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WHEN BRANDS FAIL

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Good branding can help companies, but it can inflict serious damage when things go wrong

What do Colgate, Nike, and Apple's iPod have in common beyond being global consumer brands? Answer: They all had product recalls due to defects.

"Colgate had a toothpaste contamination problem, and they had to withdraw the product and then re-launch it in the marketplace," recalls **Srinivas Reddy**, Professor of Marketing at the Lee Kong Chian School of Business at SMU. "One of Nike's shoes had a metallic clasp in one of their (Jordan Trunner) shoes which popped out and cut people. First generation iPod nanos had a problem with their batteries – they overheated and leaked."

Speaking at the *SMU-Brand Finance Asia-Pacific Forum 2013*, Reddy explained that these instances of brand failure may have hurt sales and company image, but they are relatively minor – the products were recalled, fixed, and re-launched with little lasting negative impact. Some brands, however, never recover from their crises.

"Perrier had benzene contamination at source," Reddy recounts. "They had to withdraw the product for almost a year, and competitors rushed to fill the vacuum during the year. They had a dominant position in the naturally-aerated water product segment which they never recovered."

PRESSURE TO PERFORM

Perrier's problems, however, were atypical because they were not the direct consequence of choices made by the company i.e. it is a naturally occurring product, not a mechanically or electronically manufactured one.

"Much of the problems that I see in terms of brand failure come from firms doing a tradeoff between three things," Reddy explains. "One: time to market - you want to get to the market fast. Two: You want to get the right product to the market - you cannot throw into the marketplace a product that is not perfect. Three: The development cost – you have to be on budget."

To understand the pressure to deliver products on time and on budget, consider this: Sony's stock price sank 3.6 percent on the day it announced that the PlayStation 3 would not make the market on time; the stock price of EADS, Airbus' parent company, dropped 26 percent overnight in 2006 when it announced that the A380 will be delayed, while Boeing's stock gained 6.5 percent.

BAD MEDICINE

Such pressure is especially acute for the pharmaceutical industry, where each day of delay in introducing a new drug costs an estimated $1 million. On top of that, the products must be perfect because serious injury or death could result otherwise. When that happens, it is what Reddy calls a “catastrophic brand failure”, where there is a “fatal outcome from usage of the product, and which consequences are non-correctable”.

Reddy cites the example of the arthritis drug, Vioxx, produced by American pharmaceutical company Merck. “At that time, for millions and millions of arthritis sufferers, there was nothing that was available which was also safe. The drugs that are usually available are Aspirin and other drugs that are not strong enough. And if they are strong enough, they cause other side effects, so there was never a way to treat it properly. So when Vioxx came out, people claimed it as a miracle drug because, for the first time, arthritis sufferers had a way to get over the pain.”

The results of Vioxx consumption are now fairly well known: young and otherwise healthy arthritis patients died of heart attacks. In 2007 Merck paid $4.85 billion in a class action lawsuit, but Reddy estimates that total damage could have been $37 billion after taking into account lost profits and loss of market equity.

That $37 billion includes $2 billion in lost profits due to spillover effects on other drugs produced by Vioxx. That damage to Merck’s goodwill could perhaps have been even greater if the corporate brand had been more closely associated with the product brand. One needs only to look at the packaging of drugs by the big pharmaceutical companies – Johnson & Johnson; Pfizer; Roche; GlaxoSmithKline – to notice one thing: the name of the drug is always more visible than the corporate brand.

“If you look at pharmaceutical corporate brands, they never attach their corporate brands too closely with the product brands,” Reddy says. “What they have done is try to protect the corporate name because they don’t want to have the effect that Baycol had on the rest of Bayer’s brands.”

LESSONS FROM THE BAYCOL DEBACLE

Baycol was a cholesterol-lowering drug created by Germany’s Bayer. It was withdrawn in 2001 after causing over 50 deaths from kidney and other organ failures. Five of nine major brands of Bayer drugs showed a significant drop in sales, and sales dropped from €6.1 billion in 2000 to €4.1 billion in 2005. “Bayer was attached too closely to Baycol just by the name,” Reddy explains.

The biggest beneficiary from Baycol’s demise was Lipitor, produced by Pfizer. As of 2008, it had worldwide sales of $12.4 billion, where the benchmark of success for a new drug is $1 billion. Pfizer is also the producer of the erectile dysfunction drug, Viagra.

“It’s not the biggest drug, but it’s the most talked-about one because of what it does,” says Reddy, who worked with Pfizer as a consultant. “It was tempting for Pfizer to take advantage of that and say, ‘We are a great pharmaceutical company doing innovative things.’ Instead, there was a lot of caution among senior Pfizer executives, who said, ‘We don’t want to place the company on the shoulders of Viagra.’.”

“It so happens that soon after Viagra was launched, some old people died after taking Viagra. They didn’t die because of Viagra, but because of what they were doing after taking Viagra,” quipped Reddy in his presentation to the audience, drawing chuckles. “Pfizer management was very cautious about the spillover effects of even successful brands rubbing off on the parent brand. They say, ‘I can survive if Viagra goes away, but I might not survive a major hit on the Pfizer brand.’.”

What are the lessons to be learnt from product failures, big and small? “Companies need to strike a balance among the competing needs – time to market; getting the product right; being on budget – to manage a brand effectively,” Reddy told *Perspectives@SMU*. “And even if you get it right, in industries with the possibility of catastrophic failures, avoid putting all your eggs (i.e. the entire company) in one basket (brand), even if that basket is very good.”