake news stories. Alternatively, or in addition, consumers themselves can be recruited to identify fake news and flag spurious content and the associated web sites.

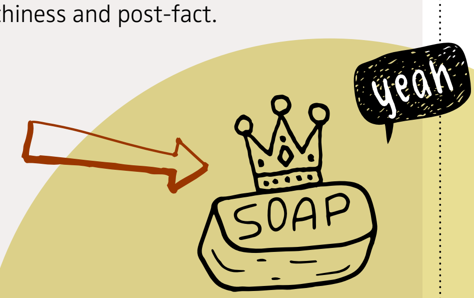
When brand advertisements do appear next to fake news stories, remedies are twofold. First, consumers can be educated about fake news and the algorithmic targeting used by advertisers, similar to the current efforts to educate

{*Box 1*}

MARKETERS' COMPLICITY WITH A POST-FACT CULTURE

Are marketers part of the problem or simply victims of it? A cursory review of the origins of modern marketing reveals that it developed, in part, when supply of low-cost, mass-produced products began to outstrip demand. Advertisers were charged with persuading people to buy more goods and services. Advertising products for their functionality – soaps that clean – shifted to advertising brands as "reality creators," be this a feeling, a lifestyle or even a world. Soaps "save the world," and beverages bring "happiness and peace." Marketers have become some of the main cultural purveyors of truthiness and post-fact.

Another common marketing practice has been what is now called Betteridge's Law: It states that when a headline asks a question, it can mostly be answered with "no." Formulated by the British journalist Ian Betteridge, it proposes, that news outlets use headline questions for stories that do not possess sufficient facts to support the "nut graph." The same principle can be observed in advertising with questions like: "Have you driven a Ford lately?" "Did someone say McDonalds?" "Pardon me, do you have any Grey Poupon?" Most of the "probability-of-a-no answer" questions proffered above are posed by famous brand slogans. By using such headlines, these brands try to make an impression that they cannot actually back up. This practice shows how brands have always been purveyors of truthiness and post-fact.



{*Box 2*}

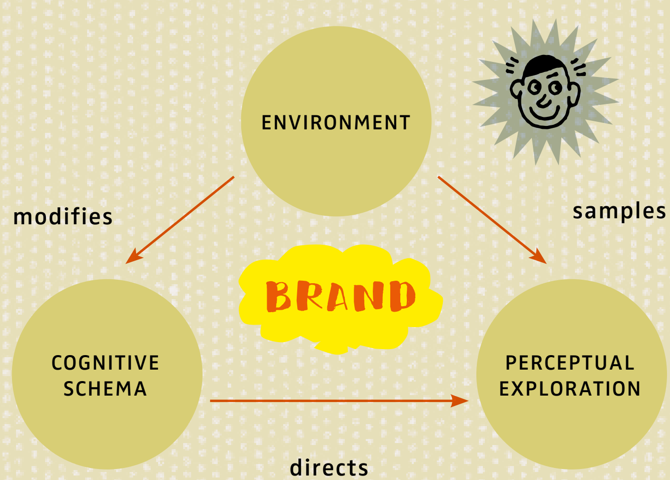
BRANDS AS PERCEPTUAL PROCESS: A NEW BRAND CONCEPT FOR A POST-FACTUAL WORLD

The American Marketing Association defines a brand as a name, term, design, symbol or other feature that distinguishes an organization or product from its rivals in the eyes of the customer. We suggest instead that a brand is a continually updated cognitive schema that invites the customer to experience an offering in a particular way. It is constantly modified by the customer's experience of the branded offering. Therefore, brands evolve as a co-production of the company and the customer which form process partnerships.

The psychologist Ulric Neisser described a perceptual cycle, which suggests how the perception of an object, for instance, a brand, evolves. While traditional theories present perception as a passive act Neisser describes perception as more an act of construction. Stimuli from the outside world are filtered and then either noticed, ignored or processed further. The environment is actively scanned and sampled for specific information and modifies the original "driving" schema (see Figure 2).

FIGURE 2:

Brand perception as active construction



(adapted from: U. Neisser, Cognitive Psychology: Classic Edition (Hove, UK: Psychology Press, 2014)

Brands can therefore be thought of as cognitive schema that select, drive and frame explorations of offerings. BMW's "the ultimate driving machine" focuses consumers' perceptions on the driving experience. A customer drives a BMW and "tests" the schema against the reality of the product experience. United Airlines' recent forcible removal of a passenger from a flight confirms many customers' experience of the airline: Its branding as "fly the friendly skies" fails the reality test.

consumers about phishing scams. Second, consumer brand advocates can be enlisted and enabled to alert managers when a brand advert has been coupled with inappropriate content.

Systemic approaches to reduce fake-news risk /// Systemic solutions involve a rethinking of brands and branding. It means taking a good, long, hard look in the mirror and frankly acknowledging that business has been complicit in creating the post-rational culture we now inhabit (see Box 1). Too often, brands have become ends in themselves, uncoupled from the reality of the offerings they adorn. Toyota didn't become one of the biggest and most respected car companies by appealing to magical thinking. It got there by making reliable cars. Tesla did not come from nothing to be the largest maker of electric cars in a mere four years by appealing to ecological thinking. It got there by making electric cars outperform gas-powered cars – although its ecological appeal obviously helped.

Brands are not ends in themselves; they are the result of outstanding offerings. Certainly, they can act as interpretive frames, but they don't unilaterally create reality, as many seem to believe. One way forward is to look at brands not as objects but as processes – specifically, perceptual processes (see Box 2) – and manage them accordingly.

Recommendations for managing brands in a post-factual world /// Our solution to the problem of minimizing the brand risks posed by truthiness and post-fact is that managers not view brands as "objects" but as "processes," as outlined in Box 2. Managers following this reasoning should consider the following recommendations.

> ***Design all brand interactions carefully*** /// Brands frame the way customers interact with offerings by highlighting certain features while diminishing others. Managers must think carefully about what their brands suggest, promise and elicit.

> ***Consider the context of the interaction*** /// Perceptual exploration is an active process. A customer's experience of the offering is directed by the schema they have of the offering. Simply, no experience is independent of its context. Apple understands that how and where customers interact with their products is critical. Apple stores not only look and feel different, mirroring the branding of "think different," they invite customers to interact with their products in a relaxed environment, with help and advice available at a moment's notice.

> ***Apply reality-tests to your brand claims*** /// Any brand experience must match the brand schema. If a company's offering fails its own brand reality test, the consequences are negative. BP's branding of 'Beyond Petroleum' was meant to conjure images of a traditional oil company exploring multiple other energy alternatives. The reality was that BP was only expending a pittance of R&D funding on alternative energy sources. The Deepwater Horizon event exacerbated public brand disillusionment by suggesting that "Beyond Petroleum" meant denigrating the environment in a cavalier manner.

> ***Expect consumers to participate in the creation of brand meaning*** /// Finally, managers need to remember that the perceptual cycle belongs to the consumer and not the brand manager. The company may own the brand trademark, but not the consumer's brand schema.

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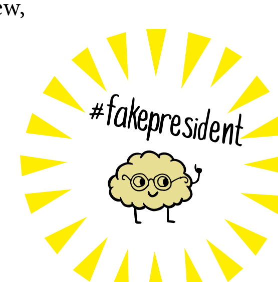

NO WAY
BACK?
PROBLEM
STRONG
BRAND

When Brand Familiarity Breeds Risk: The Curse of Negative Knowledge

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KEYWORDS

Brand Knowledge, Brand Risk, BAV

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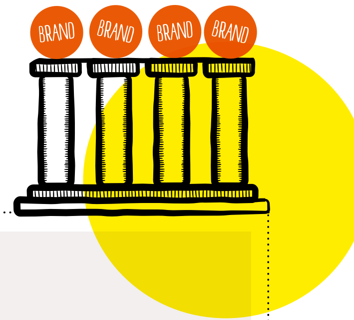
Knowing isn't liking /// Historically, marketers have been taught to believe that having more people know about a brand is always a good thing, and that there is no such thing as bad publicity. The common advice "just make sure they spell your name right" illustrates this thinking. But in today's world, knowing more about a brand can make people think worse of it. Rather than helping a brand, increased familiarity can actually add risk. This is a phenomenon referred to as "negative knowledge." The term "knowledge" not only means brand awareness or how many can recall a brand name. Rather, it refers to what people actually know or assume they know about a brand. Sources of brand knowledge range from personal experience to things they read or hear on the news to online chatter or word-of-mouth from friends.

We see the negative knowledge phenomenon happening in a wide range of categories: cable TV companies who consumers seem to love and hate, banks whose hidden fees regularly annoy or airlines whose customer treatment in coach grates on many passengers. To make matters worse, there's a growing risk that negative experiences will quickly spread, as consumers can now easily share their negative experiences online via Twitter and Facebook or consumer review sites like Rotten Tomatoes and Yelp.

Why brand knowledge can be problematic /// In BAV terms, "negative knowledge" happens when the knowledge pillar is higher than esteem – meaning the more consumers know about a brand, the less they like it. There are several reasons this can happen.



{*Box 1*}

STUDYING EFFECTS OF BRAND KNOWLEDGE WITH Y&R´S BRAND ASSET EVALUATOR (BAV)

More than 20 years ago, Young&Rubicam developed its Brand Asset Evaluator, which is the most widely used tool worldwide to assess the power of brand. The BAV enables managers to understand brand knowledge and three other aspects of brand equity: esteem, relevance and differentiation (see Figure 1).

Based on hundreds of studies across thousands of brands, the BAV researchers have found that there are patterns among these four pillars indicating a brand's strengths and weaknesses. Depending on the positioning on these pillars, brands vary in strength and potential and need to be managed differently for success. The strongest brands achieve high scores in all four dimensions. Being more relevant than different shows that a brand is commoditized and needs to focus on standing out. Being high on knowledge and lower in the other dimensions has shown to be an indicator of brand risk.

FIGURE 1:
Pillars of the Y&R Brand Asset Evaluator

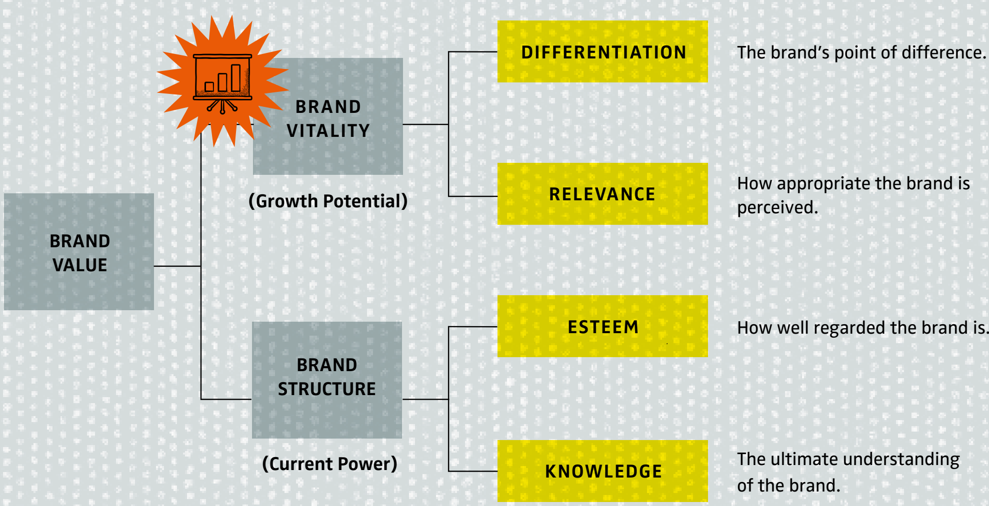


Figure from: http://www.valuebasedmanagement.net/methods_brand_asset_valuator.html

Personal embarrassment /// Some brands with this pattern are "embarrassment brands" – brands consumers might be a little embarrassed if they were caught using or buying. Tabloids like the National Enquirer and, for some, restaurants like Hooters might fall into this category.

