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Brand Risk

Adding Risk Literacy to Brand Management

DAVID ABRAHAMS

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Introduction

This book is about a meeting of professional minds. Whilst the importance of brands and the relevance of risk have been widely acknowledged, it is debatable whether the marketing and risk management communities have yet perfected their collaboration. This may be a wasted opportunity. After all, risk-taking is what marketers do.

Nearly a decade ago, a short feature in the financial press described how an industrial company's actuaries, the masters of probability and statistics traditionally concerned with pension fund adequacy, were now offering their services to colleagues in the marketing departments who might want to model uncertain demand for the company's new products. Since that time, we have moved into another era of accelerated change and market opportunity, laced with risk and uncertainties. There is an unfinished global revolution in mass communications. There are new markets, new corporate accountabilities and new competitors. The pressure on marketers remains: to produce the same for less or more for the same.

Authoritative observers have remarked how often marketers appear ill-equipped to argue convincingly in support of their plans when the inevitable challenges come. This book proposes that risk literacy can help marketers to make better decisions and to make their professional case more effectively. There is no magic bullet, no prescription and no attempt to sterilize the marketing imagination. There is just the practical idea, based on my own experience as marketer, product developer and corporate adviser, that there is value in a familiarity with risk thinking and some of its methods for opportunity assessment and decision analysis. These recognized approaches are available to help marketers structure their evaluation of issues and opportunities, whether formally or informally. They will support them in their thinking and in their dialogue with those who invest in it. Business risk is best taken (and better tolerated) if it is done with a degree of self-awareness, some insights into what risk means and some assessment of the probabilities. In this sense, risk literacy is the third necessary competence for marketers, alongside their strategic insight and financial understanding.

Meanwhile, numerous management studies have described the contribution of brands and reputations to the prosperity and viability of business, in ways not limited to earning customer preference. There has been a corresponding diffusion of brand-related responsibility to other parts of the firm, so that marketing departments are no longer sole custodians of the brand. For their part, risk management professionals have not always found it easy to support this wider accountability for brand stewardship. Brands need to be understood as more than trademarks and 'reputations', if they are to be fully represented on the firm's risk management agenda.

This practical book is principally intended for marketing professionals and those in brand planning functions. It will also be of value to risk management professionals and other senior managers who would like to develop their understanding of brand function and brand risk. Much of the marketing literature is implicitly concerned with risk. However, the blend of approaches to brand risk thinking and decision-making you will find in this book is not usually presented as a whole: some qualitative, some quantitative, some intended to guide intuition, some designed to support more rigorous evaluation.

Chapter 1 ('The Case for Risk Literacy') is introductory, establishing the book's key themes with a brief history of risk reporting and risk management in the wider corporate context. It reviews the role of resolving uncertainty in creating organizational influence and suggests how this might have relevance to the marketing function. It also defines and advocates risk literacy in practical terms. If you are a seasoned risk manager, you may want to skip the first part of the chapter ('Corporate context'), but read the final two sections ('Marketing and risk' and 'Risk literacy').

Chapter 2 ('Defining Brand Risk') introduces an enhanced model for brand risk thinking, supported by a detailed rationale for each of its elements. There is discussion of a four-part framework and aide-mémoire for the management of brand exposures. The chapter ends with a review of brand valuation and its meaning for risk management.

Chapter 3 ('Learning to Take Risk') begins the progression towards classical risk literacy with an exploration of the psychology of risk-taking and related perceptual issues. This chapter aims to furnish the risk-literate mind with an appreciation of the alternative thinking styles in risk-taking and a greater self-awareness. It concludes with an important discussion of hindsight ('Learning from failure'), presenting a simple, authoritative technique for looking back and learning from experience.

Chapter 4 ('The Language of Risk') builds on the foundations of risk awareness developed in Chapter 3. It describes and demonstrates in outline each of the important concepts used in risk and probability estimations. Simply acquiring this means of expression extends the reach of risk thinking. It is also an important chapter to read before moving on to Chapters 5 and 6, which assume that you have done so or that you are already familiar with the concepts reviewed.

Chapter 5 ('Identifying and Managing Risk') equips the risk-literate marketer with the tools and techniques necessary to create a complete risk management plan. It describes four markedly different approaches to the identification of risk, which are nonetheless entirely complementary. They represent a progression from 'hunch' to due diligence, in terms directly relevant to marketers. With acknowledgement to their creators, I have deliberately strayed from the conventional path to present two powerful alternatives that simultaneously prompt risk identification and development of a recipe for success. There is also much talk of cause and effect in risk management. The chapter includes a general framework for the evaluation of cause and effect, together with brief sections on predicting stakeholder behaviour. The chapter concludes with a section describing the elements of a risk management plan and two techniques for assessing the value of risk management efforts.

Chapter 6 ('Modelling Risks') introduces the most powerful techniques relevant to risk thinking: decision trees, dependency modelling and stochastic modelling (or risk simulation). These are the techniques to consider – possibly with expert support – when intuition or a simple spreadsheet model are not enough. There is also a special use for decision trees in helping to decide the value of market research ('Expected value of information').

Chapter 7 ('Making Progress') is the concluding chapter. It takes stock of the body of knowledge presented in the book, suggesting ways in which the techniques described can be usefully combined for specific purposes. It also highlights some of the cultural issues in adopting risk thinking in an organizational context.

The book contains four single-page advisories ('Snakes and Ladders') on topical subjects: managing customer service complaints, pitfalls in market research, crisis management and the licensing of brands.

Finally, to assist the reader in navigating and recalling all of the material presented, the Appendix precedes the Bibliography. It provides a diagrammatic summary of each chapter, based on the headings and subheadings in the text.

Whatever your purpose, whatever your interest, I hope that this book will help you to chart an appropriate course.