

HOW DO COMPANIES REACT TO AND MANAGE CRISES?

by Leena Palekar

One of the objectives of “marketing effort” is to ensure that responses to customer wants and needs are courteous so that customers are truly surprised and pleased by the experience. Today, the goal of companies is to please, dazzle, or delight customers by providing goods and services that meet their requirements.

Most organizations try hard to attain the goal of dazzling customers. But many companies also irritate customers as often as they please them. However, a competitive business environment is relentlessly forcing companies to adapt their organizations to customer needs.

In the following analysis, I have identified five multi-national companies to show how they adapt quickly to customer needs and deal with negative publicity. The companies are Mattel, PepsiCo, The Coca-Cola Company, JetBlue and Johnson & Johnson.

EARRING MAGIC KEN:

In 1993, Mattel introduced Earring Magic Ken, a model of the Ken doll as a companion to its Earring Magic Barbie figure, one of six dolls in the Earring Magic Barbie line. This new version of Ken had an updated look, including blonde highlights in its traditionally brown hair, outfits including purple shirt, lavender vest, a necklace with a circular charm and, as the name indicates, an earring in its left ear (*Digi, 2009*).

The sole reason for an organisation to exist is to serve the customer. Consumer surveys are impressive tools that provide customers a voice for change or modification. That is what Mattel did in 1993 when it surveyed girls on whether Ken should be retained as Barbie’s boyfriend or whether a new doll should be introduced in that role. The results of a ‘cooler’ look resulted in a redesigned Ken. However, the purple clothes, the earring and the necklace was compared to a stereotype gay man by observers.

Gay men bought the doll in record numbers, making Earring Magic Ken the best-selling Ken model in Mattel’s history. Despite the commercial success of the doll, public criticism led Mattel to discontinue Earring Magic Ken and recalled the doll from stores (*Digi, 2009*).

When customers rate their satisfaction with an element of the company, say, retaining or introducing a new doll in Mattel’s case, the company needs to recognize that customers (girls) vary in how they define, in this case, a new doll. It could mean by era (antique dolls, modern dolls), by theme (celebrity dolls), by colour, accessories used and so on. Yet, if the company had to spell out every element in detail, customers, in this case -- girls -- would face a huge questionnaire.

Given the importance of customer value and satisfaction on one hand, and the importance of market research on the other to stay ahead of competitors, the

Magic Ken example shows how things can go wrong. But the lesson to learn here is that by recalling the doll from its stores, despite its commercial success, Mattel wanted to stem the tide of public criticism quickly.

GATORADE:

According to *The Wall Street Journal*, Gatorade's sales have been on the decline since 2007 largely due to an over-saturated "enhanced-drink" market and a fading trend in sports drinks. Its redesign -- part of PepsiCo U.S. Chief Executive Officer Massimo d'Amore's US\$1.2 billion effort to overhaul the company's biggest brands - - was an attempt to contemporize and modernize the brand in order to regain its lost market share and attract non-sports oriented consumers (<http://www.womansday.com/Articles/Food>).

The aim of the redesign was to simplify the bottle, so PepsiCo put the letter 'G' to replace the brand. But, the market did not react positively to the new bottle appearance as was evident in the decrease in Gatorade's sales volume of 13.7% in the first quarter of 2010, as well as its market share decrease of 6.3%. The main reason was attributed to people not being able to recognize the letter 'G' and mistaking it with a store brand.

For Gatorade's marketing team, G represents athleticism. From Gatorade's point of view, mere brand awareness was considered to be enough to replace its name with the letter 'G'. But, they found that their target markets did not share the same brand identity and therefore did not result in an increase in sales.

In 2009, PepsiCo rebranded its Tropicana orange juice brand. However, consumers did not like the new concept and sales volume slipped 1% resulting in PepsiCo scrapping the redesign and reverting back to its old packaging. Instead of abandoning the new design, as PepsiCo did with Tropicana, the company pushed the new Gatorade look that ultimately resulted in poor sales performance.

Today, consumers are presented with a wide array of Gatorade drinks: Prime 01, Perform 02, Recover 03, each designed for drinking before, during or after an athletic event. The options will increase once Gatorade rolls out yet another G variety called the "G Series Pro," targeting college and pro-athletes, which will be available at specialty stores later in 2010 (<http://www.comcast.net/finance>).

However, one can identify an opportunity for PepsiCo here where the strategy is to focus on serving a specific market segment called "target marketing." Their target market is "athletes" and PepsiCo has used Porter's "Differentiation" strategy as their tactic.

Companies selecting target markets must ask themselves, "Who are my best prospects - people most likely to buy our goods and services and continue to buy them regularly?" Companies who use target marketing however, should know that it is hard to sell to "anyone." There are specific people who have a specific need, which the company can fulfil - making it easy for the company to sell to the target market. Marketing managers have to ascertain which variables people value. By carefully dividing an already established market into smaller, more

homogeneous segments and by determining benefits preferred by those segments, a company can achieve marketing success quickly. This is exactly what PepsiCo is doing with its new G Series for the “athletes” target market.