Bad customer experience /// Other brands with this pattern have less to do with social stigma and more with providing a bad real or perceived customer experience or being poor quality. In the world of services, Airlines and cable TV companies are good examples of this phenomenon. In retail and consumer goods, Pabst Blue Ribbon and K-Mart fall into the negative knowledge category.

» In today's world, knowing more about a brand can make people think worse of it. «

Socially undesired business motives /// Still other brands with this pattern have reputational problems, usually based on perceived "sins." These brands are seen as having bad motives – with big banks being a prime example. Also, brands in categories like big oil and cigarettes are seen by some as a net drain on society.

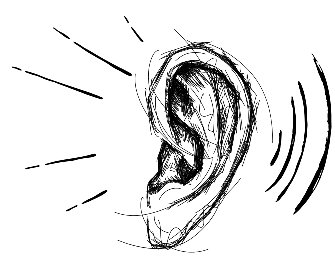
Different, but in a bad way /// In some cases, knowledge is greater than esteem but differentiation is also high. This means, "Your brand is different, but not in a good way." These are brands that for some reason just seem to rub some consumers the wrong way. Brands like Angry Birds, Hello Kitty and Crocs fall into this category.

It's worth noting that there are a few brands that actually feed on negative knowledge. These include sensationalistic brands like The Jerry Springer Show or The Howard Stern Show. The fact that they irk some people is, strangely, part of their appeal to others. But these brands are exceptions. Most brands with the negative knowledge problem need and want to do something about it.

What to do about negative brand knowledge /// Unfortunately, there are no quick fixes for negative knowledge. There is no list of five steps or four "how-tos" that will make the problem go away. We see brands that suffer for years and decades with this malady and some even go out of business under the weight of the problem. That's what happened to Oldsmobile, which was well known but couldn't shake its elderly user image.

Other brands do seem to be beating the negative knowledge rap – or are at least making some progress by finding a key that fits. Box 2 shows three examples, each tackling the problem from a different angle.

Be careful what you wish for /// A few years ago, I led an analysis at BAV looking at patterns of change in brand equity over 15 years. One of the most surprising findings was that we didn't identify any major patterns in which plummeting



» Once consumers know something about a brand, it is hard for them to "un-know" it. «

{*Box 2*}

HOW DIFFERENT BRANDS TACKLE THE PROBLEM OF NEGATIVE BRAND KNOWLEDGE

Burberry: Reinvent yourself
Former Burberry CEO Angela Ahrendts wrote in Harvard Business Review, "In luxury, ubiquity will kill you – it means you're not really luxury anymore. And we were becoming ubiquitous." Burberry had licensed everything from apparel to dog collars and was selling its signature trench coats in outlet malls at deep discounts. It had become known as a tired and sleepy brand, perhaps worn by one's father or grandfather. Ahrendts hired a "brand czar" who approved anything a consumer might see. Her strategy was to reinforce the brand's heritage, its Britishness, starting with the ethos of iconic "trench" – but expanding it stylishly into a range of luxury fashion. It took several years of effort, but, ultimately, it worked. By 2011, Burberry was named the fourth fastest-growing brand globally by Interbrand (behind Apple, Google and Amazon).

Coca-Cola: Use your ubiquity as a platform
Like Burberry, Coca-Cola had a ubiquity problem, but one of a different sort. Carbonated soft drinks have become villainized for high sugar content, and category leader Coca-Cola is the category's poster child. Thus, as a massive global brand with a huge number of current and past users, the brand's ubiquity made it seem like a mass globalizer of obesity. In 2013, Coca-Cola made a series of commitments that apply to more than 200 countries: offering low or no-calorie beverages everywhere, providing transparent nutritional information, starting programs to encourage exercise in every country and doing no advertising to children under 12 anywhere. By putting its considerable global marketing muscle behind these efforts, Coca-Cola is attempting to move from the leading cause of global obesity to a leading solution.

Wal-Mart: Connect with your higher purpose
Universally associated with low prices, Wal-Mart had become known for being the 500-pound gorilla that put mom and pop retailers out of business. It was also made fun of on websites like "People of Walmart.com," as being frequented by downscale people who were not aspirational in any way. In the mid-2000s, Wal-Mart rethought its "Always Low Prices" positioning and elevated it to feature the brand's higher calling: not just helping people save money, but helping them live better. More sophisticated advertising that gave a greater a sense of purpose to Wal-Mart's low prices, along with changes to store design and merchandising, has helped turn Wal-Mart's brand around. More recently, the brand has pushed into the realm of social responsibility, announcing that it is working to improve the welfare of farm animals in its supply chain. The Wal-Mart brand is obviously not out of the woods, but it has clearly made progress in being known for more than cheap prices.

knowledge was the primary problem. Knowledge seemed to stay with brands pretty stubbornly over time, even when esteem, relevance or differentiation were declining.

This reinforces the thesis about the dangers of negative knowledge: once consumers know something about a brand, it is hard for them to "un-know" it. During a time of media fragmentation when we're all struggling to gain more fame for our brands, it's critical to realize that it comes with a potential dark side. It's like putting the genie back into the bottle or the toothpaste back into the tube. While it's always wise to avoid brand obscurity, marketers must be ever cognizant that what customers know about a brand really can do more harm than good.

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Managing the Human in Human Brands

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KEYWORDS

Human Brands, Risk

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Human brands: powerful and risky /// Human brands such as Calvin Klein and David Beckham – brands that are people as well as productized brands for sale in the marketplace – are at once hugely powerful as well as highly risky. They are powerful because human brands convey a level of authenticity and potent cultural meaning that non-human brands cannot match. This grants the resonance, differentiation and personal connections required for brands to thrive in today's commoditized world. But human brands are risk-laden because people present increased chances for undesirable events such as illness or misconduct, and these reputational challenges can diminish returns. How can managers harness the power of human brands while reducing the risk associated with them?

To answer this question, we leverage a medieval legal theory developed by History Professor Kantorowicz some decades ago to explain how a king can be both a mortal human and a legal entity that lives on across time (see Box 1).

{Box 1}

THE KING'S TWO BODIES: A "BODY NATURAL" AND A "BODY POLITIC" MAKE HUMAN BRANDS DIFFERENT

How can a King be both a mortal human ("the body natural") as well as a legal entity which will live on in the form of another person when the current king dies ("the body politic," or public, when we talk about brands). A key insight from this theory is that the two bodies are inextricably interwoven and can never be separated; their competing interests work at odds and need to be managed simultaneously. The two-bodied framework highlights what makes human brands different from other brands: It is their very humanness – the physical and social realities, mental biases and limitations of being human – that introduces risk while generating the ability for enhanced returns. Four tenets of the body natural can create imbalance or inconsistency across the brand's two bodies: mortality, hubris, unpredictability and social embeddedness (see Figure 1). None of these qualities manifest in traditional non-human brands and all of them present risks requiring active managerial attention. Rather than treating humans as brands and making humans into brands for sale in the commercial marketplace, our framework forces a focus on the deeply human qualities of the human brand.

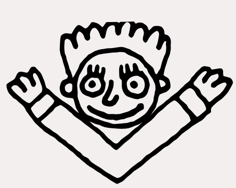
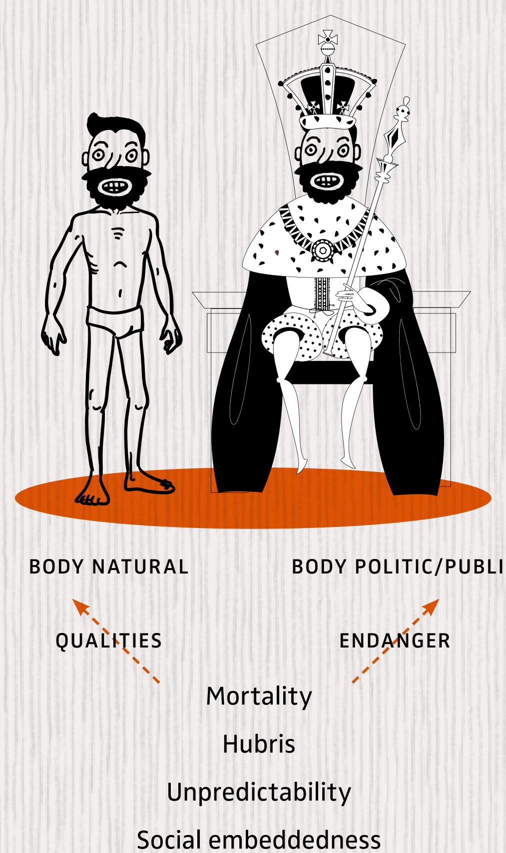
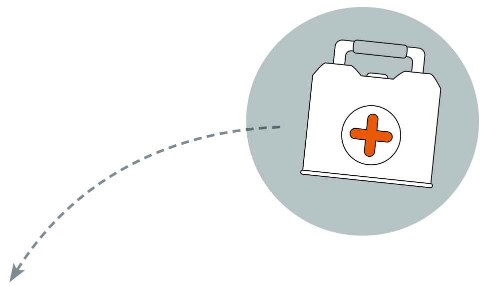
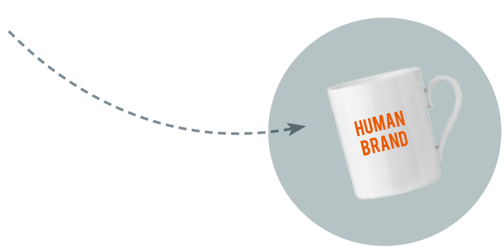


FIGURE 1:
The body natural and body public and their role in human branding





» Human brands are risk-laden because people present increased chances for undesirable events such as illness or misconduct, and these reputational challenges can diminish returns. «



The risks a body natural imposes on the brand

Mortality /// The first characteristic of the body natural is perhaps the most obvious: The body natural is mortal, and this means that one day the person in the human brand will die. Typically, companies seek to separate the body natural from the body public. This strategy is encouraged in a stock market that demands an endgame wherein the brand is not dependent on the person for its vitality. In the case of the Martha Stewart human brand, to prepare for her eventual death, managers tried to distance Stewart the person from Stewart the brand. This strategy was not successful: The body natural provides the primary source of meaning and cannot be excised without diminishing human brand value.

