Monitoring Marketing Sources of Brand Reputation Risk

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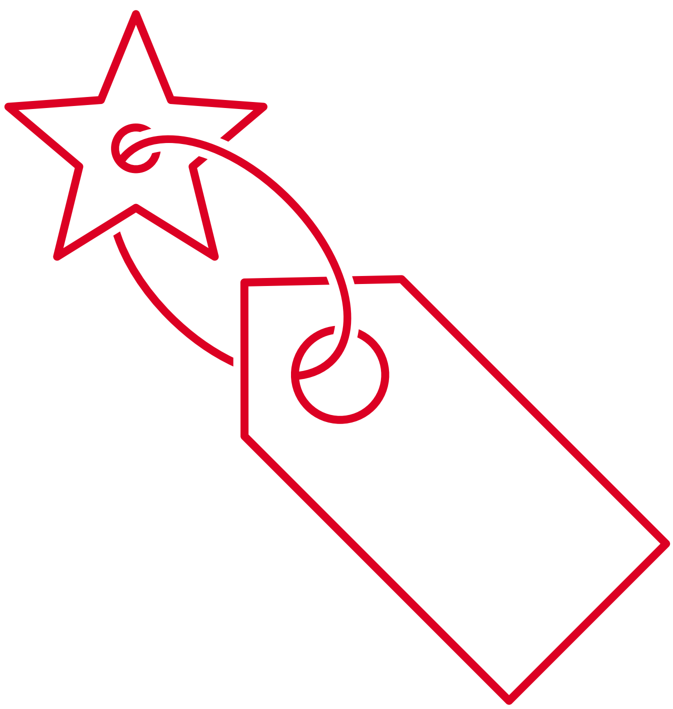
KEYWORDS

Brand Reputation, Risk Management, Brand Architecture, Person-Brand, Socio-Political Activism, Digital Marketing, Brand Risk Metrics



Brands are assets but also risk factors × Brands serve a role not only in revenue generation but also as strategic tools for managing a company's risk exposure. Strong brands encourage broader stock ownership, insulate from market downturns, grant protection from equity dilution in the wake of product failures, and reduce variability in future cash flows by cultivating strong brand assets, so companies generate greater returns with less risk. But a company's branding strategies can also exacerbate the risk profile, endangering revenues, cash flows, brand equity and shareholder value.

While macroeconomic factors certainly pose substantial risk, idiosyncratic or company-specific risk constitutes 80% of the average stock variance measure. A major source of a company's idiosyncratic risk is brand reputation risk, and executives consistently rank this risk among the top three overall risk challenges facing their businesses. Brand reputation captures how the brand is perceived by a company's customers and other stakeholders. Brand reputation risk is the possible damage to a brand's overall standing, stature and esteem that derives from negative signals regarding the brand. It can destroy shareholder value by threatening earnings through negative publicity that exposes companies to financial risk through litigation, boycotts, strikes and protests, or reductions in the customer base.

We present a brand-sensitive interpretation of company-specific risk to understand how specific brand strategies can protect a company from, or increase exposure to, brand reputation risk and discuss information and metrics necessary to manage that risk.

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Successful brand stewardship requires ongoing monitoring of marketing-strategy-related sources of reputational brand risks.

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FIGURE 1 > Brand portfolio risk and relevant metrics

Brand Portfolio Risk

Risk from brand extensions across multiple lines and categories under same brand umbrella

- Extent of brand extensions
- Range of price points
- Number of products under umbrella brand
- Down-market extensions
- Ad-hoc-portfolio strategies

Example: Boeing, a branded house, was accused in 2022 of a repeated pattern of fraud in covering up failures to ensure the product safety of the 737 MAX jets. The company faced reputational spillover risks to the Boeing umbrella brand, with significant draw-downs in both market value and consumer brand perceptions.

