



Brand Rehab: How Companies Can Restore a Tarnished Image

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Following a corporate scandal, managers who acknowledge they have problems and launch communication programs to repair their tarnished reputations stand the best chance of rehabilitating a tainted brand or corporate image, according to Wharton faculty and branding consultants.

Martha Stewart, accounting firm KPMG, insurance broker Marsh & McLennan, and Merck, manufacturer of the troubled painkiller Vioxx, are among the most recent examples of companies that face the challenge of restoring damaged reputations.

Depending on the nature of the scandal, says Wharton marketing professor [Barbara Kahn](#), companies can take a slow and steady approach to brand repair, or a swift "silver bullet" solution. McDonald's, she says, could take the slow road in addressing charges that its fast food contributes to the nation's rising obesity. "What you would do is associate McDonald's with more nutritious offerings and slowly move the image in a believable way."



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For example, the company might begin by focusing ads on its use of high-quality beef, then continue by promoting its salads. "Each leap you are making extends the brand's meaning, but it is small enough that the consumer is willing to make the jump. This takes a long time," says Kahn, adding that the fast food giant went too fast when it introduced its McLean sandwich in 1991. "It didn't work. It wasn't credible. You have to do it in a slow, reasonable way that doesn't test the consumer's belief system."

Marsh & McLennan is taking a quick, clean-sweep approach to restoring its corporate image after running afoul of New York's attorney general Elliot Spitzer. In January, the firm agreed to pay \$850 million to settle charges that it took kickbacks to recommend insurance providers to clients. Meanwhile, the company has tapped former prosecutor Michael Cherkasky, head of its Kroll investigative firm, as chief executive. Cherkasky is now restructuring the company to de-emphasize its insurance business and boost other divisions, such as Mercer Consulting and Kroll. After bringing "in a person with 'the right image,' the message is, 'Now we have new management. We are a new company,'" says Bruce T. Blythe, chief executive of Crisis Management International in Atlanta and author of *Blindsided: A Manager's Guide to Catastrophic Incidents in the Workplace*.

Staying 'Under the Radar'

Kahn points to Johnson & Johnson's rapid response to its Tylenol tampering incidents as the gold standard in addressing a corporate problem openly without taking on blame. "J&J came out and said it cared about its customers. That's what you do. You don't want to be defending yourself. You want to put forth the values that are critical to your company," says Kahn, adding that the situation differs from Merck's current problem with Vioxx because J&J was reacting to a problem that was created externally. If Merck says too much about allegations that it withheld critical information, it could damage its position in pending lawsuits.

As a result, Kahn says Merck might choose not to address Vioxx in the mass media, but instead communicate with doctors who are an intermediate channel in marketing prescription drugs. She notes

that Wyeth focused on marketing hormone replacement treatments through doctors after questions were raised about the safety of such therapies. "The good news about brands is that people know who you are. The bad news is that if something goes wrong, everyone knows."

She points to the flap over a minor calculation error made by a Pentium chip in 1994 which drew more attention than it would have if the manufacturer, Intel, had not been so successful in branding its chips. To avoid problems down the road, she says, some hedge funds and financial service firms prefer to remain little known in the mass media. "They want to stay under the radar."

Wharton management professor [Katherine Klein](#) suggests that in the process of designing a rehabilitation strategy, corporate executives should first consider the nature and severity of the offense. When people think about a corporate crisis or scandal they are likely to ask two questions, she says. The first is: What is the nature of the scandal? More specifically, who was hurt and how badly? The second question is: Who is at fault and why did they do it?

"If the public's response to the first question is that few people got hurt, they weren't hurt badly, and the people who were hurt had a lot of resources, then the potential damage to the brand is relatively small," says Klein. Martha Stewart, who is openly addressing her past with television ads about how she learned to make crême brule in a prison microwave, represents an example of a brand that may not suffer greatly following its founder's prison sentence for insider trading, Klein suggests.

Turning to the second question, if only one or a few people were at fault, the potential damage to the brand is limited and can be addressed by getting rid of the person or people who are to blame, says Klein. "KPMG looks as if it might fall into this category." Eight former KPMG partners and a lawyer have been charged with helping wealthy clients avoid at least \$2.5 billion in taxes, and more indictments are expected. However, last month a federal judge approved a \$456 million settlement that allowed the firm itself to escape indictment.

On the other hand, if numerous people are at fault in a corporate scandal because the company does not hire or train people well or operates with excessive greed, then that indicates a more systemic problem that cannot be addressed with a few strategic firings, says Klein. "The worst damage to a brand occurs when the public concludes that many defenseless people have been, or could have been, harmed and believes that many people in the organization are at fault because they, and the company as a whole, are incompetent or immoral."