As Sarah Robb O'Hagan, chief marketing officer for Gatorade says, "Who better than Gatorade, the inventor of the sports drink, to rethink and advance the category with meaningful innovation? For too long, this category has relied on flavour extensions and it's time to reset the clock in terms of functionality, and that's what we're doing in 2010."

"As a first step, we are innovating our product line-up to meet a greater range of needs for more athletes," O'Hagan said (*Helm, 2009*).

During consumer testing of the new G series, athletes immediately recognized the G on the label. From this it was evident that this consistent look across all G series products differentiated Gatorade from other sports drink brands, thus demonstrating commitment to serious athletes.

A large company like PepsiCo cannot afford to take a shotgun approach to marketing and be all things to all people, as with its rebranding of Gatorade as G. A helter-skelter method of marketing can quickly drain a company's limited resources, as what happened with G's sales. By rethinking and acting fast, PepsiCo turned around its faltering G series by extending the product line to athletes.

However, it remains to be seen whether the “athletes” target market will be a sizeable, sustainable and profitable one for PepsiCo in 2010 and beyond.

JETBLUE:

In February 2007, on Valentine's Day, an ice storm in New York led to nearly 1,000 JetBlue flight cancellations over five days, resulting in thousands of stranded flyers, caused by poor management decisions. The worst complaints were from disgruntled customers stranded in planes that were kept on the runway for up to 11 hours with overflowing toilets and without food. Complaints also emerged from swamped customer lines and an apparent lack of a qualified system to reschedule thousands of flight crews during a major weather event (*Vinjamuri, 2007*).

The negative publicity about JetBlue spread like wild fire across the Internet and news media; something had to be done to prevent further damage.

After being in the spotlight for crisis management and consumer responsiveness for almost a week, the following strategies were put in place by JetBlue's CEO David Neeleman (*Stribling, VP, 2007*).

1. Listen to our customers, admit our mistakes and show sincere remorse: Neeleman immediately wrote an apology letter to JetBlue's customers, showing his intent for taking responsibility for JetBlue's mistakes.

2. Commit to making significant changes to improve customer service:

Neeleman described specific corrective steps to address operational issues and committed to implementing them. He then went a step further by publishing the JetBlue's Customer Bill of Rights, a first in the airline industry, which describes how operational issues like flight cancellations and delays will be handled and the rights JetBlue customers have in such cases.

3. Back up promises with real results:

Knowing that results are more important than mere talk, Neeleman made the decision to replace the Chief Operating Officer, as a result of the incident. By responding quickly, Neeleman's actions restored confidence within all stakeholders.

Marketing is an on-going process. At times businesses face crisis, which create problems, as crises are usually unexpected. In JetBlue's case, its "image" was affected as a result of the incident. Consumers lost faith in JetBlue and changed their opinions about the company, which was reflected in the immediate backlash against JetBlue.

Losing profitable customers can dramatically impact a firm's profits. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy. The key to retaining customers is "relationship marketing" (Kotler, 1998). A business must therefore act quickly and effectively when faced with an "image" problem. The business should attempt to alleviate any public concern for its products. The JetBlue situation illustrates the fundamental truth that customers want to know -- that a company cares for them, listens to their feedback, and takes action to address issues.

NEW COKE:

On April 23, 1985, the Coca-Cola Company tried to change the formula for its most popular soft drink, marking the first formula change in 99 years. The company's intention was to reenergize its Coca-Cola brand and the cola category in its largest market, the United States (www.thecoca-colacompany.com). This change, however, was not readily accepted by consumers.

The taste change prompted consumers to hoard the original Coke. In addition, they held any employee of The Coca-Cola Company personally responsible for the change. Some people were depressed by the thought of losing their favourite soft drink.

Protest groups -- such as the Society for the Preservation of the Real Thing and Old Cola Drinkers of America (which claimed to have recruited 100,000 people in a drive to bring back the "old" Coke) -- popped up around the country. Songs were written to honour the old taste. Protesters at a Coca-Cola event in downtown Atlanta in May 1985 carried signs, "We want the real thing" and "Our children will never know refreshment" (www.thecoca-colacompany.com)

In July 1985, less than only three months of the change, the company announced that it would revert back to the original formula Coca-Cola, thus ending a 79-day saga. This decision is viewed as a testament to the power of taking intelligent risks.

The company's decision to revert back to the original formula made headline news in all major newspapers and media across the country and changed the dynamics of the soft-drink industry forever (www.thecoca-colacompany.com)

Sam Craig, professor of marketing and international business at the Stern School of Business at New York University, pointed to what he and other industry observers have long considered a fatal mistake on Coca-Cola's part. "They didn't ask the critical question of Coke users: Do you *want* a new Coke? By failing to ask that critical question, they had to backpedal very quickly" (Ross, 2005).