Hubris /// A sense of infallibility is another quintessential human quality that introduces risk to human brands. Some charge that Hillary Clinton lost the election because hubris clouded her ability to understand her status among voters; the media criticizes President Donald Trump daily for hubris that impedes effective decision-making. Hubris privileges the body natural over the body public, putting the human brand system out of balance and at risk.

Unpredictability /// Human brands are also risky because of the unpredictability of human nature. Managers of traditional brands are taught to carefully control the marketing mix in order to convey a consistent message over time, but it is part and parcel of human nature to not be "on brand" at all times. The body natural inadvertently leaks meanings every day and these meanings do not always align with the brand's positioning. Indeed, this very quality lends authenticity in a powerful way that non-human brands can never match. As President Trump's press secretary knows too well, balancing the authenticity derived from being unpredictable with the risk of being inconsistent is hard to get right.

Socially-embedded /// Human brands are socially-embedded – they live within complex webs of families, friends and colleagues – and these relationships introduce unintended risks to the human brand. A large part of the cultural meaning of a human brand stems from what others reveal about the brand to the public. This lends intimacy to the consumer-brand connection, as consumers feel they know the "real" person behind the brand, not the managed image. But, brand managers do not have control over what connected others will reveal. In Martha Stewart's case, testimonies of family members and subordinates exposed a person starkly at odds with the brand image of domesticity and perfection. Ivanka Trump's fashion brand suffers at the hand of her connections to her father.

How to handle risk and deploy the power of human brands /// Proper management of the sources of risk in the human brand requires attention to two guiding principles: consistency and balance between the two bodies of the brand.

> ***Find the right balance*** /// Mortality and hubris can lead to an imbalance, where one body is privileged over the other. To reduce this risk, governance structures, succession plans and the public relations toolkit can be judiciously applied to ensure that the body public, in the case of mortality risk, or the body natural, in the case of hubris, does not dominate.

> ***Ensure Consistency*** /// Unpredictability and social embeddedness can lead to inconsistency between the two bodies – when the person does one thing and the brand says another – and righting this relationship is a core task of human brand managers. Inconsistency can have positive effects on perceived intimacy and authenticity of the human brand, but only if the magnitude of distance between the body natural and body public is not too great and if implicated meanings are not central to brand positioning. Managers should avoid brand platforms that contradict human nature or unrealistically constrain the body natural.

> ***Monitor consistency and balance permanently*** /// With human brand management, active stewardship of the body natural is an ongoing process, not just something to be engaged during times of brand crisis. Brand tracking systems can be designed for this, with metrics including the risk of hidden meanings in the body natural, difference between claimed and revealed meanings in the brand's two bodies, and the valence of dominant personality traits of the body natural. Monitoring press coverage, social relations and public positions held by the body natural will help keep human brands on track.

In conclusion, the two-bodied system is a novel framework that uncovers the sources of risk in human brands and highlights strategies to unleash their power.

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I AM NEW!

Don't Get Eaten! Understanding and Handling Cannibalization Risk

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KEYWORDS

Cannibalization, New Product Introduction, Fighting Brand

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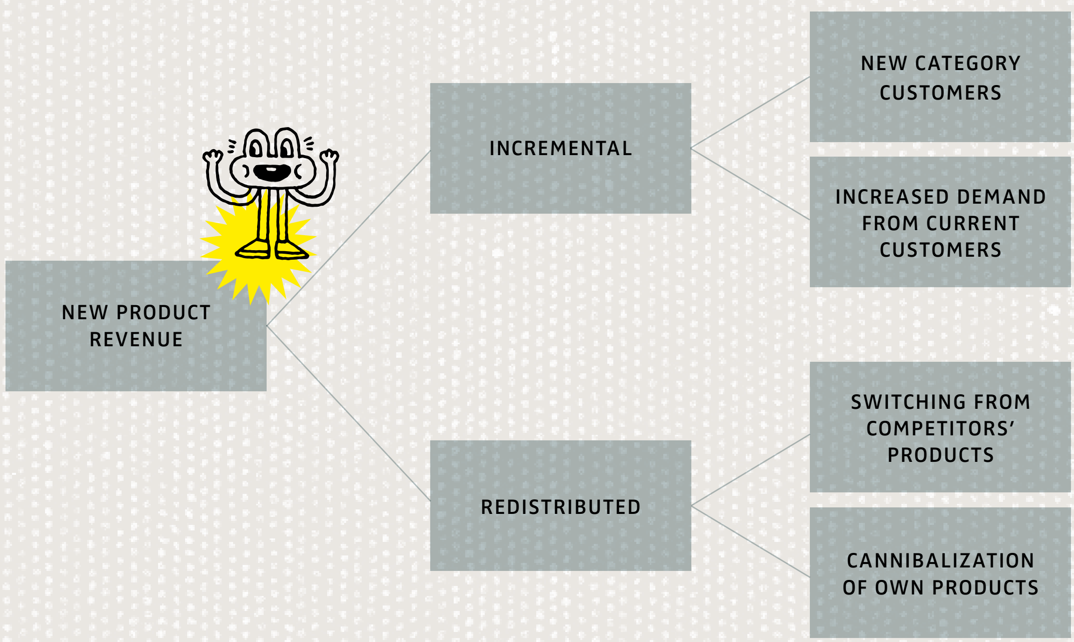
Cannibalization – a necessary evil /// With businesses under pressure to demonstrate growth in sales and profits and to target new customers, companies introduce new products frequently. The market research company Mintel reported that the annual number of new product introductions of consumer goods in the U.S. has ranged between 30,000 and 45,000 over the past decade. When so many new products are launched, they risk taking sales from a company's other products. This is known as cannibalization and can eat away at profits and destroy company value.

Conventional wisdom characterizes cannibalization as a risk associated with introducing new products and something to be avoided. However, many leaders recognize cannibalization as a necessary evil. Companies expect some cannibalization, as illustrated by Krispy Kreme's recent attribution of their international franchise same-store sales decline to "normal cannibalization." There are advocates for pre-emptive cannibalization as well. Steve Jobs famously said, "If you don't cannibalize yourself, someone else will." To that point, with 2006 iPod sales still growing and accounting for 50 % of Apple's revenue, Apple launched the iPhone knowing it would severely cannibalize and ultimately replace, the iPod. Ultimately, the critical issue is cannibalization's impact on profits. New products are introduced to attract new consumers to the category, encourage consumers to replace products with a newer model, switch consumers to a higher margin option, and as a defensive response to competitors. Figure 1 shows that new product revenue may be incremental to the category or redistributed revenue, including cannibalization of the company's other products.

FIGURE 1:
Revenue sources of new products



Most commonly, cannibalization occurs when a new product draws customers from that company's existing products. Retail cannibalization occurs when a retailer such as Starbucks opens sites close to each other, drawing customers from existing sites. Channel cannibalization can occur when companies expand into a new channel, e.g., when brick-and-mortar office supply retailer Staples made a major push to move online. Finally, consumer or trade promotions in one period can cannibalize future sales.

To minimize the potential loss of market share and profits, it is important to understand factors that drive cannibalization. It is also important to estimate and measure the cannibalization effect on existing products and consider additional organizational implications.

Brand factors and their impact on cannibalization /// Key brand variables for cannibalization risk concern how the new product compares in price and quality to existing products. Many new products, particularly in consumer packaged goods, are line extensions at similar price and quality levels. Examples include new flavors of sparkling water or scents in laundry detergent. Because of similarity, these line extensions pose a high risk of cannibalization. Price and quality variations should differentiate existing products from new introductions. Lower priced offerings are typically introduced as "fighting brands" and intended to combat low price competitors while maintaining the more premium product's position. In direct contrast to fighting brands, a premium super brand is higher priced and positioned as higher quality vis-à-vis the base brand.

Fighting brands /// A fighting brand should have lower perceived quality or fewer features to match the lower price to minimize cannibalization with the core brand, and therein lies the risk. A classic example is Kodak's launch of the Funtime brand to compete with the lower priced Fiji film. While Funtime was lower quality, the difference was not apparent or important to most consumers, resulting in major cannibalization of Kodak's flagship Gold Plus Brand.

Super brands /// Consumers trading up to a premium product cannibalize sales of the core brand, but the higher price yields higher profits. Examples include Land O'Lakes European Style Super Premium Butter and the new iPhone X.

Product, category and company factors and their impact on cannibalization risk /// Other factors have shown to impact the likelihood and extent of cannibalization. The category plays a role as well as the type of product and a company´s distribution system. Another managerial question to consider is whether a new product will coexist with or replace the existing product.

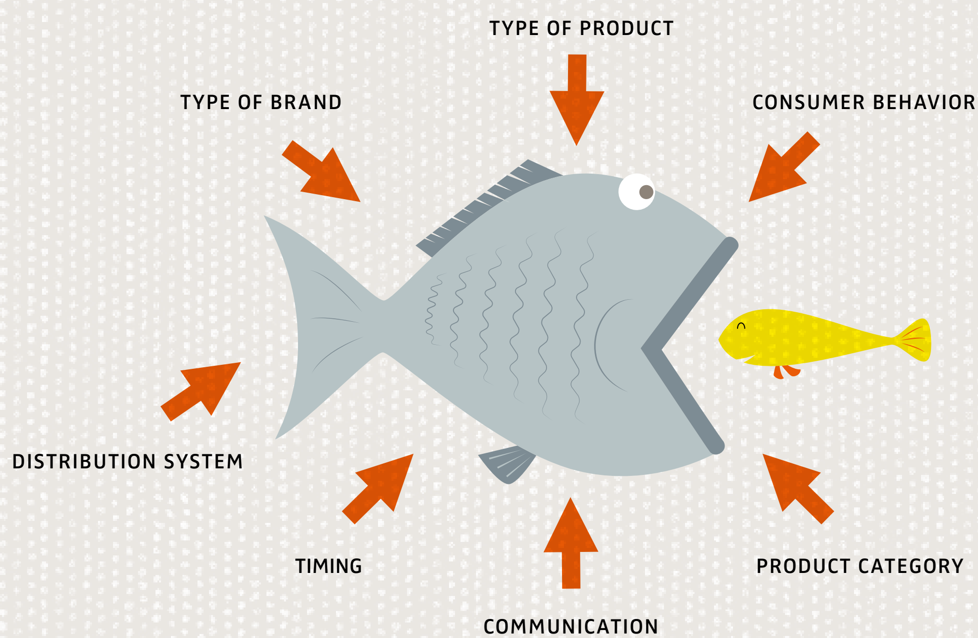
Is demand expandable? /// Product categories such as diapers and toothpaste offer limited possibilities for increased consumption, thus increasing the cannibalization risk of new product launches. In contrast, consumers can increase consumption of yogurt or bottled waters. For durable products, consumers are unlikely to buy multiple blenders but may readily purchase another television or different eyeglasses to match their mood.

Replacement or coexistence? /// In some industries like automobiles, new models routinely replace existing models. In other industries, new products co-exist with existing products but with clear differentiation of price and quality. For example, when Apple launches a new iPhone, it usually maintains or raises pricing for the top models, and previous generation models get price reductions, which may draw in new buyers and thus offset some of the cannibalization risk.

