Taking Brand Seriously in the Age of Risky Business

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What is Marketing

- Provide insight/action to address market-based competition
- Steer marketing investments to achieve corporate growth and revenue expansion
- Lead corporate growth activities, focusing on new product introductions, increasing demand for existing products via advertising, building brand relationships, building strong brands
A Paradigm Shift: Enter Financialization

Corporate earnings growth more reliably achieved through financialization versus expensive and risky investments in brand

A very successful paradigm
Does Financialization Compromise Brand?

- Five publicly-traded CPG marketing powerhouses: Kellogg, P&G, Colgate-Palmolive, Kimberly-Clark, General Mills
- SEC 10-K filings
- Advertising/Research & Development listed as expenses on income statements; Share Buybacks and Dividends listed on cash flow statements
- FINDING: Preferred use of corporate cash has changed significantly. Shareholder rents have displaced growth investments as the dominant comparative spending area. The pattern of investment has flipped.

SOURCE: Marketing Scenario Analytica, “Financialization and the Sacrifice of Marketing”
Another Consequence of Financialization

FROM: Marketing as an investment function designed to achieve corporate growth and revenue expansion

TO: Marketing as a line itemized expense function, a cost to be controlled
“ZBB focuses everyone too much on meeting internally imposed cost reduction targets. Bonuses are tied to these targets. Kraft-Heinz was so focused on cost cutting that it missed changes in consumers' eating habits that caused demand declines for its products. They thought cost-cutting could go on forever and did not see brands falling over the cliff.”
Paradigm Shift II:
The “Juniorization” of Marketing

- Average CMO tenure 2.4 years
- Marketing decisions pushed down the line and made on the frontlines by “lightly managed” or contracted staff
- Marketing function now less expert in classical needs of brand management and —enabled by data—focused on transactional administration, digital process management, digital ad placement, SEO optimization, etc. – all skills provided by a junior workforce
- “Programmatic Marketing” has overtaken strategic brand management and the creation of longer term growth through development of brand assets
Collateral Damage from Juniorization

Megha Mohan (@meghamohan)

Is @Dove soap’s marketing strategy
Before - black & dirty
After - Caucasian & clean
Also *who* is approving these ads?

10:25 AM - 8 Oct 2017

871 Retweets 750 Likes
Paradigm Shift III: Customer Equity as the Dominant Approach to Marketing

**Customer Value**: Net present value or the future value of the cash flows that are attributable to customers

- Clean analogue to stock price
Digital Tech Enables and Reinforces the Paradigm

- Direct interactions with customers
- Downstream outcomes closer to behaviors
- Lower costs of marketing
- Clear metrics of acquisition and retention
- Lifecycle management based on data and analytics

= cost effective and accountable marketing relative to classic branding campaigns
“Decisive move from investing in companies with strong brands to investing in companies with strong customer relationships”

Sample: 6,000 Mergers & Acquisitions between 2003-2013

What about the Risk?

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What about the Brand?

- Strong customer relationships (trust, loyalty, tolerance, forgiveness, brand extension option value) **need strong brands** that people can trust and relate to.

- Brand health can be a **leading indicator** of what might happen in the revenue space. When crisis hits customer revenue streams, it is likely too late.

- Strong brands **reduce risks** to consumers and the firm.
From August 1994 to December 2000, a portfolio of 111 strong brand companies produced a monthly return 0.57% above the total market average, with a beta of 0.85.

Financialization and the Crowding of Investments

Juniorization of Marketing and the Diminishment of Strategy and Oversight

Customer Equity and the Lure of Big Data

Narrow focus on Profits

Inattention to Risk as Driver of Firm Value

Inattention to Brand Equity and Increased Risks to the Brand
Bad Timing

- Hyper-charged society

Socio-economic-political trends and issues are disrupting the once-staid (and generally positive) world of marketing and business – with the serious potential to damage high-value intangible assets and firm enterprise value

- “Damage to reputation and brand has emerged as the top risk confronting corporations globally”
  
  Aon 2017 Global Risk Management Survey
Socio-Economic Issues

Taxonomy of vulnerabilities

CHARITY/PHILANTHROPY

EMPLOYMENT PRACTICES

CIVIC RESPONSIBILITY

ENVIRONMENTAL STEWARDSHIP

SOCIAL ISSUES

CORPORATE CONDUCT

POTENTIAL VULNERABILITIES

Diversity/Inclusiveness (Ethnicity, Gender, Age)
Employee Professional Development
Employee Health and Safety
Executive Compensation
Labor Relations (Unions)

Child Welfare
Community Outreach
Education
Political Disclosure and Accountability

Energy Efficiency/Consumption
Greenhouse Gas Emissions/Carbon Footprint
Recycling/Packaging
Water Use

Arts and Culture Support
Disaster and Humanitarian Relief
Employee Volunteerism/Donations
Enterprise Philanthropy

Civil Rights/Black Lives Matter
Economic Equality/Poverty Alleviation
Immigration and Visa Policies
LGBTQ Rights
Women’s Rights
Gun Ownership

Animal Welfare/Testing/Cage-Free/Antibiotics
Business Ethics
Corporate Governance
Ethical Sourcing/Supply Chain
Genetically Modified Organisms (GMO)
Human Rights
Information Security/Data Privacy
Product Safety/Responsible Use
Regulatory Compliance
Workplace Safety/Harassment

Source: Patrick Marrinan and Tim Powell, “Are Companies Ready for Brand Risk,” BBR 2018
Why Now? Cultural Precipitators

