Brand crisis management and its impact on brand image: a case study

Abstract

Brand crisis caused by product harm has become more frequent due to the increased complexity of products, the growing concern of manufacturers with regard to their brands, and the higher amount of legal requirements and consumer protection policies. Its consequences involve losses to the business and the brand. The main objective of this research is to analyze the consequences of a local brand crisis caused by a recall campaign, comparing the theoretical framework with a case study. The results confirm the crisis management theory found in the literature.

Keywords: brand crisis, recall, brand crisis effect

1 INTRODUCTION

The study of brands has been gaining relevance once the strengthening of brand equity could represent an increase in the productivity of marketing investments. People understand brands by observing their manifestations and the more these are coherent and consistent with their initial proposal, the better the consumer will understand the design of the brand (Semprini, 2010). However, a manifestation that fails to be consistent with the design of the brand could weaken it, as in cases of brand crisis. Brand crisis could be caused by (i) product failure, (ii) social responsibility gap, (iii) corporate misbehavior, (iv) executive misbehavior, (v) poor business results, (vi) spokesperson misbehavior and controversy, (vii) loss of public support or (ix) controversial ownership (Greyser, 2009).

Brand crisis caused by product harm that leads to recall campaigns has become increasingly frequent in Brazil. According to Procon SP (Consumer Protection Agency), 101 campaigns were conducted in 2013, representing a 55% increase compared to 2012 and more than three times higher when compared to 2002. There would also be a tendency to increase the number of cases of recall due to the (i) increased complexity of products, (ii) the growing concern of manufacturers with regard to their brands, (iii) the higher amount of legal requirements and (iv) consumer protection policies (N. Dawar & Pillutla, 2000). The visibility
of the cases of recall and their impact on brands and businesses would be enhanced by the
interest of coverage by the media (Heerde, Helsen, & Dekimpe, 2007; Tsang, 2000) and the
digital media would further reinforce this effect by the “viralization” of the messages through
negative word-of-mouth communication (Crescitelli & Shimp, 2012; Laufer & Coombs,
2006). The crises caused by recall campaigns would be unexpected and negative (Laufer &
Coombs, 2006) and could lead to the deterioration of the favorable relationship established
between brand and consumer (Cleeren, Heerde, & Dekimpe, 2013; Heerde et al., 2007), thus
reducing the brand equity built over the life of the brand.

The main objective of this study is to analyze the consequences of a brand crisis caused by
a recall campaign, comparing the theoretical framework with a real Brazilian case, with an
embedded single case study (Yin, 2009). This case refers to a local crisis of a local brand
owned by a multinational company. The main stages of the study, specified in protocol, were
(i) the investigation of cases at Procon (Consumer Protection Agency), (ii) contact with
relevant companies to request information, (iii) analysis of articles about the case in
newspapers, (iv) interview with the marketing manager responsible for the brand in question.
Aiming to increase the collaboration of the company in the provision of information, the
privacy was preserved by referring only to “company”, “brand”, “product” and “competitors”.
The variations in volume, market share and brand health indicators will be presented
comparatively with the pre-crisis period and absolute data will not be presented.

There is an extensive literature addressing product harm crises based on experiments and
tests. However, there are few studies conducted with data from real cases, especially in Brazil.
As a scientific contribution, this study brings the consequences of a recall involving brand and
product based on a Brazilian case.

2 LITERATURE REVIEW

The texts surveyed were organized into (i) definitions of crisis and recall, (ii) factors that
influence the effects of the crisis and (iii) different effects expected for product harm crises,
and will thus be used to support this study.
2.1 Brand crisis caused by product harm and recall campaign

Crisis is a nonroutine, unexpected and sudden event that creates uncertainty and threatens the priority goals of the organization, able to cause financial losses and undermine the company’s reputation (Coombs, 2007; Dean, 2004) and which could not be resolved with routine procedures (Tsang, 2000). Crises can harm stakeholders physically, financially or emotionally (Coombs, 2007). The effects of a product harm crisis can extrapolate the sphere of the brand and product (spillover effect), affecting the corporation as a whole (Roehm & Tybout, 2006).

The Consumer Protection Agency of São Paulo (Procon SP) defines recall as “the procedure, specified by law, and to be adopted by suppliers, to call back consumers due to defects found in products or services placed on the market, thus avoiding the occurrence of accidents caused by consumption” and its purpose is “to protect and preserve consumer’s life, health, integrity and safety, and to avoid moral and material damages.” This call could also be spontaneously made by the company as soon as it detects the defect or problem with any product (Matos & Veiga, 2003).

