



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



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KEYWORDS

Advertising;
Price;
Product-harm crisis;
Product recall

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

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

After being levied with the largest-ever penalty assessed an automaker, Toyota recently announced a new, worldwide recall involving 6.4 million vehicles (Web, 2014). Only a few years ago, several Chinese baby-formula brands were forced to recall many of their products due to melamine contamination, which caused severe kidney problems in over 300,000 victims and left six children dead

(Chen, 2009). Meanwhile, Mattel spent \$29 million recalling items in its Barbie, Cars, and Fisher-Price brand lines after they were found to contain poisonous lead paint (Palmeri, 2007). These few examples underline the pressing issue of *product-harm crises*, defined as well-publicized events whereby products are found to be defective or even dangerous (Dawar & Pillutla, 2000). Because of growing product complexity and heightened pressure from manufacturers, policy makers, and consumers, product-harm crises have become prevalent in today's marketplace—and tend to increase every year (Cleeren, van Heerde, & Dekimpe, 2013).

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

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

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

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

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

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

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

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

mid-November 1996. Kraft Foods spent AU \$3 million on advertising in relaunching its peanut butter brands. Several researchers used this crisis case to evaluate the effectiveness of advertising spending and price changes in countering negative crisis effects.

2.1. Is increasing advertising spending effective?

Zhao, Zhao, and Helsen (2011) found that the product-harm crisis has a major impact on the effectiveness of advertising spending. In analyzing the Kraft Foods Australia case, Zhao et al. (2011) discovered that for four brands considered together—both of the affected brands, Eta and Kraft, and two major competitors in the same category, Sanitarium and a private-label brand—advertising was 43% less effective during the crisis than before, and 81% less effective after the crisis. A product-harm crisis can severely affect brand equity and credibility (Dawar & Pillutla, 2000). Moreover, consumer confidence in advertising revealing product quality is likely to be reduced after the outbreak of a crisis (Zhao et al., 2011). These outcomes are detrimental to advertising effectiveness.

However, van Heerde et al. (2007) and Cleeren et al. (2008) discovered that results can be different depending on the type of brand. While advertising effectiveness for Kraft peanut butter decreased because of the crisis, advertising for this major brand was still found to have the ability to influence sales after the crisis (van Heerde et al., 2007). In contrast, while advertising for the smaller Eta brand was effective before the crisis, spending on advertising became useless afterward. These results were replicated in Cleeren et al. (2008), which documented that after-crisis advertising was effective in stimulating consumers to try the Kraft brand again after the crisis; this was not the case for Eta peanut butter.

In an attempt to generalize these results to a larger set of product-harm contexts, Cleeren et al. (2013) studied the effectiveness of changes in advertising expenditures after as compared to before the crisis across 60 product-harm cases. In general, advertising support was found to contribute to a better result in terms of market share of the affected brand. Advertising turned out to be an effective weapon for non-affected brands, too, as category advertising was found to stimulate category purchases after the crisis.

2.2. Do price changes stimulate after-crisis sales?

According to Zhao et al. (2011), Australian consumers became less price sensitive during the peanut

butter crisis. The researchers discovered that consumers placed more emphasis on perceived quality of the product and less weight on price when deciding which brand to purchase during that time. Consumers have stayed less focused on price, even though the crisis is now over, though price sensitivity has begun to increase again somewhat. These findings indicate that price decreases are not a good strategy to win back consumers during or after a crisis.

Van Heerde et al.'s (2007) results contradict this finding; they showed that price effectiveness depends on the brand. While the price sensitivity for Eta did not change because of the crisis, price reductions still increased sales for Eta both before and after the crisis. In contrast, Kraft peanut butter consumers did not seem to be price sensitive before the crisis, but became very much so after the product recall. This might have been due to a reduction in the perceived differentiation of the brand within the peanut butter category because of negative information about the product (Ahluwalia, Burnkrant, & Unnava, 2000). Therefore, price reductions served as a powerful weapon for both Eta and Kraft in regaining sales after the crisis.

Cleeren et al. (2013) tried to reconcile these differences by studying the effectiveness of the price weapon in a larger sample of product-harm crises. Based on their sample of 60 product-harm cases, the researchers reported that price changes generally have no effect on market share of the affected brands. In contrast, they found that category demand can be stimulated with price reductions. Managers of non-affected brands are thus advised to use price decreases to stimulate brand sales after a crisis.

3. The influence of crisis characteristics

So far, we have discussed the general effects of advertising and price in a crisis context. Cleeren et al. (2013) showed that the effectiveness of these two marketing instruments can be influenced by two key crisis characteristics: the amount of negative publicity surrounding the crisis and whether or not the affected company had to openly acknowledge blame for the problem.

3.1. The influence of negative publicity on advertising effectiveness

Traditionally, negative news is seen as detrimental to brands in that it has the potential to damage brand equity (Dawar & Pillutla, 2000); this results in decreased advertising effectiveness. Recent research,

however, seems to jibe more with the idea that any publicity is good publicity. Indeed, [Berger, Sorensen, and Rasmussen \(2010\)](#) demonstrated that even negative coverage increases brand awareness, which might render advertising spending more effective ([Dawar, 1998](#)).

In a product-harm context, the latter effect prevails: According to [Cleeren et al. \(2013\)](#), advertising effectiveness for the affected brand is approximately three times more efficacious in cases that receive high media scrutiny. For non-affected brands, the result is even more spectacular: category advertising is more than five times as efficacious in publicized cases as in cases without media attention. Thus, non-affected brands should definitely increase their category advertising expenditures in publicized cases.

