Catalyst for Brand Risk Management

A systematic and conceptual framework

for effective brand risk management

Acknowledgements

I would like to start off, as most people do, by thanking God for the ability he has given me. Followed by my family who have always supported me in all my decisions – right or wrong.

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As Vinny Jones said at the end of ‘Lock, Stock and Two Smoking Barrels’ – ‘Guys, its been emotional’

Thanks

Executive Summary

Over recent years there has been a clear shift from a production based to a knowledge-based economy, and in this economy, branding is key.

With competition growing fiercer, consumer loyalty falling and communication becoming ever quicker, it seems the need for a competitive edge is paramount.

With statistics showing most companies now acknowledge the brand to be their most important asset, you would think efforts would be made to protect it. However, the reality is very different.

The focus of this project is to provide an understanding of the key barriers to effective brand risk management and how to overcome them.

A framework has also been developed in order to aid effective brand risk management within organisations.

Abstract

The main aim of this study was to obtain an understanding of the key barriers to effective brand risk management. The results of with were used to develop a framework to aid organisations identify and assess brand risk.

Aims, objectives and key questions

Aim

To develop a tool in order to aid industries identify and assess brand risk effectively.

Objectives

1 To understand how brand / risk assessment is currently conducted.

2 To research tools and views by experts within the brand risk field.

3 To develop the protection section of the Cube system framework into an effective tool which can be used within industry.

Key questions

What are the current limitations of brand risk analysis?

How can brand risk be effectively managed by a consumer-focused organisation?

Literature review

The literature review focused on developing an understanding of the key areas within brand risk, notably, brand management, risk management and brand risk. The research conduct for the literature review outlined a number of key issues.

Research methodology

The initial findings were researched further and the views and opinions of experts were sought. The main avenues of research were, interviews, case studies, a risk forum and a survey conducted on brand risk management.

Findings

The findings were tabulated and bubble diagrams were developed in order to highlight the main issues, methods and to identify similar and conflicting views.

Discussion | Section one - Current issues within brand risk management

The main areas found to be limiting brand risk management were: lack of cross sector communication, reluctance to develop financial measurements and a strong blame culture.

Discussion | Section two - The brand risk management process

The second discussion was based on gaining an understanding of how brand risk management is currently conducted. This was formulated using views and opinions obtained and also case studies on three different methods. Two were based on brand risk management and one was on risk management

Development

The findings of the second discussion were used to develop a tool for managing brand risk. The main areas within this framework were: Identify, assess, analyse and implement.

Recommendations & conclusion

An overview of the main problems was provided first. This was then followed by recommendations made for each sector involved in limiting brand risk management.

Table of contents

Introduction

'An international survey of senior executives (conducted jointly by Marsh and Templeton College, Oxford in 2000) found that 85 percent of companies consider brands to be their most important asset. From these results, you would think that effective **brand risk management** would move up the list of senior management 'concerns.' (David Abrahams, 2002 - 1)

However, the reality is very different. Today, there is a lot of information on the importance of developing a strong brand. This is not only preached by designers and brand managers, but also at board room level, with the value of intangible assets being included on the balance sheet.

Although, there is a greater understanding of the value of branding, both as a communication and cultural tool, companies seem to be very reluctant to develop an understanding of the risks their brand may face. If the brand is seen as the most important asset of a company, surely the need to protect your prized asset is essential.

Approach

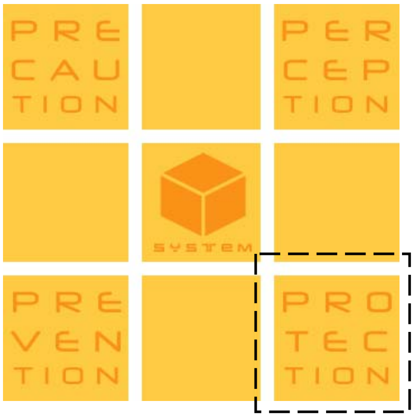

FIG.1 Cube system of brand management - outlined area is the focus of this study

This project is a continuation of design research 1 and 2. DR1 looked to identify the traps which companies could fall into in relation to having a successful brand.

This was then provided the basis for DR2. Although companies can tackle a trap once they experience it, there are ways of preparing for them in order to limit the risk. This project looks at the cause and effects of brand risk. The findings of DR2 helped develop an initial solution called the Cube system of brand management. This is the basis of this dissertation.

The dissertation looks at developing a tool for effective brand risk management. There were four areas identified in DR2 (Cube system). These four areas were found to be necessary for effective brand management. Within this study we shall look to develop the area of protection. In order to do this;

Firstly, there is a need to **understand** the area of brand risk and the importance of conducting brand risk assessment.

Secondly, it is critical to **identify** the areas which need to be addressed and best practices currently being offered.

To conclude a **solution** will be developed in the form of a tool, which companies can refer to for effective brand risk management. This will encompass all areas of effective brand management.

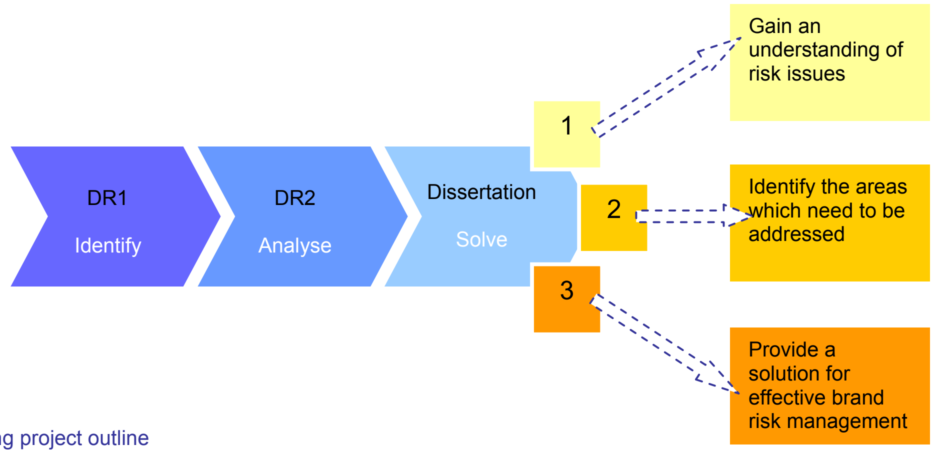

FIG 2 Diagram showing project outline

Aims and Objectives

Aim

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1 To understand how brand / risk assessment is currently conducted.
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Project Focus

The project will focus on developing solutions for consumer-focused organisations as opposed to B2B's. This is not to say the solutions developed within this project will not be useful to B2B's, but more importantly, that the research conducted and solutions sought will be focused on consumer organisations.

This document has been conducted as a research project on behalf of Designhouse*. The aim of this project is to develop a tool, which can be used by Designhouse to advise and conduct analysis on behalf of its client's. A workshop will be undertaken with the beneficiary in order to further develop the findings of this study.

* For further information on Designhouse see DR2, or alternatively you can visit www.designhouse.co.uk

Choice of topic

The decision to study the area of brand risk was initially taken from findings in Design Research two. From this study, it was clear to see that although companies were gaining a better understanding of the importance of branding to the bottom line, they were failing to understand the foundations of it, for example, the different areas within branding, how to measure it and how to protect it, to name a few.

Work has already been conducted on the first two points by a variety of different organisations. However, the latter point is still underdeveloped. Work is currently being conducted in this area, it is however still limited to brand strategy organisations, such as Brand Finance and more recently accounting and business management companies such as Accenture. These companies act as external consultants that advise their clients. The clients, themselves, fail to understand the fundamentals of branding valuation and protection. Hence, the development of the Cube system highlights the different areas an organisation must consider to effectively manage all aspects of its brand.

This study focuses on the area of 'Protection'. The need to study this topic was further highlighted by a report on the Ethical Corporations website, which stated

> 'In a recent report to investors, Deutsche Bank warned of the potential impact of Greenpeace's StopEsso "PR war" against ExxonMobil. The report concludes that, "while the company insists it has suffered no fiscal impact from the boycott, being handed a reputation as environmental enemy number one for such a big customer-facing business has to be considered a brand risk"
>
> (www.ethicalcorp.com - 2)

As can be see none of the companies mentioned in this report including the website publishers are in the creative sector. There is mention made of the impact on brand risk, particularly to potential investors. This highlights the point that brand value is a consideration for the financial markets.

Literature Review

Chapter 1

> Many once-formidable brands have lost their clout and distinction through poor management. They no longer provide unique emotional and functional benefits for the consumer. The products and services are now commodities, distinguished only by price. The brand name survives, but its value erodes. Profit margins, market share and loyalty decline. Ultimately, the power of the brand dissolves, presenting a huge corporate loss.
>
> Duane E Knapp, 1999

1.1 Introduction

In the past, companies competed on production-based factors. But as competition grew fiercer and global barriers diminished, western companies could no longer compete on these factors. This brought about a greater reliance on intangible assets such as service and branding.

Today, if walk into a supermarket you will probably come across about ten different varieties of cola. Most likely you thought of one when you read the word 'cola' – Coca Cola. Why? Is it due to the taste? Well, according to PepsiCo, no. In a blind taste test, they claim that 60% of the participants preferred Pepsi as opposed to Coca Cola.

The strength is in its intangible asset – the brand. 'According to Fortune magazine, if Coke lost everything except for 'the formula' and its brand name, it could walk into any bank in the world and get a $100billion loan to start the company from scratch without many questions' (Davis, 2002 - 3)

There has been a clear shift from a production led to a knowledge-based economy, and in this economy branding is a major competitive asset. 'An international survey of senior executives (conducted jointly by Marsh and Templeton College, Oxford in 2000) found that 85 percent of companies consider brands to be their most important asset. From these results, you would think that effective brand risk management would move up the list of senior management' concerns. But very few companies have active programs in place to protect their brands' (Abrahams, 2002 - 4).

This seems surprising considering the importance attributed to branding. If we are to believe that the brand is the most valuable asset a company has, then surely it is an asset which requires protecting. So what needs to be done in order to make companies more brand risk aware? Well this is the focus of this study.

First though, a broad understanding of the key areas involved in branding and risk management are necessary. This is the focus of the literature review. The diagram below outlines the areas considered and the approach taken for this chapter.

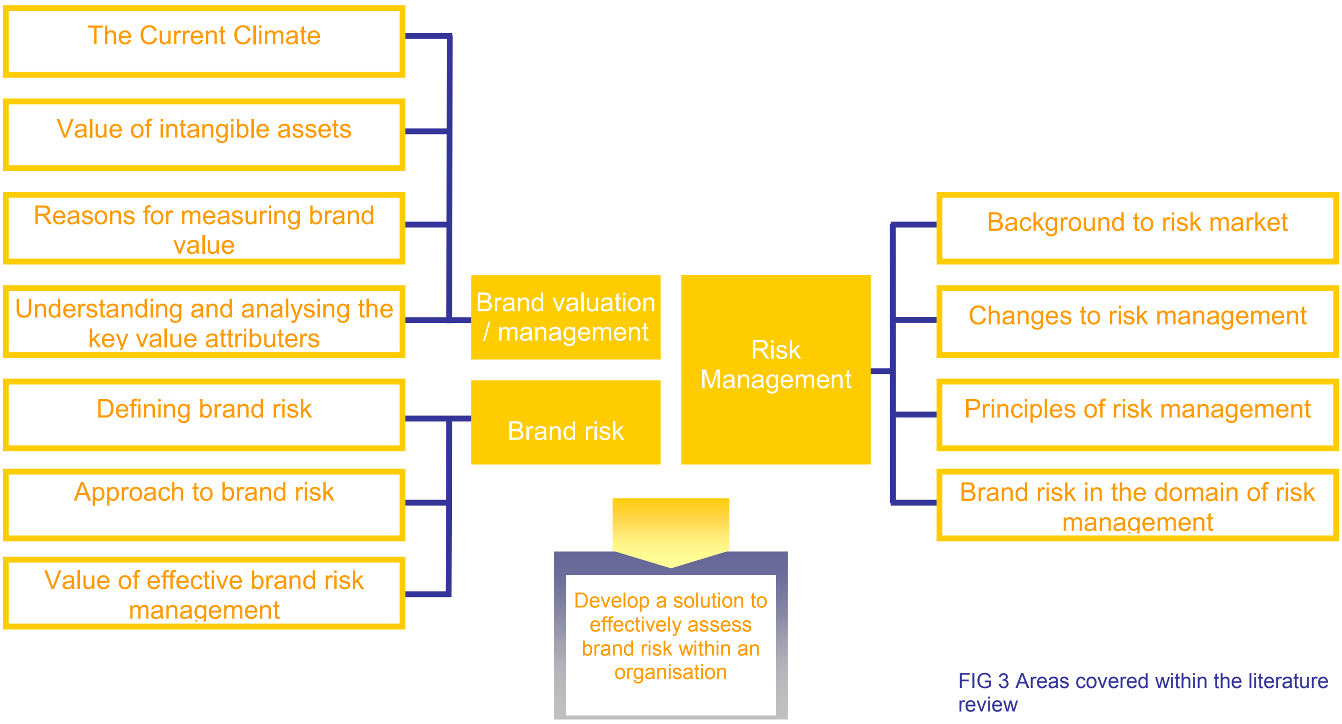


FIG 3 Areas covered within the literature review

1.2 Brand Management

1.2.1 The Current Climate

In the past companies could rely on better technology, efficient methods of delivery, and cheaper price, to provide a competitive advantage - this is no longer the case. “With the effects of globalisation, competitors – wherever they are located – can now all acquire about the same technologies and management techniques at a reasonable cost”.

(Vincent Grimaldi, Nov 01 - 5)

It seems fair to say there is a clear shift towards intangible assets, such as better service and branding in order to stay competitive. However, the need to manage and understand your brand is critical. In the best case it can provide you with a strong competitive advantage - think Evian – its just water. In the worst case scenario it can cripple a multi-billion dollar company – think Enron, WorldCom and Arthur Anderson.

According to York University’s School of Business, recent research has clearly shown that businesses with strong brand equities charge up to 9% more than their competition and are three times as profitable. The understanding and management of brand identity are central to building strong brands and creating brand equity.

The aim of this study is not to look at how to build a brand, but to assess how to implement effective brand risk management. Only a brief look at brand value in reference to brand risk is analysed. To give a comparison, only after you calculate the value of a painting can you assess the actions you need to take to protect it and the effects it would have on the exhibition if it was effected.

1.2.2 Value of intangible assets

A brand is like a friendship. It is the relationship a company has with the consumer, and it is fundamentally based on trust. Now if a friend was to behave in a way that offended you or if they were to lie to you, would you still trust them? Similarly a company which fails to deliver or treat a consumer badly will effectively lose their trust and with it, their purchase.

Another way in which a brand is very similar is in terms of assessing its value. How can you put a value on friendship? This is also the case for brands. Thankfully, work has been done on methods of assessing brands, most notably by Interbrand, Young & Rubican and David Aaker. Each year Interbrand conducts a study on the most valuable brands in the world. By using measures such as brand equity, awareness, loyalty and share, they have found brands such as Coca Cola, Apple and IBM to be worth billions.

Is it possible for an intangible asset such as a brand, to actually be worth this much? Well, according to Tim Heberden, managing director at Brand Finance, yes. He believes ‘It is the brand's impact on consumer behaviour that tends to be the key area of value generation. Strong brands shift the supply curve upwards. They enable premium prices to be charged and higher volumes to be achieved. Enhanced consumer loyalty secures future earnings streams. During the last decade it has also become more common to stretch brands into new categories, thereby generating new earnings streams. The potential benefits of a strong brand are manifold.’ (Risk Management Bulletin, 2002 - 6)

Many companies now accept the idea that a brand has value, however difficult that value maybe to measure…

Furthermore, they have come to see the benefits of a successful brand, “including stronger loyalty, a price premium for products and services, the ability to attract and retain good people and a higher stock price relative to rivals”.

Now, if it is true that brands have value then it is also true that brands can lose value. It is ironic that although it is difficult to measure the success of the brand when the company is doing well, when a brand weakens, “the ramifications for the underlying business will be all to easy to gauge in lost market cap, profits, revenue and future sales”.

However, this knowledge has failed to gain interest from executives into the need to guard the brand against risk.

(lippincott-margulies.com - 7)

1.2.3 Reasons for measuring brand value

There are a variety of reasons why a company should measure the value of its brand, the main reasons being

1. In order to judge how much room for improvement there is
2. To assess the effects of actions the company is currently taking (e.g. advertising, new product, etc)
3. To assess the potential risk they could face and how much effect they could have on the company
4. To inform your strategy going forth
5. To assess its value as a company asset

With respect to this study, point three has most relevance. The importance of brand as a driver of shareholder value is growing. The risks are growing proportionately (see appendix). “Understanding your brand and the nature of brand risk is the first step towards protecting your brand from possible failure – and towards improving its value performance in the future” (www.marsh.com.au - 8)

The challenge according to David Aaker is “to develop credible and sensitive measures of brand strength that supplement financial measures with brand asset measures” (David Aaker, 1996 - 9)

1.2.4 Understanding and analysing the key value attributers

According to Laurie Young, a marketing partner at PricewaterhouseCoopers UK, ‘the term ‘brand equity’ has entered common parlance, exactly what it takes to build and maintain strong equity is not always recognised’. There are a number of reasons which may suggest why this is occurring. This could range from a company’s reluctance to invest in brand building, to a company’s lack of understanding as to what the brand is. (Market Leader,2003 – 10)

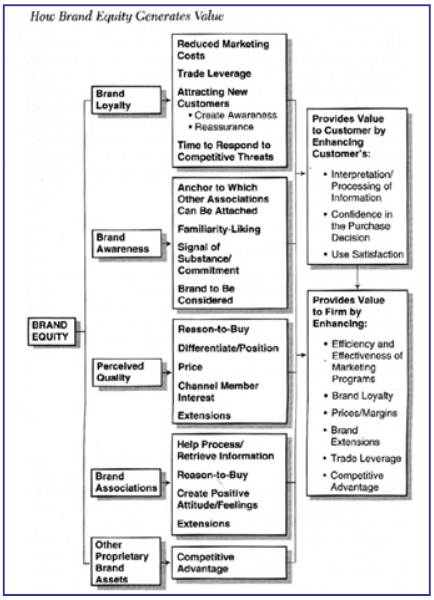


FIG 4 Diagram of David Aaker’s Brand Equity model

There are two questions which every company should ask themselves – why and how? – ‘How’ should they conduct the investigation into the value of the brand, and, ‘Why’ should they attempt to understand their brand?

So how should a company measure its brand? Well, most analysts believe it is necessary to conduct a brand audit. There are a variety of measures which can be used to assess the value of a brand. We can see this from the model developed by David Aaker. He has identified five measures of brand equity, and seventeen ways in which these can generate value to the organisation. Considering this is not the main focus of this study, only a brief introduction into this topic is provided in figure 4. For further details on this topic, it is recommended the reader obtain work conducted by Rachel Cooper (author, The Design Agenda), Tim Heberden (Director, Brand Finance) and David Aaker (author, Building Strong Brands and consultant, Prophet).

Areas to consider for a brand audit

The purpose of a brand audit is to identify and evaluate the existing practices and procedures that are used to develop, support and track brand performance.

The audit should cover:

- Procedures governing the determination of brand strategy; the use and remuneration of external agencies
- Levels of marketing accountability
- Methods used for budget determination and allocation
- Availability and use of market research.

Four factors contribute to the erosion of brand value in many companies:

- The role of the brand in the business model is not understood
- Advertising budgets are regarded as discretionary
- Brand stewardship is not entrusted to senior management
- Brand performance is not systematically monitored

In the likely event of a brand or a portfolio of brands representing a material value, that value should be understood and tracked over time. Additionally, an understanding needs to be developed of the factors that impact on the strength and value of the brand. This provides a better understanding of the nature and scale of risks to brand performance and brand earnings.

Tim Heberden, July 2002

Secondly, why should companies attempt to understand the value of their brand? Although this has been covered throughout this literature review, perhaps some statistical data would help quantify this issue.

The first point which needs to be made, is that 'In 1975, more than 50 per cent of the value of Fortune 500 companies was attributed to tangible assets. By 1995, this had halved. The financial world now recognizes intellectual property and a company's brand as major revenue generating assets for many companies.' (Lisa Tait, 2000 - 11)

FIG 5 Diagram showing market capitalisations of FTSE 350 companies

The value as a percentage of intangible assets has probably gone up even further, especially since 1998 when Financial Reporting Standard 10 was introduced to allow companies to add the value of intangible assets onto the balance sheet.

This point is further strengthened by a study conducted by Brand Finance, which 'revealed that at the year-end December 1998 only 28 percent of the Financial Times Stock Exchange (FTSE) 350s market capitalization was explained by their net balance sheet assets. Intangible assets are largely responsible for the remaining 72 percent of value. In most cases, brands are the most significant intangible asset.'

(Heberden, 2002 - 12)

If this is the case' then an understanding of intangible assets such as the brand is vital as it could make up to 75% of the company's asset.

We can also see that the risk of not understanding and measuring a brand can have direct effects on a companies' market value. Finding from a study conducted by Mercer Management found that "in a study of Fortune 1000 companies that lost at least 25% of their market capitalisation in four weeks or less, during the mid to late 1990's, 58% of those declines were from strategic error's and many were brand related' (Lippincott-Margulies.com - 13)

It is also important to notice that the companies in question lost a huge amount of market share (25%) within a relatively short time frame (4 weeks).

Brand equity can also have a direct impact on shareholder value. In a study conducted by Interbrand, they found that heavily branded companies outperformed the market by 15%. 'This higher price premium proves that brand investment provides a measurable and valuable results' (Interbrand, May 2003 - 13). Interbrand also outlined ten business catalysts in the current business climate, and the role branding can play in these.

The Business Catalysts	The Brand Response
1. New Offering, New Promise	Brand Strategy
2. Strong, Nimble Competition	Differentiation
3. Sophisticated, Savvy and Demanding Customers	Unique Customer Experience
4. Price and Margin Pressures	Differential Value
5. Sales and Market Share Pressures	Clear Relevance
6. Combinations and Divestitures	Repositioning
7. Organic Growth	New Market Entry, Product/Line Extensions, Co-Branding
8. New Revenue Streams	Licensing
9. Share Price Performance	Brand Investor Communications
10. Employee Attraction, Retention and Productivity	Internal Brand Alignment

FIG 6 Interbrand's Business catalysts and Brand response table

Many multinational already know the value of branding. Companies such as Phillips, Apple, Honda and Sony not only use the brand response as part of the business catalysts. They create a synergy between the two, which is imbedded into the corporate culture. Furthermore they are very really seen to experience enterprise risks.

1.3 Brand Risk

The section above outlined the need for brand management. This was to provide an understanding of the value of brands, so that it is clear there is a need to protect them through risk assessment. This point is highlighted by Tim Heberden, who believes, ‘In order to assess the scale and nature of the risks attached to a brand, a greater understanding of the brand within the business is required to illustrate the brand’s contribution to earnings’ (Heberden, 2002 - 14)

This section provides a greater understanding of brand risk.

