RAZÓN Y PALABRA
Primera Revista Electrónica en América Latina
Especializada en tópicos de Comunicación.

Comunicación en la Vida Cotidiana

Número 6, Año 2, febrero-marzo 1997

The Forgotten Brand: The Power of Corporate Reputation

By: James H. Dowling
Chairman Emeritus Burson-Marsteller
Mexico City, Mexico December4, 1996

Good morning, ladies and gentlemen. It is a pleasure to be in Mexico and to have this opportunity to talk about one of my favorite subjects: Corporate Reputation.

I am also comforted by the assurances of my colleagues that so many of you present share with us from Burson-Marsteller the responsibility of creating and managing the communications function of so many important institutions.

Those of us who labor in the vineyards of marketing and communications have, to my mind, a special mission in life. We are the engines of the machines dedicated to improving the quality of life for our fellow citizens.

Without us, great ideas are untold, great products and services go unused.

Without us, new markets do not develop, economies of scale are lost, businesses founder, jobs are lost, and whole economies suffer. We have a special responsibility to identify value, position it correctly and communicate it effectively. No tree falls in our forest without being heard.

My task this morning is to suggest not only the value of a corporate reputation but to also suggest how this corporate brand differs from the product brands with which we are more familiar. Both corporate brands and product brands represent perceptual assets of great importance to any enterprise-- often more important that the physical assets one is allowed to place on the balance sheet In many cases, the corporate brand and the product brand are indistinguishable... but now I am getting ahead of myself.

Let me tell you how I would like to go about my task this morning.

--First. I would like to define terms for our discussion on this subject.
--Second, I would like to put forth a point of view on how brands all forms of brands are created, enhanced and burnished.
--Third, I would like to distinguish between product and corporate brands in terms of constituencies. --Fourth. I would like to cite a number of cases where the loss of equity in the corporate brand negatively impacted business results.
--Fifth, I would like to cite cases where the strength of the corporate brand helped a company weather major challenges to its business.
--Sixth, I would like to cite a famous case where a company has prospered despite what looked like death blows to its reputation, just to prove there are exceptions to every rule.
--And lastly, I would like to suggest the complexity of maintaining value in the corporate perceptual asset, and how this differs from managing product brand equity.

Burson-Marsteller, as I believe you know. is part of the Young & Rubicam group, which also includes Y&R Advertising, Wunderman Cato Johnson direct marketing and Landor corporate identity and design. The Y&R Group, over the past four years, has conducted the most comprehensive study of brands ever undertaken. It is called Brand Asset Valuator. (Examined were 650 global brands, 6700 regional brands, in a total of 26 countries). The study is on-going and dynamic.

A large part of the study was determining the relevant health of individual product and corporate brands, by category, demographically, psychographically and geographically.

But undoubtedly the most important finding of this multi-million dollar effort was the new insight it provided in understanding just how brands are built.

Conventional wisdom says you build brands through awareness powered by a lot of reach and frequency. In other words, communications powers brands.

Our findings suggest that communications are an essential element in sustaining sales over the long haul, but that brand vitality springs from the product itsef - its basic attributes, benefits and perceived values.

From the Y&R study we now know that the two most powerful drivers in launching brands are differentiation and relevance. By differentiation, we mean, what attributes and benefits of the product or service distinguish that product or service from other competing brands?

By relevance we mean, how does the product or service relate to my needs, my desires, my lifestyle? For example, Rolls Royce has extremely high differentiation as one of the most expensive luxury cars in the world. But it has low relevance because so few people can aspire to own one.

Similarly BMW has strong differentiation in its German car building heritage as the Ultimate Driving Machine." But it has also extended its relevance by offering the BMW in a variety of price points that bring a BMW within the means of a great many more people.

The Y&R study uncovered two more drivers to sustained superiority of a brand. One is familiarity, which translates more to positive experience with the product or service than simply awareness.

The second is esteem. In other words, do I still prize the product or service as much as I used to, compared to traditional or new competitors.

One way to describe a brand is as a promise. A successful brand is a promise fulfilled. It performs to our expectations. We trust it.

We stand by it. A brand that breaks its promise is in for dire trouble. I think there is no bigger example of a broken promise than Perrier. Perrier's difficulties stemmed not so much from the fact that is was withdrawn from the market for three months because traces of benzene were found (After all Tylenol was off the market longer). Perrier's problems stemmed from the disclosure that the sparkling spring water was artificially separated and reconstituted in contradiction of its perceptual positioning as "nature's first soft drink." It is the same product today as it was before the recall. but it has lost degrees of differentiation and esteem with some segments of the market.

