Crisis Management: Is a New Prescription Needed?

Strong brands are built on experience and trust. Product issues that threaten consumer safety put these brand foundations in jeopardy. The way in which Johnson & Johnson responded to the Tylenol poisonings in 1982 is widely held, even today, as a model response to crisis. But is the playbook used by Johnson & Johnson more than a generation ago still adequate for brands facing crisis in the Internet age?

March 2007

In 1982, Johnson & Johnson's Tylenol was the brand leader in the U.S. analgesic category. Then seven people died in suburban Chicago after taking Extra-Strength Tylenol capsules laced with cyanide, and many experts, including ad man Jerry Della Femina, predicted the demise of the brand. Thanks to Johnson & Johnson's deft handling of the situation, Tylenol not only survived, but regained market leadership, providing a textbook example of crisis management. But the world has changed since 1982. If the Tylenol poisonings occurred today, would the principles that guided Johnson & Johnson 25 years ago be sufficient?

What Worked for Tylenol

First things first

The first principle invoked by Johnson & Johnson in 1982 was to make public health and safety their overriding priority. Not knowing if the tamperings occurred before or after the product left the factory, the company recalled all 4.7 million capsules from the affected lot. Tylenol advertising was suspended, and people were urged to refrain from using any Tylenol capsules they had on hand. Within a week, the recall was extended when, to reduce the possibility of copycat crimes, Johnson & Johnson issued a nationwide recall of all Tylenol capsules, withdrawing 31 million bottles at a cost to the company of $100 million.

Get out front

Johnson & Johnson also drew praise for acting quickly, without holding back. When the early news came out that Tylenol might be linked to the deaths in the Chicago area, they did not try to deny the connection, but instead pledged to work with law enforcement on the investigation. In the earliest stages of the crisis, they had no real facts to share, but made company spokespeople available to the media. As the nature of the problem became clear, they put the product recalls into effect, and pledged that Tylenol capsules would stay off the market until procedures could be put in place to make the packaging more resistant to tampering.

Contrast this with the response of Snow Brand in Japan in 2000, when nearly 15,000 people suffered food poisoning after consuming dairy products made by the company. Rather than facing up to the problem, which was traced to bacteria on the production line in one factory, Snow Brand initially downplayed the incident and limited the extent of its product recall. When the company eventually had to admit that it had underestimated the scale of the contamination, it faced negative publicity and threats of criminal charges that led to the temporary closure of 21 production plants.

NIGEL HOLLIS
Chief Global Analyst
Millward Brown
nigel.hollis@us.millwardbrown.com
www.millwardbrown.com

Communication is key

The Japanese tradition of relying on non-confrontational face-saving responses surely contributed to the reticence of Snow Brand in the face of their contamination crisis. Johnson & Johnson, on the other hand, operated in an environment with well-developed public relations channels, and management made the decision to use those channels to share their story. Not only were company spokespeople available to the news media, but the company wrote letters to physicians and set up a toll-free hotline for consumers. The honest and forthright manner in which the company responded to the situation is thought to have protected the brand from further damage and paved the way for its recovery.

There is no toll-free road out of a crisis. The choice companies face is between paying sooner and paying later.

Snow Brand, on the other hand, was not forthcoming with any communication of action they were taking to safeguard public health. Thus consumers had no reason to believe that the company could be trusted to remedy the situation. The result was a left-right blow to the company. According to the Associated Press, the fallout from the initial contamination cost over $900 million, but that was only the beginning. When market share dropped by one-third (from 45 percent to around 30 percent), the reduction in future income forced the company to close plants and lay off workers.

But Is It a Different World Now?

Clearly the course of action followed by the maker of Tylenol led to a good outcome for the brand, while the route taken by Snow Brand led that brand into an ever-deepening crisis. The three principles that guided Johnson & Johnson were:

- Put the public's welfare first.
- Act quickly and decisively.
- Communicate with openness and sensitivity.

But the world has changed—not just since 1982, but even since 2000. When crisis looms today, companies must deal with additional complications: 24-hour news networks, consumer-generated media, and a reduced level of public trust in corporations. In addition, in today's business environment, management must maintain a relentless focus on shareholder value. Thus it would take a courageous CEO to call for a recall on the scale of Tylenol's. Not only were all capsules recalled nationwide, but Johnson & Johnson offered to replace any Tylenol product discarded during the crisis, with no proof of purchase required. This step cost Johnson & Johnson dearly in the short term, but, as demonstrated by the Snow Brand debacle, there is no toll-free road out of a crisis. The choice companies face is between paying sooner and paying later.

Why are companies slow to respond?

Companies may be slow to respond to a crisis for a number of reasons. Senior management may simply be unaware of a problem (Japanese workers are not the only ones who are reluctant to deliver bad news to their bosses), or they may not distinguish quickly enough between a routine product issue and one that may lead to disaster. But when companies refrain from comment even after the reality of a negative situation is clear, it is likely to be due to the ever-growing threat of litigation. In their 2006 Litigation Trends Survey Findings, Fulbright and Jaworski LLP report that 89 percent of the companies surveyed had at least one suit brought against them in 2006 (up from 75 percent in 2005).