2.2 Factors influencing the effects of crises

Some of the studies addressing product crises focus on the backgrounds of the crisis which influence consumer response. Familiarity with the product, brand and company (Niraj Dawar & Lei, 2009; Dean, 2004; G. J. Siomkos & Kurzbard, 1994; G. Siomkos, Triantafillidou, Vassilikopoulou, & Tsiamis, 2010) as well as a good reputation of the company (G. J. Siomkos & Kurzbard, 1994; G. Siomkos et al., 2010) could mitigate the negative impacts. However, the wide dissemination of the case, boosted by the interest from the media according to the perceived risk involved and the relevance of the company (Cleeren et al., 2013; Greyser, 2009; Heerde et al., 2007; G. J. Siomkos & Kurzbard, 1994) could increase its visibility.

The positioning of the company towards the beginning of the dissemination of the crisis and its response also directly influence its effects (N. Dawar & Pillutla, 2000; Greyser, 2009; G. J. Siomkos & Kurzbard, 1994; Souiden & Pons, 2009). In view of the dissemination of the triggering problem, the company could unambiguously deny its responsibility, could be
ambiguous regarding the admission of guilt or unambiguously admit to be guilty over the problem. In case it is understood that the company would be responsible for the problem, the more unambiguous is the admission of guilt, the lower the negative impact on the brand and the company (DAWAR; PILLUTLA, 2000). The company’s action also influence how the crisis is perceived. The greater the effort and demonstration of the company’s effort to reverse the situation, collecting the products with risk and compensating those affected, the greater the willingness of society to mitigate the effects of the crisis (N. Dawar & Pillutla, 2000; Niraj Dawar & Lei, 2009; Greyser, 2009; G. J. Siomkos & Kurzbard, 1994; G. Siomkos et al., 2010). Figure 1 illustrates the two continua between assuming responsibility and intensity of action (positioning). A study on the frequent recall campaigns conducted in the automotive industry conclude that (i) the denial of the defect has a strong negative impact on the image of the manufacturer, (ii) the impact on the image is significantly positive when the recall is voluntarily called and (iii) an even more positive effect is perceived when the manufacturer subsequently announces a campaign to improve the product and process (Souiden & Pons, 2009). Some elements associated with brand and product could also influence how the crisis would affect the brand and the business (Greyser, 2009). Leading brands tend to suffer less than brands with small market share due to the greater credibility they have with consumers.

**Figure 1 - Continua of the assumption of responsibility and positioning for the correction of the problem**

![Continua of the assumption of responsibility and positioning for the correction of the problem](image)

Source: prepared by the authors, adapted from Siomkos and Kursbard (1994) and Dawar and Pillutla (2000).
2.3 Expected effects

A brand crisis caused by product harm triggering a recall campaign could affect the brand, the company as a whole, the category in which the brand is inserted and its competitors.

The temporary withdrawal of the product from the market could affect sales, causing loss of sales, market share and high costs with the recall campaign, including logistics costs from the product withdrawal, communication campaigns and destruction costs of the product withdrawn. More than that, there could be a reduction in the efficiency of the brand’s investment in marketing (Cleeren et al., 2013; Heerde et al., 2007). The crisis could also have negative brand associations and reflect on the brand equity, causing a reduction in the price of the company’s stocks (N. Dawar & Pillutla, 2000), and a reduction in the company’s reputation with stakeholders (Coombs, 2007; Heerde et al., 2007). As result of the exposure of the corporate brand to the problem and the relationship of the product in question with other products and brands of the company, there could be a crossed effect between items under the same brand, and with the entire portfolio of the corporation (Cleeren et al., 2013; Heerde et al., 2007; Tsang, 2000).

According to the reputation of the company involved and the extent of the problem, the category as a whole could lose with the crisis or the competitors could gain volumes and consumers lost by the company with problems (G. Siomkos et al., 2010). If the crisis is triggered by a product that represents the category, the category as a whole could be adversely affected by the problem with the extrapolation of the problem beyond the brand involved (spillover effect); if the product has a small connection with the category, the latter would be little affected by the problem (Roehm & Tybout, 2006). If the category is not negatively affected by the recall, competitors tend to be more aggressive to quickly attract the consumers not served by the brand withdrawn (Tsang, 2000) and the productivity of the investment of competitors may increase (Heerde et al., 2007). Thus, for competitors, the combination of these antecedents could indicate opportunities and risks arising from a problem in the category. Figure 2 illustrates some scenarios.
In cases where the company responsible for the recall has a low reputation, the image of the category tends to be less affected by the crisis; and then, there would be a growth opportunity for competitors, either through immediate sales volumes, or by improving their image towards consumers. In cases involving competitors with high reputation, the extent of the crisis (large number of parties affected by the crisis or severity of the problem) could pose a threat to competitors or harm the image of the entire category. A problem in a product from a company with high reputation that has a large extension could take the credibility and increase the perception of risk across the category (G. Siomkos et al., 2010).