According to Wharton marketing professor [Josh Eliashberg](#), Merck may be facing this situation with Vioxx, the arthritis drug which has been linked to heart attacks. "Essentially Merck instructed its sales force not to disclose all the information they had about the efficacy and the safety of Vioxx," Eliashberg says, suggesting that Merck should begin the process of restoring its brand by settling outstanding lawsuits with people who took the drug.

The company's situation is complicated because it must communicate with two key audiences: doctors who actually prescribe medicines, and patients who often demand treatments they see advertised. Furthermore, Merck's problems with Vioxx could extend beyond a single brand to damage the image of the entire company, Eliashberg says. "The perception of a drug company starts with the perception of a particular drug.... The company now has the problem of being perceived by consumers and physicians as irresponsible, which may have a carryover effect from Vioxx to the other drugs it sells. Merck needs to think seriously about how to demonstrate social responsibility."

Letting the Dust Settle

Bernd Schmitt, executive director of Columbia University's Center on Global Brand Leadership, says a crisis can become an opportunity for a brand. "After the scandal, the brand will be noticed by the

customer and other constituents, like the media; that could make things much easier," he suggests. "It's a huge opportunity for the company to concentrate on the brand right away while it is still the focus of attention and can get a lot of awareness." Subsequent advertising and other communications with consumers should then delete associations with the scandal and insert new images and ideas about the brand.

If the company handles the initial crisis poorly, resulting in weeks or months of negative headlines, it might want to sit back for a time before returning to the public eye, adds Schmitt. "You would want to let the dust settle. Depending on the company, it might be a month or a year. Then you would start the re-branding process."

According to Schmitt, when a scandal affects an entire corporation, not just a product brand, the company should set up communications that focus on its core values, such as innovation or leadership, rather than hawking products. If, however, the scandal is related to a single brand, managers need to fix the problem. If they can't, they should consider killing off the troubled brand. "If it is a brand extension or a new brand, most likely you have a broad portfolio and can promote another brand. You then gradually phase out the brand with the problem."

If scandal hits a major brand, such as Perrier, the restoration process would require immediate and intense crisis management and an elaborate re-branding, which requires attention to strategy and intricate details, Schmitt notes, adding that top corporate executives with a sense of the company's overall goals and strategies should be involved in post-scandal re-branding. "Branding is normally something the marketing guys do, but unless the company has prepared and set up cross-functional teams to deal with a situation like this, it is going to get out of hand."

Lou Rubin, managing director of DPrime Consulting, a unit of Omnicom Group, the marketing communications firm, says successful brand rehabilitation begins with openness and honesty. "The first issue is, you can't hide. You must acknowledge the problem. People want to forgive, and contrition is an accepted part of our culture. Lying is not."

Acknowledging the problem is not only critical for later acceptance by outsiders, but is key to the morale of employees who ultimately form the company's connections to the public. Rubin suggests that it is important for top management to consider the "mom factor" - how an employee feels when his or her mother reads about the company where the employee works.

He, like Schmitt, suggests that after a scandal, companies should focus on communicating their core values. He points to Tyco, where current chief executive Edward Breen mounted an aggressive communications program to improve the company's image after its former chief executive, Dennis Kozlowski, and former chief financial officer, Mark Swartz, were convicted this summer of stealing millions of dollars from the firm. "He let people know that Tyco is a vital part of their world, that Tyco makes everything that makes the world go around," says Rubin. As a result, Breen was able to unify the company's far-flung business units, helping them heal. "He spent a significant amount of money to get that point across."

Flogged by Blogs

Another company Rubin says has effectively weathered scandal is Boeing. In the past year the company's chief financial officer was sentenced to prison for recruiting a Pentagon official responsible for billions in Air Force contracts, and its chief executive was dismissed after having an affair with another Boeing executive. "The company has never stopped telling people what it does, which is invent the most incredible flying machines in the world," says Rubin. Companies that are already communicating a solid message when scandal hits should not retreat, Rubin adds. "Stay the course. Don't pull back. If you pull back, that says, 'We didn't believe what we said before.'"

With myriad choices of how to communicate, Rubin says traditional media, such as newspaper and television, are the best places to come clean after scandal. "The traditional media tend to be broader than what you might normally use, but that's a way to make sure you are acknowledging the issue as opposed to appealing to special interests," he says. "You don't want to be perceived as communicating only to special interests."

The rise of the Internet poses new problems for post-scandal communications, adds Blythe. "Blogging can kill you. Before, when we had a problem, it was addressed in the public media. Now the Internet is many times faster, more unforgiving and out of control." Increasingly, Blythe's firm is helping companies monitor statements about them on the Internet and generate their own blogs.

The most important new development in scandal management, however, is the passage of the Sarbanes-Oxley Act, which holds executives personally liable for accounting irregularities and is likely to prevent scandals before they happen, Blythe notes. "There is no excuse now for unethical behavior. The consequences are grave. Senior managers are looking at this with deep concern and making sure that they are doing the right thing."

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