1.3.1Defining brand risk

There are many different views and methods as to how to address the issue of brand risk. Firstly a definition of brand risk within the context of this project must be established. Many different sources were looked upon, below are a selection which help clarify the approach taken within this study.

> ‘Brand risk can be defined as changes in stakeholder perceptions that threaten the sustainability of current and future demand for a company’s products or services, and in certain circumstances, the company’s commercial freedom or “license to operate’ (Lippincott-Margulies.com -15)

The quote above is very consumer focused. This is probably as the brand is seen to live in the stakeholders mind, and therefore, affecting their perception, as mentioned above can result in negative effects on the organisation.

More recently, there have been a variety of different definitions as the issue of brand risk has come into the fore, such as the one by David Abrahams in which he said ‘Brand risks are threats to the sustainability of demand and to the brand's continued capacity to create value, commitment or influence" among its stakeholders’ (Abrahams, 2001 - 16).

At the Risk & Insurance Management Society annual conference, Mr Abrahams also provided an analysis of the current definitions of brand risk saying ‘the term "reputation risk" is an incomplete definition of brand risk. He described brand risk as ‘threats to the sustainability of demand and to the brand's continued capacity to create value, commitment or influence among key stakeholders.’

> " Brand risk he said, is a combination of reputational risk, structural risk and equity risk. Structural risk, which is related to the structure of demand for a product, incorporates the "social acceptability" of a product. Equity risk encompasses the emotional benefits associated with a brand" why I like the brand; why it makes me feel good"-as well as product led values”

FIG 7 David Abrahams - definition and components of brand risk

Finally it has been found evident that under most risk management approaches, brand risk has no definition of its own. “It is merely the by-product of a variety of other risks, such as product liability lawsuits or adverse regulatory decision”. This issue must be addressed. With brands becoming a huge part of company assets, risk assessment and contingency planning, in the domain of branding, must be adopted by companies. According to John Karolefski, formerly the editor-in-chief of Brand Marketing magazine “When unanticipated change occurs, brands can be hit because crisis management does not include brand management” (brandchannel.com, 14 Jan 02 - 16)

‘With studies suggesting that intangible assets such as brands, will soon constitute up to 80% of leading corporations market capitalisation’, it would seem a huge risk for companies not to assess brand risk. This point is further expressed by George Jurkowich and David Abrahams who say ‘the costs of ignorance or muddled thinking about brand risk could come to weigh heavily on the financial performance of businesses of all types and sizes in the years ahead’.

(Marsh & Mclennan Companies, 2000 -17).

1.3.2 Approach to brand risk – proactive and reactive

There are two types of approaches an organisation can take – proactive and reactive. Proactive risk refers to an organisation identifying the possible risks to their brand prior to it actually happening. This allows for the organisation to have a contingency plan in place and be prepared if a risk was to occur. The alternative, and more risky approach is reactive risk. This involves an organisation dealing with the risk once it has occurred.

A study on brand risk conducted by the Jamnalal Bajaj Institute of Management Studies (jbims), which consisted of 30 in-depth interviews which multinational companies (Reebok, Johnson & Johnson, Gillette, etc.) and 100 stakeholders of those companies, found that although 77% of the entire sample size felt the brand should be insured, ‘the everyday pressures makes it difficult to track risks on an ongoing basis. Therefore most companies find themselves reacting to a risk when it is inevitable rather than proactively handling the risks to the brand, which would ensure minimal damage to the brand’. (jbims, 2002 - 18)

Importance of conducting a brand audit

Sam Waltz, president of The Atlantic Leadership Institute, a Delaware-based business and communications counselling company, recommends that organizations conduct a brand threat audit by identifying worst-case scenarios and then categorizing the potential likelihood of these scenarios occurring. They could refine the threat assessment by gauging how the stakeholders (customers, employees, investors) feel about the company, identifying weaknesses in the brand and establishing what reputation the brand has in the marketplace.

Brand owners can then develop benchmark levels and strategies to improve over present levels. Corporate leaders can proactively manage to reduce these risks or prepare for potential threats well enough so there is no doubt that the capability exists to handle a problem if and when it occurs.

Responsible companies then can track the potential and the dimension of these problems with their partners, customers, industry associations and other organizations. This will serve to educate the public as well as the brand owner, as well as allay fears in the minds of the stakeholders in advance of major issues, which could occur.

David Liss, September 2002 –19

It is clear to see from this, that a method that ensures proactive risk tracking must be developed which not only provides an easy method of assessment, but also is time efficient.

1.3.3 Value of effective brand risk management

In a recent marketing campaign, Corporate Edge, a leading creative consultancy, stated that

> ‘It’s a fast moving world, but it may be moving faster than you think.
>
> Because today, someone, somewhere will have launched a company or invented a product, or jotted something down on a the back of an envelope that fundamentally changes your brand and what it means to your market.’

FIG 8 Advert by Corporate Edge

There are two very important points here. Firstly, regardless of how strong your brand is, it can be altered and affected by factors beyond your control, Secondly, the point mentioned – ‘what it means to your market’. The brand ultimately lives in the stakeholders mind, and therefore any negativity can affect not only the added value you gain from a strong brand, but the stakeholders willingness to invest your product. This point is highlighted by Tim Heberden, who believes:

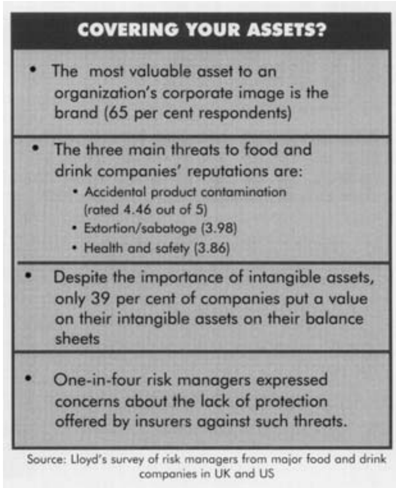
> ‘Brands are based on a relationship of trust with consumers. This trust takes a great deal of time and capital to develop. A breach of trust, however, can occur alarmingly quickly. The impact on consumers perceptions of the brand and their purchasing behaviour can be equally alarming’. (Tim Heberden, 2000 - 20)

The view of increasing brand risk assessment is considered important by all sectors of business. This is highlighted by a survey conducted by Lloyd’s of London (a Insurance company), who found 65% of risk managers from major foods and drinks (FMCG sector) companies felt the brand to be the most important asset to an organisations corporate image. Furthermore one-in-four risk managers (Risk sector) expressed concern about the lack of protection offered by insurers against such threats.

The importance of brand risk management is further highlighted by Bryan Stahmer, Hewlett-Packard's Palo Alto, California based brand program manager. In a recent interview he spoke on the risk of not managing the brand.

He mentioned Hewlett-Packard's brand equity value has been estimated at $17.9 billion. The risks of not managing the Hewlett-Packard brand include becoming a commodity, becoming irrelevant to the company's target audience, finding it hard to attract quality employees and partners, being positioned in the marketplace by the competition and experiencing poor stock performance.

Hewlett-Packard approaches brand risk management in various ways, including legal protection, employee accountability and innovation.


COVERING YOUR ASSETS?

- The most valuable asset to an organization's corporate image is the brand (65 per cent respondents)
- The three main threats to food and drink companies' reputations are:
  - Accidental product contamination (rated 4.46 out of 5)
  - Extortion/sabotage (3.98)
  - Health and safety (3.86)
- Despite the importance of intangible assets, only 39 per cent of companies put a value on their intangible assets on their balance sheets
- One-in-four risk managers expressed concerns about the lack of protection offered by insurers against such threats.

Source: Lloyd's survey of risk managers from major food and drink companies in UK and US

FIG 9 Results of research on assets - conducted by Lloyds of London

The company uses several means to get the information it needs to minimize risk. These include studies of its global brand awareness. "We're constantly looking at those numbers," he said, to distinguish the company from its competition.

Hewlett-Packard also relies on its business partners, Mr. Stahmer said. "We use them a lot for feedback," he said.

"The company gives them the opportunity "to either vent or to praise," he said. "That helps us identify where the risks are in terms of managing the brand." (adapted from an interview with Judy Greenwald, Brand Insurance, Nov 19th 2001 - 21)

It is clear that brand risk is considered a major obstacle which needs to be tackled by all areas of business. However, it is also clear that very few companies understand the value of their brand and the need to consider it as a separate risk area. The issue of brand risk management has come to the fore in more recent years with companies adding brand value to the balance sheet.

The objective of brand risk management is to protect brand value. Brand risk management can most effectively be conducted when there is a process in place for identifying, assessing and managing brand risks. According to Dr. Charles Kennady, President of Kennedy & Associates, (a brand strategy and consumer psychology company) “any set of circumstance or set of circumstances becomes a crisis only because you don’t know what to do and never made plans to deal with a set of issues” (brandchannel.com)

‘Brand valuation and value trackers, backed by contingency plans in the event of an unavoidable crisis, can help save a company's revenue stream’. Can you risk not managing brand risk? (Heberden, 2002 - 22)

1.4 Risk management

This aim of this study is to develop a solution which can be used within industry to assess brand risk. In order to do this there are two factors which must be understood. One is to understand the key component of brand risk. The other is equally as important to understand. This is how risk management is currently being conducted. There are two reasons for this. These are explained below:

How the brand risk tool can be incorporated into conventional risk management

The need to understand conventional risk management

What methods can be adopted from conventional risk management, when developing the brand risk tool?

The following section will provide an understanding of risk management and will also touch on how brand risk management fits within this domain.

1.4.1 Background to risk market

Twenty-first century businesses worldwide operate in an environment where forces – ‘such as globalisation, technology, the Internet, deregulation, restructurings and changing consumer expectations - are creating much uncertainty and prodigious risks’ (Barton, 2002 - 23)

With the recent events of Arthur Anderson, Tyco, Enron and WorldCom, the issue of corporate governance and accountability have come very much into the public eye. This coupled with increased insurance premiums since 9/11, the speed of communication due to the Internet and variety of choice due to increased competition means that companies who do not take risk management seriously, risk serious damage to their organisation.

So what constitutes a risk? According to the Nonprofit Risk Management Center, ‘a risk is any uncertainty about a future event that threatens your organisation’s ability to accomplish its mission statement’. This is further elaborated on by senior consultants at IQA management consultants register (24), who believe,

> ‘When the word risk is used in an industrial context, it usually refers to the possible but uncertain and undesirable outcomes of business-related activities. The particular risk concerned may be either predictable and foreseeable or unpredictable and unforeseeable. In the case of the latter, by definition, there is little we can do but hope that they do not occur. However, some seemingly unforeseeable risks may actually be anticipated if sufficient time, thought and research are applied to the situation.’

Many organisations see risks as something which only has catastrophic effects on the organisation, but this would seem a very narrow focused approach, as risk can come in many guises. This is illustrated in the article ‘The Risk Factor’ by Mike Debenhams and David Hutchins, who feel,

> ‘the term “risk management” has a scope that relates to nuclear, chemical, explosive, poison and occupational health and safety type risks. While we must acknowledge the importance of these, we must not forget that there are other forms of risk that might not be life threatening but can be catastrophic in other ways.’

They then go on to say,

> ‘Corporate risk comes in many guises from the smallest of pitfalls, which at worst could cause an organisation expense or embarrassment, to outright disaster – the results of which can be catastrophic.’
>
> (Debenhams et al, 2002 - 25)

The effects of a brand experiencing a crisis could definitely fall into either of the areas mentioned, for example, the small pitfall experienced by Coca Cola when their CEO asked ‘where the f**k is Belgium’ in the middle of a contamination crisis, to a catastrophic one, like the one experienced by Sunny Delight when they were found not be delivering on their brand promise of health and well-being, which saw it go from number one in the drinks sector, to dropping out of the top ten. Regardless of numerous re-launches and efforts to provide nutritional value in their product, they are still finding it difficult to gain market share. So much so, Proctor and Gamble are now looking for a buyer for the drinks brand.

There are many methods employed to conduct effective risk management, the next section looks at these methods and provides an overview of the current risk market.

1.4.2 Changes to risk management

Current methods of risk management are very complex. The approach taken by companies has improved and they are now ‘taking a more proactive stance in developing and implementing systems to manage risk throughout their organisations’. (Fraser, 2003)

Most large organisations have risk assessment or audit teams within their company, such as Debenhams. In their application form to join their Risk Management Team (RMT), they outline the role involved which includes an internal audit ‘across its three main areas of review – stores and distribution centres, corporate functions and information systems’. They then go on to provide the level at which the RMT operates – ‘The department is responsible for advising all levels of management and the board on the systems of internal control and the management of business risk’. (adapted from barclaysimpson.com - 26)

This is very important because, if the senior management doesn’t acknowledge and plan around the views expressed by the RMT, then the assessment of risk is all but worthless. Thankfully the situation is changing, ‘ Most executives would likely agree that risk management is part of their job.’ (Barton, 2002 – 27)

The view of what constitutes risk and where the process of risk falls within an organisation has certainly changed. In the book ‘Making Enterprise Risk Management Pay Off’ the Financial Executives Research Foundation presented findings on the subject from five companies in diverse industries. The companies studied were:

- Chase Manhattan Corp. (now J. P. Morgan Chase & Co.),
- E.I. du Pont de Nemours and Co.,
- Microsoft Corp.,
- United Grain Growers, Ltd. And
- Unocal Corp.

One key finding is that risk management is not just about finance, insurance or disasters. It’s about running the business effectively and understanding, at the core, the fundamental risks facing the business. Tim Ling, president and chief operating officer of Unocal (and the company’s former CFO), emphasized, “I think you will see almost all companies over the next few years moving in the same direction [as we are], really trying to integrate the notion of risk management with the notion of just business management. To me, running a business is all about managing risk.” (Barton, 2002 - 28)

The need to incorporate risk management into the organisations strategic decision-making is expressed by Arvato Systems, a provider of software, which acts as a tool to assess risk. They mention on their website that,

> ‘Risk management is the central part of any organisations strategic management and is defined as the process whereby organisations methodically address risk attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities.’ (www.arvato-systems.co.uk -29)

There are many different areas which need to be considered by risk managers, since all aspects of an organisation can be at risk. However one thing that is clear is that through careful planning most risks can be minimised. According to Mike Debenhams (30), ‘what is important is that action is taken:

- To identify all of the possible risks confronting the organisation
- To determine their probability of occurrence and the consequence of such an occurrence
- To conclude what action should be taken for prevention or risk reduction

In the following section, a more in-depth look is taken as to how risk management is currently conducted.

1.4.3 Principles of risk management

There are two perspectives of managing risk,

1. Managing corporate risk – setting in place the necessary strategies and associated control measures

2. Personnel – to use the risk based procedures for making day to day business decisions

As the focus of this study is on the first perspective, an analysis of this area is provided. For more information on the latter it is advised the reader researches work by William Rowe, in particular his book entitled ‘The Anatomy of Risk’.

Although there are many different approaches to risk management, the principles are very similar. To follow is an understanding of the process of risk management. Most risk management approaches consist of five main areas, these are,

FIG 10 Common approach to risk management by the Software Engineering Institute

This method provides a proactive approach, allowing the organisation to identify and assess the risks. The approach aids the company to eliminate, transfer or minimise the risk they are likely to face.

We can see below how this fits into the overall business environment:

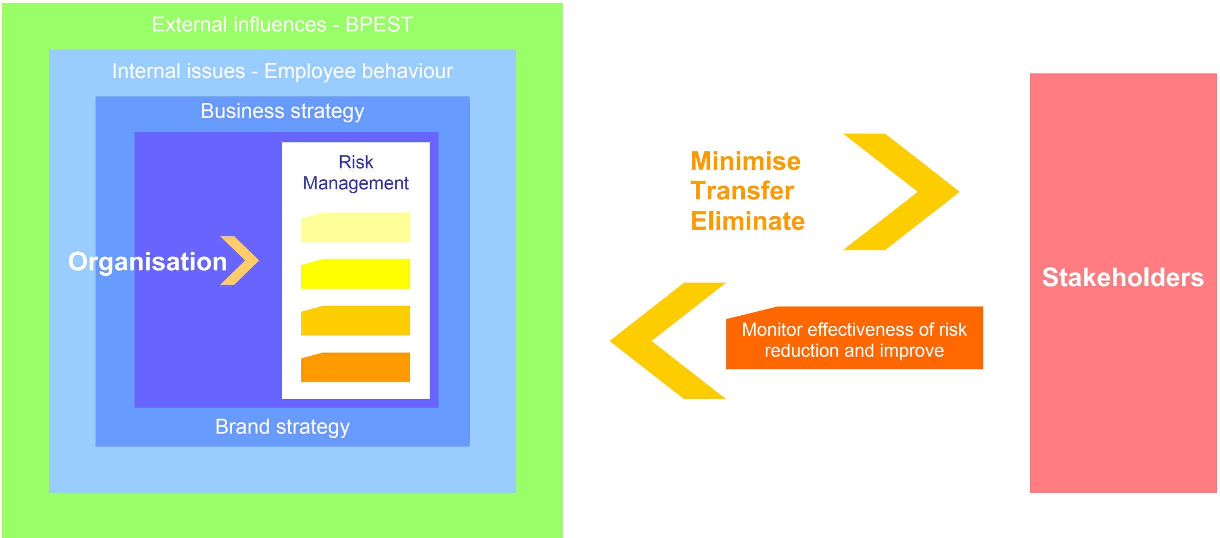


FIG 11 Risk management process within an organisation

Each of the areas will be looked at in turn and different views on these areas shall be provided:

1.4.3a Risk identification

As the title suggests, this involves identifying the possible risk the company is likely to face. In the case of identifying brand risk, it is recommended a brand audit (identify the key value attributers within the brand) or a brand threat audit (identify the threats to the brand) is conducted. Generally, the process is conducted as a workshop, involving key decision makers. It is important a 'stable structure to support your data gathering activities' is used. In this case, project management tools such as 'cause and effect' or 'fish bone' diagrams are suitable (Godcharles Goulet and Associates, 1997 - 31).

Currently, this process is mainly conducted using a software package, such as Albany Risk Managements, KnowRisk software and Arvato Risks BLM Model. Unilever are one such company who use this approach. The head of IT Risk Management at Unilever is Rolf Moulton. In a presentation in September 2002 (32), he spoke about the importance of IT to 'comply with operating requirement….including risk management'. He then went on to mention the need to outline at the beginning, 'which IT applications are critical/significant and when'.

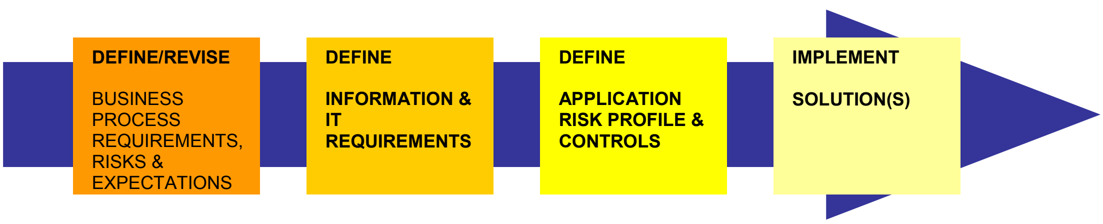


FIG 12 Approach on risk taken by Unilever

1.4.3b Risk analysis

This involves taking an in-depth view at the particular risk identified. According to GodCharles Goulet and Associates, you should 'capture the full context for the identified risk' by going beyond probability and impact and addressing the context, source and response. According to CalPERS (33), the risk management consultants, ‘ before you can manage risk you must be able to measure it’. This is the focus of this stage.

According to researchers at the University of Guelph in Canada, there are two components of risk - ‘the likelihood of an event occurring and the potential consequences of the event’. The main aim of this process is understand the size of the risk and then to develop a method of dealing with the risk if it were to occur. Questions such as how do you avoid, minimise, control and remove the risk must be addressed.

A good measure of assessing the size of the risk is to plot the risks on a chart with frequency on one axis and impact on the other, as shown below

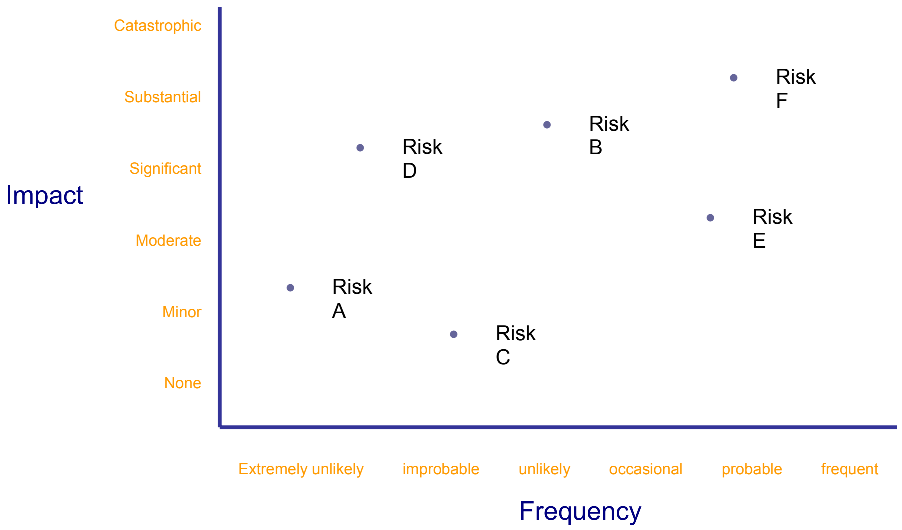


FIG 13 Brand risk analysis chart by JBIMS

1.4.3c Risk planning

According to Quality World, a publication of The Institute of Quality Assurance, there are five ways an organisation can deal with risk, these are:

1. Ignore it and hope that it will not happen. If the risk materialises the plan is to face the consequences even if this proves beyond the resources of the organisation, which may then cease to exist.

2. Share the risk with others - particularly suppliers. ‘ This is where the customer may decide to develop a partnering arrangement to contract out the associated risks to the supplier. The customer will make a commitment to the supplier and in return, the supplier will take some or all of the risks associated with late or non-compliant delivery’ (Debenhams et al, 2002 - 34)

3. Transfer the risk to a third party through insurance. Premiums for this approach are related to the insurance companies' assessment of the risk. Typically the organisation protects itself for a given level of claim that theoretically can occur several times during the period covered.
For example, in a train crash, it may be that several victims have a valid claim approaching the maximum

amount. In the case of product liability insurance, however, many insurance companies and brokers will determine the total maximum payable during the insurance period. When this is exhausted, the insured is no longer covered and must negotiate new insurance. In this case the new premium is likely to be prohibitively high and in all likelihood the risk will be effectively uninsurable.

4. Reduce the risk by careful management of high-risk activities. This usually involves quality assurance, hazard analysis, FMEA and other quality-related tools. The approach is not exclusive and can be used together with other approaches. The advantage is that possible counter-measures can be identified and deployed if the risk materialises.

