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Estimating and managing the economic impact of brand disparagement

Whether it is McDonald's dealing with allegations of bad ingredients or the new owner of the local deli dealing with outdated negative reviews on Yelp, businesses rely on their brands for success and can be damaged by unfounded rumours affecting their reputation

As valuation experts, we have been asked to analyse the impact of negative statements about a business that were classified as either defamation or disparagement. Although the definitions differ, the financial and economic impact can be substantial and tends to have the greatest effect on the value of a company's brand and reputation.

'Defamation' is defined as "the act of making untrue statements about another which damages his/her reputation. If the defamatory statement is printed or broadcast over the media it is libel and, if only oral, it is slander" (www.dictionary.law.com). 'Disparage' is defined as "to speak of or treat slightingly; to bring reproach or discredit upon, lower the estimation of" (www.dictionary.reference.com).

Defamation implies some wilful action against the company and its brand. Disparagement can result from the spread of popular stories and myths, and may or may not be the result of actions taken by the company. Either way, the financial and economic impact can be substantial. Some examples of the impact on financial performance and valuation are provided in the following table.

From the examples above, it is clear that negative statements can result in the loss of millions of sales or profits and substantial declines in market valuation. There are likely many more examples of similar events and their impact on the performance and valuation of well-known companies.

While not immediately evident in a measure of market capitalisation, the impact on small and medium-sized enterprises can be equally damaging. We recently encountered a local entrepreneur who has purchased a chain of local delis. The delis had significant local name recognition and brand recognition was a key asset acquired by the entrepreneur. Within a year of taking control, negative reviews began to appear on several social media sites that aggregate individual reviews of businesses. These reviews included negative comments about the food and service, and were obviously posted by a customer who had only eaten at the deli before the change in ownership. Although the Yelp service was launched in 2004, one Yelp review detailed a bad experience by the customer during the late 1980s. Nonetheless, the aggregate rating of the delis fell and the brand was tarnished. We also encountered a situation where disparaging tweets attacking the personal reputation of a business owner led retailers to stop stocking the company's products, and another situation where rumours spread by a competitor about the safety of a company's product forced it to delay introducing an upgrade by 24 months, with a resulting impact on return on investment.

Few, if any consumers look for businesses in the printed yellow pages. As sites such as Google Local, Yelp and others have become the place to find local service providers, the aggregate ratings on these sites influence the decisions of potential and current customers. If given the choice between three local doctors, dentists or delis, most consumers will choose the business with the best aggregate ranking on these sites. While billions of shareholder capital may not be at stake, the impact of negative statements can have a greater proportional impact on business value and the owner's financial position.

The impact of negative statements is sometimes as simple as choosing which business to call first. The business with the most stars or the fewest negative reviews will often attract a prospective customer's first inquiry. Therefore, the business with more negative reviews loses the opportunity to make a connection with the potential customer and any chance to receive the revenues and profits that potential customers could yield.

Impact of damaged brands

Understanding the value of a brand and the financial impact of a damaged brand can help all business managers to manage the impact of negative statements. The impact of negative statements on value is summarised in Figure 2.

