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The frontlines of brand risk: interview with Patrick Marrinan

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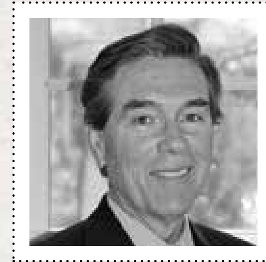


ABOUT MARKETING SCENARIO ANALYTICA (MSA)

MSA helps companies navigate marketing and business risks driven by growing socio-economic disruption. MSA's goal is to help increase readiness so companies are better positioned to preserve and manage brand asset values for company stakeholder communities.

At the center of MSA's approach is an analytic process built around your brand and its daily encounters with the world. Key to this is viewing the marketing landscape through a different lens – by measuring and bench-marking risk exposures, by auditing your company's brand and marketing process, and by using our textual analysis monitoring technology, MSA looks for unique vulnerabilities and opportunities. MSA sets out with you to build forward thinking counter-measures and strategies to manage emerging risks and to protect your brand's value. Marketing Scenario Analytica is located in New York City, NY.

www.msabrandrisk.com

ABOUT PATRICK MARRINAN

Patrick Marrinan is a co-founder and Managing Principal of Marketing Scenario Analytica, a company that helps brands analyze, measure and manage the risks confronting their brands. Patrick has over 30 years of executive level marketing strategy and management experience with expertise in brand communications strategy, public affairs management, and financial operations management. Patrick has worked with some of the world's best-known and most iconic brands, including: Altria, Coca-Cola, General Electric, Hasbro Toys, JP Morgan/Chase, Sony and numerous others. He's worked in the mobile marketing sector at Impact Mobile and as CEO of Lime Cellular, and he was an executive manager at nameplate ad agencies, Young & Rubicam, McCann-Erickson and BBDO. Patrick holds a BA from Boston College and an MBA from NYU – Stern School of Business.

THE INTERVIEWERS

Professor Susan Fournier and Professor Shuba Srinivasan conducted the interview in November 2017.

The Frontlines of Brand Risk

GfK MIR Interview with Patrick Marrinan, Managing Principal of Marketing Scenario Analytica, New York City, USA

Whether it be the NFL, Dove, Wells Fargo, VW or countless others–managers need only open a daily newspaper to see how things can go terribly wrong for brands. Decline can be fast and the landing hard. In a contemporary marketplace where ideologies reign and social media guarantees the spread of (mis)information at light speed, a lot of what we think we know about brand marketing needs to be rethought through a risk management lens. "For me, brand risk is any event, action or condition with the potential to damage a brand's value, thereby making revenue generation and a company's market value less than it should or could have been," Patrick Marrinan, Managing Principal of Marketing Scenario Analytica, states. In his talk with Susan Fournier and Shuba Srinivasan, Patrick illustrates the many facets of a risk that has only begun to be recognized as a serious threat to carefully cultivated brand assets. Here we share what to watch out for, and what brands can do to protect against risk.

SUSAN: Risk isn't really the first thing managers would think of in the context of brands. Nevertheless, AON, one of the largest insurance brokers worldwide, lists "damage to reputation/brand" as the top risk emerging in its recently published biannual global risk assessment survey. Is it actually riskier to manage brands now, compared to maybe 10 or 20 years ago?

PATRICK: It's exponentially riskier today. We have seen the proliferation of media channels and fragmentation of media messaging, and it gets much harder for brands to communicate as singularly and effectively to mass audiences as they used to. Also, consumers and populations are much more active, vocal and assertive in their expectations towards brands and corporations. This is very different from the passive role that consumers and societies played in the one-way communications environment of the past. So many companies are struggling with how to address very distinct consumer demands.

SUSAN: You mentioned active consumers. This idea of co-creation, a decade ago, was thought of as the Nirvana for brands: A co-creative environment where consumers would truly engage! You seem less enthusiastic?

PATRICK: Yes, a decade ago, many marketing executives were convinced that you should "let the consumer lead you to where you need to go." I remember thinking then how potentially dangerous that might be. Since then, we have seen lots of social media innovation with much more consumer participation. There is also more socio-economic pressure and financial anxiety out there, which can catalyze activism and backlash. So, the environment is very different, and we readily get to a point where consumers can really push back.

SHUBA: Why has the situation changed so remarkably? How has it evolved from little risk to highly risk-laden for brands?