5. Cease the risk-making activities. In the case of product liability this may mean stopping the production of some product where there is high level of known risk. Drug companies for example may withdraw a particular product line.

Points to consider at this stage are:

- Be careful not to avoid too many risks. As mentioned in point one, hoping the risk doesn't materialise could result in the organisation ceasing to exist.
- Pay attention to root causes or series of risks
- Don't delay the planning activities
- Involve all risk owners

1.4.3d Risk monitoring and control

The final point mentioned above leads onto a very important factor. It is vital to assign responsibility for the risk management plan. Once you have established the steps which the organisation must take, 'the second step is to designate an individual or team responsible for developing and implementing your organisations risk management program. While the team is principally responsible for the risk management plan, a successful program requires the integration of risk management within all levels of your organization. Operation staff and board members should assist the risk management committee in identifying risks and developing suitable loss control and intervention strategies' (Nonprofit Risk Management Center - 35)

Tools to use for risk management

- Formal systems management
- Partnering arrangements
- Insurance
- Risk tolerant work packages
- Prototype and product testing
- Provision of risk reduction resources
- Risk assessment and risk management

Debenhams, September 2002

- Idea generation
- Analogous comparison
- Coordination
- Decision theory and analysis
- Common project management tools and techniques
- Continuous risk management guidebook

Ottawa, June 1997

The need to measure risk is fundamental, as once management knows the real level or risk they face, they can then manage those risks more effectively and successfully.

1.4.4 Brand risk in the domain of risk management

The issue of brand risk management being included into conventional risk management is finally beginning to gain momentum. So far we have seen that companies acknowledge the value of intangible asset, risk managers acknowledge that more needs to be done to assess brand risk, insurance groups feel it is an area which need to be developed and companies would like insurance companies to provide more cover in this area. Furthermore risk analysts are finally starting to develop ways to assess brand risk and also provide a separate area on their risk assessment model. Marsh, the worlds largest international risk advisors and insurance brokers are one such company. In the article 'Focus on Research: Managing Risk, Deborah Pretty, a Marsh research fellow talks about the areas she has researched for Marsh, which include:

- Catastrophic risk – disasters such as Bhopal, Piper, Alpha and Exxon Valdez
- Diversification of risk – across different industry sectors and geographic regions
- Off balance-sheet risk – exposures which accumulate over a long period of time, such as those of environmental, asbestos and tobacco liabilities
- Intangible asset risk – damage to a company's brand or reputation, such as was incurred by Hoover after its free flights fiasco, Shell after the Brent Spar incident and Coca Cola when its bottles had to be recalled from Northern Europe.

'Effective risk management requires a reporting, review and auditing structure to ensure that risks are identified and assessed and that appropriate notification, escalation, control and responses are in place' (arvato-systems - 36). This should cover all areas where risk can occur, including risks to the brand.

Research methodology

Chapter 2

Brand risk management can most effectively be conducted when all of a company's risks are identified, measured and managed in an integrated manner - in other words, within an enterprise risk management framework. The reason for this is simple: Brand risk is multifaceted. Financial, hazard, strategic and operational risks - most of which tend to be managed discretely in organizational "silos" - can all give rise to brand risk. Brand risk is no respecter of silos.

George Jurkowich and David Abrahams, 2000

2.1 Research Framework

In order to obtain a strong understanding of the project requirements it is necessary to adopt a variety of research methods. This chapter outlines the various methods of research, which were used, a rationale of why they were adopted and a description of how each method was developed.

The chart below provides an outline of each stage of the project and the research methods that were used.

Project Stage	Research Area	Research Method
Stage one	Understand the area of brand risk	Secondary research Interviews Case studies
Stage two	Identify the areas, which need to be addressed	Secondary research Interviews & risk forum Case studies Survey
Stage three	Provide a solution for effective brand risk management	Secondary research Interviews Survey

FIG 14 Methodological Framework

There were four main types of research carried out. These are outlined below:

Method of research	Stage of project			Rational for chosen method
Risk management forum		□		A risk forum was used in order to provide a global perspective of a variety of experts in risk management
Secondary research	□	□	□	Secondary research was used throughout the dissertation. At stage one it was used to gain a clearer understanding of the current issues within brand protection. For stage two it was used to develop the issues found in stage one and finally it was used for developing and testing the recommended solution for stage three.
Interviews	□	□	□	The interviews were conducted with a variety of different sources. This was to gain primary research on brand protection provided by experts in the fields of branding and risk.
Case studies	□	□		A variety of case studies were used, some in-depth, while others were used in order to verify a point. They were used to provide an industry perspective of the issues and solutions which presently exist.
Survey		□	□	The survey referred to is a study conducted by researchers at Templeton College and was supported by Marsh, a leading risk management consultancy. This was used as a foundation to build on and develop the tool.

FIG 15 Outline of research method

The research methods used in this study are mainly qualitative. There are two main reasons for this. Firstly, research conducted showed that although there has been a lot of statistical research produced on the value of brands, there has been very little on the topic of brand risk, both by organisations and also collectively (industry wide). Secondly, as there are so many different methods for brand valuation it was deemed that a attempting to gain first hand statistical research would have provided inconsistent measures.

With the collapse of Enron and other large American organisations, the issue of corporate governance has really only started to gain pace recently. This has meant that the area of brand risk is still developing, and attempts to find quantitative data were deemed to be outdated or worse still misleading. The only survey found to be of real value was a study by Templeton College, which has been used as the basis for developing a suitable solution.

The following pages provide further analysis on each research method.

2.2 Case Study

The initial aim of the case studies was to help gain an understanding of the different issues surrounding brand risk/protection. The case studies were chosen in order to provide a variety of different issues to do with the topic of study. These are explained in the table below:

Company	Main focus	Reason
Hewlett Packard	Brand value and the need to protect it	HP has been investing in not only brand building but also brand protection. The case study provides analysis of how they conduct this, and the risk they feel of not managing the brand.
Bacardi-Martini	Brand value and the different types of risk it faces	Focuses on the different areas which they feel can effect the perception of the brand. It also touches on the need to have systems in place to address the issues and the lack of cover provided by the insurance market
Burger King	The importance of proactive brand risk management	Burger King have conducted brand risk management for a little over three years and they have outlined the personnel they feel should be involved to conduct effective brand risk management.
Diageo	Brand risk management and the insurance sector	Diageo feels very strongly about the need to protect their brand value. The have developed a system of identifying brand risk and found 139 different risks. They also feel the insurance sector is not ready to provide adequate cover.

FIG 16 Rational of chosen case studies

2.2.1 Development

Information was gathered by a variety of means. These included books, magazines, newspaper articles, annual reports and websites. A variety of views from experts were gained from marketing publications and websites.

2.2.2 Problems encountered

As the information required was based on company strategy, there was a reluctance to provide assistance, however annual reports and website articles were very useful. The actual company websites provided information on the actual use of the brand strategy, but very little information on the brand strategy or values.

2.2.3 The success and significance of the outcome

As the information available on brand risk is very qualitative, case studies were deemed to be a very good option as they allowed views and opinions on different issues. Furthermore, as the companies focused on within the case studies were actual cases of blue chip organisations, they provided assessment for constructed views to be put into the context of industry.

The company's chosen were judged appropriate for different reasons, some were chosen after gaining advice from interviewees and colleagues from Designhouse. The case studies on Diageo and Bacardi-Martini were chosen as they had strong views on the limitations of current brand risk cover. The case studies on Burger King and HP were chosen as they provided clearer understanding as to risk and brand risk is currently assessed.

2.3 Secondary research

Secondary research was conducted at each stage of the project. At each stage, research was conducted under three main headings – surveys, expert views and current practice.

2.3.1 Development

Initially surveys on brand risk management were conducted, however there were no surveys specific to this area found. A broader search provided surveys on areas of branding and its importance. This was used at the early stages of the project to justify the need for effective brand management. The approach taken at each stage of the project is outlined below:

Stage	Area	Approach
1	Understanding	There were three main areas which were researched, brand valuation, brand and risk management. Mainly articles and books were studied in order to gain an understanding of the areas. Surveys were also looked at in order to provide statistical data.
2	Assessing	Once an understanding of the topics was gained, key issues started emerging. These were researched further and are presented in the findings section. This area was developed using white papers and articles, mainly from the internet.
3	Providing solutions	Desk research was used in two ways in this section. Firstly, in order to find the issues which required analysis and secondly, to seek best practices at present in the different focus areas. This was used in order to develop an effective tool for brand protection.

FIG 17 Table outlining the use of secondary research

2.3.2 Problems encountered

The main problem with secondary research was obtaining relevant information on the topic area. Since the subject of brand risk/protection hasn't been researched extensively, there were limited articles which were specific to the study. Another issue was that the information provided in most of the articles was very vague. An attempt was made to contact the authors. They were only willing to provide limited information, possibly as the tools and techniques used provide competitive advantages.

2.3.3 The success and significance of the outcome

Although the information gained from this method was not all specific to this study, it did provide valuable insights and views. Furthermore, a lot of the research provided avenues for additional data in the form of interviews with key figures in the field of brand strategy and risk management.

This method was particularly relevant for obtaining a firm understanding of brand management and the key issues relevant to this field. Secondly the lack of research on the chosen area provided a basis for the key questions formulated for this study.

2.4 Interviews

Interviews were performed in order to gain a better understanding of the area of study. They were split into two types – unstructured and questionnaire based. The interviewees are outlined below:

2.4.1 Development

Interviewee	Position	Reason
Leysha Lopang	Editor of Risk management Bulletin	Ms Lopang was contacted in order to gain a better understanding of the current methods and views of the risk management sector. She was contacted after an article on brand risk was found in her publication.
Tim May	Co-founder of Designhouse	Mr May was able to provide an in-depth analysis of how branding has developed. He has been involved in the industry for over 30 years. He was only able to provide limited information on brand risk.
Nigel wake	Managing Director of Albany Risk Management	Mr Wake provided an insight into current software tools used for risk management. He also provided a variety of literature on a system they have implemented within the UK call KnowRisk.
David Abrahams	Senior vice president of Marsh UK	Mr Abrahams is a leading figure in both risk management and brand risk. He has written a variety of literature and was one of the few figures who understood the link and methods of risk and brand management

FIG 18 Outline of interview

The interviewees were very helpful in not only providing an understanding of the topic areas, but also in providing additional information and contacts. Mr Wake also provided additional information in the form of presentations, which helped develop the protection tool of the Cube system.

2.4.2 Problems encountered

The interviewees were very helpful at providing information within their own domains. They had very little understanding of the methods employed in other fields; for example, Ms Lopang had very little understanding of branding and also the area of brand risk. Although this made it difficult to gain views from the same person on the different sectors, it did strengthen findings on the need for experts in certain fields to gain knowledge of other sectors that could have an impact on theirs.

Although Mr Abrahams showed an interest in the study, his work commitments made it very difficult to gain extensive knowledge from him. However, he was able to provide articles and white papers he had written, which provided valuable insight.

2.4.3 The success and significance of the outcome

The interviews proved very helpful, particularly at stage one, as it was important to gain a strong understanding of branding and risk management and also the links between the two. The interviews with Mr May were particularly useful as they were conducted face-to-face. The other three interviews were via phone and via email. Although this had its limitations, the information provided was very useful.

2.5 Risk management forum

As mentioned earlier, a lot of the information available on brand risk was qualitative. It was therefore deemed a good idea to join a risk forum, to gain a variety of views.

2.5.1 Development

The forum which was joined was RISKANAL. This was jointly set-up between The Pacific Northwest National Laboratory and the Columbia-Cascades Chapter of the Society For Risk Analysis. It was set up to provide a forum for the international risk analysis community and consists of 45,000 members.

2.5.2 Problems encountered

The only problem encountered was that as the system was email based and not chat room based. This made it difficult to discuss the views provided, and also to develop certain views with others opinions.

2.5.3 The success and significance of the outcome

Due to the restrictions of time, this mode of approach was very important, as it allowed a variety of experts to be contacted in a short space of time. The results provided were interesting as they were provided from experts within the field of risk. This technique also provided new avenues of research, as some of the speakers in the forum had published articles and white papers of their own.

2.6 Survey

There was only one survey used thoroughly. This was the study by Templeton College researchers Rory f. Knight and Deborah J. Pretty, in 2000.

2.6.1 Development

The survey titled 'Brand Risk Management in a Value Context' initial came to light through research conducted on the Diageo case study. The study had three key objectives:

1. To gain insight into the current state of brand risk management across large corporations
2. To evaluate the impact of selected brand-related crises upon shareholder value
3. To assess the contribution of intangible assets on share performance

The research for the study consisted of a survey of 88 international firms which responded to a postal survey of brand risk management. The second section provided case studies on companies who had experienced brand damage. The main use of the research was from the first section (survey on brand risk management).

2.6.2 Problems encountered

The only problem with the study was that it was published in 2000. However the research obtained through other means showed the issues discussed to be current and still underdeveloped.

2.6.3 The success and significance of the outcome

Although the author did not conduct this survey, it was judged to be directly related to this study. The views and findings expressed in the surveys were consistent with the finding of other more recent findings. The results of this survey, together with other views, have been used as the foundations of developing stage three of this study (developing a solution)

2.7 Research assessment

There were a variety of research methods investigated and adopted. Although all did not materialise, the information obtained, provided a very strong platform for this study and many experts in the field of branding and risk management were spoken to. An overall summary of the research conducted is discussed in this section.

2.7.1 Types of research methods

There were two types of research methods employed – prescriptive and informative research.

The informative research methods refer to the interviews with Mr Wakes, Mr May and Ms Lopang, the case studies and the secondary research conducted for stage one. These methods were used in order to gain a clear understanding of the issue related to brand valuation, brand risk, risk management and also the current climate of industry.

The prescriptive research refers to the interviews conducted with Mr Abrahams and members of the risk management forum, the survey by Templeton College and the secondary research gathered for stages two and three. These methods were undertaken in order to strengthen the findings of this study, provide alternative views and/or to clarify a point made in other findings. For example Mr Abraham was contacted in order to clarify points he made in an article called 'Respecting Brand Risk.'

2.7.2 Time management

Although substantial research was carried out within the time provided, there were two limiting factors, the overall time of the study and the time of the year the study was conducted. If additional time had been available the study could have been further strengthened, for example, a survey on companies in the public sector could have been conducted which could have provided a true representation of the stance on brand risk and brand management.

The time of the year meant that many contacts were on holiday, which adversely added difficulty in contacting senior figures, who could have provide valuable insights on the topic of investigation.

2.7.3 Overall limitations of study

The main problem is that the area of study is very subjective. There is not much quantifiable data available on the topic of brand risk. This could possibly be due to the fact companies are reluctant to discuss problems and failures resulting from their decisions, i.e. the problems faced by Hutchinson 3, who recently demoted Lisa Gernon, their marketing director, due to poor sales.

Another issue, which limited the research and findings of this study, is the inconsistency of studies and measurements by organisations, for example, there are a variety of measurement methods for risk, brand equity, valuation, etc. An industry standard is required in order to provide easier assessment. This is why the suggestion that a national study is required, which would provide quantifiable results based on common variables.

The next section provides the result found from these research methods.

Findings

Chapter 3

Within a scant four-week period earlier this year, Nestle Canada, Heinz Canada and Brookfield Dairy Group all issued voluntary product recalls. According to marketing experts, the cost of some of these recalls could be in the millions of dollars. Even more significant could be the costs associated with rebuilding their brand images.

Lisa Tait

3.1 Findings

Within this section, a look at the research conducted over three months is taken. The findings are presented in a variety of different formats depending on the results of the research. The approach taken is outlined below

Research findings	Presentation method
Secondary research	Bubble diagram
Case studies	Table format
Interviews	Table format
Risk Management forum	Table format

FIG 19 Table showing presentation methods of findings

3.2 Secondary Research

There were a variety of sources obtained. Secondary research was used as one of the methods of finding. Although not common in the findings section, the views expressed were by people with vast expertise in both risk and brand management. Furthermore their opinions were seen as necessary to consider when developing a tool for effective brand risk management.

The method used to present the findings was deemed as the most effective method as it helped identify issues or series of issues. A key is provided below to help further understand this approach.

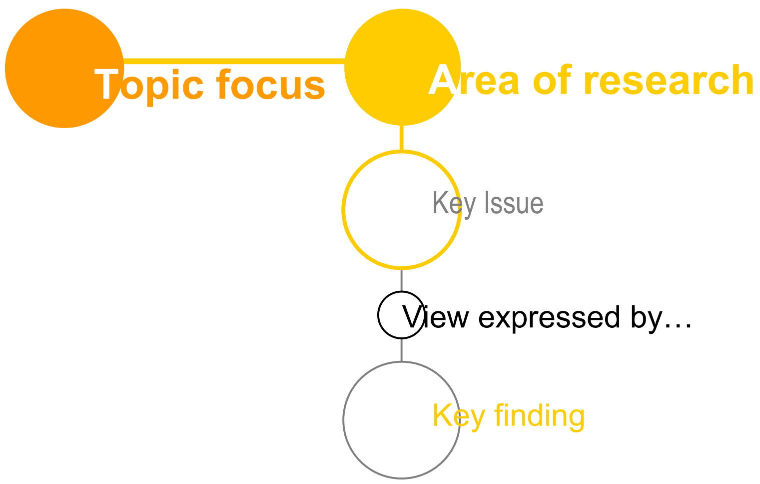
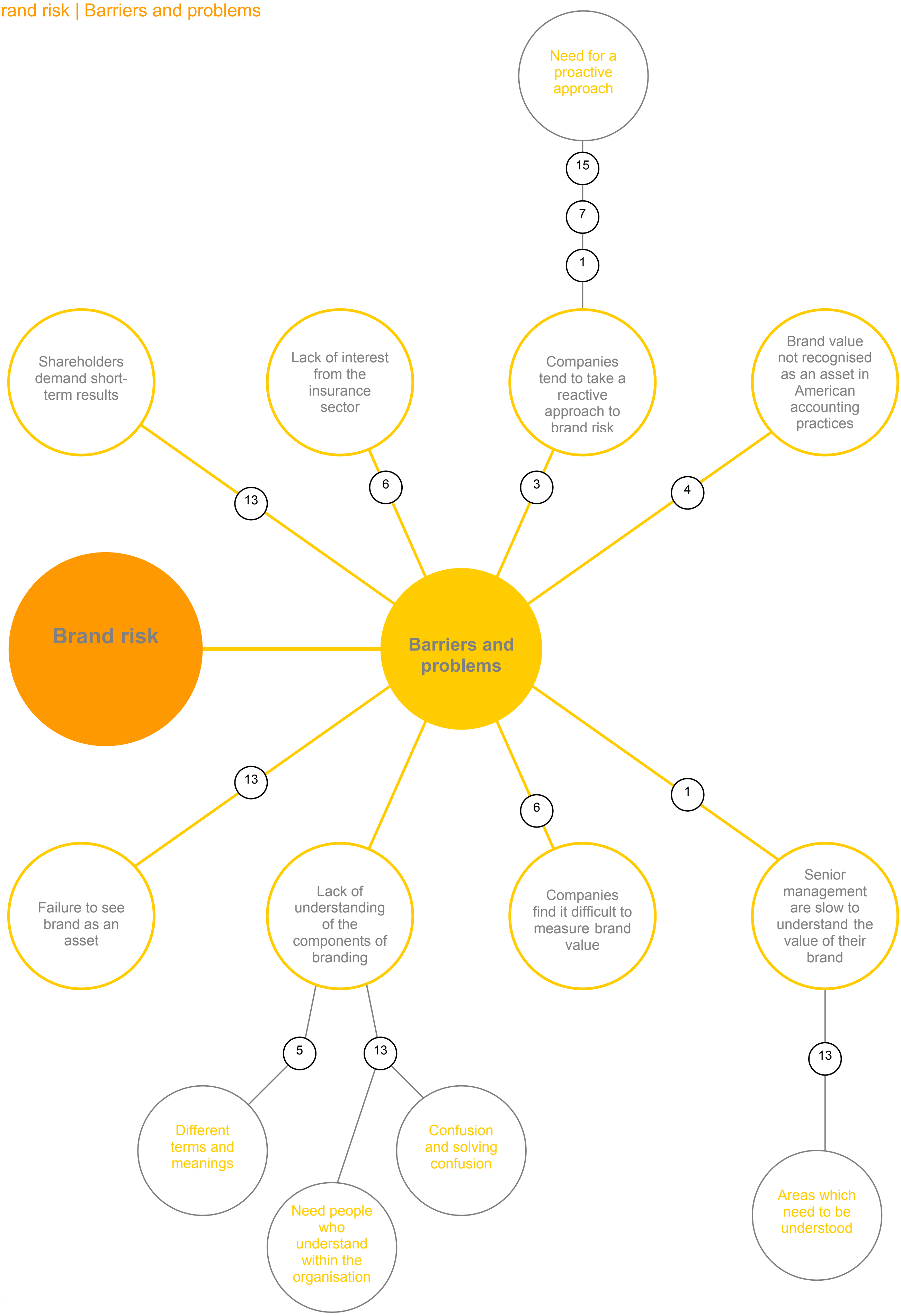


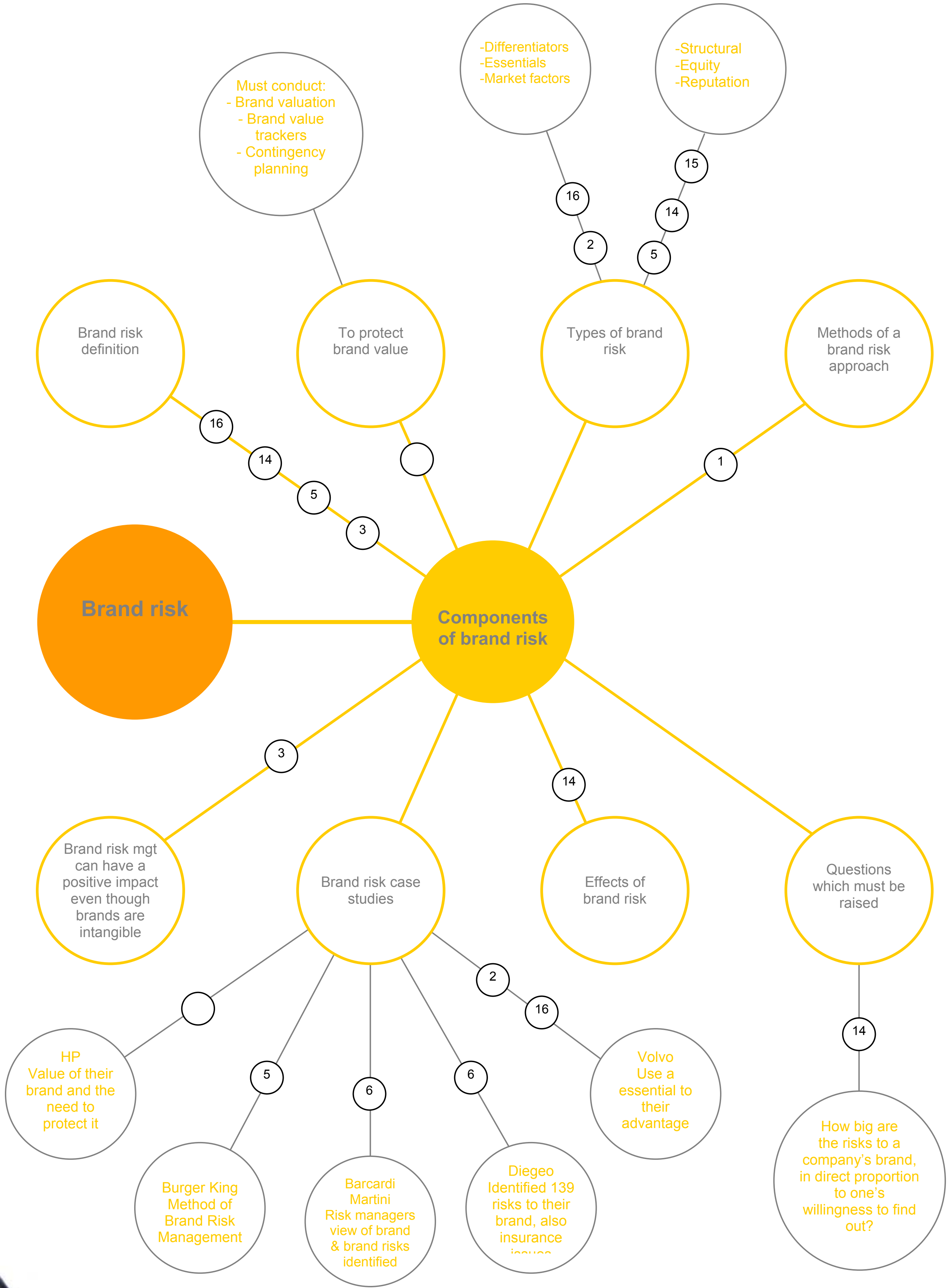
FIG 20 Key to bubble diagrams

The numbers in the 'Views expressed by…' section refers to the numbers on the bookmark.