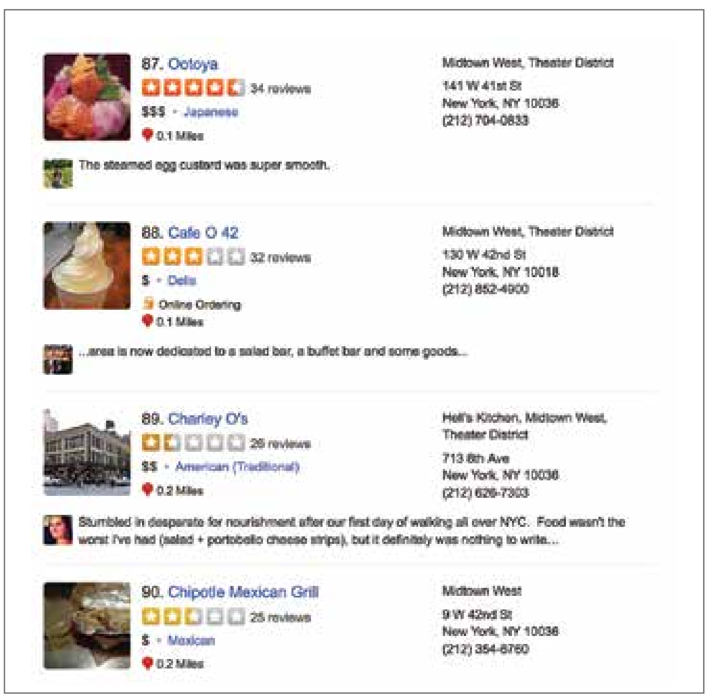
When brands are damaged, the company's other tangible and intangible assets remain intact. Therefore, the loss of customers, revenue and profits can be attributed entirely to the value of the company's brand. Unfortunately for the business owner, brands represent the longest-lasting assets that a company will develop and own. Computers, machinery and tangible assets are utilised and replaced rapidly. Patented technologies, proprietary processes and innovations have useful lives dictated by law and the likelihood that new innovation will render these resources obsolete before their expiration date. Brand assets encompass all of the elements that bring in repeat customers and attract new customers. Thus, brand assets have long useful lives and, when managed properly, will outlast any other physical or innovation asset.

From a business's perspective, the financial impact of a brand

Table 1.

Examples of negative events affecting corporate brands			
Brand	**Event**	**Year**	**Impact**
Paula Deen	Corporate sponsors cut ties following accusations of racist comments by celebrity chef Paula Deen	2013	80% earnings cut
Toyota	Decrease in Toyota stock price as a result of negative perceptions associated with a dangerous product	2010	13% decline in market cap
Fonterra (New Zealand milk)	Sanlu (China) milk poisoning affects the company's majority owner	2008	$139 million writedown
Tyson Foods	Decrease in shares of fast-food restaurants and meat processors as a result of public awareness of a case of mad cow disease found in a cow in Canada	2003	5% share price decline
McDonalds	Decrease in shares of fast-food restaurants and meat processors as a result of public awareness of a case of mad cow disease found in a cow in Canada	2003	7% share price decline
Bridgestone Tires	Decrease in sales as a result of Bridgestone's recall of millions of potentially defective tyres in the United States and elsewhere	2001	US$350 million one-time charge
Ford Motors	Decrease in Ford's stock price as a result of the case of defective Firestone tyres on Ford Exporer sport utility vehicles in 2000	2000	18% share price decline
McDonalds	Decrease in McDonald's sales as a result of negative rumours associated with repugnant ('worm meat') and inferior product quality	2000	25% decrease in sales
Jack in the Box	Decrease in Jack in the Box stock price as a result of the 1993 case of E coli bacteria in the hamburger meat purchased by Jack in the Box, which killed four people and made 500 ill	1993	30% decline in market cap
Tylenol (Johnson & Johnson)	Decrease in Johnson and Johnson stock price as a result of the 1982 Tylenol tampering cases, which led to seven deaths by poisoning	1982	US$2 billion decline in market cap

Figure 1. Sites such Yelp have become the place to find local providers



can be measured by the amount that a consumer would be willing to pay for the product or service using the brand or the additional volume of products demanded by the consumer, over and above the amount paid and volume demanded for identical unbranded products or services. Strong brands yield additional unit demand and a price premium. Strong brands can have this combined impact for a long period.

The basic economics chart set out in Figure 3 shows the different demand curves for damaged versus strong brands. Depending on the business model, one or both of a decline in volume demanded or unit price may occur. In the case of a service-oriented product, the service provider may not lose a measurable number of customers, but can lose the ability to achieve a price premium. Product-oriented businesses likely have less price elasticity, but will experience reduced demand for their product relative to competing or substitute businesses. The reduction in demand results in fewer units sold, lower revenue and therefore reduced profitability and value.