Brand reputation risks from brand portfolio strategy

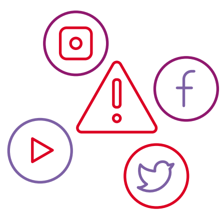
Driven by the shareholder imperative to drive growth in revenues, companies have become attracted to opportunities that expand their brand portfolios through mergers and acquisitions, new product introductions and line extensions. How new brands are incorporated into existing ecosystems – the brand architecture strategy – is often ad-hoc rather than strategic and planned, and this exacerbates risk exposure. Extensions into downscale markets can endanger a brand's standing and damage quality associations and perceived exclusivity. Connecting a large portfolio of products with one single brand name and logo through a branded house strategy can make brands vulnerable to reputational spillover risk. In contrast to advice from popular marketing experts, a sub-branding structure such as Apple's I-product line or the BMW 7, 5 and 3-series does not control risk but in fact exacerbates it. While sub-branding provides a sense of protection against risks of overextension, meaning dilution, reputation damage and cannibalization, the reality is that the very qualities commending this strategy – the encouragement of broader participation in markets and extensions that are farther afield from the base brand – exacerbate risk. A mixed, hybrid brand architecture decries the logic of financial portfolio theory and fails to offer risk control through diversification. Brand portfolio strategies need to be specified along dimensions that can signal greater exposures to brand reputation risk (see Figure 1) and this information should be included in the brand risk dashboard.

» *Executives consistently rank brand reputation risk among the top three overall risk challenges facing their businesses.* «

FIGURE 2 > Digital marketing risk and relevant metrics

Digital Marketing Risk

Risk from loss of control of how and where brand content appears



- Percent of advertising budget spent on digital
- Brand safety record for paid social platforms
- Algorithm bias due to programmatic advertising
- Positivity/negativity index for messaging on landing pages and social media platforms
- Decision-making protocols for consumer-facing messaging
- Tenure of marketing professionals
- Crisis management and PR professionals on the brand management team

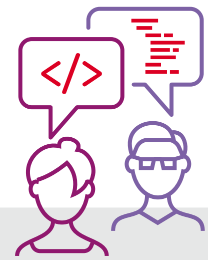
Example: After the release of two controversial campaigns in November 2022 – one showing children with bondage-clad teddy bear bags and another featuring a US Supreme Court document about child pornography laws – the Balenciaga brand took a major reputational hit, stemming from loss of control over brand advertising content and sparking a massive social media uprising under the #CANCELBALENCIAGA hashtag.

Brand reputation risks arising from the digital marketing paradigm With proven benefits of addressability, accountability and customization, ad spend in digital channels (64.4%) outweighed traditional spend (35.6%) in the US in 2021. But the digital landscape harbors threats of fake news, privacy invasion and algorithm bias, and this increases brand reputation risk. Gone are the days when managers carefully controlled their media exposure by selecting demographics and appropriate programming environments to optimize brand messaging. In the digital space, ad placements result from programmatic algorithms driven by consumer browsing histories, and this consumer-initiated targeting of ads often makes brands vulnerable. An emblematic case occurred in 2017 when P&G found their brands on YouTube adjacent to extremist websites, prompting a reduction in digital ad spend of $140 million. Many brands have since experienced similar problems.

A prudent path is to increase vigilance, use some of the metrics suggested in Figure 2 for more balanced ad spend, and engage social media monitoring with an eye on who is making the communication decisions (see Box 1).

Brand reputation risks from Person-Brand Strategies Some brands are linked to the identities and lives of individuals, as when the corporate brand bears the name of the founder or C-level leader (e.g., Calvin Klein, Martha Stewart), when the corporate leader garners celebrity status (e.g., Elon Musk and Tesla), or when a high-profile spokesperson is tightly linked with the brand (e.g., Tiger Woods and Nike). Person-brands are inherently volatile and their behaviors as humans put businesses at risk. Consider Uber, the highest valued pre-IPO company in history, and the financial losses it suffered on the heels of actions by CEO Kalanick. Or the crash of Martha Stewart Living Omnimedia in the wake of the jailing of CEO, Chairman and Chief Creative Officer Martha Stewart.