3.2.1 Brand risk | Barriers and problems

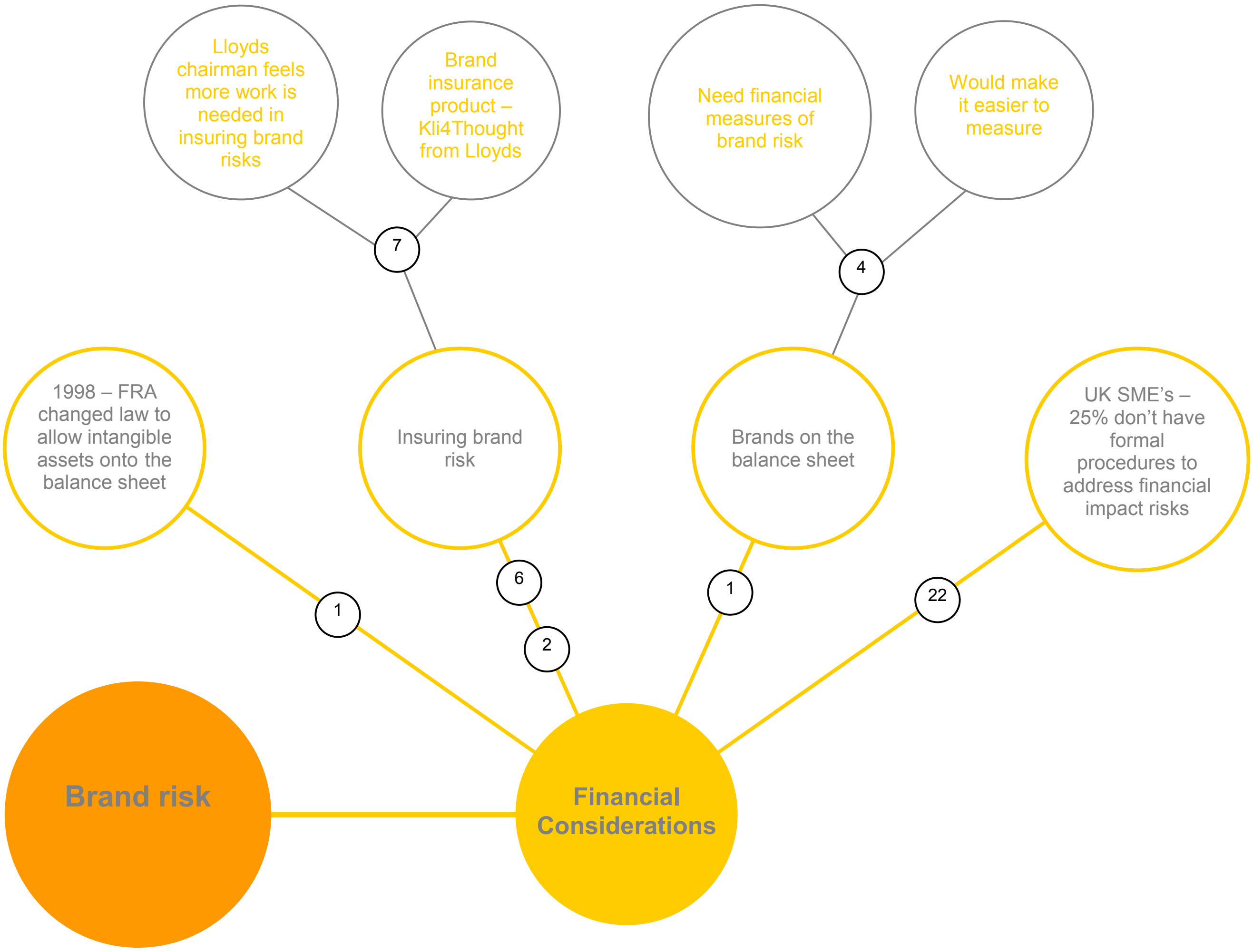


3.2.2 Brand risk | Components of brand risk

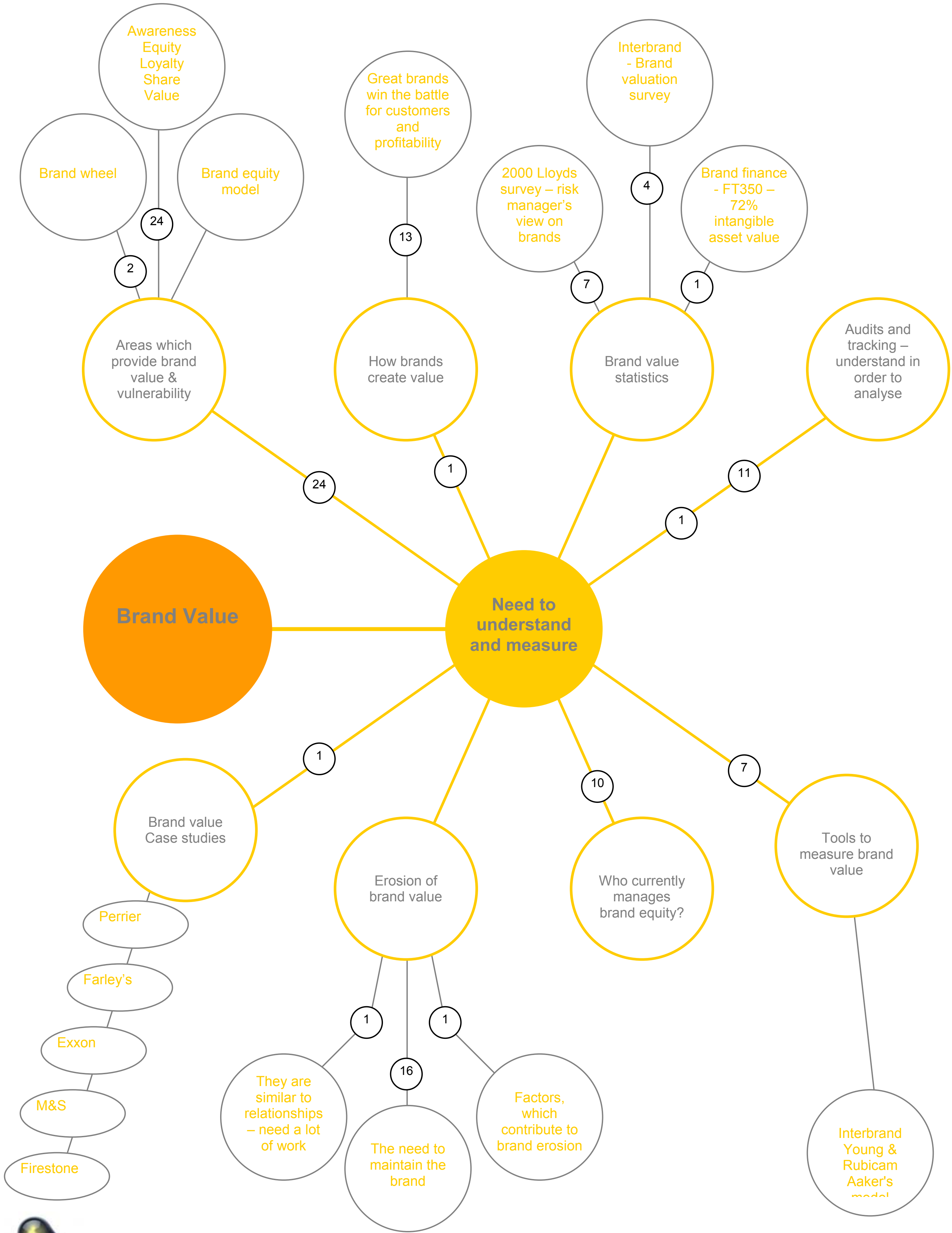


3.2.3 Brand Risk | Brand risk management

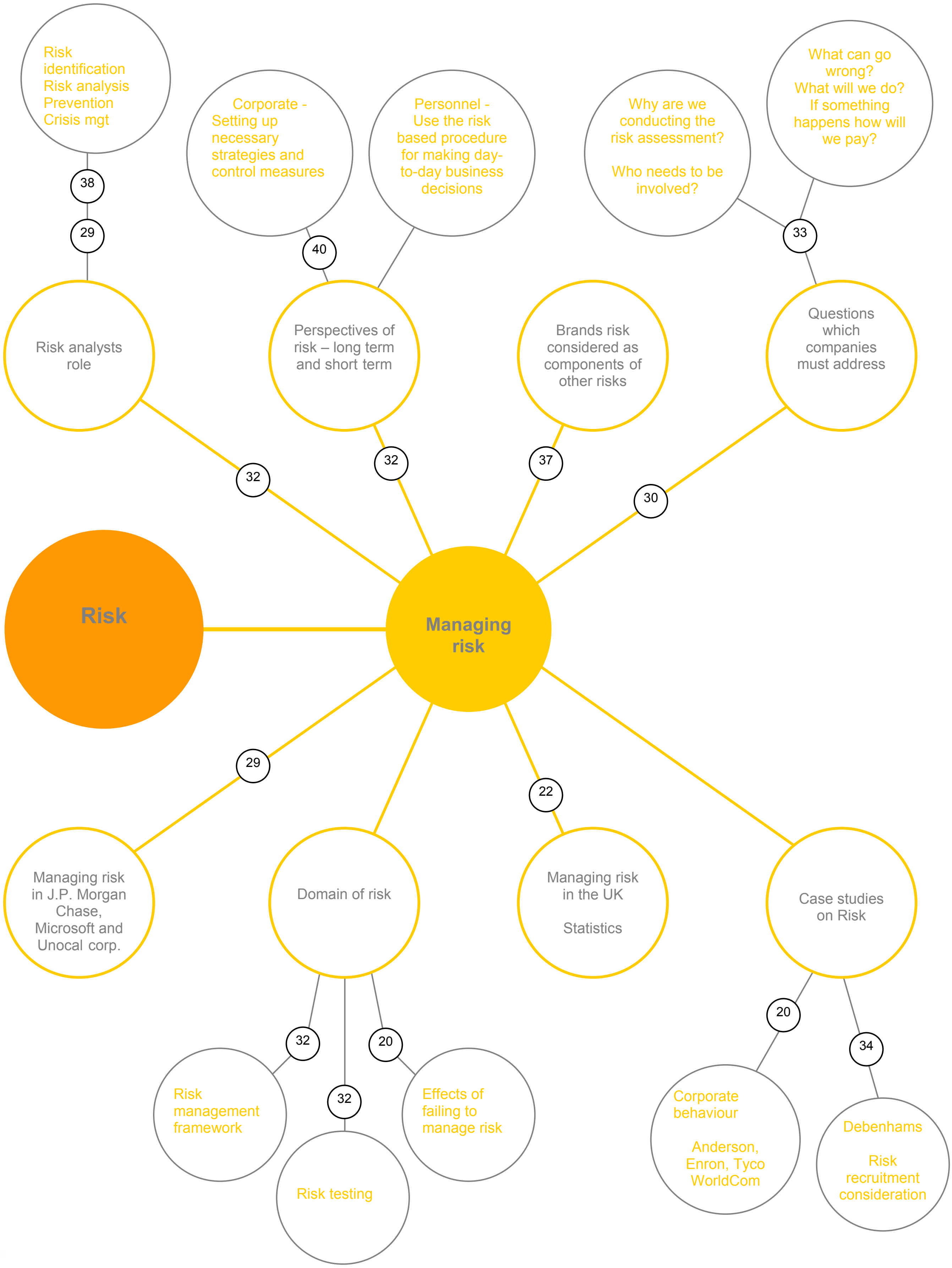
3.2.4 Brand Risk | Financial considerations

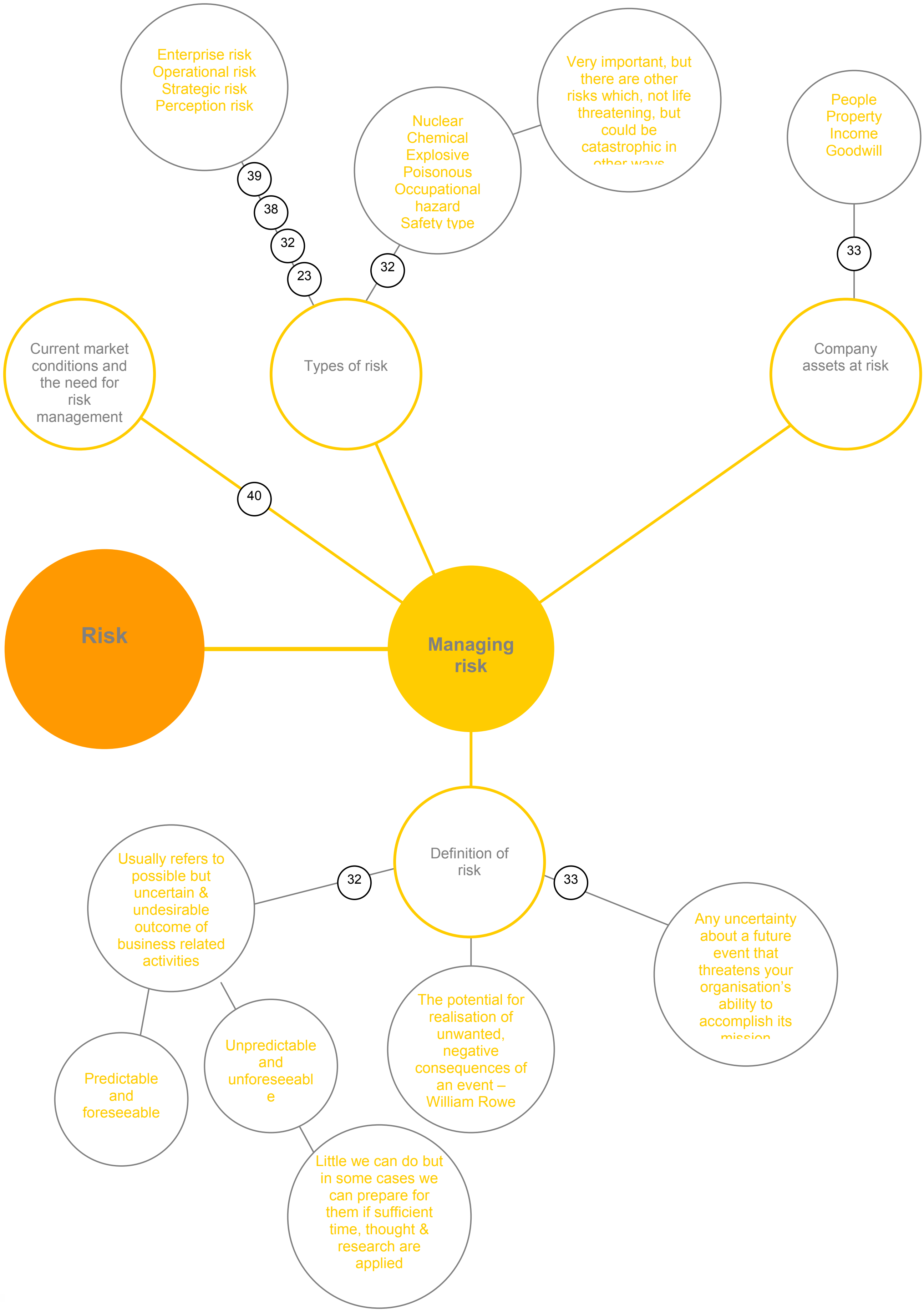


3.2.5 Brand Value | Need to understand and measure



3.2.6 Risk Management | Managing risk





Enterprise risk
Operational risk
Strategic risk
Perception risk
39
38
32
23
Nuclear
Chemical
Explosive
Poisonous
Occupational hazard
Safety type
32
Very important, but there are other risks which, not life threatening, but could be catastrophic in other ways
People
Property
Income
Goodwill
33
Current market conditions and the need for risk management
Types of risk
Company assets at risk
40
Risk
Managing risk
Definition of risk
32
33
Usually refers to possible but uncertain & undesirable outcome of business related activities
Any uncertainty about a future event that threatens your organisation's ability to accomplish its mission
The potential for realisation of unwanted, negative consequences of an event – William Rowe
Predictable and foreseeable
Unpredictable and unforeseeabl e
Little we can do but in some cases we can prepare for them if sufficient time, thought & research are applied

3.3 Case Studies findings

The case studies analysed were identified through the secondary research. They were chosen in order to provide a variety of view from industry experts, in the area of brand and risk management.

	Mr Larry Offutt Director, Loss control Burger King	Mr Bryan Stahmer Brand program manager Hewlett-Packard	Mr Matthew Frost Head of risk financing Diageo p.l.c.	Mr Gus Reyes Director, Risk management Barcardi-Martini inc
View on brand threat	'the media sometimes likes to "create crisis" and he advised attendees to be watchful for potential threats to their companies brand'	'Hewlett-Packard's brand equity value was estimated at $17.9 billion'	'Companies need more help evaluating the potential impact of brand risk'	'He said, for companies such as his, their brands are their greatest asset' "If our brands were damaged in any way, we could be very quickly in trouble"
Process of brand risk management	'A little over three years ago, we decided to create a formal crisis communication programme'	'The company uses several means to get the information it needs to minimise risk. These include studies of its global brand awareness. "We're constantly looking at those numbers" he said'	'Diageo, last year undertook a brand-damage project to identify risks the company faced'	
Approach to brand threats	'a brand risk can come from any source' 'What could constitutes a crisis at Burger King? Anything and everything'	'include becoming a commodity, becoming irrelevant to the company's target audience, finding it hard to attract quality employees and partners, being positioned in the marketplace by the competition and experiencing poor stock performance'	'Diageo's brand-damage exercise identified some 139 potential risks to brand, but, he said "we discovered that traditional insurance solutions were invalid for more than 60% of these risks"'	'Brand integrity concerns include such developments as poor presentation of products; slight impairments in product quality that are not harmful to health, such as abnormalities in the density of the drink; and, most seriously, improper tastes or odours that, while not harmful to human health, prompt consumer complaints.'
Personnel involvement	'Burger King set up a development group that included representatives of the company's legal, safety and risk management, quality assurance, communications and operations departments.'	'The company give them (business partners) the opportunity "to either vent or praise," he said. "That helps us identify where the risks are in terms of managing the brand"'	'A series of internal workshops revealed that Diageo employees had radically different views about the company's potential brand risks.' 'Internally, within the company, there are people with diverse ideas of brand risks'	'The key players in a product recall are the plant manager, the marketing director, the production director and the quality control director' 'He said that his company uses the services of both a crisis management consulting team and a communications and public relations specialist.'
Approach to brand risk management	'You need to have a plan ready and a system to activate that plan immediately'	'HP approaches brand risk management in various ways, including legal protection, employee accountability and innovation'		'Bacardi-Martini has established a product recall protocol that classifies recalls into three categories, he said. The categories are brand integrity recall, health issues recall and malicious product tampering recall.'

Views on risk insurance			'traditional insurance responses to brand risk are still "silo-driven" "nothing yet approaches all risks of loss of value of brand cover" "not sure if the insurers have sufficient resources to offer coverage for brand risks"	'Mr. Reyes pointed out that not many insurers offer brand-risk coverage's. He said that while Bacardi-Martini is very willing to retain a portion of its brand risk exposure, it would like to find a way to finance a little more of the risk than it currently does. "This is an area of our business that is pretty much on a trial basis," he said.'
Other			"one of the reasons for the lack of comprehensive insurance coverage is that it is so difficult to place a value on the brand." "Valuations are usually only made when a merger or acquisition looms. Consequently, risk financing remains within traditional boundaries"	

3.4 Risk management forum and Interview findings

The findings of the forum provide a variety of views, however since the questions were posed by the author, a certain degree of control was enabled. The views have been organised into the issues covered.

During the research a variety of questions were sent to different sources, in order to gain insight or to verify a finding. Key views from this method have also been incorporated into the table below

	Scott Yaw Brand-Impact Forum USA	David Abrahams Marsh Senior Vice President UK	Nigel Wake Albany Risk Management Managing Director UK	Kathryn Tominey Pacific Northwest National Laboratory Research Scientist USA	David Hall SRS Technologies Senior Risk Manager USA
Definitions of risk	Risk = Minimizing mistakes such as: a) misreading competition, channel demands, no focus - no discipline, consumer perceptions, costs, sales, poor marketing efforts, "Me-too products", not planning to be the aggressor, etc. Anything that affects finance, cash flow profits or future sales.		A risk is an opportunity that may involve a loss. A risk is an event that may involve a loss. A risk is an event that may have an impact that will cause a loss.		Risk - A deviation from the expected or planned that, should it occur at some future time, will have an effect on organizational, project or operational objectives (the most important being cost, schedule and functionality)
Definitions of brand risk		Brand definition: "A collection of experiences or emotions that live in the mind of customers". "A brand is a promise of TRUST and a level of SATISFACTION". Brands are an "experience". Brand risk: Anything that may violate this sense of trust. Potentially alter the experience or change the perception that lives in the mind of consumers."		There are at least three risks associated with any given brand: 1) Catastrophic loss of goodwill due to an adverse event associated with the brand. Perrier bottled water has never quite recovered its cachet from the benzene scare of several years ago. Tylenol weathered a 1982 tampering incident in large part due to its proactive response (ad blitz, free product coupons). 2) Incremental loss of goodwill due to word-of mouth, e.g. declining market share of U.S. auto manufacturers vis-à-vis the Japanese due to inferior quality and complacent management. 3) The risk that consumers will realize, or come to believe, that there is little or no added value associated with your brand, for example as against store-brands offered by most U.S. supermarkets and other retailers (Costco, Wal-Mart).	Brand risk would be any potential future event or condition that could adversely affect the accomplishment of the objectives - getting 20% market share, etc.