PATRICK: I think in terms of socio-economic policy, the "financialization" of western societies truly matters. We have a society today in which vast numbers of consumers experience acute financial anxiety. That is a big problem because it manifests in a lot of disappointment and anger. As a result, we have lash-outs, backlashes and boycotts as reactions to brand messaging, all with obvious business damaging poten-

tial. There are also important emerging trends affecting our concept of a consumer society in general: we are at a point where the legitimacy of western-style consumerism is being debated.

SHUBA: What's the role of social media in this contentious environment?

PATRICK: Social media provides consumers with a consequence-free soap box to criticize and attack brands, marketing programs, or certain stances of CEOs, and it allows for the nurturing and formation of negative brand actions. Boycotts and protests are huge potential risk areas, certainly in North America. With the technological innovations of social media, consumers can speak their minds and raise their concerns in a consequence-free environment. Communication on Facebook, Twitter or other comment boards is very raw and immediate and carries little personal risk. The immediacy of these types of platforms allows consumers to band together against brands or in support of certain issues, such as inclusion or diversity.

SUSAN: So rather than entering Nirvana have we opened Pandora's box? Can you think of an example that illustrates the risk associated with consumers' manifestation of anger via social media?

PATRICK: For example, the National Football League (NFL), the most successful professional sports league in the US: The NFL has allowed player protests during the playing of the US national anthem, and in turn consumers and fans working via social media have been able to organize attendance strikes at big stadiums, and they are boycotting television viewing, burning game tickets and team souvenirs. The viewership for NFL games is down significantly compared to previous years. This can have a direct business impact on the NFL brand, on their programming sales efforts and their revenue generation model.

SUSAN: Do you think that the types of relationships that consumers are forming with brands are more adversarial?

PATRICK: I think some are. In many ways we are in a sort of "interregnum period." Lots of brands, and particularly iconic brands like Coca-Cola, are now under question. Millennials and Generation Z consumers are looking for brands that represent values that the legacy of iconic brands lacks. Whole categories are being questioned. For example, many younger consumers believe that it is inherently unfair that many people are unable to open a bank account or obtain credit. In the US, millions of consumers are what we call "unbanked." So, they are turning to other channels for loans, for cash management or money transfers. They are looking for alternatives that don't include big banks. Institutional structures that were taken for granted are now being questioned to their core.

SUSAN: Could you illustrate this shifting mindset with an example?

PATRICK: Volkswagen's emissions problem. This caused a unique dilemma for consumers. VW purposefully circumvented software that measured harmful emissions in diesel engines. Subsequently, VW advertised that their emissions were better than they actually were. More and more, younger consumers look for alternative choices when brands do not live up to basic values of fairness, transparency and truthfulness. I believe that VW will likely pay a high price for this behavior. Subaru, in comparison to Volkswagen, seems to be doing well among this particular audience with their "safety" positioning.

SUSAN: With higher economic pressure, new value systems and the rise of social media, we see many external factors increasing brand risk. Have there been changes within companies that add to brand risk?

PATRICK: Oh yes. We're seeing an overall diminishment of the marketing function, though I believe this is only now becoming more widely understood. There is a comparative lack of investment in marketing and R&D at big companies like P&G, Unilever and many others, and net income growth is often a manufactured outcome achieved through financial engineering. We have a huge stock buyback culture, which supercharges earnings per share through this financial engineering, and it's very attractive to executive managers and shareholders because it is so predictable. Comparatively, what is not predictable is spending $250 million on a new beauty soap with costs for product development, packaging, fragrance creation, beautiful advertising and setting up distribution in multiple countries on a worldwide scale. ROI calculations on this type of investment are very hard to do with any precision. Financial managers, like most managers, are more comfortable with predictable outcomes.

SUSAN: Do you see other risk-enhancing factors in the way brands are managed?

PATRICK: Yes, with this marketing function diminishment, we have noted a "juniorization" in marketing. Average tenures of accomplished CMOs are down to 2, 3 or at most 4 years. The CMO role has, in many ways, become a seat with a near-impossible mission: make growth happen in a slowing or no-

growth world. Marketing decisions are pushed down the line and lots of imperfect decisions get made down on the front-lines of marketing. This creates executional risk. The marketing function now seems less expert in the classical needs of brand management and focuses much more on transactional administration, digital process management, programmatic ad placements, etc. These are important, of course, but the vital imperatives of strategic brand management or creating longer term growth through the development of brand assets has taken on secondary importance.

SHUBA: Do you have any examples to illustrate the executional risk that arises from juniorization?