Is the product pleasure oriented or functional? /// Products such as designer lipsticks or sports cars involve a more sensory experience compared with the functional, practical nature of other products such as microwaves or paper towels. For consumers who value the experience of owning and using televisions or cellphones, new models with added features may result in lower prices for earlier models and increase cannibalization. However, this may also accelerate the replacement cycle compared with functional products such as refrigerators or vacuums.

How prevalent is variety-seeking? /// Since consumers exhibit variety-seeking in many food and beverage categories, a deeper product line may cannibalize other items in the line, but also keep consumers loyal to the brand. Thus, to control cannibalization, companies need to find the optimal product line depth and avoid too few or too many variants.

FIGURE 2:
Factors impacting cannibalization risk



{*Box 1*}

ESTIMATING CANNIBALIZATION RATES WITH FAIR SHARE DRAW CONSIDERATIONS

A new brand is launched into a market with three existing brands totaling $1000K in sales. The new brand's expected sales are $150K with no market expansion. The upper table shows the expected Fair Share Draw sales. The actual draw in the lower table reveals that the new brand drew disproportionately from A and C. As A and the new brand are marketed by the same company, the new brand shows high cannibalization of A's sales – more than expected based on Fair Share Draw.

BRAND	SALES – BEFORE	SHARE – BEFORE	FAIR SHARE DRAW PROJECTIONS FOR NEW BRAND
A	*$ 500,000*	*50 %*	*$150,000 * .5 = $75,000*
B	*$ 300,000*	*30 %*	*$150,000 * .3 = $45,000*
C	*$ 200,000*	*20 %*	*$150,000 * .3 = $35,000*
Total	*$1,000,000*	*100 %*	*$150,000*

BRAND	SALES – AFTER	SHARE – AFTER	ACTUAL DRAW INCLUDING NEW BRAND
A	*$ 400,000*	*40 %*	*$100,000*
B	*$ 300,000*	*30 %*	*$ 0*
C	*$ 150,000*	*15 %*	*$ 50,000*
New (A's sister brand)	*$ 150,000*	*15 %*	
Total	*$1,000,000*	*100 %*	*$150,000*

Is it an inexpensive, low-risk product? /// Low-risk products are more likely to suffer cannibalization from lower-priced entrants, as consumers have little to lose from trying the cheaper option.

Is consumption private or public? /// Whether consumption or choice decisions are seen by others or not is known to impact consumer decision-making. This may also impact cannibalization. A new fighting brand may have greater cannibalization if privately consumed than publicly consumed where consumers want the brand to reflect a certain image. A fighting brand of cooking oil that is consumed privately may cannibalize the core brand more than a "second label" from a winery that is publicly shared with friends.

Can the new product achieve distribution goals? /// If the company has control over distribution through company-owned retail outlets, franchises or direct online sales, it can assure distribution of the full product line. More common are channels with intermediaries who ultimately decide the extent of distribution for a given offering. In such arrangements, new products may likely cannibalize the distribution of existing ones.

Estimating cannibalization effects /// The first step in managing cannibalization risk is to measure it. Often, Fair Share Draw is used to calculate potential cannibalization effects. The Fair Share Draw represents the loss in share of products to a new entrant, assuming that the new entrant will draw share proportionately from existing products. The Fair Share Draw may be compared with the actual share change to gauge the amount of cannibalization (see Box 1). Alternatively, prior to the new product introduction, estimated sales and shares are often measured via real or simulated test markets or Source of Volume Analysis (SOVA) using a conjoint-based market simulator.

Manufacturing and operations implications of extending product lines /// Estimating cannibalization risk should assess possible effects on company operations. A deeper product line offers consumers more choices, but potential inefficiencies in manufacturing can result from smaller batch sizes or increased changeover costs, destroying profits. More products will likely involve more parts and raw materials which add costs to the supply chain. Other costs are increased inventory cost and greater warehousing space needs. Estimates of the costs of cannibalization need to consider total company costs.

Marketing strategies to limit cannibalization risk

> ***Carefully plan and communicate the positioning of new products*** /// Beyond potentially negative effects of cannibalization on sales, there are other downsides that must be managed. One is consumer confusion, especially if the products are insufficiently differentiated and/or the positioning is not well communicated. Whether glues, shampoos or televisions, too many options may confuse the consumer. In addition, the introduction of economy or fighting brands by a company traditionally offering premium products may dilute the brand image. Marketing communications must mitigate both cannibalization and damage to the brand image through clear and consistent messaging about the brand's positioning. For example, explicit messaging that the economy product is suitable for, say, light-duty usage and the premium product for heavy-duty contexts can help minimize cannibalization and maintain brand image.

> ***Investigate timing options*** /// If cannibalization is inevitable, timing is important. An example is the release of a hardback book followed by the paperback edition. The margins on the hardback are typically high, but generally associated with a small sales potential compared to the larger sales potential for the lower-margin paperback. In this situation, despite the high cannibalization risk, releasing the paperback shortly after the hardback is optimal.

> ***Focus on profit impact*** /// While cannibalization is an inherent risk of new product introductions, careful consideration of brand and category factors as well as the consumption context can help managers mitigate its extent. More importantly, although cannibalization is measured by sales lost to the company's other products, the real measure is the impact on profits. A lower-margin product cannibalizing a higher-margin product eats away at profits, but a higher-margin product cannibalizing a lower-margin one is potentially worth the cannibalization risk.

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HOLISTIC THINKER
STILL GOOD!
Brand
ANALYTIC THINKER
Brand
???

How Consumers' Styles of Thinking Can Control Brand Dilution

Alokparna Basu Monga and Liwu Hsu

KEYWORDS

Brand Dilution, Negative Publicity, Brand Extensions, Functional Brands, Luxury Brands, Analytic Thinking, Holistic Thinking

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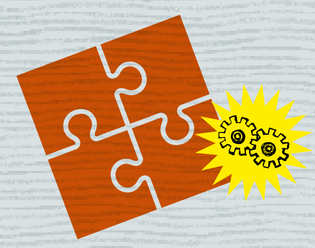
Bad press and failed brand extensions can dilute brand image /// As companies continue to spend millions of dollars building strong, formidable brands, their efforts are often hampered by negative publicity at the hand of crises and unsuccessful attempts at brand extension. In recent years, examples include Toyota's recalling its cars due to safety concerns with airbags, Samsung Galaxy's problems with their phones that ignited fires, Volkswagen's tampering with emission tests and Facebook's unsuccessful attempt at launching Facebook Home, a home screen for phones. Because of social media, negative information rapidly spreads around the world doing unrestricted damage to a brand. At the center of the damage is possible dilution of its image, with a concomitant decline in sales and future prospects for the brand. Volkswagen recalled millions of cars, posted large losses, lost customers' trust in the brand and saw its share price erode.

The light in this dismal tunnel is that not all consumers blame the brand if something goes wrong. Managers most often look to marketing actions when trying to understand and control dilution, but a promising avenue is to consider how consumer characteristics may be in play. Depending on a consumer's general style of thinking, different ways of dealing with bad press and poorly aligned brand extensions may be observed. Understanding consumers' ways of thinking can help identify strategies to limit brand damage and elicit more favorable reactions from disapproving consumers.

Styles of thinking and dealing with bad news /// Research by Professors Monga and John shows that not all consumers are alike in the way they think and reason about the world, and that includes how they react to a brand's actions (see Figure 1). Some consumers are more analytic in their thinking and tend to focus on a focal object, such as

FIGURE 1:
Analytic thinkers versus holistic thinkers

Analytic Thinking	Holistic Thinking
• Involves a detachment of the object from its context and a focus on attributes of the object: the brand itself	• Involves an orientation to the context or field as a whole: the brand in relation to its context
• Typical in Western societies like the U.S., Germany, the Netherlands, France, etc.	• Typical in East Asian societies like India, China, Japan, Korea, etc.
• Typical for ethnic groups like the Caucasian Americans	• Typical for ethnic groups like Hispanic Americans, Asian Americans



a brand. Other consumers are more holistic in their thinking and tend to focus on the focal object in relation to its surrounding context, such as a brand in relation to its context.

Although these styles of thinking can vary within a culture, with some people being more analytic and others being more holistic, different cultures are known to encourage different dominant styles. Western cultures tend to be more analytic, while Eastern cultures tend to be more holistic. Further, different ethnic groups within the same culture show variations. While Caucasian-Americans tend to be more analytic, Asian-Americans, Hispanic-Americans and African-Americans tend to be more holistic. Holistic thinking typically emerges among people and cultures with many social relationships, while analytic thinking emerges in people and cultures with few social relationships.

Holistic thinkers tend to blame the context rather than the brand /// When there is negative publicity facing a brand, consumers spontaneously begin to think about whom to blame for the incident. To explore the idea that analytic and holistic thinkers reason differently about negative incidents confronting brands, we conducted several studies. In one study, we showed participants a fictional news article about a real brand facing quality and manufacturing problems. Although analytic thinkers' beliefs about the brand were diluted after seeing the negative information, those of holistic thinkers were unaffected. Interestingly, while both analytic and holistic thinkers blamed the brand equally for quality and manufacturing problems, holistic thinkers were

»
Holistic consumers are less likely to dilute their brand impressions in reaction to negative publicity than analytic thinkers.
«

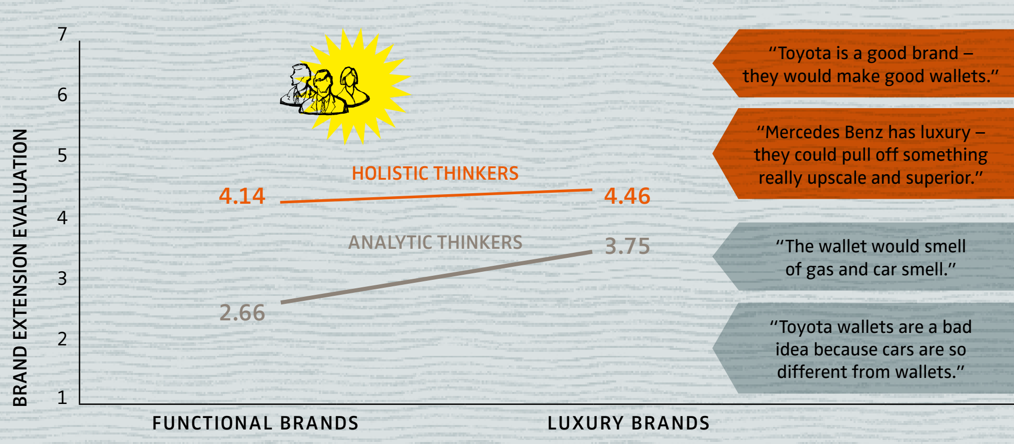
more likely to blame contextual factors outside of the brand than analytic thinkers. This ability of holistic thinkers to focus on the outside context is the reason why their brand beliefs were not diluted.