Components of risk management	Risk Management Components = knowledge, research support data, competitive intelligence, channel and distribution data, manufacturing costs, consumer and channel profiling, future forecasts, scenario planning (i.e.: understanding there may setbacks and problems along the way, with a plan to be ready).		a) Good risk identification; good impact assessment; good Controls identification and assessment. b) Good risk management training.		Planning, Assessment (identification, analysis and prioritisation), Handling and Monitoring in a continuous cycle.
Issues with risk management	Risk Management limitations = Yes, most companies and organizations do not plan for the unforeseen or the unexpected. Most companies and organizations take a conservative approach and do not plan to be the leader.			The usual reason for this failure - that always costs ton's more than assessment and up front management would have cost - is the desire to hold down near term costs and doing serious risk assessment seems costly in the near term – Referring to why so many companies have such poor proactive risk management.	
Brand risk management	Unless this is a global brand owned by a large global corporation, most companies DO NOT assess anything till there is a major problem such as lost market share or falling sales. They try to do "small fixes" or do costly trade deals that usually make things worse!	I agree with them but unfortunately most companies DO NOT plan for it... too busy putting out other fires and taking care of key account channel issues with demanding customers – Referring to Lloyds survey which found risk managers felt more work need to be done to assess risk.	Yes, brand risk should be considered a separate component of risk management	Now in brand risk - poor quality is found out pretty fast, if it caused damage someone always knows and some one always talks. IN the case of the Sotheby auction house - an individual who was in on the price fixing was treated badly - let go and not cushioned appropriately - so he talked. It always happens.	'All projects should be part of an enterprise risk management process.' – When asked if branding should be risk assessed
Method of brand risk management	If "brand risk" was merged into a companies standard process procedures (such as manufacturing, operations, legal, etc.) 'THE WRONG PEOPLE WOULD BE ASSESSING RISK". Brands are rooted in perception and they live in the minds of consumers. Brands are an experience! Numbers people, legal people, engineers etc. seldom understand this so they tend to think about them differently.	Risk managers should become familiar with the tools and techniques of risk management Brand managers need to gain an understanding of risk management			Each project should have the risk mgt process and definitions (likelihood and consequence) tailored for the success criteria of that project. So the process should be the same, but the definitions should be tailored for "brand risk"
Tools for effective brand / risk management		A tool developed by Taylor Nelson Sofres is very effective for brand equity measure. It measures the degrees of commitment.			EROS is an example. You can also use 6 sigma, Lean Aerospace, or any other continuous improvement

		It provides a score of vulnerability.			methodology to help organisations understand the value stream of branding, and to identify and assess the risks to a specific project brand name
Other				‘I believe that you will find that in every instance - the initiating condition was a complete, utter, failure to do risk assessment to identify potential problems, evaluate them and take appropriate action.’ - referring to past perception risk to global brands	My answer might have been somewhat misleading in that I know of no specific tool or methodology for BRANDING.

3.5 Templeton College survey findings

The survey conducted by Templeton College was very important to this study. Not only are the findings directly related to this project, but also many, such as Mr David Abrahams, see the credibility of the work to be very important to this field of study.

Marsh, the world leader in risk management and insurances services, commissioned the study.

The overall findings of the study were:

A mismatch exists between the importance firms place on their brands and the organisational level of responsibility assigned to protect them

Unsurprisingly, different regions, industry sectors and corporate functions perceive very different qualities as central to brand value

There is a broad agreement as to the most damaging scenarios to a brand and the relative importance of different brand protection measures

For those (relatively few) firms which have carried out brand valuation exercises, the two key drivers have been strategic brand management or merger/acquisition purposes

There is a clear shortfall (absence?) in the market supply of effective brand risk financial solutions

Brand crises can damage shareholder value severely, but this is not inevitable

Firms with strong intangible asset values can outperform the market by over 100%.

Adapted from the executive summary of the study

The main findings of the survey are:

77% of participants felt poor customer service, was the most potentially damaging scenario to brand value

On average only one quarter of participants felt poor crisis management planning, key executive adverse comments, license/trademark infringements and employee fraud had a very big impact on damaging brand value.

78% gave marketing/advertising a level 3 or 4 of importance as a means of brand protection

Only 3% felt risk financing/insurance provided a very important brand protection mechanism.

When posed with the reason for not purchasing brand insurance, only 7% felt it was irrelevant as brands had no significant exposure, and 61% felt it was a worthwhile investment (only 2% found it to be too expensive)

Although risk financing/insurance was seen as the least important brand protection mechanism, it seem to be the main method used for loss of physical assets, counterfeiting and licence/trademark infringements

Twice as many of the participants from continental Europe (30%) have had any of their brands valued compared to the US (15%)

Nearly half of the participants felt strategic brand management was the key driver of brand valuation compared with 27% for mergers and acquisitions

The research was conducted by

Rory F. Knight, MA (Oxon), Mcom, PhD,CA
Dean and Fellow of Finance, Templeton College

Deborah J. Pretty, BA (Hons), AIRM, ARM, Dphil (Oxon)
Marsh Research Fellow, Templeton College

Discussion

Section one | Current issues within brand risk management

Chapter 4.1

Brands are based on a relationship of trust with consumers. This trust takes a great deal of time and capital to develop. A breach of trust, however, can occur alarmingly quickly the impact on consumers' perceptions of the brand and their purchasing behaviour can be equally alarming.

Tim Heberden, 2002

4 Discussion

The findings of design research two, showed there was a clear need for a strategic tool to aid effective brand risk management. This has been the main aim of this study. The following section provides an in-depth look into the issues which need to be addressed in order to develop a satisfactory solution. The approach taken is shown in the diagram below:

4.1 The issues identified

There are a number of issues which need to be addressed if brand risk management is to gain the momentum which is necessary. It seems a certain amount of ignorance has developed within industry as to the need to protect the brand. For example, studies such as those conducted by Lloyds of London, Brand Finance and Interbrand; clearly show the value of brands, the percentage worth as an overall company asset and the importance of assessing the risks faced. However, the reality is that very few organisations acknowledge that if a brand can have value then that value is vulnerable to erosion. This point is highlighted by Laurie Young, a marketing partner at PricewaterhouseCoopers. In his article, 'Chipping away at brand equity', he states ' there are signs that modern attitudes and pressures are chipping away at brand equity' (Market Leader, 2003). This point is further expressed by Dominic Mosley, the chairman of MCL who goes on to say,

> 'Brand valuation has been taken as welcome evidence that brands have an economic value as company assets. Yet there remain hidden threats. Assets can be stripped – and will be if lessons about what brands are, how they are built and how they are maintained are lost.' (Market Leader, 2003 - 36)

The point made by Laurie Young is particularly interesting as it touches on two points which have been identified repeatedly within this research study – 'modern attitudes and pressures'. The diagram below shows the current issues which have been identified.

FIG 21 Outline of discussion on issues of brand risk management

It should be noted that although some of the issues identified, stem from an underlying factor, it is important to address the issue at the surface level as well as they may require different approaches. For example, the issue of 'understanding the components of branding' and 'companies experiencing difficulty measuring brand value' are closely linked. However although it is important for a company to understand the components of branding in order to gain a competitive edge, or to implement a cultural approach, it is not necessary for them to fully understand how to value their brand, as there are consultancies that offer this service.

The following section looks at each of these areas in detail to create an understanding of the needs of industry.

4.1.1 Pressure on the organisation

If we look at the world of football, a very important lesson can be learned – provide quick results or your out. This lesson is true to every industry. Managers are no longer given the chance to present long-term results – look at Lisa Gernon's short-lived career as head of marketing at Hutchinson 3. With the issue of increased competition and reduced loyalty, companies can no longer establish themselves over time.

The issue is further strained by the supporter's demands – in this case the shareholders. The problem is 'that shareholders often fail to see the brand as an asset that requires nurturing and investment if it's value is to grow over time'. The issue comes down to two main factors – return on investment and quarterly results. As Scott Davis goes on to say in his book, 'Building the Brand Driven Business', 'since brand-building investments often involves a short-term net expense, there is a tendency to reduce support for it' (Davis et al, 2002 - 37). Although it maybe difficult to measure the return on investment of brand building, there are tools which can help provide measure. However the issue becomes more complicated when it comes to brand risk management, as the reason for investment is not to see an increase on the bottom line, but to safeguard the current income.

As investors demand an annual increase of profits, it becomes difficult to invest on aspects such as risk management. This point was highlighted by Kathryn Tominey, a research scientist, who, when asked 'Why do companies have such poor proactive risk management?' said "the usual reason for this failure – that costs ton's more than assessment and up-front management would have cost – is the desire to hold down near-term costs and doing serious risk assessment seems costly in the near term.

The issue of short-term results is of a disadvantage by the tendency of people to spend less time within the organisation. Whilst previous generations were more likely to spend most of their career within one organisation, it is now quite normal to move every two to three years. The problem this causes is that the brand manger or the marketers 'tend to take a short-term view, focusing on immediate results and impact. On inheriting a brand, it is tempting to demonstrate "action" through a relaunch or repositioning.' (Young, 2003 - 37). This presents three possible problems:

1. Very little is understood as to the current value of the brand, and how to increase it
2. An increased likeliness of the brand experiencing a crisis as a short-term approach may develop gradual erosion of the brand in the long run.
3. Very little effort is put into developing a brand risk management process and as the changes are usually implemented over a year, very little time is taken to reflect on their effects to the overall brand.

4.1.2 Companies tend to take a reactive approach to brand risk management

Another factor as to why companies do not exercise effective risk management is the pressures of running the company. The company is constantly looking at the day-to-day requirements and is left short sighted as to long-term requirements. A point highlighted by Scott Yaw, a founding partner of the Brand-impact forum. When asked about the results of a survey by Lloyds of London, which found that one in four risk managers in the food and drinks sector felt that more was needed to be done to assess brand risk;

> 'Unless this is a global brand owned by a large global corporation, most companies DO NOT assess anything till there is a major problem such as lost market share or falling sales. They try to do "small fixes" or do costly trade deals that usually make things worse'

Although it is extremely important to 'take care of key channels', it is also important to understand the perception risks of the organisations strategies and decision. A good example of this is McDonalds. Throughout the nineties McDonalds went through a strong expansion drive, opening a new branch ever four day's. However they failed to keep an eye on how their brand was perceived, resulting, in the closer of 120 outlets in America, and loosing their 'number one' spot to Subway's. It seems the market perceived them as providers of unhealthy food, and they done very little until the brands perception started to affect the bottom line.

According to Arturo Perez-Reyes, vice president of FINPRO (part of Marsh risk & insurance services), 'Much of the time, risk managers become involved in a situation only after a loss has occurred. In such cases, he said, risk managers are not unlike pathologists, who "always arrive too late."' (Greenwald, 2001 - 38)

This is not to say that they are not aware of the issue, as a survey conducted by JBIMS on 30 brand managers of global companies found, 'though there is genuine concern regarding the risks faced that a brand faces, the everyday pressures makes it difficult to track risks on a regular basis. Therefore most companies find themselves reacting to a risk when it is inevitable, rather then proactively handling the risks to the brand, which would ensure minimal damage. (JBIMS, 2002 - 39)

Underpinning all successful business/brand decisions should be the effective management of risk. It should be conducted on two levels. First, from a corporate level, which involves setting in place the necessary 'strategies and control measures, and secondly, (but just as important) from the personnel level. This should involve the use of risk-based procedures for making day-to-day business decisions. If the foundations are based with risk in mind, then developing a proactive risk system becomes easier.

The problem is further highlighted by Canada Worldwide's Bert Watson, when referring to intangible asset insurance, he said, 'serious enquiries are made only after a scare' (Tait, 2000 - 40). The issue of insurance is also another barrier to effective risk management, as shown in the next section.

4.1.3 Lack of interest from the insurance sector

Although insuring against negative effects on your brand does not change the perception held by stakeholders, it may provide the organisation with important funds to help rebuild the brand. The lack of interest from the insurance sector is probably one of the main factors which is restricting brand risk management. The current limitations of the insurance sector is emphasised by Matthew Frost, Head of risk financing at London based Diageo plc. Diageo's brand-damage exercise identified some 139 potential risks to the brand, but he said 'we discovered that traditional insurance solutions were invalid for more than 60% of these risks.' (Business Insurance, 2001 - 41)

FIG 22 Some of the brands owner by the Diageo

Although the insurance sector is reluctant to develop measures of brand risk, the issue is improving. As measure developed by brand strategy consultancies become more suited to insurers needs. This is a view shared by David Abrahams of Marsh Risk Management, who believes 'opportunities for risk transfer and alternative risk financing may grow as insurers become more comfortable with the workings of market research and as brand valuation models become more sophisticated.' This is also a view shared by Max Taylor of Lloyds of London insurance group (42), who, after researching views of risk managers in a survey, said 'this research shows more sophisticated protection is needed. Insurers like Lloyds are developing the product that can offer protection'. Although he feels the insurance sector is doing a better job then realised, it doesn't seem enough considering the views expressed by Mr Frost on the lack of adequate cover.

In Mr Taylor's defence, there are a few products available to protect brand value, such as product contamination insurance – available since the 1980's. More recently' this has been developed to provide 'extended coverage that goes beyond compensating for superficial recall costs to actually protecting the corporate brand'. However, 'despite the damage – to finances and brand reputation associated to product recall, many companies do not purchase recall insurance, and are not aware that such coverage is available, or do not understand the scope of this insurance and how it can protect their brand. (43)

The need for further improvement is highlighted in the survey conducted by Templeton College:

Brand protection mechanisms

Mechanism	Importance: 0	1	2	3	4
Marketing/advertising	5	2	15	16	62
Patents/trademarks/licences	15	8	25	19	33
Brand awareness training for employees	6	11	33	16	34
Crisis management	11	16	26	17	30
Internal specialists	10	12	30	23	25
Business interruption/contingency planning	9	15	31	18	27
External advisors (e.g. PR agency)	7	15	39	23	16
Integrated brand risk management	19	18	40	10	13
Risk financing/insurance	43	23	23	8	3

FIG 23 Survey results on how to protect brands

In Figures 23 and 30, the value zero represents 'unimportant' while four represents 'very important'. As we can see from the table above, risk insurance as a method of brand protection is seen as of little or no importance. This confirms the view of Mr Frost, that inadequate cover is available, a point also made in the survey - 'currently, the insurance market is not providing policies which will help companies finance their brand risk'. (Knight, 2000 - 44)

The two main reasons for a lack of brand risk insurance are

1. The insurance sector doesn't seem to fully appreciate the need for brand risk cover
2. Companies do not understand the risks to the brand and also the cover which is available currently

4.1.4 Companies find it difficult to measure brand value

Mr Frost also expressed that 'one of the reasons for the lack of comprehensive insurance coverage is that it is so difficult to place a value on the brand.' This issue is looked at in this section.

The issue of brand valuation has been going on ever since Rank Hovis McDougal decided to value its brands and show these as assets, over two decades ago. Thereby significantly increasing the apparent value of the business during a hostile takeover bid (although until legislation in 1999, these could not be included on their balance sheet). (adapted from Dominic Moseley's article 'Is Brand Valuation a Threat to Branding?', 2003 - 45).

However, there is a lot of confusion as to how to measure the value of a brand. The value of brands is provided in the literature review (Section 1.1). The issue of measuring the brand is important to brand risk management, as this presents a monetary value of the risk faced (important to insurers and accounts) and also the impact on the overall organisation.

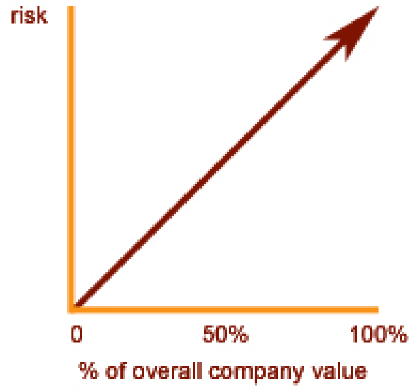


FIG 24 Risk to asset in proportion to the value of it to the organisation

As we can see in figure 24, the risk of a brand crisis would have more impact on the organisation, if the brand represented a greater proportion of the company's overall assets. This is true in markets where there is a high level of competition and the brand provides a strong competitive advantage. For example, the mineral water market consists of 700 different brands, however, Evian is the market leader, with a strong trusted brand. If however' they were to experience product contamination, they are more likely to struggle in building consumer confidence again then a unknown brand, who package water for a third party.

Only after you understand the value of the brand can you assess the risk you face if your brand is in crisis. This point is also made by Tim Heberden, who believes,

'In the likely event of a brand or a portfolio of brands representing a material value, that value must be understood and tracked over time. Additionally, an understanding needs to be developed of the factors that impact on the strength and value of the brand. This provides a better understanding of the nature and scale of risks to brand performance and brand earnings' (AFP Exchange, 2002 - 46)

There are two main issues with measuring brand value, which must be addressed:

1. Since there are no universal methods of brand valuation, companies who do not have the expertise in branding are reluctant to develop a method. Either a universal method of brand audit (such as the systems used within accounting) needs to be developed or the branding sector needs to help educate organisations on brand valuation.

2. Many companies believe awareness to be a key component of brand valuation, and also believe that because their brand is recognised, they are at less risk – 'Unfortunately, many companies believe that their brand is secure simply because their name is well known. 'Therein lies the rub. Widespread public knowledge of a brand name is not the only measure of true brand equity 1999; (Duane E Knapp, 1999)

According to Tim Heberden, brand valuation and value trackers, backed by contingency plans in the event of unavoidable crisis, can help save a companies revenue stream. (AFP Exchange, 2002 - 47)

4.1.5 Outdated accountancy methods make it difficult to incorporate brand value

Just like the insurance market, the finance sector has a key role to play if brand risk management is to be utilised. When Mr Hall was asked about risk, he firstly provided a definition, but then followed with the boundaries within which business risk operates in, he said

> 'The identification of risks is extremely value laden. It's a value judgment as to which risks to study (domestic vs. Middle Eastern vs. alien terrorists). It's a value judgement as to which "objectives" (economic cost, health, environmental, social) are included in the analysis.' (David Hall, 2003 - interviewee)

If the quote above is true then it is necessary to have a method to measure the effect of the risk, in terms of the financial implications. This is not to say this is the only value of risk. For example catastrophic risks, such as nuclear, chemical, explosive or chemical would have to take into account the human and environmental cost.

Now, if it is necessary to quantify the risk, then it is also true to have a method of measuring the value. Although this is the case with tangible assets, it is far from it with intangibles. This is a view strongly shared by Mr Frost (Head of risk financing at Diageo). In his speech on the 'New Paradigms for the Old World' in 2001, he talked about the new risks faced by branded companies. He concluded that 'companies like Diageo are very good at identification and risk assessment', but, he said, 'we need help in evaluating the potential financial impact of brand risks on our companies'. (48)

It is not the case that the financial sector does not appreciate the value of brands. This is clear to see when a merger or acquisition arises. For example, in 1989 Cadbury Schweppes paid $220 million for the Hires and Crush soft drink business from Proctor and Gamble. The acquirer stated that only $20 million was paid for the physical assets. More recently 'Bacardi-Martini paid £1.15 billion for Dewar's 'White Label' scotch Whisky and gins Bombay and Bombay Sapphire. Beyond the three brand names, the only assets purchased were four distilleries employing 49 people and a 15 year supply contract for ingredients, blending and storage.' (Knight et al, 2000). Probably the most representative case was the takeover battle for Rolls Royce between BMW and VW in 1998. VW paid £480 million for the tangible assets and the 'Bentley' marque, while BMW paid £40 million for the rights to the 'Roll Royce' marque from the year 2003. Most financial analysts were in agreement that BMW got the better deal. (adapted from Knight et al, 2000 - 49).

Perhaps, the main barrier comes from the reluctance of financial institutions to include the value of the brand into the balance sheet, especially in America. The director of brand valuation at Interbrand, in the United States, Jeffery Parkhurst said, 'knowing the value of the brand through financial analysis, and "complex judgements" makes it easier to mange and enhance that brand for greater long and short-term profits'

He then went on to talk about the limitations he faced when applying his companies' brand valuation model. He acknowledged that a key part of the brand valuation process, the determination of a client's "intangible assets," is "not recognised in a big way" by the American general accounting practices.' He feels ' The U.S. accounting system is probably 100 years out of date'.

Putting this in context with his companies brand valuation model, he said ' we've done this over 2'500 times and we're sanctioned – more by the European guys and most international accounting standards board so this model is starting to hold up for the long term.' (50)

If we look at the survey by Templeton College we can clearly see there is a direct link with a companies willingness to conduct brand valuation with the acceptance of its worth within the financial sector. When participants were posed with the question of whether any of their brands had been valued, twice as many companies in Continental Europe answered yes compared to the US.

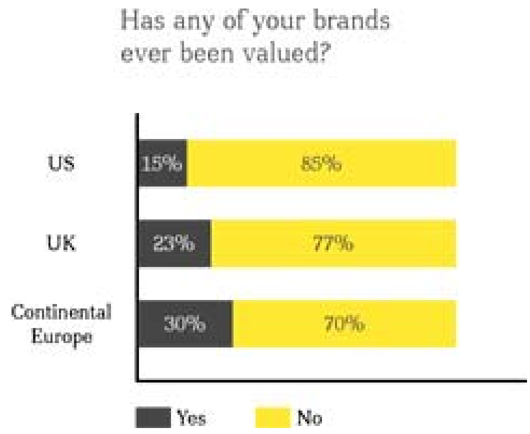


FIG 25 Results of companies who have assessed the value of their brands

Within the UK, changes are starting to occur. This has happened mainly due to companies driving the changes. As mentioned previously, a study by Brand Finance found that in 1998, although research showed 72% of FTSE 350 companies value came from intangible assets, however, they could put an actual figure as to what part of that could be accredited to the brand value. They concluded this was due to 'stringent accountancy practices that made it difficult for companies to fully recognise their intangible asset base.

