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At-Risk Brand Relationships and Threats to the Bottom Line

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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* }

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)

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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* }

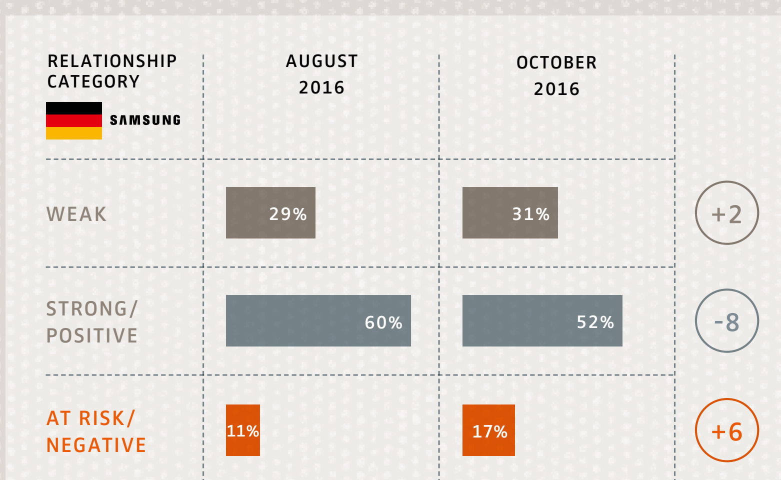
SAMSUNG´S BATTERY GATE AND ITS EFFECT ON THE BRAND'S RELATIONSHIP PORTFOLIO

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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> 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.
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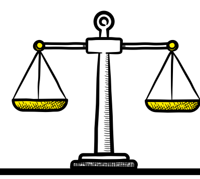

customers in at-risk relationships, this figure dropped dramatically to 33 %. The implication of at-risk B2B relationships on future financial performance becomes clear. Businesses have just as much to lose from dissolving at-risk relationships as they have to gain from building the strongest of relationships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