A strong point can be made for listening to customer suggestions for new-product ideas. The secret to success in today's rapidly changing environment is to roll out new products quickly. But companies have to exercise caution. Unless a business continues to research consumer reactions to a given product, it may lose sales because it has failed to anticipate a change in the tastes of consumers. Ironically, money spent on market research may prevent a product failing and consequently save the business large sums of money in the long run. Coca Cola should have undertaken extensive market research by asking consumers to record their reaction to a new cola. When the reaction was positive, the new cola could have been launched nationally.

Thus, without market research, what may appear to be a great idea on paper can fail due to insufficient attention to consumer needs. As a consequence, the idea can fail in the marketplace.

THE TYLENOL INCIDENT:

'In 1982, Johnson & Johnson had an unfortunate set back. Extra Strength Tylenol was linked to seven deaths in Chicago. The company had 79,000 employees worldwide and every pharmacy and chemist shop in America was an outlet for the sale of this product. With more than 31 million bottles of Extra Strength Tylenol capsules on the market shelves on any given day, it would have been impossible for Johnson & Johnson to have a contingency disaster plan to deal with an incident of such catastrophic nature. However, by contacting distributors, medical professionals and the public by employing various communication techniques, the company had all the bottles withdrawn from shelves as a preventive measure to ensure that no further deaths occurred'.

'In addition, it sent half a million telegrams to doctors and hospitals advising them to stop recommending Extra Strength Tylenol capsules to patients. The actions immediately portrayed that the company was concerned with the welfare of the people and not just profits, which in turn confirmed that the company was acting responsibly and in a trustworthy manner'.

'To reach the general public, the company established a special public relations team that held daily press conferences to appraise the public of new

developments in the case and answer any concerns. To deal with concerns and morale of employees, the company contacted all 79,000 employees worldwide, as well as those who had already retired, and explained the tragic event. Within six weeks after the crisis, it was able to reintroduce the product in its advertising campaign and re-induct the product. Within six weeks of reintroduction, a sales force of 2,250 people made over one million presentations to doctors and other medical professionals. The extensive communication exercise cost the company over US\$100 million. But the communication strategy was effective in maintaining the company's image to such a degree that it was able to recapture over 95 per cent of the previous market for the product' (*Chandan, 1997*).

In Johnson & Johnson's case, public safety was embodied as the main concern by the Management from the beginning. This is particularly important given the fact that Johnson & Johnson's main mission with Tylenol is to enhance the public's wellbeing or health. The then Chairman of J & J, James Burke's savvy, yet honest, handling of the Tylenol tampering incident earned him a spot in the National Business Hall of Fame, an honour awarded in 1990.

Since the Johnson and Johnson crisis of 1982, two things were expected from a company in crisis. "The company must do well solving the actual problem." -- in this case, removing the 31 million bottles of Tylenol from the market shelves. And, "The company must create a positive perception of how the problem is handled." A company in crisis can use the media as an effective tool to communicate. Consumers feel let down if the company does not take responsibility for its mistakes. J&J not only apologized for the incident but also accepted responsibility. Many saw J & J's approach as sincere and adequate and earned a "thumbs-up" from the public (*Reeder et al. 1992*). J & J's handling of the Tylenol crisis has become the gold standard of crisis management (*Schumpeter, 2010*).

On the other continuum, we have examples of Toyota and BP whose acceptance of responsibility came late in admitting serious mistakes.

Of profound impact is the propaganda around Tony Hayward, the former CEO of BP, sailing around the Isle of Wight and his comment "I would like my life back" – just six weeks after the oil rig explosion (*Bracchi, cited in The Courier Mail, August 4th 2010, p. 21*). Also exacerbating this is U.S. President Barack Obama's almost a month late acceptance of responsibility to plug the hole in the BP oil spill in the Gulf of Mexico. In the words of Colin Powell, "I think the federal government has to move in quickly and move in with decisive force. When both the private sector and local authorities found that things were beyond their capacity, the federal government should have stepped in immediately." (*The Economist, June 5th 2010, p. 41*).

Similarly, Toyota's delayed response to manufacturing defects leading to massive car recalls was sluggish. Toyota Chief Executive Officer Toyoda did not make a public appearance immediately, instead sent American CEO Jim Lentz to make apologies. In the United States, Toyota redrafted a new charter after nearly a month (<http://hbswk.hbs.edu>). According to Brisbane consulting firm Engaged Marketing, Toyota which has been Australia's top-selling car company has rated third in a consumer recommendation survey conducted recently. In the words of

Mr. Chris Roberts, Engaged Company Director, "Our research shows that for every one negative comment made about a particular car, it takes around five positive referrals to negate that damage." (*Hinchliffe, cited in The Courier Mail, August 3rd, 2010, p. 21*).

Any crisis has to be quickly acted upon and contingency plans have to be implemented immediately as there are too many stakeholders who are affected by such crises.

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