REPUTATIONAL
Elasticity

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While Starbucks has recently been in the news for a myriad of issues, let's reflect back on a significant issue the company faced in 2012.

In 2012, Starbucks found itself taking a major PR hit in the United Kingdom.

The gourmet coffee shop chain faced a huge public outcry, including a well-orchestrated boycott for not paying enough taxes despite making enormous profits. According to media reports, using a clever—and perfectly legal—dodge, Starbucks had paid only £8.6 million in taxes since opening its first store in the UK 14 years earlier. The figure seemed ridiculously low, especially when it was revealed the chain had amassed £3 billion in sales over that time.

Boycotts and protests took place at over 40 locations. The chain was hammered unmercifully on social media. Facing a fierce level of competition in the industry, Starbucks saw its sales drop. Soon enough, it offered to pay even more in taxes than required. And as the months went by, it desperately spent inordinate amounts of time and money repairing its sullied reputation.

The lesson in all this?

Reputation matters.

REPUTATION MATTERS

It's estimated that more than 60 percent of market value is based on reputation alone (Weber Shandwick). Reputation is one of the most important, yet often underestimated, aspects of doing business today. When a crisis occurs, time and money are spent very quickly, not only dealing with the situation at hand, but defending and then repairing the reputation, as well.

The fact is, consumers have access to more information about the products they buy and the companies they support than ever before. A simple product search reveals much more than company-controlled data on a website, and certainly more than the information provided on product packaging. Recent reviews, newspaper articles and historical information about the product on the Internet all influence the reputation of its company.

Which brings us to the term "reputational elasticity."

Elasticity of Demand is an elementary economic concept that describes a consumer's willingness to buy a good or service when the price of the good or service increases. Reputational elasticity is a product of demand, and it is in direct proportion to how many choices an organization's stakeholders (consumers) have.

Many choices mean higher elasticity, while fewer choices equal lower elasticity. With higher elasticity, a consumer is less likely to purchase the product or service as the price increases. Demand is described as inelastic when a consumer will buy the product at almost any price.

Reputational elasticity of demand is very similar, with an organization's reputation replacing price as a determining factor. A company with products or services that are easily available elsewhere has high reputational elasticity, making it much more vulnerable to a hit on its reputation.

And since coffee-drinking customers can go just about anywhere to get their caffeine fix—from Caribou Coffee, Costa Coffee, McCafé or Dunkin Donuts to the swill that brews 24/7 at convenience stores—Starbucks was particularly vulnerable to a damaged reputation.

60%

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Interestingly enough, Google and Amazon were also accused around the same time of not paying their fair share of taxes. Their tax dodge involved a complicated scheme that ran products and profits through Ireland and Luxembourg, according to brandindex.com, which measures brand perception among the public.

But the brand-tracking service said Google and Amazon's reputations suffered less of a hit.

"As online companies, Amazon and Google experience less reputational elasticity due to indirect consumer relationships," brandindex.com reported. Reactions and protests are harder for consumers to coordinate, measure and participate in.

"Both companies also provide services that have fewer competitors. Amazon's customers are less willing to stop using a Kindle or search for equal choice while Christmas shopping. Google services have an incredibly low number of competitors and consumers do not pay directly for many of its products. Even as an email provider, the difficulty of switching providers renders Google consumers almost completely inelastic."

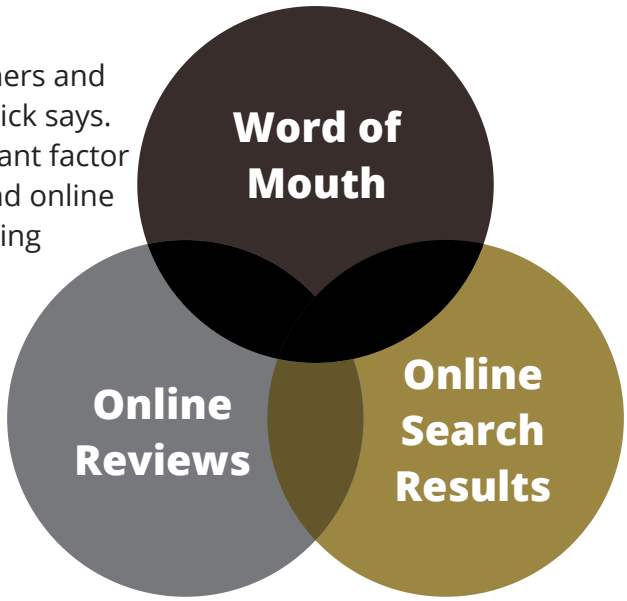
A positive reputation is an asset and something organizations must seek to build relentlessly over time, even though it may be hard to quantify its value or risk in dollar amounts.