Damages in brand defamation lawsuits are typically measured as lost profits; the difference between 'but-for' cash flows and 'as-is' cash flows. But-for cash flows represent the level of financial performance that the business would have achieved but for the damaging event. In the historical period, as-is cash flows represent the actual financial performance of the business. As-is results in the forecast period represent a reasonable projection of future financial performance considering the company's current performance and a reduction in the impact of the damaging event over time.

A damaged brand often leads to cash flows at the damaged business that follow the red line in Figure 4. Lost profit opportunities tend to extend beyond the analysis date ("Today" in Figure 4), until the damaging event no longer affects customer behaviour. In a lost profits damages calculation, lost cash flows in the forecast period are discounted at an appropriate discount rate to determine the present value of forecast lost profits.

Negative statements may not change customer behaviour for months or years, and changed behaviours may last even longer. In our deli example, customers who saw the negative review and elected to eat at an alternative location may decide to eat repeatedly at their new 'favourite' deli. All of the repeat visits represent an opportunity lost to the deli with the damaged brand. The selection of service providers can affect behaviour and business profitability for an even longer period of time, as customers tend to stick with one

Figure 2. **The impact of negative statements on value**

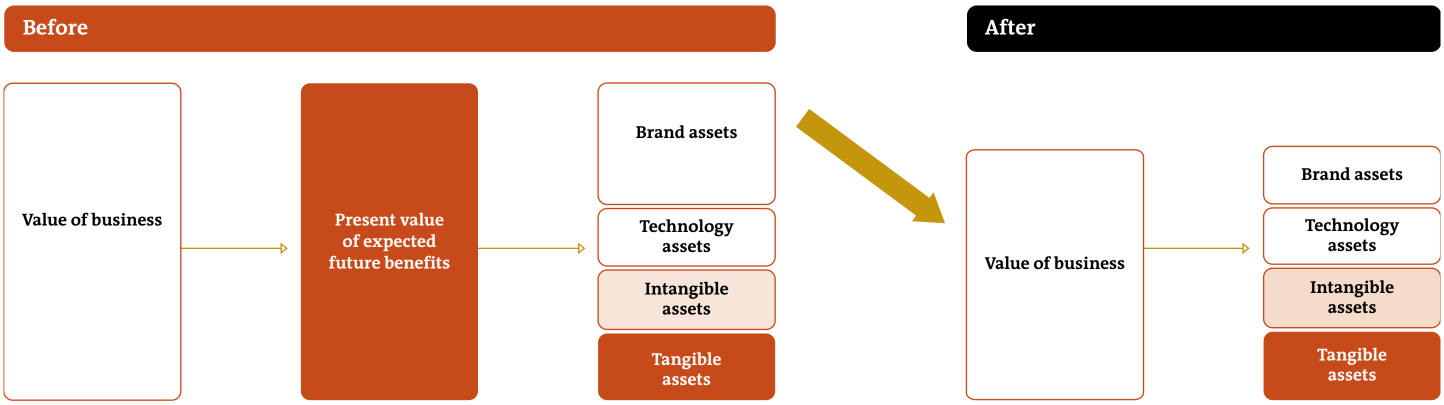
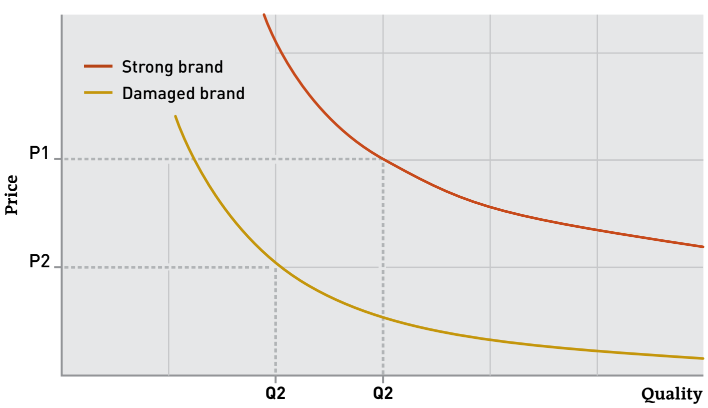


Figure 3. **Demand curves for damaged versus strong brands**



service provider for repeat visits. A positive experience with a doctor, dentist or IT consultant can lead to life-long relationships. The lost opportunity to establish that positive first experience may affect earnings at the non-selected service provider for years.