Even companies that do all the right things in the face of a crisis end up facing legal action. In 1996, when contaminated apple juice bottled by the Odwalla company killed one young child and sickened dozens of others, the company

recalled the product, expressed its regret, promised to cover all medical costs, and subsequently restructured its entire production process. While these actions probably saved the company, Odwalla still faced a number of personal-injury lawsuits that reportedly cost the company tens of millions of dollars.

Human nature has not changed. In a time of crisis, when people are uncertain and fearful, they will seek information and reassurance.

When the crisis struck, Odwalla was a company both well known and well liked, with a reputation for being progressive and socially responsible. This reputation, along with the speed and transparency of Odwalla's actions, helped to reduce the threat of litigation, enabling the company to survive and prosper. If the company had not acted as it did, with openness and honesty, future equity-driven sales would have been significantly reduced. Management teams faced with a crisis must weigh the short-term cost of action against the long-term cost of inaction, both in terms of future sales and shareholder value.

Communication Is More Complex

Human nature has not changed. In a time of crisis, when people are uncertain and fearful, they will seek information and reassurance. But today people use new and different tools to find news and connect with others. If a company's senior management is not familiar with the new communicative power of the Internet and consumer-generated media, they may underestimate the speed with which bad news can spread.

The recent recall of Dell batteries is a case in point. Last summer, a press release issued by Dell announced the recall of 4.1 million lithium-ion batteries that were at risk of catching fire. A wave of publicity ensued in both traditional and social media. The traditional media tended to view the recall in a positive light, but many of the comments in blogs and other online forums were negative.

What is ironic is that stories of exploding laptops had been circulating in the press and online since 2003. Dell was just one of the brands affected, and the batteries in question were actually manufactured by Sony. But when Dell, the biggest computer manufacturer in the world, announced the largest consumer electronics recall ever, it drew the spotlight squarely onto itself. Sony, by contrast, remained on the sidelines until Apple announced its own recall later in the year.

Dell did the right thing by initiating the recall before someone got hurt. But many Dell owners and potential customers heard about the battery recall indirectly, through sensational stories shared by friends, colleagues and online acquaintances. Dell should have better managed the distribution of the story through the social media to ensure that their message was heard firsthand.

Three Key Questions

Companies thinking about crisis management need to consider three important questions as part of their planning.

What is at stake if a crisis happens?

For many consumer packaged goods, the majority of sales result from the appeal of the brand name, rather than qualities inherent in the product or the company's business processes. For example, Millward Brown Optimor calculates that between 65 and 80 percent of sales in the bottled beer category derive from the emotional connections beer drinkers have with their brands. With this in mind, what might a crisis cost your company in terms of sales and shareholder value? The higher the reliance on branding to drive sales, the more quickly a company needs to act to defend its asset.

Is our crisis radar working properly?

A crisis management plan can be effective only if it is put into action at the right time. This timing will depend on the quality of a company's monitoring and escalation procedures. Monitoring systems (which should include listening to online chat) need to highlight emerging threats as quickly as possible. Escalation procedures should ensure that senior management is informed immediately. Company personnel must have the motivation and incentive to follow these procedures.

How can we deal with new forms of communication and social media?

The emergence of e-mail, mobile phones and social media has facilitated the dissemination of news in an uncontrolled fashion, opening up the potential for innuendo, bias and misreporting. Companies faced with a crisis still need to communicate quickly, but they may also need to prepare the ground to win over the citizen journalists.

Identify and engage influential members of the blogging community ahead of time, just as you would with the traditional media. Then, when crisis occurs, enlist them to help spread the word, not by providing them with a prepared text, but by offering them access to all relevant information. Their independent and considered communication will be worth just as much as that of the traditional media when it comes to allaying consumer fears and frustrations.

Conclusion

Product issues that threaten public safety can catapult a company into the spotlight in a matter of hours. If in a time of intense scrutiny, the public perceives that a company is not behaving honestly and responsibly, the potential downside is enormous. A brand that has formed deep and abiding relationships with its users will be better positioned to weather a storm than one that enjoys little consumer loyalty. If consumers perceive that the brand (and the company that owns it) is caring, honest, and genuine, they are likely to be open to hearing from that company when trouble strikes.

It is noteworthy that neither Johnson & Johnson nor Odwalla had a crisis plan. Instead, executives from both companies looked to their mission statements to guide their actions. As Odwalla's CEO Stephen Williamsons explained, "We had no crisis management procedure in place, so I followed our vision statement and our core values of honesty, integrity, and sustainability. Our number-one concern was for the safety and well-being of people who drink our juices."

The rules of handling a potential crisis have not changed. If anything, the three basic principles of response have become even more important. While the threat of legal action and short-term costs may make many company boards think twice about addressing an evolving crisis until they have the full story, their delay may jeopardize the future income stream from their brands. Offering help and support, making amends for inconvenience, and providing something of value to retain the goodwill of customers will go a long way to assuaging public discontent. Hold back and your company may suffer even more than settlement costs.

To find out more about crisis management, see www.mb-blog.com.

MillwardBrown
the research power behind great brands