Research shows that a sound reputation is important to investors and share price. It is equally or more important to consumers who will choose to buy a product or service based on their perception of a company. When stakeholders are surprised or disappointed by an organization, they share the news and respond.

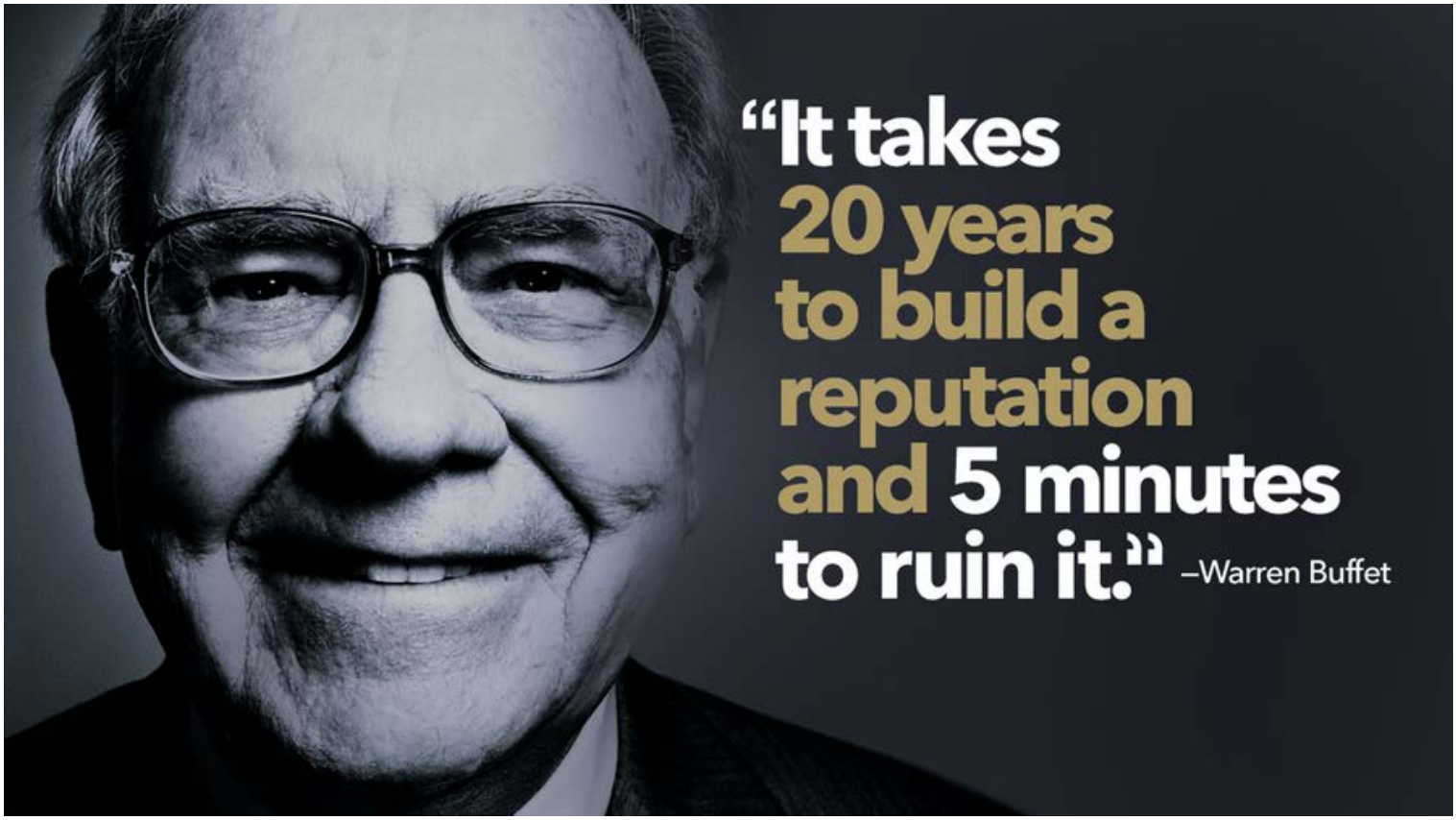
Weber Shandwick, a leading global public relations firm, reports that the top five elements consumers discuss among themselves are:

1. How they feel about a product they've purchased (69%).
2. The quality of a company's customer service (55%).
3. How specific companies treat their employees (45%).
4. News about a scandal or wrongdoing at a company (55%).
5. How one feels about a company as a whole (40%).