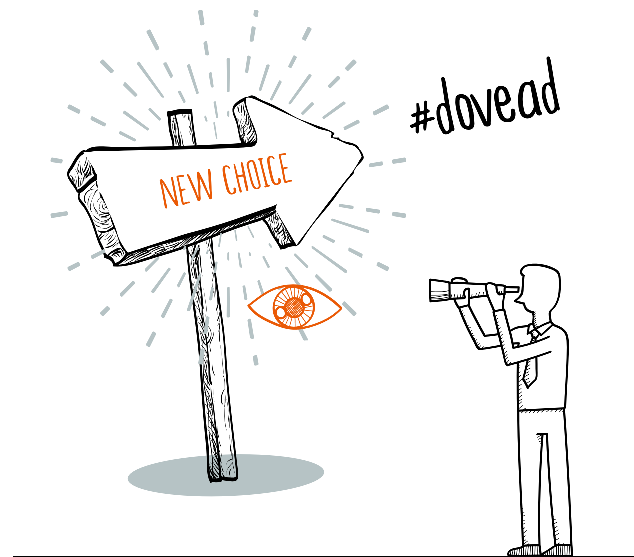
PATRICK: A very recent example is Keurig Green Mountain, Inc., the marketers of Keurig coffee makers. This well-respected brand has a typically broad-reach advertising effort. Their ads appeared on certain programming that a politically-motivated 3rd party objected to, requesting that Keurig pull their ads from that program. After Keurig complied and pulled their advertising, viewers of the targeted programming protested publicly, with some destroying their coffeemakers. Some consumers even filmed these events and posted hundreds of videos on You Tube. Subsequently, Keurig's CEO apologized, explaining that this decision was made outside of the company's policies, and that an internal review of external communication staff and process would be performed. To the interested public, it appeared that lightly-managed non-executive employees were releasing public communications that put Keurig's brand and revenue at significant risk. This type of "execution risk" is the type of thing which can affect many companies.

SHUBA: Keurig didn't foresee the counterreaction that might harm them even more than the initial event?

PATRICK: Yes, exactly, and there was no oversight mechanism to catch the error in time. Or think of Dove's "whitewashing ad" on Facebook that was interpreted as "racist." Mistakes like this are often the result of juniorization and inexperience. In previous eras, any external communication would have been vetted through numerous levels of increasingly senior review. Senior managers would be much more likely and able to recognize that the visual presentation of a soap that washes a person of color into a white, or caucasian, subject would be problematic and likely offensive.

SUSAN: You talked about the NFL, Volkswagen, Keurig and now Dove. All these brands have risked their reputations in one way or another – at least in some consumers' minds. Can we have a closer look at this type of brand risk?

» More and more, younger consumers look for alternative choices when brands do not live up to basic values of fairness, transparency and truthfulness. «



PATRICK: Many of these risks are self-inflicted and often they have to do with attempts to get a brand into an already crowded environment. Often, it is a question of conduct, and I think ethical conduct risk is a key component of reputation risk. VW raised their risk level through their conduct in emission testing.

SUSAN: What do managers need to understand about "conduct risk"?

PATRICK: Conduct risk involves behaviors that violate an organization's value structure. Another example of an organization's failure to properly deal with its own value structure is Wells Fargo. It is one of the oldest banks in the US and has a heritage dating to the 1800s. Internal sales pressure led bank managers to open vast numbers of fraudulent accounts and insurance policies for customers without their approval or prior notice. After the account difficulties went public, Wells

Fargo was fined by the US government and had to testify in front of Congress; the CEO and high-level executives were removed. The resulting brand damage is huge, and not just to Wells Fargo but also to an industry, banking, that tends to be distrusted anyway.

SHUBA: Is conduct risk simply a matter of willful ethical violations?

PATRICK: One of the things that complicates fair and good conduct is that we live, today, in a very bifurcated world that causes huge socio-economic risk. This results in situations where we know we are right for half of the people, but we will probably be wrong for the other half. Income inequality, inclusion, immigration, gender and diversity are hot-button issues and are root causes of many brand risk events. The NFL hasn't yet found a way to support respect for equality and diversity and at the same time please a more conservative fan group that feels outraged when national symbols are "insulted." Such things cause concerns for a lot of companies, such as Keurig, and are the result of operating in a very ideologically-charged time beset with socio-economic divergences.

SHUBA: Related to risk, finance managers would say "diversify." Can we apply the concept of diversification to managing branding risk?

PATRICK: In finance, risk is a tool to adjust return. The risk can be calculated fairly easily and can be reduced through diversification. Developing a new brand requires massive investment in a wide range of activities, and the likelihood of returns is therefore much more difficult to calculate accurately. On that level, you can't diversify risk in the same way. You can for narrow ranges of actions like in digital advertising or for TV ads that directly sell a product, but not on a higher level. It's very hard to diversify "marketing risk."