Tools to monitor and manage brands

Rather than waiting until damages occur, management can monitor what customers are saying about the company's brand, service or products. Active monitoring allows for a real-time understanding of what is being said about a corporate or product-level brand. Up-to-the-minute intelligence can guide managers in making crucial decisions based on what past, present or potential customers are posting, commenting and tweeting. Awareness of disparaging remarks allows for more effective management of consumer behaviour and provides the opportunity to mitigate potential damages.

One tool currently available at no cost is Google Alerts. Google Alerts provides the latest relevant Google results related to your brand, including blog posts, videos, discussions, books and news. This tool requires only periodic visits to google.com/alerts, entering the brand term that one wants to actively monitor. A user can choose the frequency of the search, ranging from real time to once a week, and the number of results. The service sends an email when Google finds new results that include terms that designate your business's brand. The user can utilise Google Alerts to monitor what is being said about a company or its product brands, while also monitoring competitors or topics and industries of interest. Advanced users can choose to have the alerts delivered through RSS feed for convenient streaming results.

Twitter Search is another powerful free tool available to brand owners and managers. With over 58 million tweets per day (www.statisticbrain.com/twitter-statistics), the Twitter-verse is likely to contain comments about any company's products, services and brand. Using Twitter Search is as simple as entering a brand-related search term and toggling between "Results", "People" and "Photos". The user has an option of viewing top-ranked or all results by clicking the option at the top of the results. Once again, this tool can be used to conduct searches related to industry terms, competition and other important topics related to any brand or business.

Figure 4. **Cash flow implications**

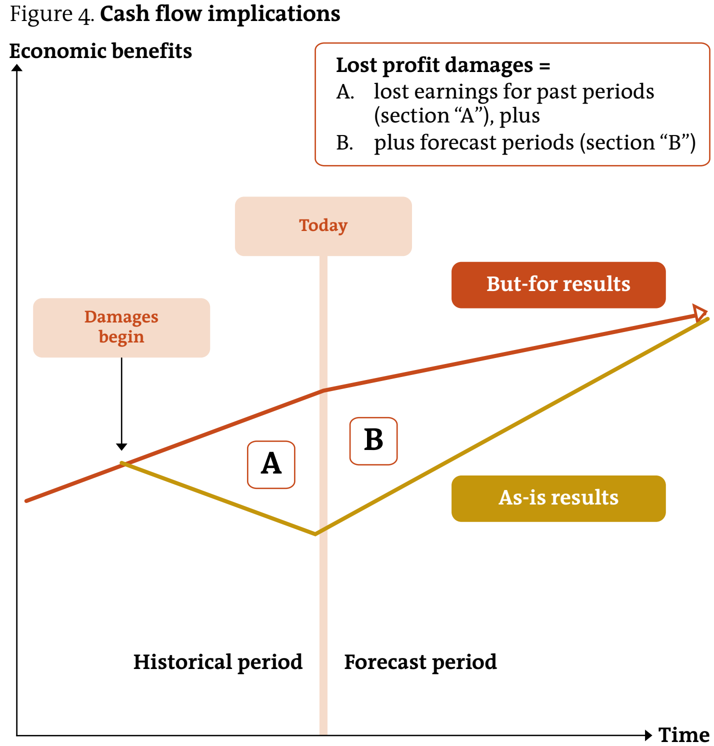


Table 2. **Brand components to analyse**

Brand equity	
History	Brand has signified the same products for a long time.
Consistent use	Brand message has been used consistently over time.
Loyalty	Customers consistently seek out new products associated with the brand.
Relevance	Brand is relevant to today's customers; brand is featured prominently on websites and social media.

Performance	
Sales/growth	Brand is used with a significant and/or growing business.
Premium pricing	Products using the brand command a price premium relative to comparable products.
Profitability	Branded sales yield higher gross profit and/or operating profit margins.
Relevance	Trademark owner is receiving royalties or compensation from licensees.

