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Using advertising and price to mitigate losses in a product-harm crisis

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Abstract Product-harm crises are common in today's marketplace and are expected to occur with escalating frequency as products become increasingly complex, product-safety legislation evolves, and always-demanding customers continue to press for more. A product-harm crisis may cause major revenue losses, lead to costly recalls, and destroy carefully nurtured brand equity. Moreover, the crisis may not only be devastating for the affected brand, but also influence the entire category when other brands are perceived as guilty by association. Despite these enormous stakes, marketing managers are often unprepared to react appropriately to product-harm crises. Managers frequently increase advertising support or decrease price in the wake of a product-harm crisis in an attempt to regain lost consumers. Competitors in the same category may also boost advertising expenditures or lower their prices to benefit from the misfortune of the affected brand(s). This article provides insights regarding the effectiveness of these strategies in the wake of a product-harm crisis. The extant literature has shown that the effectiveness of these strategies depends largely on the role of the brand in the crisis—affected or not—and the characteristics of the crisis.

1. A product-harm crisis can seriously damage your brand

After being levied with the largest-ever penalty assessed an automaker, Toyota recently announced a new, worldwide recall involving 6.4 million vehicles (Web, 2014). Only a few years ago, several Chinese baby-formula brands were forced to recall many of their products due to melamine contamination, which caused severe kidney problems in over 300,000 victims and left six children dead (Chen, 2009). Meanwhile, Mattel spent $29 million recalling items in its Barbie, Cars, and Fisher-Price brand lines after they were found to contain poisonous lead paint (Palmeri, 2007). These few examples underline the pressing issue of *product-harm crises*, defined as well-publicized events whereby products are found to be defective or even dangerous (Dawar & Pillutla, 2000). Because of growing product complexity and heightened pressure from manufacturers, policy makers, and consumers, product-harm crises have become prevalent in today's marketplace—and tend to increase every year (Cleeren, van Heerde, & Dekimpe, 2013).

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Product-harm crises are among a brand manager's worst nightmares, as they can cause a lot of harm to the involved brand. Apart from enormous costs linked directly to the product recall operation and revenue loss from unavailability of the recalled products, a product-harm crisis can also have important long-term consequences; for example, negative publicity surrounding major product recalls may tarnish the carefully nurtured brand image. People may also feel forced to switch brands during the out-of-stock period, which can permanently affect their preference and result in a long-term brand sales effect.

Other brands in the same category may also be impacted by the product-harm crisis. Even if these brands do not face the same problem underlying the product recall, consumers may still perceive the brands as guilty by association (Roehm & Tybout, 2006). This occurs when the inadequacy of the production process is perceived as an industry-wide issue, rather than as an isolated event that is limited to the affected brand (De Alessi & Staaf, 1994).

Despite the prevalence of the phenomenon and the huge risks involved, marketing managers are often clueless regarding how to most effectively use their marketing weapons in the wake of a product-harm crisis. With respect to advertising, managers might try to keep the affected brand out of the spotlight as much as possible, and cut advertising budget spending as a result. Conversely, advertising may be considered by some as the ultimate weapon to counter negative publicity surrounding the brand and to restore brand image in the wake of the crisis. Cleeren et al. (2013) investigated changes in advertising spending across 60 product-harm cases throughout the UK and the Netherlands. In contrast to the researchers' expectations, the majority of these brand managers (45) chose not to rely on increased advertising spending to restore the brand position.

Managers of brands not directly affected by the crisis but in the same product category also struggle with the decision of whether or not to focus on advertising spending. Because of the guilt-by-association misperception, the crisis can damage non-affected brands. In addition, the crisis might seem like a perfect opportunity to profit from a competitor's misfortune; as such, non-affected competitors often launch extra advertising campaigns in the wake of a product-harm crisis. For example, Sanitarium ran extra newspaper and radio ads telling consumers that its peanut butter was not contaminated with salmonella, unlike its biggest competitors Kraft and Eta (van Heerde, Helsen, & Dekimpe, 2007). The question remains, though, whether such advertising pays off for companies or if the expenditures fail to garner extra revenue.

Price is another potentially powerful weapon in mitigating the negative effects of a product-harm crisis. A price decrease might convince consumers to try the affected brand again once it is back on store shelves. This trial purchase is an important hurdle that must be overcome in order to regain a consumer's trust after a product-harm crisis (Cleeren, Dekimpe, & Helsen, 2008). Rather than a decrease, some companies may opt instead for a price increase, striving to avoid revenue losses. Research shows that managers with a revenue focus often increase price when demand is unexpectedly low to keep revenue at a decent level (Marn, Roegner, & Zawada, 2003). Cleeren et al. (2013) revealed that both strategies are common in the marketplace: of 60 affected companies they studied, 17 firms decreased price by at least 5%, though 18 followed the opposite strategy of increasing price. Also, for non-affected companies, the price weapon might be an interesting tool to capture lost consumers from the harmed brand.

Marketing managers involved in a product-harm crisis, either directly or indirectly through a competitor, are thus faced with a difficult choice between different advertising and pricing strategies. Only fairly recently, researchers have used scanner data to measure the effectiveness of advertising spending and price changes in the aftermath of a product-harm crisis. The aim of this article is to share these research results, which may serve as a guide for managers who must make marketing decisions in a crisis context.

2. The effectiveness of advertising and price in a product-harm crisis

Seminal work regarding the effectiveness of advertising spending and price changes in the aftermath of a product-harm crisis was conducted on the basis of one particularly severe case. In June 1996, Kraft Foods Australia was faced with the worst crisis in its 70-year history when its peanut butter brands were linked to more than 100 cases of salmonella poisoning (van Heerde, Helsen, & Dekimpe, 2007). On June 25th of that year, Kraft was told by its suppliers that contaminated peanuts had made their way into the supply chain; as a result, Kraft decided to recall all sizes and forms of Eta and Kraft, its top peanut butter brands. More than 100,000 angry consumers contacted the company, and the media attacked Kraft for allegedly responding too slowly to the crisis. This led to a huge lawsuit involving 540 individuals. Kraft's main Australian competitor, Sanitarium, ran television, newspaper, and radio ads to inform consumers that its peanut butter was not contaminated. Distribution for both Kraft and Eta was down until