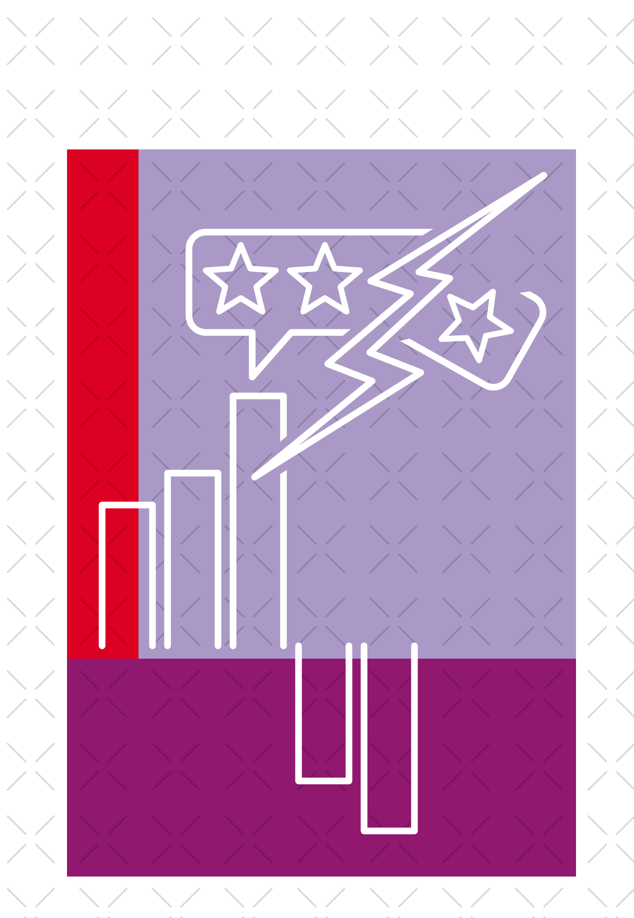
In today's highly scrutinized business climate, the daily behaviors of corporate executives and managers are under



BOX 1

The risks of "Marketing Juniorization"

In the wake of digital transformation, another reputational risk exposure rears its head. This risk stems from the rebirth of marketing as an engineering versus creative function. Skill sets supporting marketing are evolving, and brands can be well supported with a junior workforce of relatively inexperienced marketing technicians focused on campaign execution and experiments on marketing spend. "Juniorization" refers to the replacement of higher-level marketing executives trained in the classical craft of brand strategy and stewardship with a more technical, less experienced workforce who often lack experience or coursework in marketing and business. With juniorization, marketing decisions are pushed down the ladder and made on the frontlines by lightly managed or even contracted staff. In an earlier era, all brand communications were vetted through numerous levels of increasingly senior review, but this is not so in the juniorization paradigm. A 2019 Dove soap ad run on social media depicted a visual of a Black woman being transformed into a White woman next to an image of the company's product. One user's tweet captures the conundrum: "Is @Dove's marketing strategy: before = Black and dirty, after = Caucasian and clean? Also, *who* is approving these ads?"



the microscope and regularly reported in the media, which also raises the risk exposure of the company. News of the political leanings of founders and board members triggered boycotts against L.L.Bean and SoulCycle. Businesses inherently tied to politically charged issues can also raise risk, as in the dismissal of a member of the Whitney Museum of American Art's board because of his company's munitions manufacturing concern. A Samuel Adams executive toasted a tax cut bill at a company party and Massachusetts politicians called for a boycott. CEOs and managers are under pressure to be visible on social issues, but they have to carefully thread the needle when the company's commercial and financial interests clash with cultural values. A since deleted tweet sent by the Houston Rockets general manager in support of Hong Kong protesters put the NBA – and a host of bystanders with sponsorship contracts including Nike – in the spotlight on US–China relations and threatened the league's financial future in the world's most populous country. Consumer memes parodied Nike's "Believe in Something" Kaepernick campaign as the company backtracked in the face of lost sales: "Believe in Something. Unless it pisses China off."