Could analytic thinkers be shielded from brand dilution caused by bad news? /// To answer this question, we varied the salience of contextual factors. In one condition, participants were made aware of several news headlines that blamed the external context. We reported, for instance, that a supplier had provided poor quality parts to the brand. In the other condition, participants were not provided the headlines. Without contextual factors, analytic thinkers' beliefs about the brand were diluted after seeing the negative information, whereas holistic thinkers' beliefs about the brand were not diluted. However, when contextual factors were made salient, both analytic and holistic thinkers' favorable impressions were not diluted. We also observed that analytic thinkers' attributions of blame to contextual factors did increase when they were made salient. The takeaway: Analytic thinkers can be nudged to consider the contextual factors and maintain their favorable impression of the brand.

Styles of thinking and brand extensions into new categories Some companies attempt to grow by extending their brands into product categories that are quite different from the parent brand. For instance, Ralph Lauren introduced dog leashes and Jeep extended into strollers. Just like negative publicity, such extension opportunities can pose a risk for brand dilution if the extended products are seen as too different or inconsistent with the brand's current products and positioning. We explored the idea that analytic and holistic thinkers may view brand extensions into distant product categories quite differently and that types of brands might also matter. The assumption is this: Holistic thinkers are more adept at finding relationships between objects and their contexts and therefore may be able to see stronger connections between the brand and the extension, even when the brand extends to a distant product category.

To test this idea, we showed respondents extensions in dissimilar product categories. We chose Toyota and HP as functional brands and presented Toyota wallets and HP watches as extensions. As luxury brands, we chose Mercedes Benz and Mac and presented Mercedes Benz wallets and Mac watches.

FIGURE 2:
Brand extension evaluations and thoughts of analytic and holistic thinkers



* 7-point scales: 1 = poor/unfavorable to 7 = excellent/favorable

Adapted from: Monga/John (2010), reprinted with permission from Journal of Marketing, published by the American Marketing Association

» Crisis communications that highlight contextual factors as triggers of negative incidents offer a powerful mechanism to restrict brand damage. «

These products were not available in the market and we were eliciting consumers' spontaneous reactions. We found that for the functional brand, the analytic thinkers reacted more negatively to the brand extension than the holistic thinkers. However, for the luxury brand, analytic and holistic thinkers reacted similarly (see Figure 2).

For Toyota wallets, analytic thinkers mostly mentioned thoughts about the features of the brand extension or about the dissimilarity of the products. Holistic thinkers, in contrast, mentioned general relationships. For the luxury brand, both analytic and holistic thinkers were easily able to see a connection between the brand and the extension because of the luxury concept (see typical quotes of respondents in Figure 2).

Similar to the bad press situation, analytic thinkers could be shielded from brand dilution and encouraged to react as favorably as holistic thinkers to the functional brand extensions. Our studies showed that using a sub-brand name like Excer wallets by Toyota instead of a parent brand name like Toyota wallets, considerably boosted the responses of analytic thinkers. Also, providing an elaborated message suppressed negative concerns that consumers may have about the brand extension and increased acceptance. For example, consumers might infer that Toyota wallets will look like car upholstery. This can be overcome by telling consumers that the wallets will be available in different colors and styles, enabling analytic thinkers to view the brand extension more favorably.

Reducing brand dilution risk /// Our results suggest several guidelines to reduce the risk of diluting a brand that has been carefully built over years or decades.

> ***Take cultural differences into account*** /// For brands operating in multiple cultures or in segments with consumers of different cultural groups, holistic consumers are less likely to dilute their brand impressions in reaction to negative publicity than analytic thinkers. It is important that brands invest heavily in creating strong, favorable and unique brand associations that can be protected from dilution. Also, holistic consumers are more accepting of functional brands extending into distant product categories than analytic thinkers. Perhaps that is the reason why we see brands like Mitsubishi and Tata with diverse product portfolios emerge in holistic cultures (Japan, India). In these cultures, brands have greater leeway in extending their brands. Managers need to profile the thinking styles in their target audiences and manage accordingly.

> ***Manage negative incidents carefully*** /// Any source of negative information has to be managed carefully, particularly in an analytic culture or among analytic consumers who blame the brand and dilute their brand impressions in response. State-of-the-art crisis management should be proactive vis-à-vis events that pose the potential for negativity. Crisis communications that highlight contextual factors as triggers of negative incidents offer a powerful mechanism to restrict brand damage, particularly in analytic cultures and consumers. Toyota applied this strategy and attributed blame to an external supplier, Takata, in its

airbag crisis. Deflecting blame away from the brand would obviously not work if the focal brand is clearly implicated in the incident.

> ***Consider the dilution risk profile of the product category*** /// Evidence seems to support that luxury brands can be stretched further in both analytic and holistic cultures, presenting lower risk of brand dilution for luxury than for functional brands. Both analytic and holistic consumers are very receptive of luxury brands extending into distant product categories – Ralph Lauren dog bowls or leashes seem to work. Consumers are able to use the luxury brand concept to connect the brand and the extension, even when the brand extends into a dissimilar product category, as seen from the quotes in the aforementioned experimental study. Luxury provides a way to connect Mercedes Benz to wallets.

> ***Use sub-brands and elaborational messages.*** /// For functional brands operating in analytic cultures, sub-brand names can help suppress the negative reactions of analytic thinkers. Additionally, elaborational messages that clarify the nature of the brand extension can curb negative thoughts from analytic consumers and boost their responses. For example, Virgin uses sub-brand names for its various functional lines such as Virgin Galactic, Virgin Oceanic, Virgin Connect etc.

Culture and its associated style of thinking is a powerful predictor of how consumers react to bad press and distant brand extensions. Companies need to consider it carefully when leveraging and protecting brands.

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BUY
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Marketing Spending and Brand Performance Volatility

Marc Fischer, Hyun Shin and Dominique M. Hanssens

KEYWORDS

Marketing Spending, Revenue Volatility, Cash Flow Volatility, Marketing Metrics, Brand Risk

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Consumers like to be surprised /// A substantial part of successful marketing strategy consists of surprising the brand's prospects and customers with new-value propositions. For example, since consumers are known to "learn quickly and forget slowly," it pays to allocate advertising budgets in "spending bursts" in the form of campaigns, as opposed to spending evenly across the year. Similarly, offering sales promotions as "surprises" prevents consumers from anticipating them and strategizing their purchasing around below-normal prices. Likewise, new-product introductions should not be so predictable as to enable consumers to postpone their current consumption and wait for the new product to appear. These behaviors are even more relevant in cases when competitive reaction is fierce, so the brand's competitors cannot easily anticipate its marketing moves.

Finance managers and investors prefer predictability /// While the sales and revenue benefits of these marketing principles are generally known and often quantified by marketing analytics, their impact on revenue and cash flow volatility is typically ignored. And yet, such volatility effects are important from a financial perspective. Indeed, if company revenues fluctuate around two regimes, say one base-level regime and one marketing-induced regime, the resulting volatility makes it more difficult to project the company's future revenues and earnings and ensure steady cash-flow. This is known to lessen investor confidence and, as such, can harm the financial health of the brand. So, effective marketing can have undesired financial side effects.

FIGURE 1:

Main effects of marketing action on revenue and cash flow volatility

Increase in ...	Effect on volatility of ... REVENUES	Effect on volatility of ... CASH FLOWS
Volatility of marketing expenditures	Increase	Increase
Market responsiveness	Increase	Increase
Level of marketing expenditures	Decrease	Decrease first, then increase

As there may be a potential conflict between the typical marketing objective of sales impact maximization and stable revenue and cash flow generation, which are typical operations and financial management objectives, we set out to learn more about the interrelationship of these effects. We analyzed several predictions from theory with a large data set of 99 pharmaceutical brands from four European countries. Our aim was to estimate if marketing volatility effects were big enough to warrant executive attention, to identify drivers of marketing spending volatility and to learn about the optimal marketing expenditure level. Further, we investigated if companies actively manage volatility across their product portfolio and provide some recommendation on how to manage volatility risk.

Marketing's volatility effects on financial performance can be substantial /// Marketing volatility effects have clearly shown to be big enough to warrant executive attention. If marketing responsiveness is increased by 50 % – for example, as a result of improved targeting or messaging – then cash flow volatility can increase by as much as 55 %. As a greater variability of cash flows forces management to hold larger cash reserves, this can have a substantial impact on the company's financial health. Marketing managers who decide on the timing of media plans, promotion plans, product launches, etc., should be aware that their marketing decisions can influence the volatility of both their top-line and bottom-line performance. Since marketing expenditure costs grow faster than revenues, because of diminishing returns, their impact on cash flow volatility is larger than on revenue volatility.

Drivers of marketing-induced performance volatility /// Based on extant scientific knowledge of how brand sales respond to marketing efforts, we generated several hypotheses about volatility impacts, which our data supported. Figure 1 summarizes the conditions under which the volatility effects were stronger or weaker.

The higher the marketing spending volatility or the marketing spending effectiveness was, the higher the volatility in sales and cash flows turned out to be. Thus, on the one hand, larger response parameters are good news for marketing

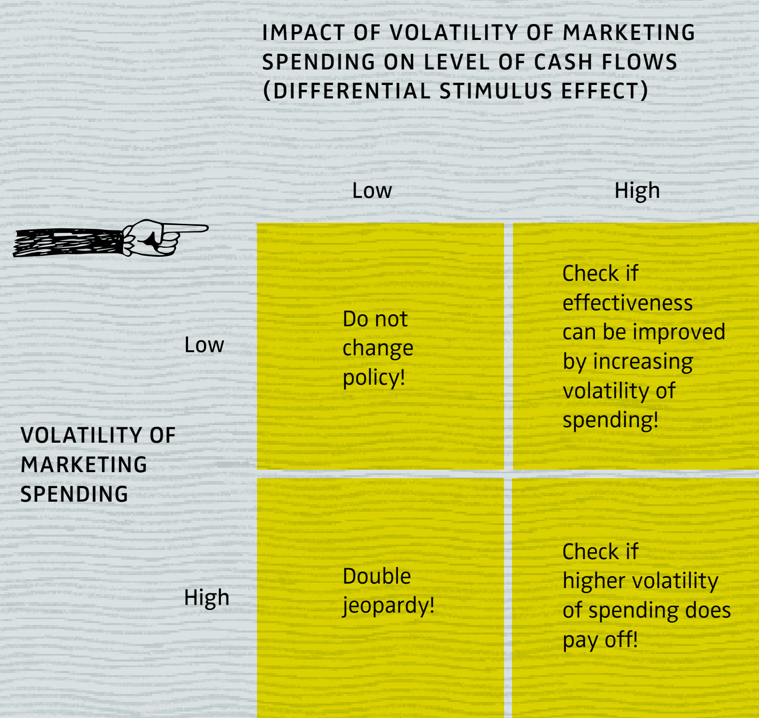
» Different divisions should not execute their marketing campaigns at the same time, lest the resulting volatility effects of one are amplified by the other . «

managers because their expenditures produce higher sales. On the other hand, higher responsiveness has a dark side since it makes revenues and cash flows more volatile, even if spending volatility itself does not change. Quite in contrast, a higher expenditure level reduced revenue volatility, given the same level of spending volatility and marketing effectiveness. The impact of spending level on cash flow volatility is not as straightforward. Higher spending decreased the cash flow volatility for typical cash flow distributions only up to a certain level, but increased it beyond. This last finding creates ambiguity for the marketing executive, especially in light of the fact that cash flow is ultimately the more important metric for the financial health of the company.