Consumers learn about companies through discussions with others and make purchasing decisions based on reputation, Weber Shandwick says. In fact, 88 percent report that word of mouth is the most important factor in their opinion of an organization, while online reviews (83%) and online search results (81%) are the next most important factors in shaping opinion.



Reputation matters because consumers now have a vast amount of control over it, and that influence is becoming more recognizable by executives. In the Weber Shandwick study, executives estimate that 60 percent of their firms' market value is attributable to its reputation and nearly 86 percent of executives have increased their efforts to build reputational capital in recent years.



As the legendary investment guru Warren Buffet says: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

Smart CEOs think about it all the time – they are the ultimate gatekeepers of their brand.

Sure, an organization's reputational capital is based in part on what the organization says and does, but more so on the things its stakeholders think and say about it. Reputational capital is accumulated over time like a savings account of goodwill that reflects the values of an organization and its image in the marketplace. During a crisis, reputational capital is a bank of trust from which an organization will draw upon, particularly since the 24-hour news cycle and Internet spread information incredibly quickly. Anyone with an internet connection and recording device can wreak havoc on your brand.

Foodprocessing.com, which bills itself as "The Information Source for Food and Beverage Manufacturers," estimates that news of an emerging crisis spreads within an hour 28 percent of the time, and the bad news spreads within twenty-four hours 68 percent of the time.

So how do you measure an organization's reputational elasticity? For the purposes of reputation protection and defense during a crisis, several factors are most important in determining an organization's or corporation's risk:

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Competition is key in assessing reputational elasticity. Since consumers are self-educated and involved in the products they buy and the brands they affiliate with, a variety of choices in a marketplace mean that during a reputational crisis, they won't hesitate to align with another brand, or to vote against a company by spending their dollars elsewhere. Retail, food and fuel companies, financial institutions, transportation, tourism and healthcare concerns are just a few of the thousands of industries in this category.

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In 2014, the Institute for Crisis Management counted more than 223,000 crisis news stories in almost 10,000 news outlets. More than 414,000 people lost their jobs, including over 50 executives, in no small part due to the continued expansion of social media's influence on spreading negative news, as well as poor crisis handling. For example, among the industries most affected by data breaches were major retailers and educational institutions. A record-setting amount of money was paid to whistle-blowers in 2014, particularly in the financial and healthcare industries, according to the report. The transportation industry accounts for the most casualties, both in aviation and railway accidents around the world.

During a major crisis, the outcome and costs, including time, money and careers, are largely driven by how the crisis is managed, since the suddenness with which the crisis occurs makes planning difficult. Mismanagement further contributes to the deterioration of an organization's reputation.

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Since consumers are such an important part of the creation and perpetuation of reputation, companies that have a direct relationship with the end user of their product or service tend to experience higher elasticity. A trucking company is an example of an industry where the end user of a product may be unaware of how a product reaches store shelves. Trucking companies are generally business-to-business, meaning that their reputation elasticity will be lower than that of a company that deals directly with individual consumers. This doesn't mean that business-to-business organizations have reputation inelasticity, but that the other factors are more important in determining their threat level in a crisis.

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Regardless of an organization's ranking in these categories, there are companies that have very high or very low reputational capital. Low reputational capital means an organization has nothing to draw on during a crisis and stakeholders are likely to switch to a competing product or service soon after a crisis breaks. Conversely, organizations with high reputational capital already have a positive relationship with stakeholders, and can expect their stakeholders to take the time to learn about the crisis before taking their dollars elsewhere. A bank of reputational capital helps lower elasticity, giving organizations a chance to respond well in a crisis and protect its assets.

Remember, customers quickly share news and vote with their feet. In today's marketplace, it is not uncommon to see a "boycott" page affiliated with a company or brand. The ability for consumers to mobilize for or against you, both digitally and traditionally, happens more quickly now than ever before. Stakeholders will leave you for another brand experience in a hurry, particularly when encouraged by the wisdom of another consumer (testimonial). Understand how elastic your brand is—what the customer options are and how easily can they jump ship. Most importantly, why would a customer leave to support a competitor? What are the key trigger points? You must know this about your product or service. Understanding your brand elasticity will drive strategy, shape future decision-making and help you navigate risk.

ANY QUESTIONS?

info@fallstongroup.com | 410.420.2001