The crisis could also have a positive effect on the management and image of the corporation. A well-managed crisis could improve the corporate image, assigning the image of a socially responsible company. A good management during the crisis could also reduce recovery times and make the corporation stronger after the extreme experience (Tsang, 2000). Still, a brand that has already been through a recall would be more sensitive to future crises, and the negative effects may be increased by the recurrence (G. J. Siomkos & Kurzbard, 1994).

The effects of a product harm crisis could directly affect the product in question, the products under the same brand, the sale and the image of the other products of the company, the reputation and the market value of the company. It could reduce the efficiency of the investment in marketing of the brand involved and even increase the efficiency of the
investment of competitors, and could go beyond the brand and affect the category as a whole. The crisis could also leave a residual effect of making the corporation stronger after experiencing the extreme experience of a recall, but also leave the brand more sensitive to future crises. Table 1 summarizes the key assumptions that will be investigated in the case study discussed in this article.

Table 1 - Main effects expected from a recall on the product, brand and category

<table>
<thead>
<tr>
<th>ASSUMPTIONS</th>
<th>REFERENCES</th>
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<tbody>
<tr>
<td>Assumption 1: A brand crisis caused by problem harm leads to losses in volume and market share.</td>
<td>(Cleeren et al., 2013; Heerde et al., 2007; Tsang, 2000)</td>
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<td>Assumption 2: A brand crisis caused by product harm may generate negative brand associations.</td>
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<td>Assumption 3: A crisis of medium extent of the brand of a high reputation company represents a threat to the business of competitors by having the potential to negatively affect the entire category.</td>
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<td>Assumption 4: Due to the crisis, competitors may become more aggressive aiming to win over consumers of the product that triggered the crisis.</td>
<td>(Tsang, 2000)</td>
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Source: authors
3 CASE STUDY

After the verification of the theoretical framework, the case study evolved with the analysis of the incidents reported in publications in newspapers and magazines at the time and interview with a marketing executive of the company for the contextualization of the events and obtaining qualitative details about the case. The “company” provided research information from market monitoring panels and health tracking of the brand. The numerical results of the effects of the brand crisis then gained significance and will be show in this sequence. To protect the identity of the brand and company, the quotes will be presented generically as “brand”, “company”, “product”, “competitor 1”, “competitor 2”.

The case studied is a leading product in its segment in the food and beverage market. The owner of the brand is a multinational company, leader in different segments. The company appears in the ranking of the world's 100 most reputable companies of GLOBAL RepTrak™ 100, and is listed in the ranking of “Biggest and Best” of Exame magazine.

A few days before the notification of recall, a variation above the regular range was detected by monitoring the occurrences of SAC (Customer Service), which triggered an alert for the analysis of samples of lots available for sale. A small variation in the stability of a few lots was identified. This variation of stability could cause a change in the product, but without any pathological risk. The Supply Chain area made the tracking of lots and found that the products had already been largely distributed to clients and in commercialization to consumers. After a series of meetings and internal alignments with the parent company, the decision for recall was made as a way to protect consumers, clients, the brand and the company. ANVISA (National Health Surveillance Agency) and the Local Health Surveillance were informed and then the process of communication began.

The communication plan encompassed clients, consumers, employees, suppliers, government agencies and the press:
- Clients – the communication with clients was made through the sales team (communication of recall, return procedure, updates on the case). Salespeople and sales managers received communications about the fact with explanations and guidance on how to proceed with the clients. Customer service lines were also made available to clients. For the Key Accounts, the top management of the company was involved in the communication.

- Consumers – the initial communication of the recall was made through an official notice in communication channels of high visibility (according to the procedure specified by PROCON). The notice was also released through digital media of the brand and the company. The Customer Service positions and its operating time were increased to ensure the support to consumers with questions and complaints. Despite having no relation with the product, the company deployed a medical team to monitor consumers who reported any health discomfort to the Customer Service and questions about its relationship with the consumption of the product. The press relations also worked actively to try to answer the questions from journalists before the publication of articles about the recall.