SUSAN: What can managers do to manage conduct risk in such a charged environment?

PATRICK: Corporate Social Responsibility (CSR) efforts address components of conduct risk in a positive way, and it is partially replacing some marketing communications that would normally be assigned to brands. The Kraft Heinz Company is, for instance, expanding their CSR programs and I think it is a very beneficial concept for them.

SUSAN: So, CSR is a preemptive strategy against conduct risk. Which other risk management strategies could be applied?

PATRICK: At MSA, we focus on socio-economic risk and have developed a measurement methodology and profiling process to create a brand risk score card. We have three different measurement areas for which we develop corporate scores, which we compare to benchmarks. Specifically, we cover corporate demographics, socio-economic issues the brand is exposed to and previous experience with brand risk events at the company itself and in its industry. We evaluate the visibility and threat of risks that rate very highly.

SHUBA: Measuring risk is obviously part of the answer. What do you do next?

PATRICK: In workshops, we create higher-level strategies to preempt or to address risks or to provide alternative marketing approaches that counteract the risks. We include scenario planning for different types of risk exposure. We provide customized real-world examples of the subject's company that show how they can be victimized by activists or boycotted and more. Additionally, we provide threat- and opportunity-monitoring so risks can potentially be identified early. Overall, we deliver actionable market intelligence which reduces brand risk. We believe "readiness" is an important aspect of this; being able to respond to a brand crisis is critically important.

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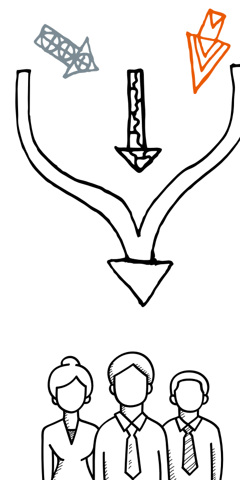

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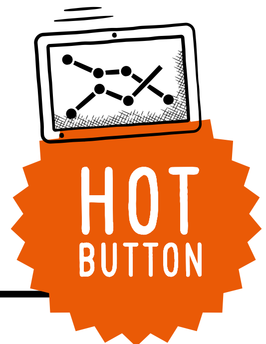

SUSAN: Who is participating in these workshops? Is marketing responsible for managing brand risk?

PATRICK: We work primarily with senior executives. This would include CMOs and senior marketing staffs, of course. But we also seek to include financial executives and CFOs and investor relations senior staff. Sometimes it's difficult to implement a risk concept in a marketing environment alone and the client company can get more traction when there's a broader involved consensus. Financial executives can really help because they are generally familiar with risk management concepts. Also, they are responsible for reporting revenue numbers to boards and therefore want the marketing numbers to be right and balanced.

SUSAN: Why is there this gap? How could we get traction with the marketing audience?

PATRICK: I think it will be increasingly common to include brand risk exposures in SEC disclosures, and this will help. Selectively, some aspects of brand risk, like reputation risk or social media risk, are already included in SEC 10-K reporting, but it is not yet widely common. Marketing has traditionally been focused on revenue growth and very discipline-specific metrics like CPMs, share of voice, click-through rates, CPIs. Maybe it's the different language. But in a slow and no growth environment, senior executives are really seeking ways to better understand risk exposure. CEOs don't want to take unnecessary risks, and this will increase traction for a proactive and extensive risk management approach in marketing departments.

SHUBA: Are marketing people capable; are they trained in performing risk management for their brands?

PATRICK: Most companies lack staff that perform and research brand risk. Generally, we need qualitative acknowledgment that spending millions on the launch, advertising and distribution of a new product entails identifiable risk. At the moment, brand risk management isn't directly covered in MBA marketing programs. I think academic coursework that goes beyond crisis management and addresses how to prevent brand risk damage would enable expert-level discussions on these types of risk.

SUSAN: As final advice, could you briefly outline the steps that companies should take to manage brand risk in a proactive way?

PATRICK: At MSA, we recommend four steps. First, companies need to assess the potential for brand risk in a benchmarking process and find the right metrics to see how their risk profile compares to peer group companies. Second, internal marketing process audits should be performed to identify process gaps and to find solutions; also there can be intensive workshops with different staff from different disciplines within the organization to create a shared understanding of these risks. Scenario planning is the third step and includes creating processes for response readiness for possible risk events. And fourth, we need to establish brand risk monitoring and implement tools like social media listening and media screening so that some early warning signals are available to managements.

SUSAN: Thanks so much, Patrick, for sharing your view on the changes in our society and on how that makes branding riskier and more challenging.

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