3.2. The influence of blame acknowledgment on advertising effectiveness

When the affected brand accepts blame for the crisis, it explicitly acknowledges not being able to fulfill expectations linked to the brand ([Riordan, Marlin, & Kellogg, 1983](#)). This can have a detrimental effect on the brand's credibility and lower its advertising effectiveness. Non-affected companies might be extra tempted to invest in advertising at this juncture to differentiate themselves explicitly from the problem underlying the crisis, or to profit from the prone position of the wounded competitor. Consumers may perceive this strategy as opportunistic, however, which would reduce the effectiveness of such advertising expenditures ([Eagly, Wood, & Chaiken, 1978](#)).

[Cleeren et al. \(2013\)](#) found that acknowledging blame reduces the effectiveness of advertising spending for both the affected brand and category. This implies that increasing advertising spending is not advisable for the affected brand or non-affected competitors when one of the brands must admit fault for the crisis.

3.3. The influence of negative publicity on price sensitivity

Negative publicity may substantially reduce brand differentiation within a category ([Ahluwalia et al., 2000](#)). It can also affect the relative category position of the brand, as consumers may classify the brand in a lower-quality tier ([Leclerc, Hsee, & Nunes, 2005](#)). Given that publicity may harm both affected and non-affected brands, price sensitivity can be impacted for both types of brands.

While [Cleeren et al. \(2013\)](#) did not find support for such an effect for affected brands, price sensitivity for the category was substantially higher in cases with considerable negative publicity. While affected brands thus should not rely on price reductions to regain lost consumers in the context of a highly publicized crisis, the price instrument serves as a very important weapon for non-affected brands in fighting negative publicity.

3.4. The influence of blame acknowledgment on price sensitivity

Accepting blame in a product-harm crisis makes clear that the affected brand made a mistake. This, in turn, may lower the brand's credibility ([Kim, Dirks, Cooper, & Ferrin, 2006](#)) and perceived quality ([Erdem & Swait, 1998](#)), and by association also taint other brands in the same category ([Roehm & Tybout, 2006](#)). These effects could lead to increased price sensitivity throughout the category.

[Cleeren et al. \(2013\)](#) reported that price sensitivity is much higher for affected brands that acknowledge blame. While affected brands are not advised to use price reductions in cases without blame acknowledgment, this strategy becomes viable when guilt has been admitted. For the category as a whole, however, blame acknowledgment does not influence price sensitivity, which implies that price discounts are as effective in both conditions of blame and no blame.

4. Conclusion

Product-harm crises are among a brand manager's worst nightmares. Affected firms not only have to deal with direct costs of the recall operation and lost revenues from the out-of-stock situation, but also face weakened or destroyed brand equity caused by the crisis. The product harm may even spill over to other, same-category brands that are not directly affected by the crisis; it has been shown that they are often perceived as guilty by association ([Roehm & Tybout, 2006](#)). As such, firms that are very careful in the manufacturing and distribution of their products are not protected against the potential harm of a product crisis in the category.

Herein, we reviewed the extant academic knowledge regarding the effectiveness of advertising and price weapons in the fight against crisis situation harms. While the effectiveness of advertising spending decreased substantially after a product-harm crisis ([van Heerde et al., 2007](#); [Zhao et al., 2011](#)), brand managers of both affected and non-affected brands in general seem to fare well with increasing

advertising spending, since this weapon is still able to increase sales after the crisis. While price reductions turn out to be a good strategy for non-affected brands (Cleeren et al., 2013), there remains discussion on whether or not this strategy is advisable for affected brands.

Cleeren et al. (2013) showed that the optimal strategy depends on the type of crisis a manager faces. Indeed, whether or not advertising and price are useful instruments in restoring a brand after a crisis depends on the amount of negative publicity surrounding the crisis and whether or not the affected company had to openly admit fault.

In Table 1, Cleeren et al. (2013) summarize the appropriate course of action for the affected brand and the category/non-affected brands under different crisis characteristics. More specifically, both the affected and non-affected brands are not advised to increase their advertising spending when

the affected brand had to acknowledge blame in the crisis (cases 2 and 4). Rather, firms in this condition should invest in a price decrease. Advertising spending for both the affected and non-affected brands, however, becomes especially effective when particularly heightened publicity surrounds the crisis (cases 3 and 4). In this scenario, affected brands should not decrease their prices, given that doing so will not lead to an increase in brand sales. In contrast, non-affected category members will fare well with price decreases in a high publicity context.

Managers can use Table 1 to find the appropriate course of action depending on the characteristics of the crisis they are involved in, and depending on whether their own brand is affected rather than one of the other category players. In this way, Table 1 creates a marketing dashboard for managers who are confronted with a product-harm crisis.

Table 1. Appropriate course of action for affected and non-affected brands after a product-harm crisis

Type of product-harm crisis			Post-crisis recommendations for the brand		Post-crisis recommendations for the category	
Case	Extent of negative publicity	Blame had to be acknowledged	Advertising	Brand price	Category advertising	Category price
1 (base)	Low	No	Increase brand advertising: effective instrument	Keep brand price: price decreases not effective	Increase category advertising: effective instrument	Decrease category price: effective instrument
2	Low	Yes	Do not increase advertising: less effective than in base case	Decrease price: more effective than in base case	Do not increase advertising: less effective than in base case	Decrease price: as effective as in base case
3	High	No	Increase advertising even more: more effective than in base case	Keep price: price decreases not effective	Increase advertising even more: more effective than in base case	Decrease price even more: more effective than in base case
4	High	Yes	Increasing advertising might be attractive, depending on the net impact of the two opposing forces on advertising effectiveness	Decrease price: more effective than in base case	Increasing advertising might be attractive, depending on the net impact of the two opposing forces on advertising effectiveness	Decrease price even more: more effective than in base case

Source: Adapted from Table 6 in Cleeren et al. (2013)

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