Following this, changes were made with the introduction of Financial Reporting Standard 10, which allowed companies to present their acquired goodwill on the balance sheet (from mergers and acquisitions). The change in the law showed when in 1999, one hundred and thirty one companies capitalised on acquired goodwill compared to five in 1993. Furthermore six companies specifically capitalized brands. (Heberden, 2002 - 51)

There are a number of issues, which must be tackled if brand risk is to provide companies with financial measures. Furthermore, the blame cannot purely be placed on the accountancy sector for the lack of brand/risk measures. A greater degree of clarity needs to be provided by the creative sector. They must create an understanding with financial value in mind. Also, there is a greater need for communication from both sides in the development of financial brand value measurement tools. We can clearly see there are companies in the creative (Interbrand, Young & Rubicam), risk (Marsh), Insurance (Lloyds) and the finance sector (Ernst Young), developing tools for brand measure, however, there is a need for a standard method. This will only be possible if accountancy bodies drive the changes, or government influence is applied.

4.1.6 Brand risk management within an organisation

Although this is mentioned under the section of barriers to brand risk management, it still requires a greater focus, as there are a variety of issue, which must be addressed. The effectiveness of the tool being used within an organisation would be seriously hindered if the organisation didn't understand or see the need for brand risk management. The areas that will be covered under this section are:

Brand risk management	Who currently conducts it
Brand risk managers	Developing brand risk managers
Personnel	Senior managements perceptions
	Organisational involvement

FIG 26 Areas covered under brand risk management within organisations

4.1.6a Brand risk management – who currently conducts it

Presently, apart from the large global organisations, there are very few companies that carry out brand risk identification and assessment. Furthermore, even within the large organisation sector there are only a select few who understand the importance of brand risk management to maintaining the bottom line, such as Mercedes, Diageo, Bacardi-Martini, etc. (this is not to be confused with companies who understand branding, as there are many of these in the large company sector).

There are currently three approaches to brand risk management

Approach	Description	Example
No approach	Not seen as important to conduct brand risk analysis or conducted as part of operational risk or enterprise risk	
Internal approach	This is where companies actually develop a brand risk approach which is part of the overall risk	Diageo, Burger King, Hewlett-Packard and
External approach	This approach consists of external consultancies who provide a brand risk service	Accenture, Marsh, Young & Rubicam, Branding-Integrated Forum

FIG 27 Table outlining approach taken to brand risk

External consultants are really driving the market for brand risk. Companies such as Interbrand, Marsh and Accenture are known to have developed methods of measuring brand risk. However, without the understanding of the need within organisations, their effectiveness is limited.

The diagram on the right shows the level of expertise each of the sectors currently has on managing brand risk. The measure is not compared to one another, but to the expertise compared to other services they offer. For example Accenture, the management accounting firm, offers limited services on brand development – they currently provide measures of O2's brand awareness, but this is a small part of their overall business offering. The need is to develop a hybrid of the risk consultants and brand consultants. This is a method currently being developed by Marsh.

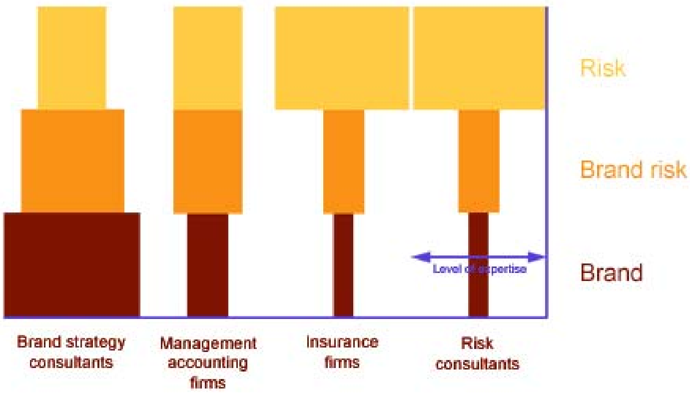


FIG 28 External consultants level of brand risk management expertise

Internally, there is very limited activity of brand risk assessment. In some companies risk managers handle the 'brand risk' activities, but these are seen as components of other risks. The problem with this according to Scott Yaw is:

> 'If "brand risk" is merged into a companies standard process procedure (such as manufacturing, operations and legal, etc.), The wrong people would be assessing risk. Brands are rooted in perception and they live in the mind

of consumers. Brands are an experience! Number people, legal people, engineer's etc. seldom understand this so they tend to think about them differently'. (Scott Yaw, 2003 - interviewee)

However, although his view is quite mainstream, it is more suited to brand management then brand risk management. The difference being that brand managers have a limited understanding of risk, which is a key component of brand risk management. This view is shared by Duane E Knapp. He feels 'the present day overseers of corporate brand equity are often sales and marketing executives. Such individuals, while well positioned to move the business further ahead in the short term, may not appreciate the long-term risk of misdirecting brand assets.' (Knapp, 1999 - 52)

Perhaps the view adopted by Diageo and Bacardi-Martini is required. They manage brand risk collectively within the organisation. This method is possible by firstly identifying the different brand risk associated to business activity. Once they have analysed the brand risks, Bacardi-Martini set up two teams. One was an overseer of all the risks. This consisted of crisis management consultants and communications and public relations specialists. The other team was risk specific. This consisted of people who had expertise of the specific risk, for example, the product recall crisis team consisted of the plant manager, the marketing director, the production director and the quality control director. This approach is advisable since the variety of different risks doesn't allow for one person or a small team of risk auditors to expertise in all areas (Diageo identified 139 brand risks in their brand-damage project).

However a view expressed by Mr Abrahams (senior vice president of Marsh Risk consultant) must be noted. According to Mr Abrahams, 'risk managers should become familiar with the tools and techniques of brand risk management', and 'brand managers need to gain an understanding of risk management'. This is very important for two main reasons:

1. It provides the learner with a better understanding of the requirements to conduct brand risk management
2. It provides a common language, as an understanding and respect is developed of each others approach and reasoning

4.1.6b Developing brand risk managers

The views presented here are on the personnel required to manage brand risk, not on the process itself – this is looked at in section 4.2.

At the European Risk Management Association's Risk Management Forum in Berlin (1999), Thierry Van Santen, The director of risk management for Groupe Danone in Paris spoke about the changes the risk management sector was facing. Mr Santen said that 'risk managers will need to prepare themselves if they are to capitalize on opportunities such as managing operating risks. He said, many risk managers currently lack the background needed to face these new challenges'. (Winston, 1999 - 53)

The diagram below shows how risk managers can gain background knowledge in order to manage brand risk effectively.

Area	Involvement	Information required	View expressed by…
Understand	Branding and marketing teams within the company	Who currently handles brand risk mgt.? What are the key drivers of brand value?	Eric Granof
	Legal department	Usually involved in managing trademarks, patents (intangible assets). Gain information on how they currently manage these	David Abrahams

Analyse	Risk manager	What can I do to protect the assets of the company?	Mr Perez-Reyes
	Branding and marketing Risk manager	Define consumer perceptions of the company and its products, and scrutinize corporate decisions for their impact on brand power	Duane E Knapp
	Department heads	Can provide expertise on particular areas	Matthew Frost
Develop	Brand, marketing and communications dept	Partner with these groups to develop a brand risk management strategy	David Abrahams
Implement	Risk manager	Risk managers should become stewards of their companies' intangible assets	Mr Perez-Reyes
	Risk manager	A risk manager should monitor the brand and guard its role in creating value for shareholders	Duane E Knapp
	CEO	Develop clear brand risk management principles. Apart from the CEO, few individuals in the corporate hierarchy are better suited for the task	Duane E Knapp
	Crisis management consulting team and a communications and public relations specialist	Necessary for maintaining brand value in times of crisis	Gus Reyes

FIG 29 Views on how to manage brand risk

4.1.6c Personnel – Senior management and organisational involvement

If we look at any organisation that implements branding theory effectively into all aspects of the company, nine times out of ten there will be a deep appreciation of it at the top. Examples of these would be Apple and Steve Jobs, Virgin and Richard Branson and Dyson with James Dyson at the helm.

In a recent interview with Market Leader, Keith Weed, Chairman of Lever Faberge and the Marketing Society's new president, was asked 'Looking forward, what issues are you particularly concerned about? (54) He replied, 'the role of marketing in companies and particularly in the board room.' He wet on to say ' it is critical for me to create more debate, create more focus about marketing and branding, because I consider them to be the essence of creating a successful customer/consumer-orientated business.'

There are two very important points here – the importance he places on senior management's need to lead, and the fact that he is the chairman of a company who practices what he preaches very successfully (brands include Lynx,

Potentially damaging scenarios to brand value

Threats	Importance: 0	1	2	3	4
Poor customer service	1	0	8	14	77
Strong competition	6	4	32	18	40
Advertising undermining brand image	6	7	33	17	37
Poor crisis management planning	8	10	32	18	32
Key executive adverse comments	7	10	37	15	31
Licence/trademark infringements	14	17	28	14	27
Employee fraud	25	15	28	9	23
Product recall	35	8	22	9	26
Counterfeiting	41	14	16	2	27
Loss of physical assets	33	18	21	11	17
Product tampering	46	13	20	3	18

FIG 30 Results of potentially damaging scenarios to brand value

Sure and Persil – market leaders in their sectors).

The point which is being made here is that the same applies for brand risk management. If the overseers and decision makers of the organisation do not understand the importance of investing time and money to protect a brand, it is very unlikely anything will be done to protect it – that is until a crisis occurs. As Morpheus says to Neo in the Matrix, 'the body cannot function without the mind'.

This point is highlighted by Scott Davis and Michael Dunn, colleagues at Prophet and authors of the book 'Building the Brand Driven Business' who believe;

> 'For brand building to credibly take hold in an organization, it needs a voice at the highest level. Without this support, most brand-building efforts will fail. This means that CEO's, presidents, COO's, operating division heads, strategic planners, CFO's, corporate development specialists and marketing/acquisitions specialists need to develop a deeper understanding of brand and its role within strategy. Just as these individuals are comfortable reading pro forma income statements, negotiating complex legal contracts and approving technology investments, they will also need to be comfortable with the tools of measuring and strengthening their brands and leveraging them in the marketplace.' (55)

Once the senior management is 'singing from the same hymn sheet' so to speak, the next step is to gain the assistance of everyone within the organisation. This is necessary for two main reasons. Firstly, to help identify the possible brand risks your organisation faces, and secondly, to implement and adhere to the procedures developed to limit the brand risk. The survey conducted by Templeton College found that 77% of participants felt that most important factor to damaging brand value was poor customer service.

'Risk managers-and by extension, everyone in the organization-must discern, monitor and deepen consumer impressions. Every product, service and customer interaction must be analysed to determine if it is fulfilling the brand's promise.' (Knapp, 1999 - 56) The importance of this can be seen in the case study on Diageo. In order to identify the brand risks, teams of employees conducted workshops, furthermore, they were intrinsic in assessing the risks and developing solutions. However, if the senior management did not see the importance of conducting a brand damage project, the initiative would never have been achievable at such a grand stage.

Discussion

Section two | The brand risk management process

Chapter 4.2

Diageo's brand-damage exercise identified some 139 potential risks to brand, but we discovered that traditional insurance solutions were invalid for more than 60% of these risks."

Matthew Frost, Head of risk financing, Diageo, 2001

4.2 Introduction

This section of the report encompasses the main information, which was used to develop the framework for effective brand risk management.

According to Marsh, ' the irreparable damage done to a brand owner's business following crisis or catastrophe may substantially outweigh the immediate and visible costs.' They also believe 'a risk management framework without proper insight into the role of brand is incomplete'. (Marsh topic letter – IX, 2002 - 57). These two quote form the basis of this chapter.

Although it is important to have a crisis management process, this is no longer enough. While companies must develop contingency plans and obtain adequate insurance, in today's competitive world, complete risk management requires proactive measures. This is also true for brand risk management. Although there is limited cover available for intangible assets such as brands, the main aim of brand risk management - maintaining positive perceptions of the business within the stakeholders mind, are not easily regained once crisis hits. A clear case of this is Ratners, the UK retail jewellery chain. In 1991, the firm's chairman, Gerald Ratner, made a presentation at the annual convention of the Institute of Directors in the Albert Hall in London. In his address, he said,

> 'People say how can you sell this for such a low price?
> I say because its total crap…
>
> …We even sell a pair of earrings for under £1, which is cheaper
> than a prawn sandwich from Marks and Spencer. But I have to
> say the earrings probably wont last as long'

These comments by Mr Ratner signalled the end of the Ratners brand. Prior to his comments, the shares were trading at 189p. By Christmas, they had dropped to 27p (down 86%). Gerald Ratner was forced to resign in November 1992 and the firm was renamed Signet. (adapted from Brand risk Management in a Value Context, 2000 - 58) We can clearly see that Mr Ranter's outburst caused more damage then the poor quality of the product. Prior to this incident, Ratners made a profit of £112 million, the following year they made a loss of £122 million.

It seems that the risks which brands present, are harder to foresee and analyse than tangible assets – could the effects of Mr Ratners comments really have been predicted, or could Ratners have measured such risks to understand the potential risks; the answer is yes. Although it is impossible to eliminate all brand risks, the process of brand risk management, like risk management, can help identify and analyse the risks, and furthermore, present an organisations options of how to deal with the potential risk prior to it happening and also if and when crisis hits.

Below an outline of the approach taken to this section is provided.

Brand risk management	An overview
Components	Components of brand risk
	Overall process of brand risk
Methods of brand risk management	Review of current methods
Tools and techniques	Analysis of best practice
Summary	Considerations for brand risk tool

FIG 31 Outline to discussion on developing a solution for brand risk management

4.3 Brand risk management – An overview

The case for brand risk management has been provided throughout the previous chapters. This section will focus on understanding the processes currently employed within this field and the factors which must be considered.

4.3.1 Value of brand valuation

Firstly, a clear distinction must be made between brand valuation and brand vulnerability. Many companies assess the value of their brand and formulate approaches from the results. However, this does not mean that the risks have been identified, but that the value of the brand to the overall enterprise has been obtained. A brand valuation is similar to a balance sheet assessment. It provides an emphasis on the revenue raising aspect of the brand or the organisation for that matter. ' Gauging the impact of brand-related risks calls for an estimation of how any act, fact or omission is likely to affect the organisation's immediate response or technical recovery'. This can only be gained from conducting brand vulnerability assessments.

4.3.2 Events which should cause brand risk concerns

The list below refers to non-catastrophic events which companies are likely to experience. They are usually assessed in the enterprise risk framework, although, this does not take into account the effect the event can have on the brand. The list below is not exhaustive, however, each organisation should look at its own environment and identify the brand risk challenges.

- A proposed merger or acquisition
- A spin-off or recapitalisation
- A major enterprise restructuring
- Outsourcing of a brand relevant activity, such as technology or customer support
- A catastrophic, brand impact event to a competitor
- A major change in brand related efforts by a current or new competitor

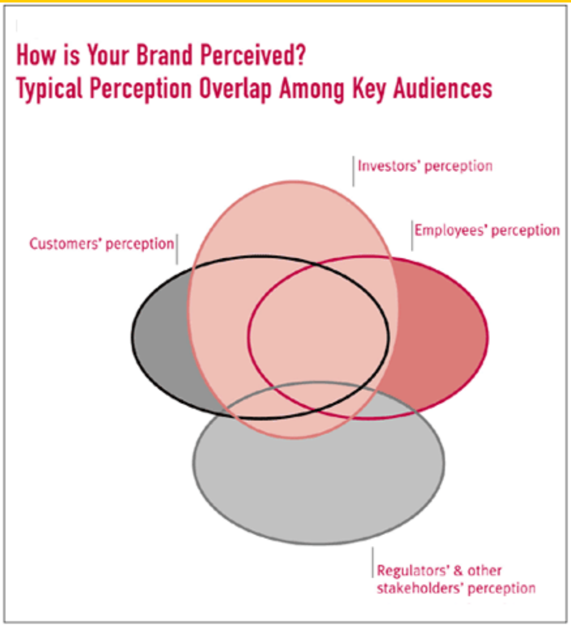
(adapted from 'Why Brands are Becoming More Valuable and More Vulnerable, Jurkowich et al, 2000 - 59)

4.3.3 Understanding of brand image, brand equity and brand value

Brand image – The brand image is the perception of the organisation, held by your stakeholders. Too often organisations believe they know how they are perceived without adequate research, and therefore make costly errors in targeting their core stakeholders. An example of this would be when Kellogg's changed the name of 'Coco Pop's' to 'Choco Krispies', in the belief that their main audience was in a higher age bracket then previously thought. However, this was not the case and therefore they lost a huge amount of their core stakeholders, resulting in a reversal of their decision within two months.

Another issue which arises from this, is the fact that companies must consider all stakeholders. Too often, the focus is only on the customers. This is too narrow a focus, and can be very costly, as The Accident Group, the UK's accident claims specialist's found. Although their communication to customers was very effective (they were the biggest accident claims group in the UK), their understanding and communication with their employees was non-existent, resulting in unrelated havoc at three different branches on the same morning – the cause, a text message informing the employees their pay would be delayed for a week.

The different perceptions of stakeholders



It is important to remember that customers, employees, investors and communities may be stakeholders in the same brand, but they are likely to have different, if overlapping, priorities and perceptions.

Customers' perceptions may diverge significantly from those of employees, regulators and other stakeholders. For example, local communities and political leaders may perceive a multinational corporation as arrogant and insensitive while customers flock to buy its products. and, for the time being, its stock soars.
Employees and potential employees can see the company differently from customers, focusing on the company as employer. Yet employees are essential contributors to sustaining the company's brand promise to customers and others.
Investors should, theoretically, enjoy an overarching perspective on the company, reflected in the price they will pay for its shares. In practice, their perspective is likely to converge most with that of customers.
Regulators Includes governmental and non-governmental regulators and other stakeholders (e.g. local communities, environmental lobbies and others) whose actions might affect the company's "license to operate."

George Jurkovich and David Abrahams, 2000

Brand equity is the association with the brand, which allows the company shift economic demand. It is a subset of image elements. A clear distinction is drawn by Mr Abrahams, who demonstrates this distinction by comparing Gianni Agnelli, head of Fiat and Richard Branson, founder and head of the Virgin Group. 'He said that while both are figureheads of their companies, Mr Agnelli is associated with Fiat's brand image and Mr Branson with Virgin's brand equity. While people don't buy a Fiat car because they associate their purchase with Mr Agnelli, he said. When consumers buy Virgin products, though, they make an association between Mr Branson and the Virgin brand.' (Versey, 2001 - 60)
Types of risk – erosion and catastrophic

Brand equity and awareness are the drivers of brand value. Brand value is the overall financial worth attributed to the brand, and is worked out usually by measures such as equity, awareness, share and loyalty.

4.3.4 Erosion risk

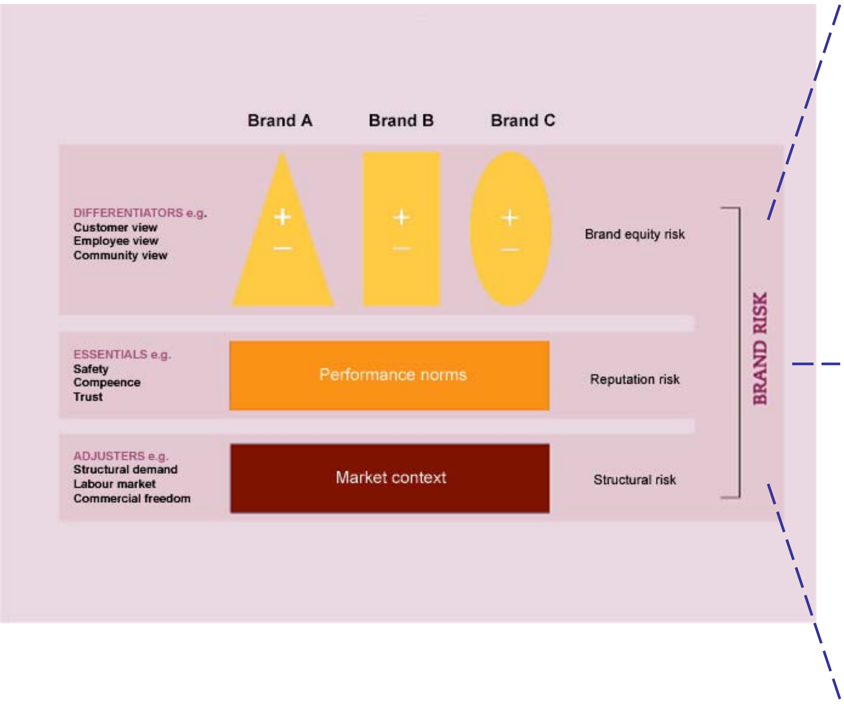
As mentioned previously there are two levels of brand risk – catastrophic and erosion risks. For most managers, the notion of 'risk' usually refers to something catastrophic, 'like a natural disaster, an act of sabotage or a technical meltdown, when in fact, the risks most companies face are form strategic missteps.'

Erosion risk refers to the damage caused over a long period of time. It is usually only identified once the effects of the erosion turn into a crisis. It is harder to identify, and therefore requires constant monitoring. A method of limiting the impact of brand erosion once it turns into a crisis is to 'develop and implement a corporate strategy that creates goodwill and credibility in the mind of the stakeholder when times are good. He gives the example that television talk show host Oprah Winfrey has such good credibility that she could probably be forgiven for a killing spree' (adapted from Fire Drill: preparing for crisis, Liss, 2002 - 61)

4.3.5 Components of brand risk

4.3.5a Initial stage - identify

According to most analysts, there are three types of brand risks. Although they are headlined under different names, the characteristics are the same. The definition provided by Mr Abrahams, which was used previously is the most descriptive. The areas mentioned previously were, brand equity risk, reputation risk and structural risk (definition: figure 7). Below a clearer understanding of each area is provided.



Brand equity risk describes exposures that can undermine a brands ability to maintain its desired differentiation and competitive advantage.

These attributes will for example, demonstrably affect the willingness of a customer to pay a price premium, to transact more frequently – or to transact at all.

Typically, threatened brand equity elements tend to weaken over time until there is a moment of crisis.

Reputation risk groups together those exposures that arise from failure to meet basic expectations of performance that apply to any comparable organisation operating in the same field.

By this definition, risk to reputation, typically applies to factors that are 'brand essentials'.

These are the minimum stakes required to stay in the game. However, bad performance or catastrophe in any one of these areas can quickly destroy the bond of trust that exists between the brand and its stakeholders.

Structural risks describe the exposures that might affect an entire industry or market segment.

Occurrences of this type may directly or indirectly weaken the economic performance of your brand.

These risks are sometimes referred to as 'demand adjusters' because this is their principal potential impact.