What we learned about the optimal expenditure level /// From the well-known Dorfman-Steiner theorem, we know that the marketing budget for a product should increase with its effectiveness and level of profitability. But what about the optimal budget if expenditures follow a volatile spending plan, which should be the rule rather than the exception in reality? Under the assumption that volatile spending such as advertising pulsing improves sales effectiveness, the optimal budget should be higher.

Do companies manage their marketing-induced performance volatility? /// A professionally managed multi-product company could logically adopt the following strategy: Accept volatility within the marketing allocation for a single brand in the portfolio, but make sure that the volatility is dampened across brands. In practice, however, that condition is difficult to achieve, as each brand executive will strive to maximize his or her own business performance. Likely, they will have little interest in the future marketing plans of an unrelated brand, for example, a brand in an unrelated category. Our empirical analysis of ten years of quarterly marketing spending of our 99 pharmaceutical brands supported this conjecture: When marketing spending for a given brand in a given market went up, the marketing spending of sister brands in other markets was either unaffected or went up as well. Thus, the argument that harmful volatility effects can

FIGURE 2:
Policies for managing marketing-induced financial volatility



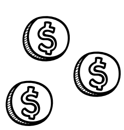
be managed away in the multi-product company appears to be much easier said than done.

Managerial implications /// In managing their shareholder expectations and communications, financial executives pay close attention to the behavior of earnings over time. Ideally, earnings will exhibit a steady upward trend, with as little volatility around that trend as possible. Meanwhile, the marketing executives of the same enterprises try to make their marketing as impactful as possible by increasing spending volatility at the brand level. In doing so, they may well induce volatility in revenues and earnings not only at the brand level but also at the company level. By taking into consideration the following advice, this downside can be monitored and eventually managed.

> ***Manage volatility effects across brands and divisions*** /// The inherent conflict in managerial objectives may be resolved – at least for the multi-product company – by financial executives closely monitoring the marketing

plans of their divisions. The idea is simple: Different divisions should not execute their marketing campaigns at the same time, lest the resulting volatility effects of one are amplified by the other.

> ***Monitor and manage possible tradeoffs between marketing spending and revenue volatility*** /// Beyond cross-company balancing – which is admittedly easier said than done – companies should incorporate the volatility-inducing effects of their marketing in their marketing resource allocations. Figure 2 summarizes the tradeoffs between marketing effectiveness and marketing-induced volatility and offers managerial advice. It depends on the impact of volatile spending on level of cash flows or, in short, its differential stimulus effect.



» If company revenues fluctuate, the resulting volatility makes it more difficult to project the company's future revenues and ensure steady cash-flows. «

For example, if your company's marketing spending volatility is already high, you need to check whether the differential stimulus effect is high enough to justify the potential negative side effects of your volatile spending. If your spending volatility is relatively low while the differential stimulus effect is high, you need to check whether raising spending volatility will lead to higher overall gains, taking into consideration its financial side effects. If the differential stimulus effect is low and your spending volatility is low, you are fine. However, if the differential stimulus effect is low whereas your spending volatility is high, that is an undesired position and appropriate actions are required.

In sum, the optimal marketing behaviors derived with and without volatility calculations will be quite different, and analytically savvy companies will be able to gain competitive advantage from this realization.

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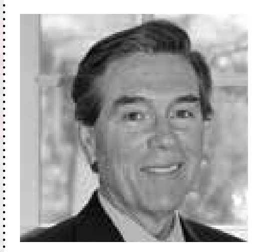

ABOUT MARKETING SCENARIO ANALYTICA (MSA)

MSA helps companies navigate marketing and business risks driven by growing socio-economic disruption. MSA's goal is to help increase readiness so companies are better positioned to preserve and manage brand asset values for company stakeholder communities.

At the center of MSA's approach is an analytic process built around your brand and its daily encounters with the world. Key to this is viewing the marketing landscape through a different lens – by measuring and bench-marking risk exposures, by auditing your company's brand and marketing process, and by using our textual analysis monitoring technology, MSA looks for unique vulnerabilities and opportunities. MSA sets out with you to build forward thinking counter-measures and strategies to manage emerging risks and to protect your brand's value. Marketing Scenario Analytica is located in New York City, NY.

www.msabrandrisk.com

ABOUT PATRICK MARRINAN

Patrick Marrinan is a co-founder and Managing Principal of Marketing Scenario Analytica, a company that helps brands analyze, measure and manage the risks confronting their brands. Patrick has over 30 years of executive level marketing strategy and management experience with expertise in brand communications strategy, public affairs management, and financial operations management. Patrick has worked with some of the world's best-known and most iconic brands, including: Altria, Coca-Cola, General Electric, Hasbro Toys, JP Morgan/Chase, Sony and numerous others. He's worked in the mobile marketing sector at Impact Mobile and as CEO of Lime Cellular, and he was an executive manager at nameplate ad agencies, Young & Rubicam, McCann-Erickson and BBDO. Patrick holds a BA from Boston College and an MBA from NYU – Stern School of Business.

THE INTERVIEWERS

Professor Susan Fournier and Professor Shuba Srinivasan conducted the interview in November 2017.

The Frontlines of Brand Risk

GfK MIR Interview with Patrick Marrinan, Managing Principal of Marketing Scenario Analytica, New York City, USA

Whether it be the NFL, Dove, Wells Fargo, VW or countless others–managers need only open a daily newspaper to see how things can go terribly wrong for brands. Decline can be fast and the landing hard. In a contemporary marketplace where ideologies reign and social media guarantees the spread of (mis)information at light speed, a lot of what we think we know about brand marketing needs to be rethought through a risk management lens. "For me, brand risk is any event, action or condition with the potential to damage a brand's value, thereby making revenue generation and a company's market value less than it should or could have been," Patrick Marrinan, Managing Principal of Marketing Scenario Analytica, states. In his talk with Susan Fournier and Shuba Srinivasan, Patrick illustrates the many facets of a risk that has only begun to be recognized as a serious threat to carefully cultivated brand assets. Here we share what to watch out for, and what brands can do to protect against risk.

SUSAN: Risk isn't really the first thing managers would think of in the context of brands. Nevertheless, AON, one of the largest insurance brokers worldwide, lists "damage to reputation/brand" as the top risk emerging in its recently published biannual global risk assessment survey. Is it actually riskier to manage brands now, compared to maybe 10 or 20 years ago?

PATRICK: It's exponentially riskier today. We have seen the proliferation of media channels and fragmentation of media messaging, and it gets much harder for brands to communicate as singularly and effectively to mass audiences as they used to. Also, consumers and populations are much more active, vocal and assertive in their expectations towards brands and corporations. This is very different from the passive role that consumers and societies played in the one-way communications environment of the past. So many companies are struggling with how to address very distinct consumer demands.

SUSAN: You mentioned active consumers. This idea of co-creation, a decade ago, was thought of as the Nirvana for brands: A co-creative environment where consumers would truly engage! You seem less enthusiastic?

PATRICK: Yes, a decade ago, many marketing executives were convinced that you should "let the consumer lead you to where you need to go." I remember thinking then how potentially dangerous that might be. Since then, we have seen lots of social media innovation with much more consumer participation. There is also more socio-economic pressure and financial anxiety out there, which can catalyze activism and backlash. So, the environment is very different, and we readily get to a point where consumers can really push back.

SHUBA: Why has the situation changed so remarkably? How has it evolved from little risk to highly risk-laden for brands?

PATRICK: I think in terms of socio-economic policy, the "financialization" of western societies truly matters. We have a society today in which vast numbers of consumers experience acute financial anxiety. That is a big problem because it manifests in a lot of disappointment and anger. As a result, we have lash-outs, backlashes and boycotts as reactions to brand messaging, all with obvious business damaging potential. There are also important emerging trends affecting our concept of a consumer society in general: we are at a point where the legitimacy of western-style consumerism is being debated.

SHUBA: What's the role of social media in this contentious environment?

PATRICK: Social media provides consumers with a consequence-free soap box to criticize and attack brands, marketing programs, or certain stances of CEOs, and it allows for the nurturing and formation of negative brand actions. Boycotts and protests are huge potential risk areas, certainly in North America. With the technological innovations of social media, consumers can speak their minds and raise their concerns in a consequence-free environment. Communication on Facebook, Twitter or other comment boards is very raw and immediate and carries little personal risk. The immediacy of these types of platforms allows consumers to band together against brands or in support of certain issues, such as inclusion or diversity.

SUSAN: So rather than entering Nirvana have we opened Pandora's box? Can you think of an example that illustrates the risk associated with consumers' manifestation of anger via social media?

PATRICK: For example, the National Football League (NFL), the most successful professional sports league in the US: The NFL has allowed player protests during the playing of the US national anthem, and in turn consumers and fans working via social media have been able to organize attendance strikes at big stadiums, and they are boycotting television viewing, burning game tickets and team souvenirs. The viewership for NFL games is down significantly compared to previous years. This can have a direct business impact on the NFL brand, on their programming sales efforts and their revenue generation model.

SUSAN: Do you think that the types of relationships that consumers are forming with brands are more adversarial?

PATRICK: I think some are. In many ways we are in a sort of "interregnum period." Lots of brands, and particularly iconic brands like Coca-Cola, are now under question. Millennials and Generation Z consumers are looking for brands that represent values that the legacy of iconic brands lacks. Whole categories are being questioned. For example, many younger consumers believe that it is inherently unfair that many people are unable to open a bank account or obtain credit. In the US, millions of consumers are what we call "unbanked." So, they are turning to other channels for loans, for cash management or money transfers. They are looking for alternatives that don't include big banks. Institutional structures that were taken for granted are now being questioned to their core.

SUSAN: Could you illustrate this shifting mindset with an example?

PATRICK: Volkswagen's emissions problem. This caused a unique dilemma for consumers. VW purposefully circumvented software that measured harmful emissions in diesel engines. Subsequently, VW advertised that their emissions were better than they actually were. More and more, younger consumers look for alternative choices when brands do not live up to basic values of fairness, transparency and truthfulness. I believe that VW will likely pay a high price for this behavior. Subaru, in comparison to Volkswagen, seems to be doing well among this particular audience with their "safety" positioning.

SUSAN: With higher economic pressure, new value systems and the rise of social media, we see many external factors increasing brand risk. Have there been changes within companies that add to brand risk?

PATRICK: Oh yes. We're seeing an overall diminishment of the marketing function, though I believe this is only now becoming more widely understood. There is a comparative lack of investment in marketing and R&D at big companies like P&G, Unilever and many others, and net income growth is often a manufactured outcome achieved through financial engineering. We have a huge stock buyback culture, which supercharges earnings per share through this financial engineering, and it's very attractive to executive managers and shareholders because it is so predictable. Comparatively, what is not predictable is spending $250 million on a new beauty soap with costs for product development, packaging, fragrance creation, beautiful advertising and setting up distribution in multiple countries on a worldwide scale. ROI calculations on this type of investment are very hard to do with any precision. Financial managers, like most managers, are more comfortable with predictable outcomes.