- Employees – the employees were notified about the recall and the development of the case through internal notices, sent by e-mail and communication panels. There were also meetings held with the company’s directors and their teams to provide explanations about the case and advise on the direction of questions within the company (official channels).

- Suppliers – were informed through an official notice of the company. Some suppliers directly involved in the product were involved in the analysis and definition of the action plan.

- Government agencies – direct and frequent contact through the area of government affairs, which reports to the Legal vice presidency.
- Press – frequent active and responsive contact through the corporate communication area and the associated press office. Some interviews with the company’s executives were conducted with service and business channels.

The clients backed the recall promoted by the company. However, they pressured the company for a rapid resolution of the problem, and that the removal of the leader from the shelves meant business losses. With the release of the product’s commercialization, many clients (retailers) requested a copy of the release documentation from ANVISA to re-purchase the product. Many clients have also requested higher investments in promotions at the point of sale after the return to commercialization.

Competitors mainly took advantage of the removal of the products from the sales area and inventories to store the retail and gain more space. The main competitor (“competitor 1”) maintained its standard communication in advertising and tactically reinforced its presence at the point of sale seeking to fill the gaps of the “product”. A newly launched product from a large multinational manufacturer (“competitor 2”) took the opportunity to rapidly increase its distribution and spread the dissemination and experimentation through a major investment in communication. This competitor managed to maintain a growing volume in the year following the recall. Some regional competitors took advantage of their local force to gain share through pricing actions, which in the medium term proved to be a bad strategy because they managed to achieve a large sales volume in the short term, which consumed their inventories throughout the supply chain, but that subsequently represented sales losses due to the lack of inventory.

With the recall campaign, not only the brand, but also the category lost volume initially, and only six months after the recall, the category recovered the same level as before the recall. After this recovery, the category continued with the growth pace, reaching a volume 21% higher after twenty months from the beginning of the recall. The brand volume reached 40% of its average volume in the month following the announcement of the recall, but after a year, the “brand” managed to recover its pre-crisis volume. After the recall, the brand reached 99% of the market share rate before the crisis in the 15th and 21st month, but without exceeding this milestone. Graph 1 illustrates these variations.
According to the brand tracking information, the recall has also affected the way consumers perceive brands. The data analysis provided by the “company” considers the variation in relation to the year in which the recall took place (“year 0”). Data from subsequent years (“year 1”) and the last quarter of the “year 1” were compared. Graph 2 shows these variations. The “brand” loses in relation to quality perception (It is a quality brand), value (It is worth the price it costs), differentiation of offer (It offers something more than the other brands), recommendation (A brand that would be recommended to others) and superiority in flavor (It tastes better than other brands). “Competitor 1” shows a greater fall in “year 1”, yet demonstrates a trend of reversal in the last quarter of “year 1”. “Competitor 2”, launched a few months before the recall, indicates large growth in all indicators.
Since only the variations are shown, it is worth noting that the figures have a great difference in order of magnitude and even with the variations, the “brand” at the end of “year 1” still has higher indicators in relation to the main competitor (“competitor 1”). “Competitor 2”, with a recently launched product, had a small basis for comparison in the “year 0”, which allows the large variations shown.
4 ANALYSIS OF INFORMATION BASED ON THE THEORETICAL FRAMEWORK

Table 2 summarizes the results of this analysis. It can be seen by sales data that the research panel indicates a 60% loss of volume due to the removal of the product from the market and the prohibition of its commercialization. Even with the prohibited commercialization, the existence of certain volume is explained by the lack of a simultaneous removal of all the product from the market, the denial of a few retailers to return the product subject to recall and suspend its sale (claiming that they did not accept the sales loss), and the statistical processing of information by the retail tracking firm. Due to the product’s sales drop, above the fall in the category, the market share declined almost proportionally to the volume at first. The data presented suggest a confirmation of Assumption 1: A brand crisis caused by problem harm leads to losses in volume and market share.

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<td>Assumption 1: A brand crisis caused by problem harm leads to losses in volume and market share.</td>
<td>Immediate loss of approximately 60% of the sales volume and market share of the “brand”. Immediate reduction of 5% in the volume of the category (Graph 1).</td>
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<tr>
<td>Assumption 2: A brand crisis caused by product harm may generate negative brand associations.</td>
<td>The brand health indicators of the tracking indicated drop in remembrance, perception of value, recognition of the superiority of the</td>
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value proposal, perceived quality, and emotional relationship with the brand (Graph 2).