Brand equity risk

An example of this would be if Richard Branson were to behave in a way which offended Virgins stakeholders – this would impact on people purchasing Virgins products

Reputation risk

An example of this would be the Mercedes 'A Class. When first tested by a German car magazine, it toppled over on sharp turn – It was deemed not to be safe, a key component to have in the car manufacturing market

Structural risks

An example of this would be McDonalds. Due to changes in peoples eating habits (healthy lifestyles), they have experienced a slump in sales, causing them to renew their brand value in order to meet market needs

FIG 32 Diagram showing the different types of brand risk

It must be noted that a risk can fall into more than one area. For example, although 'safety' is a reputation risk within the car industry, the Swedish car manufacturer Volvo has used it as a factor for competitive advantage. This would mean that if they were to be perceived as manufacturer who developed unsafe cars (erosion level) or if they had a crisis with a newly launched model, which resulted in death or injury (catastrophic level), they would experience both brand equity risk and reputation risk.

The main components of this process are

- To understand the key value attributers of the brand
- To identify the risks posed
- To identify the type of risk

4.3.5b Stage two - Assess

By identifying the different types of brand risks, the organisation is able to develop an understanding of the approach available to them to tackle the issue. Additionally, it can also be used to analyse brand and business strategies to understand the possible impact of those actions and how to prepare for them. This is shown in the diagram below:

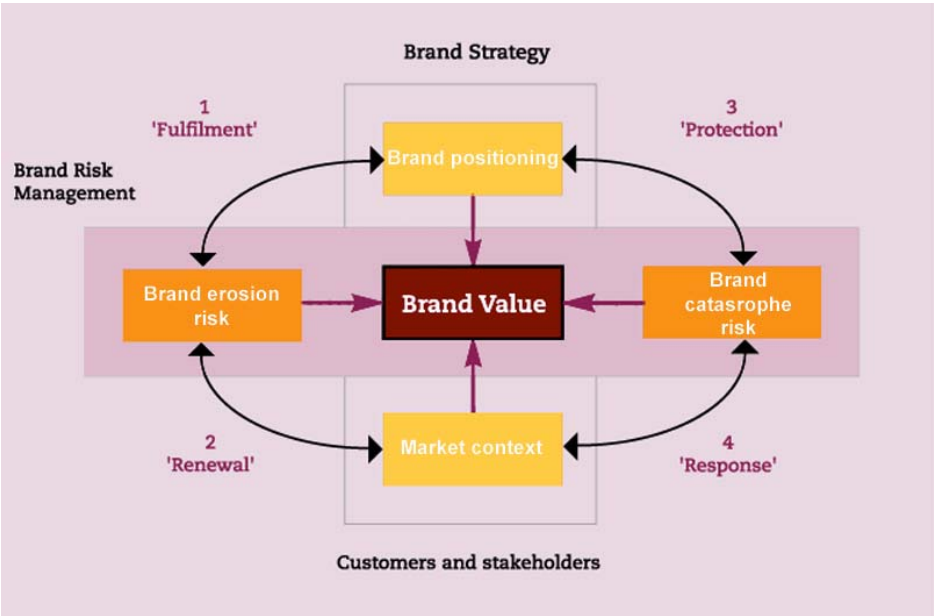


FIG 33 Brand risk assessment approach

We can see here how brand risk management fits within the overall brand process. The four areas offer modes of approach. The options are; **Fulfilment**, where the brand team use their understanding of the brand's equity elements to analyse which option will deliver consistently on the brands overall 'promise' to its customers and other stakeholders. **Renewal**, Stakeholders needs and expectations change over time. The organisation needs to understand this so they can adapt to the needs of customers and other stakeholders. 'An organisation who do not do this, will see the power of their brand steadily erodes. **Protection**, there are a number of key measures which can protect your brand, such as, seeking advice on forgery, trademarks, internet law. By listening to concerns of pressure groups, and monitoring risks which may affect your consumers and business partners, and transfer any risks you can by way of insurance. **Response**, this involves preparation. Ensure your organisation develops contingency plans, a crisis communication plan, and communicate the plan to all personnel who are required if the risk occurs. Practice the plan regularly.

The main components of this process are

- To assess the likeliness and impact of the risk identified
- To assess the effect it will have on the brand
- To assess methods of reducing, transferring and avoiding the risks posed

4.3.5c Stage three – Manage

This involves implementing the plans to reduce, transfer and avoid the risks, and also the potential response to damage. This process is dependent on the findings of the first two stages; however, there are some common characteristics.

The main components of this stage are

- Develop a strategy, rehearse it and update plans (Liss, 2002 - 62)
- A crisis management team must be established, this must include top level management
- Implement a plan to strengthen the brand in areas where it is seen as presenting risk
- 'Develop a communication plan which keeps all constituents promptly and fully informed' (Jurkowich, 2000 - 63)
- Implement the plans immediately and make sure you stick to the blue prints

To conclude – bring together a team, an infrastructure, a process, and a plan to respond to crisis, rehearse the strategy, involve the CEO, and constantly update critical information. (Liss, 2002 - 64)

4.4 Methods of brand risk management

Two different approaches of conducting brand risk management are presented below. The first method was obtained through research on the Internet. Mr Abrahams provided the second. This is also accompanied by a method provided by Mr Wake of Albany Risk Management, called KnowRisk. This is a software-based system, for risk management, however there are a variety of ideas, which can be utilised in developing an effective BRM tool.

	Method one BRANDAID by JBIMS	Method two Lippincott Mercer approach	Method three KnowRisk By Albany Risk Management
Overall approach	Effective BRM can only be conducted when there is a process in place for identifying, assessing and managing brand risk BRM ensures the evaluation of risk, within time to understand the measures that can be used against the risks, which include AVOID MINIMISE RETENTION TRANSFER (through insurance and captive pools)	BRM can most effectively be conducted when all of the company's risks are identified, measured and managed in an integrated manner – in other words within an enterprise risk management framework. The reason for this is simple: brand risk is multifaceted. Financial, hazard, strategic and operational risks – most of which tend to be managed in organisational 'silos' – can all give rise to brand risk	Like any other management activity the key to successful risk management starts with choosing an appropriate structure to place the risks in. The structure should be obvious to anyone using it. Risk reduction by treatment through loss prevention and loss correction
Stage one	Conduct a survey which lists the brand risks the company feels it faces	Understand and - more specifically - evaluate your brand: assess its strengths and weaknesses in the context of its risk environment. Consider all stakeholders	Identify risks, working out the maximum foreseeable loss, before treatment (inherent) and after (residual). This helps work out how likely and how big the risk maybe
Stage two	Results are placed in a risk alert matrix on the basis of frequency and impact. This presents the 'red alert' risks which a brand faces (high impact, high frequency)	Quantify threats to your brand by incorporating brand risk into a broad 'risk mapping' exercise covering all major strategic, operational, hazard and financial risks affecting the company – a risk map ranks risks by frequency and severity.	Identify controls - The KnowRisk system has a built in database to analyse and reduce causes
Stage three	The 'red alert' risks are then placed in the brand risk tracker. This is basically a process were the brand managers are asked to place the risks on a scale of 1-10, on the basis of how strong these risk are in eroding brand value	Also using external and internal research, evaluate the positive value of your corporate and product/service brands as a form of 'insurance' protecting you against other risks.	Assess controls – Develop controls to reduce the risk. Identify the best measures to take, e.g. preventive, corrective, etc
Stage four	The brand risk tracker reveals the risks into two areas – the warning bell risks, which require immediate action and hedging and the hawk eye risks which can be averted to second priority	Implement an integrated risk management strategy that a) protects your brand from the major risks you have identified; and b0 strengthens your brand in those areas where a strong brand can help mitigate other risks	Implement controls
Stage five	The warning bell risks are taken into the Risk Control Grid to arrive at a definitive strategy for hedging and managing these risks	The next important step is a plan for ongoing risk management and potential responses to brand damage. Its first, a communication plan to keep all constituents promptly and fully informed	Monitor / test This relies on logging information such as consequences, incidents, actions, recommendations and alarms.
Stage six	The risk control grid maps the warning bell risks on the basis of uncontrollability and investment potency. The risks are rated on a scale of 1 to 7; these risks are then mapped on a grid, which has 4 quadrants indicating the risk control measure to be taken.		Monitor risks Use information gathered

FIG 34 Table showing current methods of brand risk management

As we can see all the approaches are very different. The third method is clearly more developed than the other two. However this is probably because BRM is a pretty new area and is still a developing process. Furthermore, as tangible asset risks are more easily quantifiable, the measuring tools can be easily developed and clearly structured. The method outlined by JBIMS provides a good method for analysis, however the data collection requires some adjustment. The views are obtained from brand managers and stakeholders of the organisation. Although they maybe able to provide information on the types of risk the brand could face, it would not be advisable to have them solely quantify the levels of risk, particularly the stakeholders. The process developed by The Mercer group, relies on a tool called the Brand Value Analysis tool. This provides a clearer understanding of their process, however, the tool is limited to identifying the vulnerability of different aspects of the brand. It provides no process for the planning aspect. This maybe because it is part of a consultancy process, which involve The Mercer group advising client's on the options available.

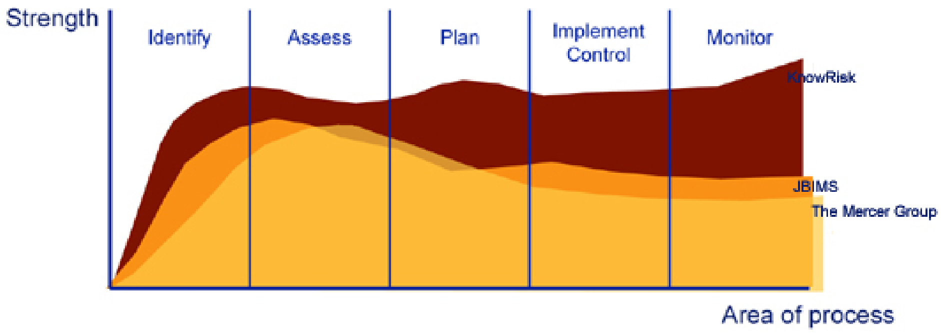


FIG 35 Diagram showing the levels of strength at each stage of the risk process

4.5 Summary

The summary consists of all the considerations which will need to be taken into account when developing an effective tool for brand risk management

Check list for developing an effective BRM tool

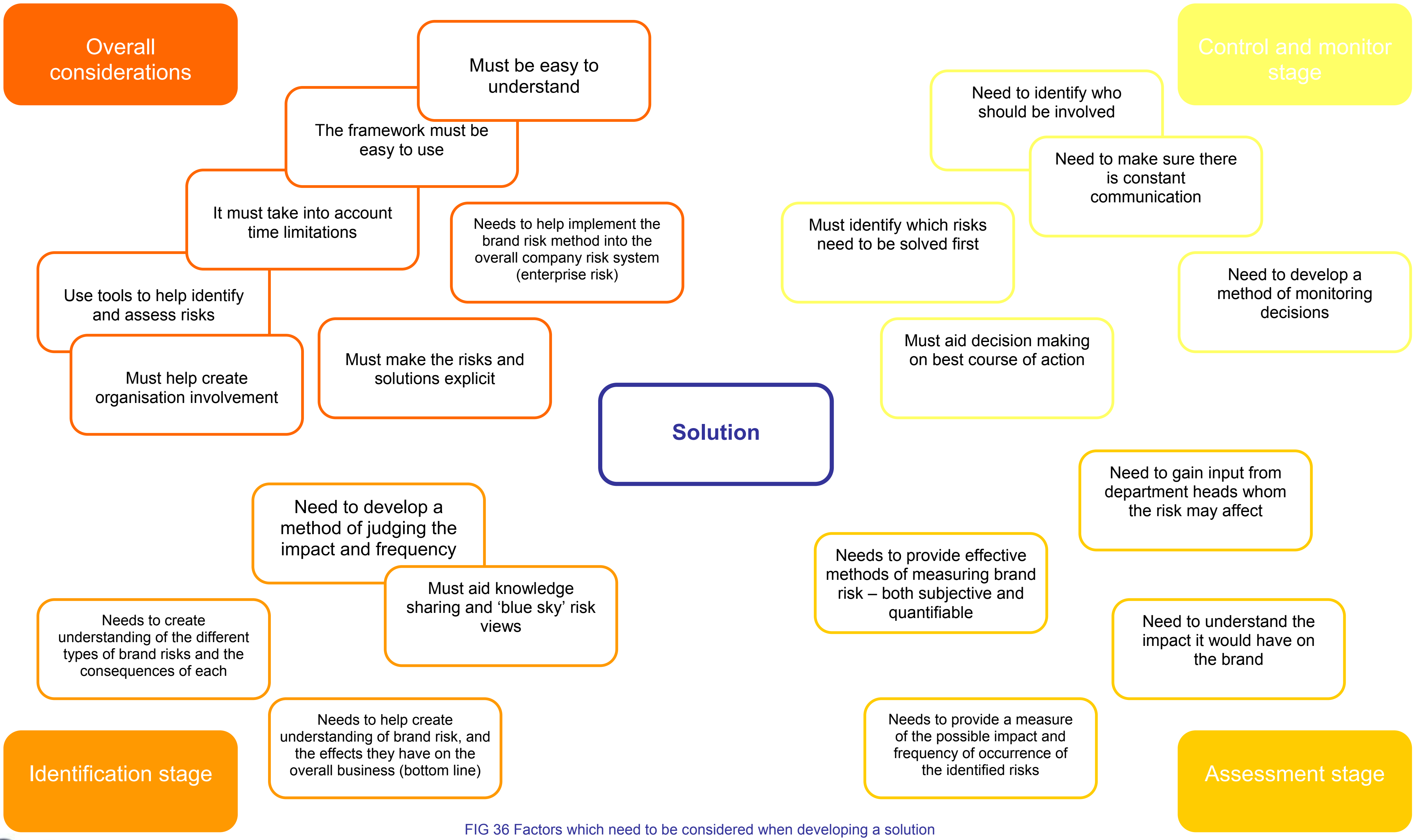


FIG 36 Factors which need to be considered when developing a solution

Development

Chapter 5

When the elements that drive the core brand's equity are understood, then evaluations can be made as to what degree potential brand extensions have a perceptual fit with the core brand. We begin to understand how best to leverage those elements into a new category. And we begin to understand the risks (if any) to the core brand, and how to minimize them.

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5.1 Solution development

The Cube system of brand management | Area of focus – protection

Initial development

As mentioned at the beginning, a basic conceptual framework was developed in Design Research two. This model showed four key areas to effective brand management. It is the author's belief that these four areas need to be further developed and a greater understanding has to be obtained in order to do this. For this study one of the four areas was chosen – Protection. As you can see from the figure 37, the main focus of this area is to develop a method of protecting the brand against any harm. This is the focus of this chapter

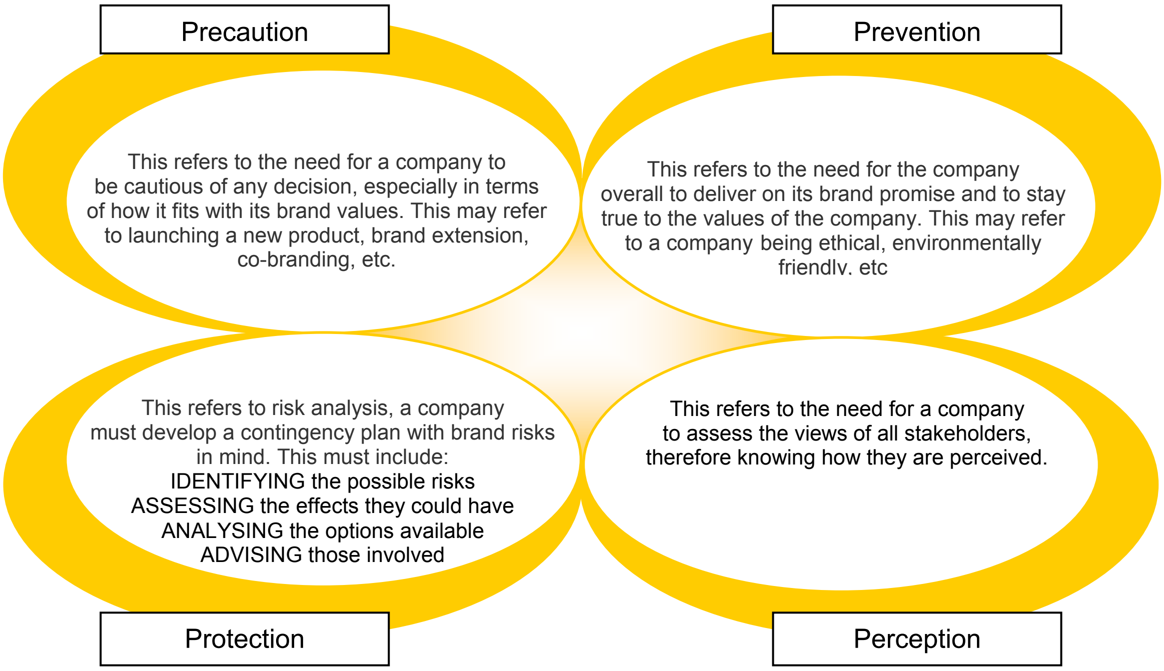

FIG 37 Diagram outlining the Cube system framework

The four areas previously identified for brand risk management were Identify, Assess, analyse and advise. The first three areas form the basis for the framework. However the final area (advise) has been changed to Implement. The reason for the change is that the final stage consists of more then just advising people of the roles they would play and how to incorporate the plans into their current methods.

The components within each area are outlined below

5.1.1 Identify – Risk identification tool

In respect to brand risk management, there are two main objectives of this area.

1. To create an understanding of brand risk management and the types of risks.
2. To identify the possible brand risks the company may encounter

There may not be a need to conduct the first objective. This would only be applicable to companies who have a limited understanding of the need for branding within the organisation, or for those who do not have a quantitative value of their brand. Possible methods may include:

- Providing past examples of companies who have been effected due to there exposure to brand risk
- Providing examples of the value of company brand. There are many examples of these. Case studies maybe found from work done by Interbrand and also mergers and acquisition examples of multinational organisations

- This should also be backed up by structured thinking on the subject of branding. There are many academic sources which can be used for this (work by David Aaker, Scott M. Davis, Paul Temporal is recommended).

The need to inform the company, and in particular the participants of the risk assessment, of branding is left to the discretion of the Cube system user (Brand manager, risk manager, etc.). The main aim of this stage is to develop a firm foundation, so that the risks being identified are based on structured thinking.

Date	Company	Crisis	Industry	Brand type	Parent country
10/06/99	Coca Cola	health scare	beverages	corporate & product	USA
01/03/99	Bank of Scotland	Robertson deal	banking	corporate	Scotland
29/10/97	Daimler-Benz	Mercedes A-class	automobile	product	Germany
29/04/96	Astra	sexual harassment	pharmaceutical	corporate	Sweden
26/05/95	Philip Morris	contamination	tobacco	product	USA
30/04/95	Shell/Exxon	Brent Spar	oil	corporate	UK/Neth/USA
22/11/94	Intel	Pentium flaw	electronics	corporate & product	USA
06/08/92	Maytag	Hoover promotion	appliances	product	USA

FIG 38 Examples of past cases of brand crisis – by Templeton College

The second objective can be met by a variety of way, however it is recommended that a workshop be conducted, as this will provide knowledge sharing and discussion. A helpful method is to put the participants into different teams to identify the brand risk, prior to engaging in a group discussion.

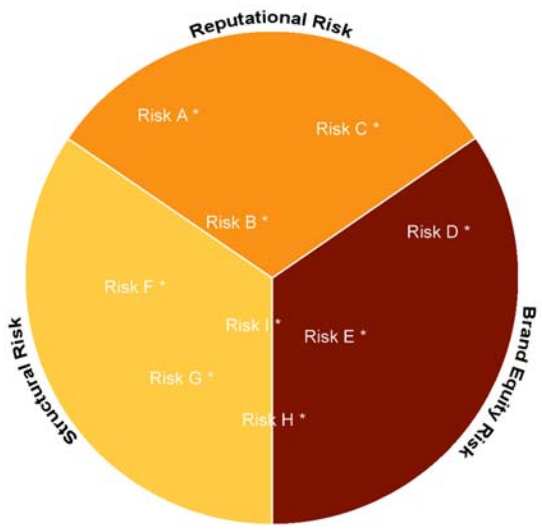

FIG 39 Risk identification toll

Each risk should be placed under the three brand risk areas identified earlier – brand equity risk, structural risk and reputational risk. A colour should be assigned to each risk depending on the area which it falls under. If a risk falls under more than one area both the colours should be assigned.

Depending on the resources allocated to the project, the participants may include, the whole organisation (as was conducted by Diageo) or a small-assembled risk team. However, it is recommended that in order to gain a strong outcome, the minimum should include department heads, the creative team, crisis management team, risk management team and the senior management.

5.1.2 Assess – Risk measurement tool

In assessing the risk, there are usually two main measurements applied. They are frequency and impact. This helps rank and priorities the risks identified.

All the risks should be plotted onto the grid in order to gain a clear picture of the severity of the risks. This will then provide the panel with clear understanding of the risk which will have most impact. These are called the 'red cube risk'.

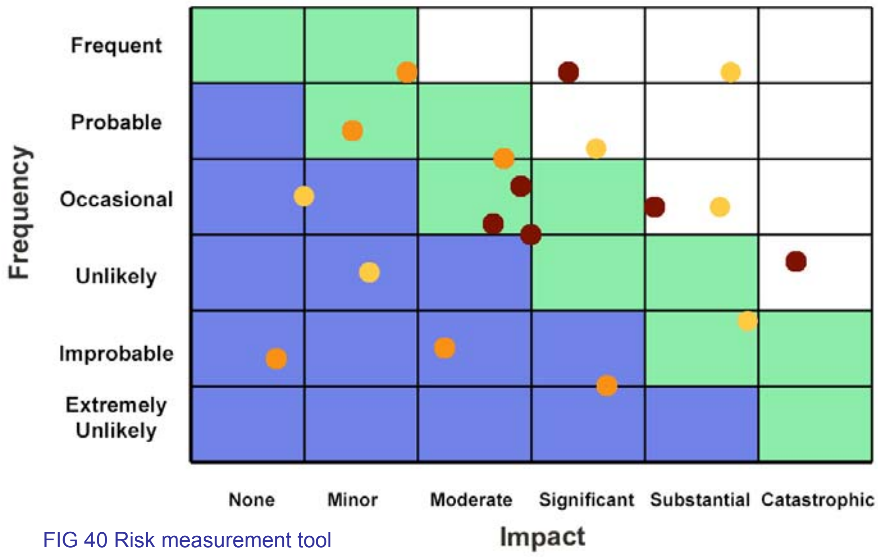

FIG 40 Risk measurement tool

The reason for assigning the colours is to enable the user to identify any underlying issue. If a set of the same colours is grouped together on the grid, they're maybe a central issue occurring. This method will help to identify any erosion risk which maybe developing.

The risks placed on the blue area represent low risk, which is not really a concern. The risks placed on the green area are medium risk, these are not very serious, however if a cluster is developing in this area, in should be investigated, particularly if they are of the same colour. The risks in the white area represent the 'Red Cube Risks'. These need to be analysed immediately and decisions should be made as to whether they present a big danger or not, and also how to tackle the problem.