Consumers punish products - and the companies that produce them--when they do not perform up to expectations. when they do not deliver the perceived value promised. Is this not true for corporations as well? Is not a corporate brand- a corporate reputation-- also a promise to perform to certain expectations? And won't the public. . . or the public's representatives--seek to punish in one manner or another a corporation that does not fulfill their expectations, even if they are unspoken?

The simple answer is yes. The real answer is more complex, simply because the corporation serves a varied and changing set of constituencies.

In dealing with product brands, if you please the customer, most everything else falls into place. It is a reasonably defined and identifiable set of relationships. Corporate relationships are more complex. They vary from country to country, culture to culture, political venue to political venue.

In Japan, for example, a corporation's social responsibility is measured by its ability to sustain and add to employment. In the United States, companies are prized for their ability to downsize operations to make them competitive in the global marketplace. The typical publicly held US corporation has shareholders and stakeholders. I distinguish between these two because one--shareholders--have a distinct legal claim of ownership while the other--stakeholders--does not. Shareholders therefore have a claim on the company's assets.

Stakeholders can generally be defined as constituencies that have a claim on a corporation's behavior.

These range from employees, communities, advocacy groups, the media, government at various levels, the public at large. Stakeholders like government sometimes base their claims on legal grounds found in legislation and regulation. Other stakeholders like consumer and environmental groups often base their claims on moral grounds. Either can be lethal, if not well managed.

I would like to acknowledge at this point that most of my experience is with US corporations. I realize that there are many differences and degrees of differences between the business environment in the US and in most Latin American countries today. But I would suggest that these differences will diminish over time as Latin American economies became increasingly privatized and market driven. as democratic institutions take stronger hold and become broader based and as the media become more independent and less fettered by traditional political party ties.

Stakeholders draw most of their power from the glare of publicity provided by activist media. In essence, then, if you are not beset by some of these issues today, you are likely to face them tomorrow. Forewarned is forearmed. Customers are, of course, stakeholders as well. This is especially important for companies that brand their products with their corporate name, the so-called hybrids we defined earlier. Sometimes this is a blessing, sometimes not.

A classic case of turning around a corporate reputation and enhancing product sales involves the Ford Motor Company. Not too many years ago the American automobile industry was reeling from imported cars from Japan and Europe that simply outclassed and outperformed their American counterparts. US automakers simply could not match either the reality or the perception of the quality of imported automobiles, especially from Japan. Ford took the issue head on and launched its corporate program, "Quality is Job One."

More than an advertising slogan, although a good one at that, Ford made narrowing the quality gap between its cars and Japanese imports the overriding positioning for the Company, its employees, shareholders and stakeholders. The company changed its culture and its behavior. Quality truly was the Number One priority for the company. It made measurable progress, narrowed the gap and was rewarded by the buying public, perhaps best exemplified by the Ford Taurus, the best selling model in the world for three years running. Ford made good on its promise. The public responded.

Putting one's corporate reputation on the line is a commitment that cannot be made lightly. To break the promise of a corporate brand could spell big trouble. A recent but classic case involves the Intel Corporation and its Pentium computer chip. Branded ingredients or components are a rarity in marketing. Two of the most successful were Teflon, the no stick coating that enhanced the usability of many products from space ships to frying pans, and NutraSweet the artificial sweetener that dominates the diet soft drink markets. Both of these ingredient products developed strong identities and successfully persuaded manufacturers to feature their contribution to the total product.

Intel followed a similar strategy with its now famous Intel Inside' campaign, in which personal computer makers boasted that their machines were driven by Pentium chips, presumably the best the market had to offer.

All told, 2000 companies participated in the coop program, producing more that 200,000 pages of advertising featuring the slogan "Intel Inside." And then the unexpected happened. A flaw was found in the chip. For technically minded, it was described as an error in the floating point unit of the Pentium processor. For all practical purposes, it would impact very few applications, and even fewer customers. But Intel management made a major mistake. They began to think and act like the small engineering firm that they used to be. With an engineer's logic, they discounted the flaw as not very important. and early on, showed little sympathy for their customers' concerns.

What they forgot was that they were no longer a small engineering firm. They had successfully transformed themselves into a highly respected, technically superior consumer products company. And consumers, more emotional that logical, expect their products to be flawless. When they are not, they expect the producer to step up to the problem. Before it was all over, Intel had to take a charge of $475 million against earnings.