Managers are well advised to monitor the risk exposures of their brand-persons by proactively assessing the degree of interdependence between person and brand, the company's reliance on the brand-person for governance, the volatility of meanings in the person behind the brand, and the embeddedness of the person in the cultural conversation. Figure 3 suggests metrics to track.

» Managers need to catalogue their risk exposures and evaluate the severity and probability of these risks. «

Brand reputation risks from corporate socio-political activism Anyone familiar with risk management understands political risk as a macroeconomic factor affecting markets: the war in Ukraine, instability in the UK government, US–China relations. Less obvious is how wide the political risk category has become with the addition of socio-cultural matters carrying political overtones. Trending socio-political issues include gender, sexual identity, race, socio-economic status and myriad charged issues from gun control to climate change, privacy, abortion, diversity & inclusion and free speech. Traction around environmental, social and governance (ESG) adds additional complexity. Companies committing to ESG targets for racial diversity, gender pay equity or carbon neutrality confront risks of non-compliance as governing bodies such as the SEC call for accountability. The underappreciated fact is that companies engaging commitments and go-to-market strategies that implicate these matters expose brands to greater reputational risks.
Socio-politics also offer an attractive ground for companies who seek cultural resonance. But brand or advertising strategies that attempt to ride the waves of socio-political issues bring with them reputational risk exposures inherent in leveraging subtle, hotly debated cultural concerns. Without careful execution and credibility, attaching a brand

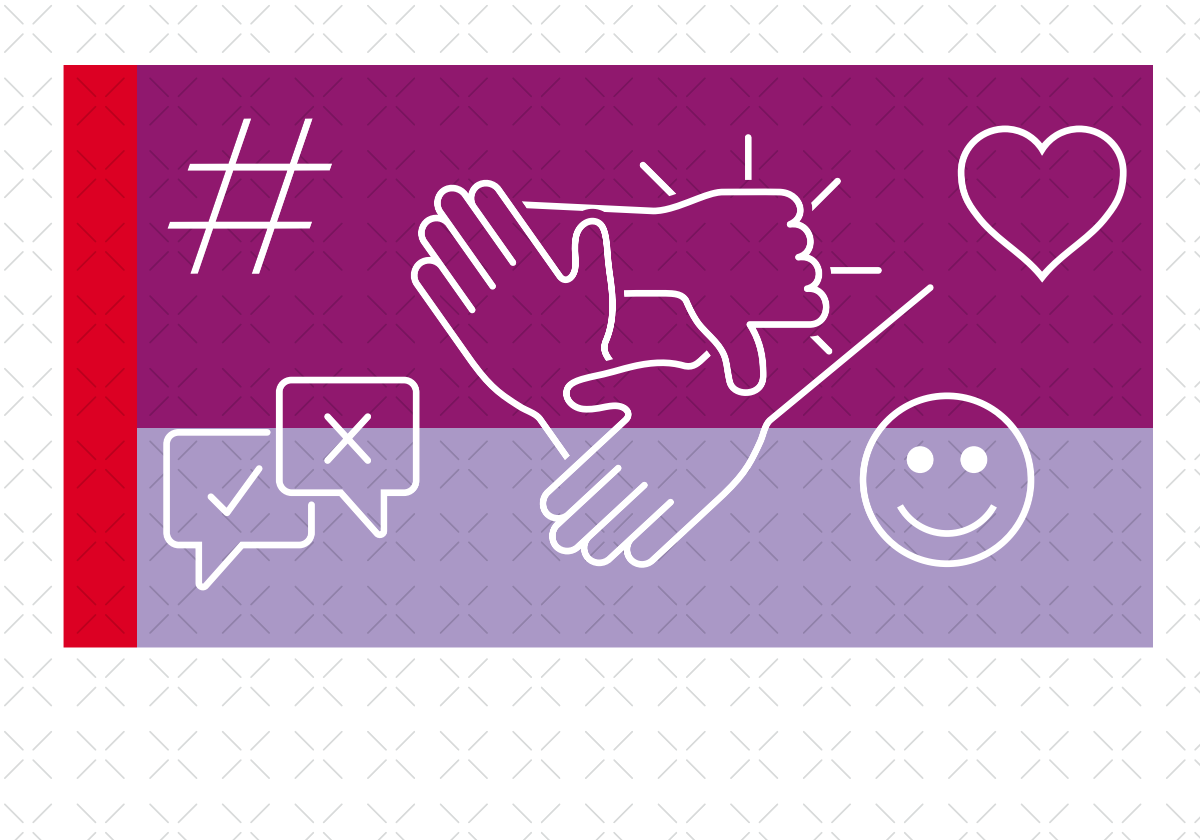
FIGURE 3 > Person-brand risk and relevant metrics