SUSAN: Do you see other risk-enhancing factors in the way brands are managed?

PATRICK: Yes, with this marketing function diminishment, we have noted a "juniorization" in marketing. Average tenures of accomplished CMOs are down to 2, 3 or at most 4 years. The CMO role has, in many ways, become a seat with a near-impossible mission: make growth happen in a slowing or no-growth world. Marketing decisions are pushed down the line and lots of imperfect decisions get made down on the frontlines of marketing. This creates executional risk. The marketing function now seems less expert in the classical needs of brand management and focuses much more on transactional administration, digital process management, programmatic ad placements, etc. These are important, of course, but the vital imperatives of strategic brand management or creating longer term growth through the development of brand assets has taken on secondary importance.

SHUBA: Do you have any examples to illustrate the executional risk that arises from juniorization?

PATRICK: A very recent example is Keurig Green Mountain, Inc., the marketers of Keurig coffee makers. This well-respected brand has a typically broad-reach advertising effort. Their ads appeared on certain programming that a politically-motivated 3rd party objected to, requesting that Keurig pull their ads from that program. After Keurig complied and pulled their advertising, viewers of the targeted programming protested publicly, with some destroying their coffeemakers. Some consumers even filmed these events and posted hundreds of videos on You Tube. Subsequently, Keurig's CEO apologized, explaining that this decision was made outside of the company's policies, and that an internal review of external communication staff and process would be performed. To the interested public, it appeared that lightly-managed non-executive employees were releasing public communications that put Keurig's brand and revenue at significant risk. This type of "execution risk" is the type of thing which can affect many companies.

SHUBA: Keurig didn't foresee the counterreaction that might harm them even more than the initial event?

PATRICK: Yes, exactly, and there was no oversight mechanism to catch the error in time. Or think of Dove's "whitewashing ad" on Facebook that was interpreted as "racist." Mistakes like this are often the result of juniorization and inexperience. In previous eras, any external communication would have been vetted through numerous levels of increasingly senior review. Senior managers would be much more likely and able to recognize that the visual presentation of a soap that washes a person of color into a white, or caucasian, subject would be problematic and likely offensive.

SUSAN: You talked about the NFL, Volkswagen, Keurig and now Dove. All these brands have risked their reputations in one way or another – at least in some consumers' minds. Can we have a closer look at this type of brand risk?

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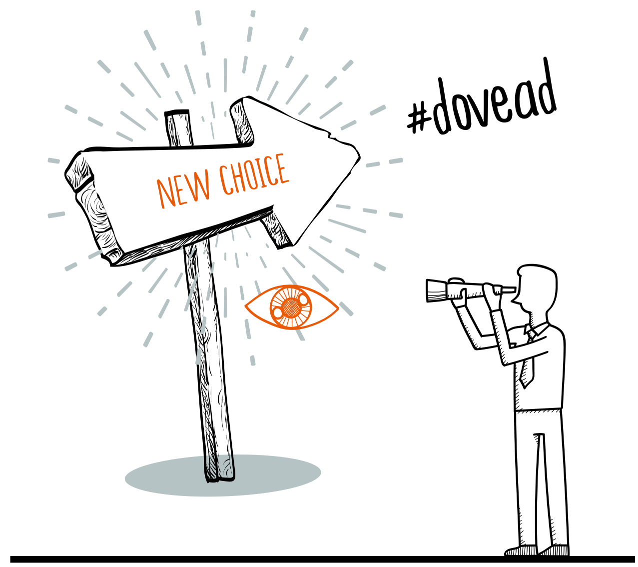

PATRICK: Many of these risks are self-inflicted and often they have to do with attempts to get a brand into an already crowded environment. Often, it is a question of conduct, and I think ethical conduct risk is a key component of reputation risk. VW raised their risk level through their conduct in emission testing.

SUSAN: What do managers need to understand about "conduct risk"?

PATRICK: Conduct risk involves behaviors that violate an organization's value structure. Another example of an organization's failure to properly deal with its own value structure is Wells Fargo. It is one of the oldest banks in the US and has a heritage dating to the 1800s. Internal sales pressure led bank managers to open vast numbers of fraudulent accounts and insurance policies for customers without their approval or prior notice. After the account difficulties went public, Wells

Fargo was fined by the US government and had to testify in front of Congress; the CEO and high-level executives were removed. The resulting brand damage is huge, and not just to Wells Fargo but also to an industry, banking, that tends to be distrusted anyway.

SHUBA: Is conduct risk simply a matter of willful ethical violations?

PATRICK: One of the things that complicates fair and good conduct is that we live, today, in a very bifurcated world that causes huge socio-economic risk. This results in situations where we know we are right for half of the people, but we will probably be wrong for the other half. Income inequality, inclusion, immigration, gender and diversity are hot-button issues and are root causes of many brand risk events. The NFL hasn't yet found a way to support respect for equality and diversity and at the same time please a more conservative fan group that feels outraged when national symbols are "insulted." Such things cause concerns for a lot of companies, such as Keurig, and are the result of operating in a very ideologically-charged time beset with socio-economic divergences.

SHUBA: Related to risk, finance managers would say "diversify." Can we apply the concept of diversification to managing branding risk?

PATRICK: In finance, risk is a tool to adjust return. The risk can be calculated fairly easily and can be reduced through diversification. Developing a new brand requires massive investment in a wide range of activities, and the likelihood of returns is therefore much more difficult to calculate accurately. On that level, you can't diversify risk in the same way. You can for narrow ranges of actions like in digital advertising or for TV ads that directly sell a product, but not on a higher level. It's very hard to diversify "marketing risk."

SUSAN: What can managers do to manage conduct risk in such a charged environment?

PATRICK: Corporate Social Responsibility (CSR) efforts address components of conduct risk in a positive way, and it is partially replacing some marketing communications that would normally be assigned to brands. The Kraft Heinz Company is, for instance, expanding their CSR programs and I think it is a very beneficial concept for them.

SUSAN: So, CSR is a preemptive strategy against conduct risk. Which other risk management strategies could be applied?

PATRICK: At MSA, we focus on socio-economic risk and have developed a measurement methodology and profiling process to create a brand risk score card. We have three different measurement areas for which we develop corporate scores, which we compare to benchmarks. Specifically, we cover corporate demographics, socio-economic issues the brand is exposed to and previous experience with brand risk events at the company itself and in its industry. We evaluate the visibility and threat of risks that rate very highly.

SHUBA: Measuring risk is obviously part of the answer. What do you do next?

PATRICK: In workshops, we create higher-level strategies to preempt or to address risks or to provide alternative marketing approaches that counteract the risks. We include scenario planning for different types of risk exposure. We provide customized real-world examples of the subject's company that show how they can be victimized by activists or boycotted and more. Additionally, we provide threat- and opportunity-monitoring so risks can potentially be identified early. Overall, we deliver actionable market intelligence which reduces brand risk. We believe "readiness" is an important aspect of this; being able to respond to a brand crisis is critically important.

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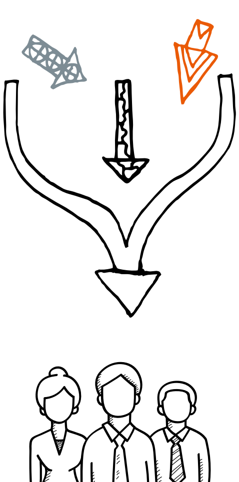

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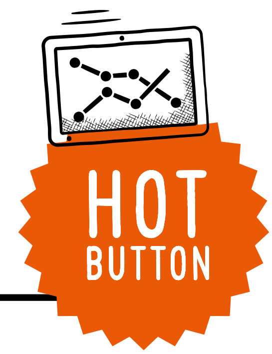

SUSAN: Who is participating in these workshops? Is marketing responsible for managing brand risk?

PATRICK: We work primarily with senior executives. This would include CMOs and senior marketing staffs, of course. But we also seek to include financial executives and CFOs and investor relations senior staff. Sometimes it's difficult to implement a risk concept in a marketing environment alone and the client company can get more traction when there's a broader involved consensus. Financial executives can really help because they are generally familiar with risk management concepts. Also, they are responsible for reporting revenue numbers to boards and therefore want the marketing numbers to be right and balanced.

SUSAN: Why is there this gap? How could we get traction with the marketing audience?

PATRICK: I think it will be increasingly common to include brand risk exposures in SEC disclosures, and this will help. Selectively, some aspects of brand risk, like reputation risk or social media risk, are already included in SEC 10-K reporting, but it is not yet widely common. Marketing has traditionally been focused on revenue growth and very discipline-specific metrics like CPMs, share of voice, click-through rates, CPIs. Maybe it's the different language. But in a slow and no growth environment, senior executives are really seeking ways to better understand risk exposure. CEOs don't want to take unnecessary risks, and this will increase traction for a proactive and extensive risk management approach in marketing departments.

SHUBA: Are marketing people capable; are they trained in performing risk management for their brands?

PATRICK: Most companies lack staff that perform and research brand risk. Generally, we need qualitative acknowledgment that spending millions on the launch, advertising and distribution of a new product entails identifiable risk. At the moment, brand risk management isn't directly covered in MBA marketing programs. I think academic coursework that goes beyond crisis management and addresses how to prevent brand risk damage would enable expert-level discussions on these types of risk.

SUSAN: As final advice, could you briefly outline the steps that companies should take to manage brand risk in a proactive way?

PATRICK: At MSA, we recommend four steps. First, companies need to assess the potential for brand risk in a benchmarking process and find the right metrics to see how their risk profile compares to peer group companies. Second, internal marketing process audits should be performed to identify process gaps and to find solutions; also there can be intensive workshops with different staff from different disciplines within the organization to create a shared understanding of these risks. Scenario planning is the third step and includes creating processes for response readiness for possible risk events. And fourth, we need to establish brand risk monitoring and implement tools like social media listening and media screening so that some early warning signals are available to managements.

SUSAN: Thanks so much, Patrick, for sharing your view on the changes in our society and on how that makes branding riskier and more challenging.

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Experiences
BRAND
GO WAY
NO!
Stop!

At-Risk Brand Relationships and Threats to the Bottom Line

Oliver Hupp, David Robbins and Susan Fournier

KEYWORDS

Brand Relationships, At-Risk Relationships, Brand Risk, Crisis Management

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Different brand relationships = different risk /// The long-term success of brands depends primarily on the connection consumers build with them. Some brands succeed in establishing strong positive emotional relationships with many customers. Most Harley Davidson drivers or Apple users, for instance, seem to be strongly attached to these brands. Well-attached customers form brand relations that resemble bonds within a family or with friends. They show higher loyalty towards these brands, are often ready to pay premium prices and are less prone to aggressive competitor activities.