- Increasing socioeconomic pressure, financial anxiety
- Increasing emphasis on income disparity and the advantages of the Top 1% exacerbate negative mood
- Increasing political anxiety
- Anti-business sentiment, anti-consumerism
- The media environment is divided and has become ideologically polarized
- Our shared value culture -- the foundation that historically allowed “big tent” marketing to the masses – has evaporated and in its place, we find niche ideological markets and siloed belief systems that divide consumers into confrontational, adversarial groups
The Politicization of the Corporation

- People today more active, vocal, assertive in their expectations towards brands and role of corporations
- BlackRock CEO Larry Fink throws down a gauntlet; “Corporations must leverage their leadership to solve pressing social problems”
- NPR calls it a “new kind of corporate machismo, volunteering to march bravely into the culture wars”
April 2017: **Pepsico’s ill-fated “Kendall Jenner” ad featuring a frivolous street protest** is pulled from the airwaves after a public outcry and widespread criticisms. Pepsi issues an unheard-of public apology.
January 2018: H&M under fire for child hoodie ad. Scandal draws public accusations of racism all over social media; several partners cut ties with H&M. Ad sparks closer scrutiny into company practices. H&M hires a D&I officer and issues public apology featured prominently for weeks on the website.
SEP Risk Event: Big Tech in the Crosshairs

It's time to break up Amazon, Google, and Facebook.
Some Implications
Managing Risk

A 2013 study by EY found that companies with mature risk management practices outperformed their competitors financially. Companies that ranked in the top 20% in terms of risk management maturity reported earnings [averaging] three times higher than companies in the bottom 20%.
What about Brand Risk?

- Companies have sophisticated tools to assess Enterprise Risk (ERM, COSO, ESG)
- Companies have frameworks to assess brand value
- Frameworks incomplete, non-standardized, complex, financially-driven
- Brand Risk falls between organizational silos

## Five Types of Brand Risk Events

**Brand Risk Event:** Crises or controversies engulfing companies which can impact the financial performance or valuation of a firm and its brands

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>BRAND SAFETY RISK</strong></td>
<td>When brand messaging/advertising appears in unsafe environments; when product subject to counterfeit threats; when brand subject to disinformation campaigns</td>
</tr>
<tr>
<td><strong>KEY PERSONNEL RISK</strong></td>
<td>When company leaders behave or speak in ways that hurt the firm/brand</td>
</tr>
<tr>
<td><strong>CUSTOMER ENGAGEMENT RISK</strong></td>
<td>When companies mistreat or insult customers</td>
</tr>
<tr>
<td><strong>SOCIAL ALIGNMENT RISK</strong></td>
<td>When firms fail to identify and live up to new social expectations about the role of corporations in society</td>
</tr>
<tr>
<td><strong>BRAND EXECUTION RISK</strong></td>
<td>When a product’s advertising, messaging, packaging runs counter to new cultural norms</td>
</tr>
</tbody>
</table>

*Source: Patrick Marrinan and Tim Powell, “Are Companies Ready for Brand Risk,” BBR 2018*
Person-Brand Risk Dynamics

ASPECTS OF THE PERSON

- Mortality
- Hubris

- Unpredictability
- Social Embeddedness

INTERDEPENDENCIES BETWEEN THE PERSON AND THE BRAND

Imbalance: P ⊈ B vs B ⊈ P

Inconsistency: Person ≠ Brand

PERSON-BRAND STRENGTH PILLARS

- Authenticity
- Intimacy

RISK MANAGEMENT STRATEGIES

- Organizational and Governance Structures
- Succession Plans, Equity Transfers, Rebranding
- Cultural Branding, Public Relations, Person-handling

BRAND MEANING FACTORS

- Magnitude of Differences in the Meanings of the Person vs. Meanings of the Brand
- Centrality of the Inconsistent Meaning to the Person-Brand Positioning

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Expanding the CMO Role

Generate **top-line revenue and growth** based on deep insights into consumers and markets

*but also*

**assess and manage riskiness of cash flows** based on SEP threats to consumer demand, brand reputation, and stakeholder reactions
**Brand Stewardship:** The set of practices, policies, and procedures in place to **build**, **sustain**, and **protect** the value of an organization’s brand(s) and reputation.

**Source:** Patrick Marrinan and Tim Powell, “Are Companies Ready for Brand Risk,” BBR 2018
Emerging Market for Service Providers with Expertise in SEP Risks

- Spotted (Key Personnel Risk)
- Marketing Scenario Analytica (Activism Risk)
- The Brand Safety Institute
- Law Firms as corporate risk managers (e.g., Digital Crisis Planning and Response Practice in K&L Gates LLP for Papa John’s case)

...Practice is ahead of theory in all cases
SEP Risk as a Board Level Matter

Boards need to be proactive in **disclosures** to investors on the scope of SEC risks and measures taken to address them:

- Weinstein clauses
- Petition for SEC rulemaking for ESG disclosures on human capital management, climate, human rights, gender pay ratios, political spending
- Movement to include brand risk in SEC disclosures
Fiduciary Responsibility for Governance of CEOs

- Chairman of Board
- President
- Chief Operating Officer
- Chief Creative Officer
- Main Stockholder

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Needed Research

- Empirical work on material effects of financialization and diversion of resources from brand investment and growth
- Empirical work on material effects of the juniorization of marketing and firm risk
- Unpack notion of SEP brand risks; evolve ESG, ERM frameworks to consider SEP risks
- Develop informed SEP risk metrics leveraging big data
- Understand effects of SEP risks on consumers and their brand relationships, brand/firm value