5.1.3 Analyse – Risk priority tool

The main aim of this section is to address the 'Red Cube Risks'. There are two key objectives here, firstly to determine the importance of tackling a particular risk over another and secondly to decide on how to deal with the particular risk.

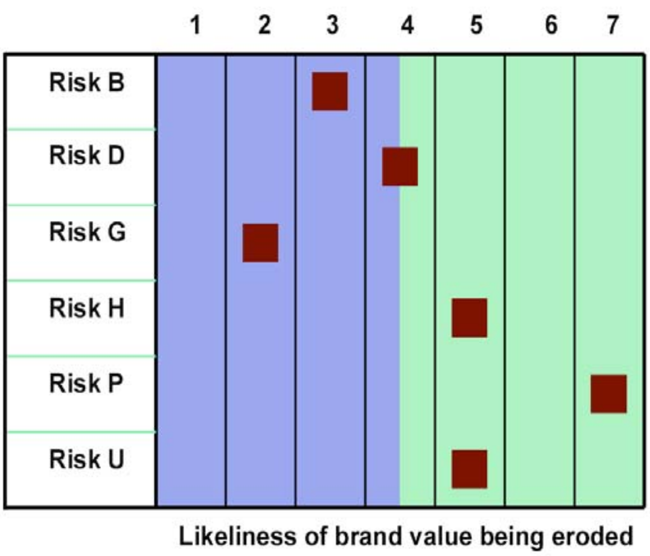

FIG 41 Risk priority tool

This process should involve the main decision makers, the risk and crisis management team and the brand team. Also, department heads maybe able to provide insight.

Each participant is asked to assign a value of between one and seven, depending on how they view the risks impact on the brand value (1 = low, 7 = High). An average of the results is then obtained which is placed on the chart. The risk which scores the highest is tackled first. Additionally, the results in the blue area can be seen as risks which do not provide any immediate danger. However they should be watched very closely.

The next step is to determine how to tackle the brand risks which present the biggest threat. This can be done in a number of ways, as shown in the next section.

5.1.4 Implement – Risk planning tool

This area consists of developing a plan with input from the results of the 'Risk priority tool'. Another objective of this process is to advise the relevant parties of their roles, and then, to constantly monitor and update the plans being used.

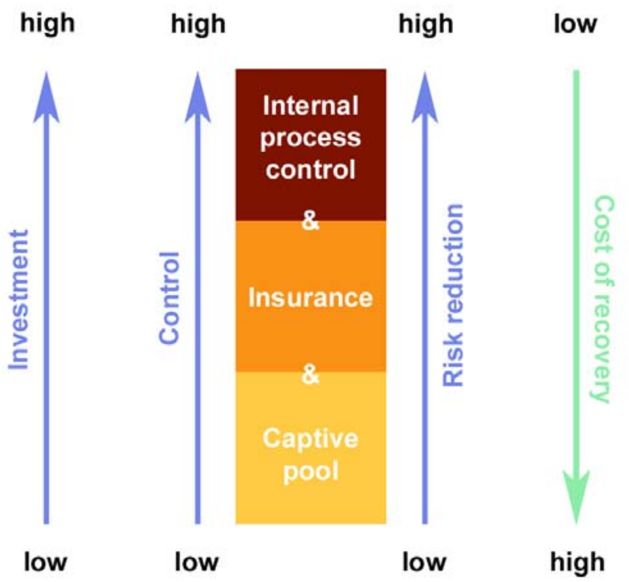

FIG 42 Risk planning tool

The three areas developed for this tool are Captive pool, insurance and Internal process control. The areas were first developed by JBIMS. The use of these areas has been developed in order to create clearer understanding. The tool developed by JBIMS consisted of only the cost of recovery and the control. Furthermore, the tool did not provide a method of analysing the results of incorporating all the controls.

Below is an explanation of the areas mentioned

Captive pool

This refers to a company using an internal risk reduction measure. This involves a company saving a part of its finance to aid contingency plans. Although the cost involved at the upfront stage is minimal, the measure is a reactive one, and thus little control is developed. Furthermore the cost of rebuilding a brand would probably be higher, as no investment has been made in brand building.

Insurance

Insurance involves protecting the brand through risk transfer. This can be done in two ways - by using insurance firms, or by securing an agreement with a supplier for them to take on part or all of the risk.

Internal process control

This process involves developing methods to deal with the results of the risk priority tool. It involves three stages

1. Develop brand building methods to hedge the risks
2. Establish policies to minimise and control the risks

3. Monitor the use of the policies and their effectiveness

The process at this stage is based on judgement. Considerations must be made as to the costs of implementing these measure, the level of control gained and the reduction of the risk achievable once the measure is in place. This must be compared with the cost of recovery if the brand was to experience this crisis. The cost of recovery may not only be the financial implications in the short term, but also the negative perceptions which can affect the brand and the company in the long term.

The organisation must judge the acceptable/tolerable level of the particular risk. They must then develop an understanding of the measures which are required to meet the tolerance level. This will provide them with the best course of action. In must be noted the tolerance/acceptable level is where the brand value experiences minimal impact.

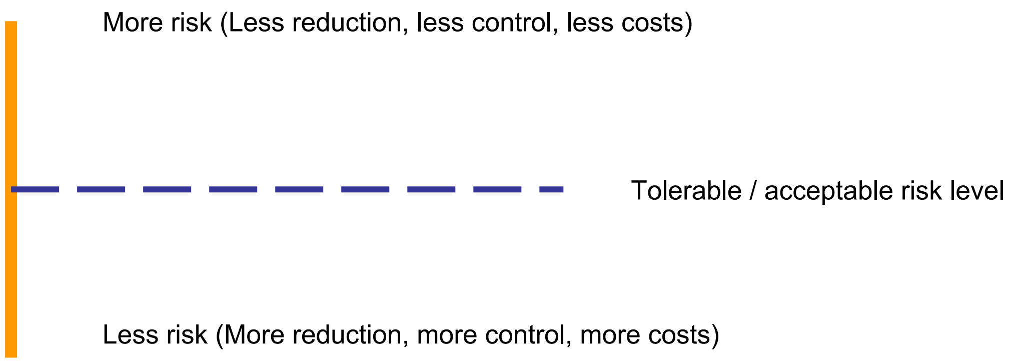

FIG 42 Diagram showing the decision process

A variety of project management tools, such as, decision trees and fishbone diagrams may provide assistance in this area.

In order to ensure the plans implemented are effective, three areas must be covered.

1. Communication is key. All personnel involved in the planning and implementing stage must be kept fully informed of the developments made.
2. Monitoring is essential. As with any process, the only way to judge and improve on it is to monitor and measure its effects.
3. Training is essential. If the personnel involved are not able to understand or carry out a procedure involved in the plan, it may cause more harm then good to implement the plan.

5.2 Evaluation

The tools used were developed by the author, from a variety of existing method. The main sources of these tools were from the processes developed by JBIMS, The Mercer group and Albany risk management. Unfortunately it was not possible to develop a fully quantifiable method. Current financial methods were not viable to use in assessing brand risk.

This model covers the central area of brand risk management. However this is not the only part. More work is required to develop this area. There is further work required on the front end of the process (brand audits, measurements and need) and also at the end of the process shown above. This involves developing measurable outcomes of the brand risks, implementation methods and also crisis management

Recommendations & conclusion

Chapter 6

> At its simplest level, corporate branding is the mark of a company, a declaration of what it is and what it believes. In a sense, it is the promise of the company's quality, trust and value. This essence is communicated across a wide range of audiences, from the media and consumers to Wall Street. Brands are consequently both assets and risks whose effect on the company's performance can be managed.
>
> Tim Heberden, 2002

6.1 Summary & Recommendations

The main aims of this study were to identify the limitations of current brand risk management methods and develop a solution in order to aid industries assess their brand risk.

Overall

There is a definite issue which needs to be address. On the one hand, we have statistics showing how important and valuable brands are to industry. However, on the other, there seems to be a real reluctance by companies to understand and analyse their key value attributer.

It seem there is a lot of confusion about brand risk management, and branding on the whole. The reasons for this confusion cannot be attributed solely to the companies themselves. The problem is more widespread than this. Industries that need to aid the development of this market include, the insurance sector, risk and crisis management sector, creative sector, finance sector and the insurance sector. With so many industries restricting the development of brand risk management, it seems, it will take a very long time to develop. Hopefully, with studies like this one, issues will be raised and solutions will be sought.

The following sections will provide recommendations for the industries mentioned above and also the beneficiary of this study.

Organisations

Although, consumer-focused industries have raised a lot of issues as to the current limitations of brand risk management, they don seem to be helping themselves. There is very little knowledge within this sector as to the products available to assist brand risk management. This includes, not only measuring frameworks, such as BVA and Interbrand's brand valuation tool, but also brand risk assessment, conducted by companies such as Marsh and Brand-Impact Forum. Furthermore, cover available in the form of brand insurance is very rarely utilised.

Companies need to:

Seek help in the areas which they have limited knowledge.

Create communication internally, particularly, between branding and risk management. There maybe some conflicting views created, but this is the only way to enable both sides to work together to develop a solution.

Create understanding internally of the value of the brand. Make sure your staff understand the brand values and are onboard with any brand strategy being implemented, particularly, those who deal with your customers. Poor customer service was seen as the key factor to brand value erosion by 77% of organisations (Knight, 2000).

Educate senior management about the value of brands and the need for brand risk management. Although there are many senior executives who clearly understand the value of branding, they are still the minority. If senior management doesn't see the need for investing in brand building, then it is very unlikely anything will be done about it – that is, until a crisis occurs.

Internal brand managers

One measure of the importance companies put on branding can be made from the increase of brand managers within organisations. Although their roles vary, their overall job description is to protect the brand. However it seems with this increase in creative positions, very little has been done to change perceptions of the need for brand risk management. A lot is made of the barriers put up by creative people, and how they do not like to liase with other department, however this only hinders creativity and affects the brand overall. Design is used to communicate, this is what designers and brand guardians should be doing – communicate

Finance sector

The finance sector in one of the key ingredients to why brand risk management is stalling. Without quantifiable measures companies will always be reluctant to invest in brand management. Furthermore, investor's today demand to see an increase in company profits. Without being able to measure the return on investment, companies will always be reluctant to take this path.

Financial regulators

Although financial organisations have been slow to provide brand risk measures, the regulating bodies have not provided sufficient aid either. The need for them to change accounting practices is well over due, and the impact it makes is already clear to see with the changes made in 1998 to FRS10 – a seven year study by Brand Finance, directly attributed the increase of goodwill on balance sheets and the views of companies to the importance of intangible assets, to these changes.

Insurance sector

Although the insurance sector is starting to make necessary changes, it is still too slow and too limited to make a substantial impact. As Mr Frost pointed out, 60% of brand risk identified by Diageo were uninsurable. The need is there, and so is the opportunity. With recent effects of 9/11 it is understandable that the insurance sector is experiencing some difficulties. However, brand risk insurance is a great opportunity for them.

Risk management

There have been many changes to how risk management is conducted. The most notable is the emphasis put on enterprise risk management in recent years. Although this takes into account areas such as IP's and trademark laws. It is still limited to business led intangible assets. There are those within the risk industry who are speaking out, such as Mr Frost of Diageo and Mr Gus Reyes of Bacardi-Martini, but they are still lone voices.

The biggest barrier is the view within many companies that brands are just an addition to business strategy and not a key element of it. A few companies are starting to speak about the need to protect their brand. However, the underlying factor is that many companies still don't use design and branding as cultural tools, as opposed to project tools.

Creative sector

Although there is so much written on the subject of branding and design, there still seem to be a lot of confusion, not only within the retail industry, but also within the creative sector itself. Many terms such as marketing and branding are used very loosely, resulting in confusion from organisations. The creative sector needs to take hold of this issue and develop some common ground. Furthermore, the creative sector needs to work with groups such as finance and insurance in order to develop quantifiable measures of brand risk and brand value. Although design plays a major role in organisations today, Business is still a numbers game. If the creative sector does not take hold of the issue of developing understanding, then confusion will continue and branding will continue to loose out

Designhouse – Beneficiary

There is a real opportunity to develop a marketable tool to aid industry assess brand risk. There are a very few organisations who offer such a service. Furthermore, there is acknowledgement from industry that although they see brands as their most important asset, the have very little knowledge of the concept of branding - a definite strength of Designhouse.

6.2 Conclusion

Looking at the number of recommendations provided in this chapter, it is clear to see there are a lot of issues which need to be resolved. The scope of the issue is very broad and is not limited to one particular sector.

Initially it was thought that the main problem was the lack of tools and methods available to conduct brand risk assessment. Although this is an issue, it is not the main one. While developing the tool it was clear to see that until the underlying issues are resolved, the tool would never be very effective or accepted.

If the creative sector does not take control of these issues, there is a very real risk of other sectors such as business management, or management accounting leading. This can already be seen to be happening with the mobile phone operator O2, outsourcing its brand building work to Accenture, the management-consulting group. There expertise does not lie in branding, but they do have a firm understanding of business needs, and have developed financial measures to issues which concern organisations.

As the old saying goes, 'fail to plan, then, plan to fail'. Companies need to plan how to protect their brands. Finance, risk and insurance groups need to plan how to solve the underlying issue of measurement and cover. And, the creative sector, well we need to do, what we should always have done – simplify communication, help develop better understanding and provide organisations with creative solutions to meet their business needs.

6.3 Further development

Due to time constraints, it was not possible to assess the tool devised, against rules and regulations stipulated by risk governing bodies. To conform to risk regulations the tool would have to comply with:

The Turnbull Committee requirements for risk management: ISO9000 / AS4360 Risk Standards;
The UK risk management standard
The Basel Committee recommendations on risk auditing
The FSA requirements for financial institutions
The A.L.A.R.M. requirements
The NHS requirements
The Project Management standard

Although the foundations of this study were based on a survey by Templeton College. The survey did have its limitations, firstly the participant base was 88 companies, and secondly it was limited to brand risk management (although this was the focus of the study). For a more effective research based study, it is recommended a similar study, with a larger participant level, and broader risk considerations are conducted. This would hopefully provide a clearer picture of how brand risk management is being conducted, and also how it fits in with other areas other risk management methods.

In order to develop a more effective tool for brand risk management, a larger study is necessary. There are so many underlying limitations which need to be addressed. Hopefully this will be addressed with the help of the beneficiary.

The conceptual framework is still at an early stage of development. This will be further developed with the help of the beneficiary. A presentation and workshop shall be conduct on Tuesday 9th September at their consultancy in Camden Town.

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The gap between market capitalization and net asset value has become particularly noticeable. A study by Brand Finance revealed that at the year-end December 1998 only 28 percent of the Financial Times Stock Exchange (FTSE) 350s market capitalization was explained by their net balance sheet assets. Intangible assets are largely responsible for the remaining 72 percent of value. In most cases, brands are the most significant intangible asset.

Tim Heberden, July 2002

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Brand risk requires careful management	Business Insurance	19.11.01		Judy Greenwald
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Appendix

Hewlett-Packard's brand equity value has been estimated at $17.9 billion. The risks of not managing the Hewlett-Packard brand include becoming a commodity, becoming irrelevant to the company's target audience, finding it hard to attract quality employees and partners, being positioned in the marketplace by the competition and experiencing poor stock performance.

Bryan Stahmer, Brand manager, HP

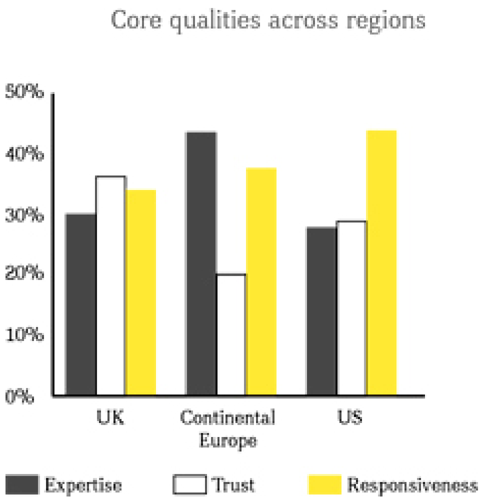
Core qualities of brands

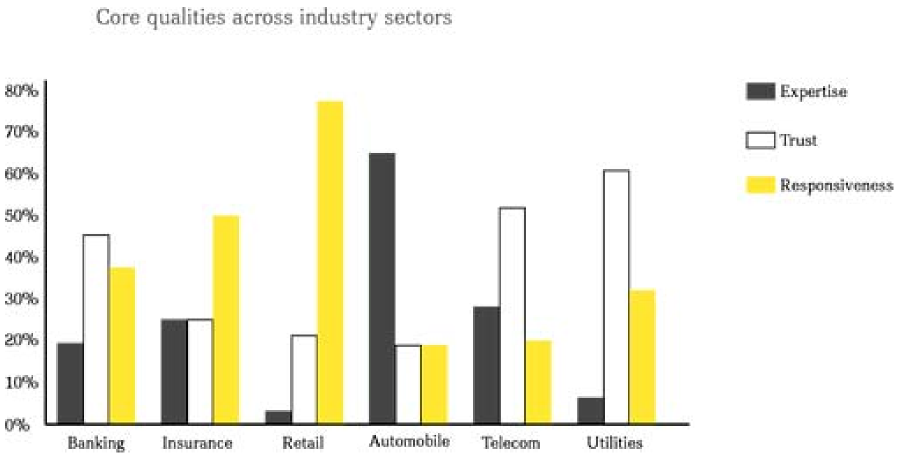
Expertise	Trust	Responsiveness
financial strength	safety	customer focus
size	security	responsiveness
globalisation	reliability	service
knowledge	performance	value
intelligence	efficacy	value-for-money
expertise	consistency	value-added
competence	trust	convenience
experience	ethics	flexibility
established	integrity	empathetic
technical excellence		understanding
design		caring
creative		supportive
innovative		dedication
pioneering		empowering
progressive		enabling
60	54	62

Appendix a - Results from survey

Conducted by Templeton College

ategy


Core qualities across regions
50%
40%
30%
20%
10%
0%
UK
Continental Europe
US
Expertise
Trust
Responsiveness


Core qualities across industry sectors
80%
70%
60%
50%
40%
30%
20%
10%
0%
Banking
Insurance
Retail
Automobile
Telecom
Utilities
Expertise
Trust
Responsiveness

Reasons for not buying brand insurance

Reasons	Importance: 0	1	2	3	4
Difficulty in quantifying exposures	33	3	28	11	25
Unaware of availability	38	4	29	5	24
Difficulty in pricing exposures	42	4	24	11	19
Irrelevant/no significant brand exposure	62	5	13	13	7
Too expensive	61	5	24	8	2
Lack of appropriate cover	68	2	20	5	5

Potentially damaging scenarios to brand value

Threats	Importance: 0	1	2	3	4
Poor customer service	1	0	8	14	77
Strong competition	6	4	32	18	40
Advertising undermining brand image	6	7	33	17	37
Poor crisis management planning	8	10	32	18	32
Key executive adverse comments	7	10	37	15	31
Licence/trademark infringements	14	17	28	14	27
Employee fraud	25	15	28	9	23
Product recall	35	8	22	9	26
Counterfeiting	41	14	16	2	27
Loss of physical assets	33	18	21	11	17
Product tampering	46	13	20	3	18

Brand protection mechanisms

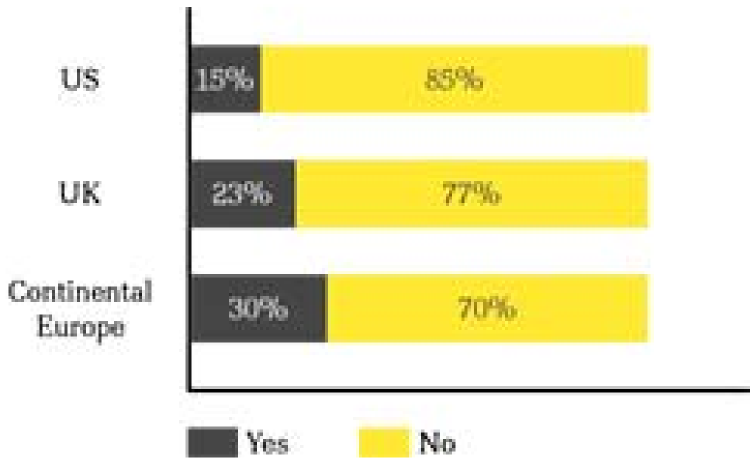
Mechanism	Importance: 0	1	2	3	4
Marketing/advertising	5	2	15	16	62
Patents/trademarks/licences	15	8	25	19	33
Brand awareness training for employees	6	11	33	16	34
Crisis management	11	16	26	17	30
Internal specialists	10	12	30	23	25
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	27
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3

Which measures are used against which threats?

Protection measure	Threat to brand
Business interruption/contingency planning	Key executive adverse comments Poor crisis management Employee fraud Product tampering Advertising undermining brand image
Crisis management	Key executive adverse comments Poor crisis management Employee fraud Product tampering
Risk financing/insurance	Loss of physical assets Counterfeiting Licence/trademark infringements
Patents/trademarks/licences	Counterfeiting Licence/trademark infringements
Brand awareness training for employees Internal specialists	Advertising undermining brand image Advertising undermining brand image
Marketing/advertising External advisors (e.g. PR agency) Integrated brand risk management	
	Poor customer service Strong competition Product recall

By Y

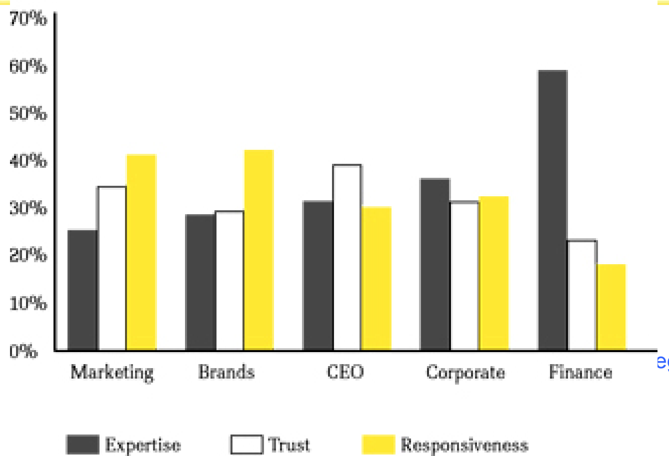
Has any of your brands ever been valued?



Drivers of brand valuation

Drivers	Importance: 0	1	2	3	4
Strategic brand management	8	1	25	19	47
Merger/acquisition	8	5	26	32	27
Licensing/franchising of brands	43	9	19	17	12
Accounting requirements	46	8	27	5	14
Brand disposal	47	6	30	8	9
Litigation support	49	13	25	8	5
Tax planning	63	13	14	5	5
[illegible]	[illegible]	[illegible]	17	3	3
[illegible]	[illegible]	[illegible]	14	5	3

Core qualities across organisational position



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Appendix b – value of the brand to the 'bottom line'