Market presence	
Awareness	Brand is well known in the marketplace.
Differentiation	Brand is different and unique as against comparable products. Marketing efforts focus on the brand to differentiate the products/services.
Market share	Products using the brand have captured a significant market share or a share greater than peer companies.
Business fit	Brand is used by a business unit that fits strategically with the firm. Branded product is central to the firm's success and brand is used consistently by the entire firm.

Opportunity	
Marketplace	Brand is used in a growing industry.
Transferability	Brand can be used with other products/services.
Umbrella	Brand is used, or could be used, to support sub-brands.
Clear path/ freedom to use	No disputes over trademark. No similar brands, logos or domain names used in the marketplace.

Google Analytics is another powerful tool for measuring social media exposure and the effectiveness of brands. Google Analytics and similar website traffic analysis tools allow management to observe, track and understand trends in the traffic on a company's website. The search terms that drive traffic to a site will change over time, and not all of the traffic arriving at a website will incorporate brand-related terms. If brand-related terms drive a relatively low portion of search traffic to a company's website, the brand may not have as high a level of consumer recognition as management believes.

Using Google Analytics to measure the impact of a company's brand requires establishing a Google Analytics account for the website. Once an account is established, a brand manager can log into the website specific account, collect website traffic data and identify the search terms that drive the most, or least, traffic to the website. Once a visitor arrives at the company's website, Google Analytics allows observation and analysis of which web pages each visitor sees before leaving the company's website. In other words, management can determine which search terms yielded visitors that spent the most amount of time on the company's website and which resulted in visitors who quickly left the site. This is essentially instant and important data with which to quantify performance trends regarding a company's brand.

Also available is data quantifying which social media services or referring sites a website's traffic originated from – in other words, which social media services or linking websites the visitor used to find the company's website. A brand manager can then identify where website traffic is originating and which social media services are yielding traffic to the company website, and adjust social media strategies to create more or better traffic to the company's website.

Beyond internet-based tools, a variety of scoring systems are available to analyse a brand based on a review of its component elements. A company's brand can be reviewed as a composite of brand elements such as reputation, awareness, customer loyalty, market share and various measures of profitability or business valuation. Scoring tools that measure the strength or weakness of each component of a company's brand allow the company to monitor and manage the relative strength of its brand over time and against brands used by peer companies. Low scores in one brand element can indicate the need for a change in marketing strategy, the need to refocus brand-building efforts or an opportunity to revitalise the brand.

We currently use a model with 16 brand components in four categories. The 16 elements are listed in Table 2.

Scoring each of these 16 brand elements facilitates the identification of relative strengths or weaknesses for any brand. A recently established brand that scores high for the element "relevance" may also score low in "consistent use" or "profitability." Analysing a brand based on its component elements can identify gaps in strategy or the success of a focused brand-building campaign. Brands that have been affected by negative statements tend to have lower scores on "loyalty", "transferability", "profitability" and "market share". However, negative statements can affect each and every brand element over time.

Using this brand scoring tool to analyse the same brand at different points in time, an analyst can identify the mechanism by which a brand has been damaged. This allows ownership to develop response strategies designed specifically to mitigate the impact on their brand. If a brand scores relatively low in one component, an effort to improve this component can mitigate the impact from negative social media comments on another component.

Brand scoring tools work effectively in conjunction with internet-based tools to monitor brands over periods of time. The value of brands will change as markets change and consumer perceptions change. While internet-based tools can provide a wealth of data regarding brand usage and consumer activities, brand scoring tools often provide a bigger-picture view of a brand's contribution to overall corporate performance. Knowledge of a brand's past and the elements that contribute to a strong brand will enable brand owners to effectively mitigate the impact of negative statements directed at their brands.

Conclusion

While the actions of competitors and some customers cannot be controlled, maintaining a strong brand is an important component of building business value. As the longest-lasting assets owned by a business, strong brands are a key element of building enduring business value. Disparagement can and does happen to businesses large and small. With a brand management toolkit, businesses can mitigate the impact of inevitable disparagement so that negative statements do not have a lasting impact on valuation. WTR

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