Person-Brand Risk

Risk when brand identities are closely linked to living persons

- Strength of tie between brand and person
- Involvement of the person in corporate governance
- Number of leadership roles held by the person
- Visibility of the corporeal person/celebrity status/fame
- Media coverage of the person, embeddedness in the cultural conversation
- Person's social media footprint
- Social embeddedness of the person in visible social networks
- Evidence of personal character flaws, hubris, morality unpredictability, disaster proclivity index
- Negativity/positivity ratio of person meanings in media and on social media
- Mortality risk

Example: In October 2022 Adidas ended their partnership with Kanye West after his provocative behaviors, like wearing a "White Lives Matter" T-shirt and making antisemitic remarks, prompted an end to his product license deal with Adidas, a venture valued at $1.5 billion.



to a social movement or political issue can amount to appropriation of cultural capital. Ideologically driven activist marketing can easily miss the mark and cause consumer revolt rather than appreciation. Examples are plentiful. H&M faced charges of racism for using a Black child to model a sweatshirt sporting the phrase "coolest monkey in the jungle." Gillette's "The Best Men Can Be" campaign was designed in response to the #MeToo movement and was panned 70:1 on social media for its slippery slide into male toxicity, contributing to the brand's eight billion dollar write-down. Peloton experienced a stock price downdraft of 11% triggered by an advertisement in which a husband gifted his wife a Peloton, seeming to suggest that she needed to exercise more.

Figure 4 suggests metrics to monitor socio-political risk. Managers need to catalogue their risk exposures and evaluate the severity and probability of these risks. A brand promise centered on socio-political issues must be carefully weighed for upside and downside risks. Ideologically driven marketing and communications strategies should be scruti-

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FIGURE 4 > Socio-political activism risk and relevant metrics

Socio-Political Activism Risk

Risk from engagement in controversial socio-political matters

- Inherent political nature of the product category
- Volume of social media sentiments on focal socio-political issues
- Valence – positive/negative social media sentiment on focal socio-political issues
- Fit of socio-political campaign with brand history and values
- Activism/political foundations of the brand promise/vision
- Strength of brand and its equity

Example: In 2019 Cadbury launched a "Unity Bar" made of dark, "blended," milk and white chocolate to promote diversity. The good intentions failed amid charges of woke-washing.

nized for campaign–brand values fit and quantification of supporters vs. detractors on the focal issues. Strong brands can find themselves more likely to be in the crosshairs, and this too should be carefully tracked.

A brand reputation risk dashboard to prevent trouble for brands Successful brand stewardship requires ongoing tracking and monitoring of four marketing-strategy-related sources of reputational risks to brands: brand architecture strategies, digital marketing strategies, person-brand strategies and corporate socio-political activism. The figures above provide ideas for what a dashboard serving these goals might contain. Specialty risk monitoring companies such as Sustainalytics, Brandwatch, Marketing Scenario Analytica, Yonder and SpottedRisk have developed methods and frameworks that provide help. From the analysis of monitoring data, brands can, among other things, assess the level of severity of a specific brand reputation risk issue, the frequency of certain types of events, alternate response scenarios and the effectiveness of their actions. In the world of risk management, prevention is the best remedy. These insights can help brands develop early warning indicators of potential trouble.

FURTHER READING

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