Broken promises fractured corporate reputations--can be costly.

Many people have tried to quantify the value of a corporate reputation. They have engaged in all kinds of empirical studies to try to prove the point that you can take a good corporate reputation to the bank I think we need to take most of these studies with a grain of salt, since they are often to my mind, a little weak on proving cause and effect. There are simply too many variables from which to draw clean cut conclusions.

However, for publicly held corporations, there is one barometer of corporate reputation that keeps score every day, and that is the stock market. The willingness of an investor to pay a certain price for the stock of any company is based solely on his or her perception of the future. Past performance is an indicator, but only that. For investors, the perception of the company’s ability to enhance shareholder value in the future is the driving factor for investment decisions.

Investor decisions are not always rational. In fact, they can be as emotional as the decision to pay 10 times as much for one perfume over another. The recent rush to buy any stock associated with the Internet at virtually any price is a case in point. But even mature and established companies, with similarly successful histories, can be perceived as having vastly different futures.

Compare, if you will, what investors are prepared to pay for two of the best managed consumer products companies in the world, Philip-Morris and the Coca-Cola Company. Philip Morris earnings have risen at an annual rate of 20 percent over the past five years, and its dividend has grown accordingly. But investors are worried about the future liability of tobacco.

Today, Philip Morris earns over $7 a share, pays a dividend of $4.80 a share, a yield of 5.2 percent, but investors are willing only to pay 13 times earnings for a share of Philip Morris' future.

Contrast this with Coca-Cola, where investors are willing to pay 41 times earnings for a piece of Coca-Cola's future, a stock that pays a modest dividend of 50 cents a share, or a yield of less than one percent.

Today, Philip Morris has a market valuation of $74 billion. If it enjoyed the same investor confidence of a Coca-Cola, Philip Morris' market valuation would top $ 200 billion. Now that is serious money--and a very quantifiable measurement of at least one part of a company’s corporate reputation.

I realize that Philip Morris and Coca-Cola represent perhaps an extreme contrast, but there are endless examples of how perceptions drive a stock price up or down in the financial marketplace. A case in point. One of our financial relations clients is a large, family controlled publishing company. The financial community's perception was that the company was more interested in maintaining its prestige than in making money for shareholders. It therefore assigned the company a low multiple.

The company was reluctant to say otherwise, even though there was a strong management team in place that had strong family and board support to grow the business.

The basic need was simply to become better communicators--to let the financial community understand that the company had a strategic plan, commitment to support it and the management team to execute it. In essence. the only variable was in the communications. As a result the financial community's perception of the company's future improved substantially, resulting in a share price increase of 50 percent.

Not all the measurements of corporate reputation are quite so dramatic. Some are simply common sense. Most are more qualitative than quantitative.

One of the pioneers in corporate reputation research is Walter Barlow, president of Research Strategies Corporation. Walter likes to say that every corporation has a reputation whether it prizes it or not. He calls it a distillation of ideas, feelings and experiences one has with the company--its product, services, employees or simply its communications.

Barlow's works suggests several basic rules of corporate reputation:
--that people who are more familiar with a company will generally regard it more favorably.
--that those whose familiarity comes from several sources or experiences are more likely to regard a company more favorably than someone relying on a single source of information.
--that those who view a company favorably are more likely to purchase its products and recommend them to others.
--that product experience alone is not sufficient to make people think more favorably of a company. --and to this I might add, a bad corporate reputation does not always mean ruin for corporations with a good or essential product.

To support this contention we need to look no further than the Exxon Corporation.

No corporation has been more vilified in the media and elsewhere in recent years than Exxon following the disastrous oil spill in Alaska. The company lost 40,000 credit card holders and spent billions of dollars on clean up and legal costs. Yet within months of the Valdez disaster, Exxon declared record profits. Brand and corporate reputations are simply not significant factors in the marketing of gasoline, compared to station location, station hours and at least four other factors.

I cite the Exxon paradox to remind us that we cannot be naive about our subject. At this point I think it appropriate to revisit the characteristics that distinguish a product brand from a corporate brand. A product brand is a promise of performance.

The product performs to the expectation of the customer. It tastes good It smells good It makes me feel good about myself It does it faster. It does it cheaper. It is more powerful. It is more quiet. The product attributes and benefits meet my expectation. They are inherent in the product itself.