Assumption 3: A crisis of medium extent of the brand of a high reputation company represents a threat to the business of competitors by having the potential to affect negatively the entire category. Immediately after the recall, the category loses 5% of its volume and takes six months to return to pre-recall levels. One year after the event, the volume of the category was already 12% higher than the pre-recall volume (Graph 1).

The main brand health indicators of “competitor 1” experienced a higher decline that the “brand” in the first year post-recall.

The main brand health indicators of “competitor 1” experienced a higher decline that the “brand” in the first year post-recall.

Assumption 4: Due to the crisis, the competitors may become more aggressive aiming to win over consumers of the product that triggered the crisis. Regional competitors made price reductions after the announcement of the recall and “competitor 2” intensified investments in communication.

Source: authors

The evolution of brand indicators also points to a decline in remembrance and value perception, recognition of the superiority of the value proposal, quality and wear of the emotional relationship with the brand. This trend could be explained by the image crisis caused by the recall, which would suggest the confirmation of Assumption 2: A brand crisis caused by product harm may generate negative brand associations.

By observing the evolution of the product volume and the category over time, it can be noted at first that, the category as a whole suffers from a crisis triggered by the leading brand,
losing volume for the first six months. After this period the volume of the category recovers and the market share of the leader does not return to pre-crisis levels at least in the twenty months after the crisis. The reduction in the volume initially meant a threat for the category, as well as wear on the image of the main competitor over time. However, the faster volume recovery by the category than the recovery of the leader meant an opportunity for competitors in terms of volume. It suggests only a partial confirmation of Assumption 3: A crisis of medium extent of the brand of a high reputation company represents a threat to the business of competitors by having the potential to affect negatively the entire category. The behavior of the new entrant (“competitor 2”) compared to the leading competitor (“competitor 1”) would suggest that a brand previously established in the market is more strongly affected by a brand crisis caused by product harm than an entrant brand, with lower association with the category. In this sense, the opportunity for pre-established brands and new entrants would happen differently.

After having the suspension of the sale announced and product recall initiated, regional competitors made discount actions to stimulate the attraction of consumers not served by the leader. “Competitor 2” also intensified its investments in communication with the change of scenario of the category. At the point of sale, competitors with direct and indirect sales teams, with retail service, sought to improve their levels of performance and reach the gaps left on the shelves by the leader. It suggests the confirmation of Assumption 4: Due to the crisis, competitors may become more aggressive aiming to win over consumers of the product that triggered the crisis.

The crisis would still have left a positive residual effect by informally approximate different areas of the “company”, favoring interdepartmental collaboration and bringing the organization even closer to the market, as shown by Tsang (2000).

5  CONCLUSIONS, LIMITATIONS AND SUGGESTIONS FOR FUTURE STUDIES

Given the upward trend of cases of crisis, it is essential to increase the number of studies addressing brand crisis and the effects caused on the brand. This study identified the consequences of a brand crisis caused by a recall campaign, through an embedded single case
study, suggesting the partial confirmation of an assumption and the full confirmation of three of the four assumptions made based on the theory on brand crisis.

The methodology used indicates as a limitation the non-extrapolation of its results. Information about prices, investments and communication were not available. As a contribution, this study brings the analysis of the application of theoretical assumptions on the market reality. The result reflects a specific event that occurred with the leading brand of a segment of the food and beverage category, but its lessons could be used as insights for studies in other categories or managerial application in the preparation of crisis management plans.

After the occurrence of the crisis, the departmental boundaries became closer, with an increased interaction and informal collaboration between the Marketing, Sales, Operations, Finance, Human Resources and Legal areas. The experience of the crisis apparently brought the corporation closer, reinforcing the team spirit and the connection with the market (consumers and clients). This strengthening of the corporation after the crisis, as discussed by Tsang (2000), is a topic little explored in Brazil by scientific research in general management and human resources.

There is a consensus that the period of detection of the problem and the response can make the difference between being a protagonist in crisis management or have a responsive role. The growing number of cases of recall is followed by technological advances to capture, store and analyze information from different sources, formats and input speeds, a phenomenon known as big data (Zikopoulos & Eaton, 2012). The cross-analysis of information from production and quality reports, the tracking of social networks and customer service reports, and macro factors (such as variations in temperature and humidity by region) through predictive systems could trigger alarms when detecting situations with increased probability of problems that could trigger a crisis.

In the marketing literature, few cases of crisis have been studied focusing on the competitors and how they prepare not only for their brand crises, but also to minimize the impact and capture the opportunities eventually generated by problems with product leaders.

6 REFERENCES