However, the relationship portfolio of a brand also comprises consumers with other, less positive, weak or fleeting relationships. Weak relationships can be described as acquaintances, flings or like random relations to strangers. Other brand relationships are not only weak, but negative and at risk. They are conflict-laden or resemble dissolved friendships or outright hostility. Nevertheless, such customers often contribute substantially to overall brand success and need to be managed carefully. Like a stock portfolio, each of these relationship types offers a brand higher or lower growth opportunities and risks. The type of relationship is particularly relevant in brand crisis events.
When a brand is hit by a crisis, it is not necessarily the most successful strategy to focus exclusively on protecting positive emotional relationships. At-risk relationships are affected more than others and can lead to a significant decline of brand value.

The role of at-risk brand relationships in managing brand risk /// All negative relationships are at risk of being dissolved and therefore become a significant threat for a brand and limit its potential for growth. When customers

{*Box 1*}

BRAND

VW'S EMISSION GATE AND ITS EFFECT ON THE BRAND'S RELATIONSHIP PORTFOLIO

The Volkswagen emissions scandal started on September 18, 2015, when the United States Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act to the German automaker Volkswagen Group. The agency had found that Volkswagen had intentionally programmed turbocharged direct injection (TDI) diesel engines to activate some emissions controls only during laboratory emissions testing.

The scandal was spread primarily by the news and social media. Volkswagen's public reactions were somehow reserved, with the scandal attributed to "the terrible mistakes of a few people." However, in the first weeks after the crisis, German consumers reported a much higher number of negative experiences with the brand. As experiences are the breeding ground for relationship building – directly comparable to human relationships – VW's relationship portfolio showed a dramatic shift. The number of at-risk relationships more than doubled in just a few weeks from 7 % to 16 %, while the strong relationships remained on a rather high level. In 2017, the share of at-risk relationships has increased further, with approximately a quarter of the German population reporting an at-risk relationship with the VW brand at year end. Brand management was not able to stop the negative trend. Consequently, according to a statistic published regularly by the German Kraftfahrt Bundesamt, the number of new cars sold in Germany dropped in 2016 to 656,000 from around 686,000 in 2015, despite overall market growth. In 2017, a further reduction in market share is expected.

FIGURE 1:

Weak and strong relationships decline while at-risk relationships increase within one week

RELATIONSHIP CATEGORY	14 – 20 SEPTEMBER (PRE-CRISIS)	21 – 27 SEPTEMBER (POST-CRISIS)	
WEAK	46%	39%	-7
STRONG/ POSITIVE	47%	44%	-3
AT RISK/ NEGATIVE	7%	16%	+9

from: GfK Experience Tracking Data 2015 (Germany)

» When a brand is hit by a crisis, it is not necessarily the most successful strategy to focus exclusively on protecting positive emotional relationships. «

start to form even a slightly negative brand relationship, they are increasingly ready to consider other market options. They are less open to marketing activities and, when the relationship becomes more intensely negative, they are much more prone to discuss the brand with others – be it in real-life or the digital world.
Often, negative relationships can be attributed to remarkable negative brand experiences, either at the level of personal brand experiences or as conveyed by the news or social media. Experiences reported by others can also result in a deterioration of strong emotional ties to the brand. Therefore, it is of utmost importance for brand managers to understand the share of consumers with negative connections to their brand and the underlying reasons for these disconnects. If the share of negative relationships within a brand's relationship portfolio is growing, immediate, deliberate and honest reactions need to be considered by brand managers.

The following cases (Box 1 and 2) explore how two well-documented brand scandals affected changes in the composition of the brand's relationship portfolio and caused more at-risk relationships that erode brand equity and sales in the German market. In both cases (see figures 1 and 2), the crisis had the strongest effect among at-risk customers. This shows that marketing managers need to focus even more on negative and at-risk relationships in a crisis.

At-risk brand relationships in the B2B context /// Our global research on B2B relationships has similarly identified a clear pattern and typology of at-risk relationships. In order of negative emotional intensity, the following types represent at-risk relationships in the B2B space:

Difficult Colleagues – the least intense of all negative, at-risk relationships; characterized by being hard to work with, causing high pressure and conflict, suffering from a lack of transparency and being inflexible

Failing/Failed Alliances – characterized by relationships that are no longer successful or mutually rewarding and where the two parties are growing apart

Enemies – the most intense of the negative, at-risk relationships; characterized by outward hostility and conflict, difficulty in doing business and increasing feelings of disconnection from the relationship

Based on a representative global B2B research study conducted in the United States of America, United Kingdom, Germany and China in 2016, we found that when taken together, at-risk relationships account for 20 % of all B2B relationships. This can be contrasted to the strongest of business relationships which accounted for only 7 % globally.

From a purely behavioral point-of-view, at-risk customers can be mistaken for "loyal" customers. Generally, they are characterized by a relatively high share of wallet. For example, for customers in enemy relationships – the most intense of at-risk relationships – nearly 60 % direct the majority of category spending toward their at-risk relationship partner. This figure is on par with committed partnerships, the strongest and most positive of all relationships, where the share-of-wallet figure stands at 64 %.

Customers' future purchase intentions reveal a more discriminating pattern with regard to the impact of the type of business relationship on future financial performance. For the strongest and most positive of all relationships, we observed that 85 % planned to continue doing business with the target company/brand in the future. However, among those

{*Box 2*}

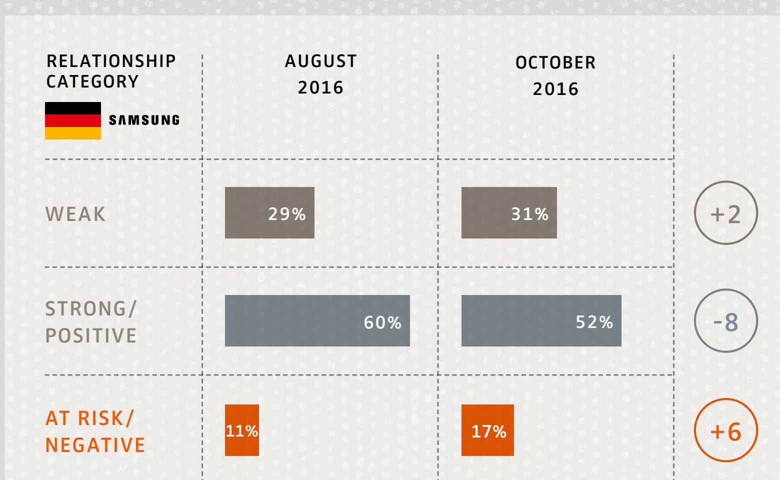
SAMSUNG´S BATTERY GATE AND ITS EFFECT ON THE BRAND'S RELATIONSHIP PORTFOLIO

Samsung Electronics experienced a comparable crisis in the mobile phone market in 2016. Soon after launch in August, the company recalled its Note 7 mobile phones due to a battery defect that caused the phones to burst into flames. Once again, news about the product deficit was spread by traditional news media and heavily discussed online. In October 2016, the model was abandoned all together. Consequently, a GfK survey showed a significant drop in the quality of Samsung brand experience from August 2016 to October 2016 in Germany. Especially in the price segment above €500, the number of at-risk relationships increased by more than 50 %. According to GfK's retail panel data, a significant drop in market share for the brand accompanied this increase in the number of at-risk relationships.

However, Samsung showed a more proactive reaction to its scandal than VW. The Korean electronics group acknowledged their failure to solve the problem of their overheating batteries and quickly initiated steps to regain the brand's reputation and trust. They offered compensation to all customers that had purchased a Note 7 and encouraged them to either exchange their phones with a different model or take advantage of coupons and mobile credits. As a consequence, the number of at-risk brand relationships quickly decreased over the course of 2017. GfK Retail panel data showed a similar recovery in sales and market shares.

FIGURE 2:

At-risk relationships increase and strong relationships decline within two months of the brand crisis



Data from the above 500€ price segment
from: GfK Experience Tracking Data – Smartphones 2016 (Germany)

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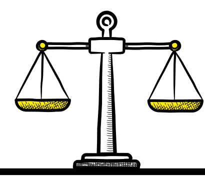

customers in at-risk relationships, this figure dropped dramatically to 33 %. The implication of at-risk B2B relationships on future financial performance becomes clear. Businesses have just as much to lose from dissolving at-risk relationships as they have to gain from building the strongest of relationships with customers.

Implications for managing at-risk brand relationships /// Our cases have helped to highlight that at-risk relationships represent a critical, but often overlooked, aspect of a brand's relationship portfolio. Such relationships have a clear impact on a company's financial performance in both direct and indirect terms. Risks range from negative word-of-mouth that might have a negative impact on potential new customers to clear retention risk. Managers seeking to manage these risks proactively should consider the following guidelines:

> ***Identify at-risk relationships and their importance for the performance of a brand*** /// Brands need to be able to recognize the type and form of each customer relationship and be familiar with the holistic composition of the brand's relationship portfolio. Knowing how many customers relate to the brand in which specific way helps managers design appropriate relationship management tools and can help to groom purely transactional relationships. A regular brand relationship monitoring system like GfK Brand Vivo can help to detect critical increases in at-risk relationships, especially during a brand crisis. The number of negative and positive brand experiences as reported in brand experience tracking services can also be used as a valid indicator. These reported trends will help managers design appropriate measures to prevent brand damage and spur recovery.

> ***Understand underlying emotions*** /// Central to the effective management of brand relationships is the understanding that emotional connections run deep in both directions – from positive to negative and with variable degrees of intensity. At-risk customers are, by their very nature, critical towards the brand, and knowing consumer motives and reservations will help companies react in appropriate ways.

> ***Respond frankly and credibly to crisis events*** /// Countless examples from the recent past have shown that somewhat lukewarm explanations of brand failure often result in a downward relationship spiral and a significant drop in a brand's top- and bottom-line performance. As with human relationships, customers expect an immediate reaction to attenuate possible conflict from a brand. In our cases, Samsung managed to regain trust and caught up with pre-crisis sales figures, whereas Volkswagen still struggles in the aftermath of its crisis.

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FURTHER READING

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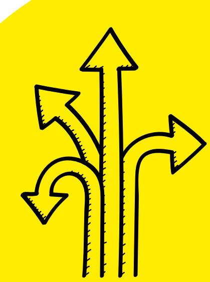

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Susan Fournier is Questrom Professor in Management, Professor of Marketing and Senior Associate Dean for Faculty & Research at Boston University's Questrom School of Business. She is credited with founding the brand relationships subfield and holds many awards to her credit, including the Long Term Contribution to Consumer Behavior. Current projects explore the links between brand strategy and shareholder value, brand co-creation, the management of person-brands, and the lived experiences of brand flings, abusive brand marriages and secret brand affairs. Prior to joining BU, she served on the faculties of Harvard Business School and the Tuck School of Business at Dartmouth. She also held a VP/Director position at Young & Rubicam Advertising and served in market research roles at Polaroid Corporation and Yankelovich Clancy Shulman.

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Both researchers have published many articles in major marketing journals and have been long-standing editorial board members of the most reputable journals in the marketing discipline. They have consulted with a wide range of companies to inform their teaching, case development and research. Throughout their careers, both have received several awards for their publications.

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Today, the GfK Verein is a market research think tank acknowledged by those in both academic circles and engaged in practical application. Its remit as a not-for-profit organization is to create and pass on knowledge.

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