A corporate brand, however, is based on expectations of future behavior. The company is innovative and will produce products and services of interest to me. The company is ethical and will stand behind its product. The company is a good place to work, and will treat me fairly. Management will value my investment and try to make it grow.

The company will adhere to good environmental practices. The company is a good neighbor. I can trust this company to behave up to my expectations.

Corporate behavior--not environmental disaster--was at the heart of Exxon's problems with the public. Company management simply did not behave as the public thought it should.

The standard for management behavior in the face of adversity was established by Johnson & Johnson and its chief executive, Jim Burke, in the early 1980s. The now famous Tylenol poisonings in. Chicago threatened to destroy the most profitable brand in the history of over-the-counter medicines. Marketing pundits declared the product dead. But Burke and his J&J team refused to give up.

They first recalled all Tylenol branded products. They then totally repackaged them to make containers tamper resistant. And they carefully reintroduced the brand with the utmost sensitivity to consumer concerns. In a matter of months, Tylenol had regained its market pre-eminence.

Burke attributes the success of these events to the company's credo--a kind of vision statement that governs corporate behavior. In essence, the credo says that if you put the interests of your customers first, all else will turn out well. Burke and his team were perceived by the public and the media as having behaved in the public interest.

Such was not the case with Exxon. Its management did not exhibit the degree of concern for the environment that the public thought warranted Exxon management was not perceived to have acted in a timely and aggressive manner to clean up the problem. And the chief executive officer was perceived as having shunned responsibility for the incident by declaring it a matter for Exxon's regional and maritime units. Exxon contends the facts are otherwise, but nevertheless these are the public's perceptions. And perceptions drive reputation.

Given the enormity of the Alaskan spill, could Exxon have avoided much of this negative sentiment. At least two examples say yes. One involves the Swiss drug company Sandoz.

One of its units was responsible for what turned out to be the largest pollution spill in the history of the Rhine River. Sandoz stepped forward, took responsibility for the problem and exhibited leadership in its resolution. In the US, Ashland Oil faced a similar dilemma involving a spill in the Ohio River and followed a similar path Both companies were praised for their response.

Mexico witnessed its own classic case of positive corporate behavior within the last several months. I am speaking about the events surrounding the Berol Group and the problems that beset this prestigious, long-established producer of quality products like pencils and crayons.

You may recall the problem. The Consumer Protection Agency detected a higher lead level than permitted in the external coating of two brands of the company pencils. Since so many pencils are earmarked for school children, the market and the media were properly concerned. Mexico's First Lady was said to be alarmed.

Berol management took all the right actions, and did so in a timely fashion. They recalled the two brands, notified all the proper authorities and set in motion an aggressive communications program to all the concerned parties. Knowledge and understanding replaced fear and hysteria.

Berol management's has been complimented publicly for acting in a social}y responsible manner. By dealing quickly and efficiently with the situation, the company was able to maintain the integrity of its brand franchise and minimize losses of sales. Other company brands were not affected by the incident.

Berol management behaved up to the standards of public expectations, and has been rewarded for doing so.

Corporate advertising can be a powerful tool in setting the agenda for corporate behavior. In the case of Ford, the "Quality is Job One" campaign set the agenda not only for the car buying public, but for every manager, employee and supplier for the company. It was the rallying call for a complete remake of corporate behavior.

DuPont also used its corporate communications to set the agenda for all its stakeholders. In quantitative terms, DuPont had the largest pollution challenge of any company in the world, but under Chairman Ed Woolard it also made a commitment to radically reduce the problem with all its means. The company's public commitment to environmental cleanup--the overriding theme of all its corporate communications was not lost on managers and employees as well as environmental activists and government regulators. DuPont proved that it was not simply all talk by deciding to stop the production of ozone damaging fluorocarbons long before it was required. DuPont today enjoys a premier corporate reputation for commitment to environmental excellence.

Corporate behavior must be consistent. You can't talk to one set of stakeholders one way and to a second in a different manner. There are too many people watching for inconsistencies. A classic case of perceptual contradiction beset AT&T this past year.

The company announced through one channel that due to the breakup of the company into three separate entities, upwards of 40,000 jobs would be lost in the restructuring. Through entirely different channels of communications, it was learned that at the same time the job layoffs were being discussed, the company's board of directors rewarded its Chairman with a sharp increase in compensation. To the media and the public, the chairman was seen as being rewarded for a failed strategy that was causing 40 ,000 people to lose their jobs. This action failed to meet the expectations of a public that once rated AT&T the most prestigious company in the United States, and it caused a loss of credibility for the company and its management. In brand building parlance, AT&T had lost a great deal of esteem.

If corporate reputations are fragile commodities, so too are corporations themselves. We need to remind ourselves that corporate success today does not guarantee similar success tomorrow. The twentieth century is littered with corporations that have failed to adapt to change and have fallen by the wayside.

Recently, that bellweather of corporate success--the Dow Jones Index--celebrated its 100th birthday. Only one of the companies originally on the list remains today. That is the General Electric Company.

Many of the businesses that drive General Electric today did not even exist when the Dow Jones Index was conceived Many of the industries represented on the original chart have fallen off the list as not important or not relevant to today's economy. Once mighty corporations like the United States Steel Corporation are today buried inside other companies and nomenclature.

You don't have to look back 100 years to find examples of companies who have built great reputations only to falter. Apple Computer created the PC generation, but has since lost its way. Westinghouse no longer makes refrigerators, Bell & Howell no longer makes cameras and Ryder has announced it will no longer rent trucks. Great corporations renew themselves. Great corporate reputations accommodate change.

If great corporate reputations are therefore worth nurturing, then the principles of BrandAsset Valuator should guide our activities.

The first order is to establish differentiation. Many companies seek to do this through the creation of a mission statement Most, I believe, fail because these statements are merely words that the company fails to turn into behavior that others appreciate and admire.

Behavior that fails to distinguish a company from its competition will not build value into the corporate brand.

-Johnson & Jobnnson is admired for its sensitivity to consumer concerns. It lives its credo.
-3-M is admired for its dedication to product innovation. -Procter & Gamble is admired for its prowess in consumer marketing.
-Disney is admired for its ability to create break-through family entertainment.
-IBM was admired for decades for its dedication to support its customers using IBM products and systems, and now its reputation is growing again for its ability to make all technology products work for its customers.
-Microsoft is admired for it audacious development and marketing of software.

But my favorite corporate behavior example is Lexus, the luxury car division of Toyota Lexus stunned the marketplace by the commitment of the factory and its dealers to back up the quality of its product with an uncompromising commitment to service. This lesson in corporate behavior was not lost on the rest of the car industry, and in fact was emulated by many other industries as well.

Differentiation is the result of corporate commitment and behavior. Relevance varies by constituency. Great corporate reputations make it easier to hire talent, raise money, get fair treatment from the media and other activists. Great corporate reputations support stock prices and attract great business partners. Great corporate reputations make employees feel good about their work and communities glad to have you as neighbors. Great corporate reputations reach a broad and diverse group of stakeholders in a manner that supports a company's strategic business objectives.

Creating relevance is the task of communications. In the case of a corporation, however, we have a very complicated task, because many facets of the organization contribute to its reputation.

One of the most important communications media in any company is the employee workforce. It is often the one most overlooked. But a disgruntled workforce can destroy a corporate reputation quickly. A current example is the U. S. arm of the Mitsubishi auto company. It is facing a massive sexual harassment lawsuit amid torrents of negative publicity in a marketplace in which women are an increasingly critical factor in the purchase of a car.

Every act we take, every word we utter, every policy we adopt, every product and program we launch, contribute one way or another to the image others have of us. All our actions, all our words, need to be examined for how they might contribute to--or detract from--the reputation we are seeking to build. We need only to remember what happened to AT&T this year to remind ourselves that virtually nothing we do or say is done in isolation.

Once positive differentiation and relevance are established, continued favorable experience with a corporation, its products and people, will build more and more value, more and more esteem into the corporate brand Corporate advertising can play a critical role for many companies in keeping positive corporate values top of mind with key constituencies. But one should never raise the promises of corporate reputation without an uncompromising commitment to stand behind them.

Ford continues its commitment to quality, Johnson &Johnson to the customer, 3M to innovation, Microsoft to technology and IBM to service. There is an expression in Silicon Valley that sums up the lessons we have learned about the corporate brand over the years. It does not translate easily into Spanish, however.

The expression in English is, "don't talk the talk, unless you can walk the walk" . One translation might be : No diga las palabras, si no puede andar el camino. Put another way, in building a corporate reputation, don't raise expectations you cannot or will not stand behind. The world will punish you.

Thank you for your attention and thank you for inviting me.

Créditos Fotografías:

"Alcatraz" Tina Modotti, 1925.
Regreso

"Andamio" Tina Modotti, 1925.
Regreso

Regreso al índice de este mes
