DOWNSIZING TAKES ITS TOLL ON BRANDS

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This article addresses the long term effects that the downsizing of American corporations has had and will continue to have on branded goods and services. The data has been collected by interviewing executives during the three stages of downsizing: executives before the announcement of downsizing, executives retained after the announcement, and downsized (fired) executives. The conclusion is that brand equity is often sacrificed for short-term higher stock market prices, which in turn leads to a weakening of the firm's longer term market position. Brand managers and others responsible for the nurturing and care of corporate brands suffer from a combination of low morale and mistrust of management and are too time starved to build back lost equity.

INTRODUCTION

A number of articles have been written over the past few years discussing the role of brand management in creating and building brand equity. A variety of concepts, tools, and models detailing the nature and functioning of brand equity have been the subjects of books and seminars (Aker 1991). However, a relatively recent development in business, namely, corporate downsizing, has had a dramatic effect on the ability of brand managers to nurture their brands and serve their customers. Specifically, this development has included creating perceived increased stockholder equity. Shareholder equity is enhanced by reducing a large and quite obvious expense - human resources. The premise behind the organizational restructuring is to reduce capacity to meet current, lower demand by cutting employment and redistributing the workload over the existing staff. Euphemistically referred to as "downsizing," this corporate behavior may be the harbinger of long term disaster for cherished American brands.

The original expressed purpose of downsizing was to bring the management of the company closer to customers by eliminating the layers of middle management that had little contact with or understanding of the consumer. It was a reaction by companies that employed hundreds of freshly minted MBAs to "crunch numbers" using the latest mathematical planning models to create marketing plans and strategies. Unfortunately, many of these number crunchers did not have the foggiest idea of what was actually happening in the market.

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Later, the concept was associated with Michael Hammer, co-author of the best-selling book, ***Reengineering the Corporation*** (Hammer 1993) which focused on streamlining the corporation. Hammer claimed that his concept of streamlining was not just cutting people and combining tasks, but rather getting more out of people. While his ideas have been blamed for the launching of tens of thousands of pink slips, in his book (page 48) Hammer clearly states, "Reengineering is not restructuring or downsizing...downsizing and restructuring only mean doing less with less. Reengineering, by contrast, means doing *more* with less." He believed that long term growth came from the revenue side.

In response to the criticism that he was the father of this now questionable management tool of downsizing, Hammer suggested that his critics go back and read what he wrote. He said, "It's not so much getting rid of people. It's getting more out of people" (White 1996). Unfortunately, in many cases it has simply led to more work for fewer people.

The underlying assumption is that the downsized company is more valuable on Wall Street. This may be true in the short run, but the downsized company usually just shifts assets from by means of closing plants, and converts them to cash, or lower compensation and benefits liabilities. There is no question that Wall Street loves these changes and responds with higher share prices. The stockholders rejoice. For example, the announcement of "Chainsaw" Al Dunlap, the king of downsizing, as the future CEO of Sunbeam, led to an increase in stock prices of 41 percent before he ever stepped foot in the Sunbeam corporate suite (Nocera 1996). One article reported that he had added $500 million in "market value" before he even made his first decision (Schifrin 1996).

The more important question is whether the downsized company is stronger in the consumer market as opposed to the stock market. In most downsizings reported, there is almost always no value added to the product and all stock price increases are related to higher earnings per share from the asset movement rather than by creating delighted consumers. The question becomes, why does a company appear to have more value because the stock price is higher? If stock price is the definition of value, then value is very transitory, capable of increasing on mere speculation. But if value is defined as the ability to delight customers over an extended period of time, it is brands that add value not the mere subtraction of employees. There is no evidence that the corporation has a brighter future because it fired lots of employees.

The notion of downsizing providing real value has been questioned by a variety of writers. Stephen Roach has hypothesized that downsizing leads to a one-time increase in productivity, and does not produce long-term gains (Roach 1996). In the short term, stock prices may rise, but eventually the lack of market place strength will catch up. A recent Wharton School analysis of 52 studies of corporate restructuring, involving several thousand companies, concluded that on average, organizational restructuring, mainly downsizing, had little if any positive impact on earnings or stock market performance. Will Sunbeam continue to grow and maintain the high share value after the assets have been "used up"?

In one example, after three major downsizings at Campbell Soup Company in five years, a major stockholder of Campbell Soup Company sold a large block of shares while stock prices were at a very high level. In one day, Campbell's share price dropped almost 4 percent after a major sell off by this shareholder (Wall Street Journal 1996). Is it possible that the shareholder recognized that there were fewer and fewer assets available to sell to further increase corporate profits and "got out while the getting was good?"

In fact, there is evidence that even before downsizing became a common place tool of top management, brand equity was beginning to erode, with some estimates of erosion running as high as 9 percent (Johnson 1984). There is even more evidence to suggest that while advertising can help create brand equity, a brand *cannot* make up for lost customer trust or a customer's lack of perceived value added by simply spending more on advertising (Kerr 1989). Given the already existing brand equity difficulties, downsizing's effects would appear to be inconsistent with attempts to enhance equity building.

Downsizing is usually discussed in terms of the juxtaposition of "individual or family pain for corporate gain." Most news stories in the business and general press have stressed how downsizing has created difficulties for American families. The articles usually accent the damage done to the morale of the remaining employees and to the lifestyles and dreams of the fired workers and their families. At the same time, one can often find another article where Wall Street praises the downsized companies and shows that their stock prices moved higher (Koretz 1997).

Americas' families may initially have trouble adjusting to their new situation, but the fired employees are generally successful, resourceful people who will find new careers and will recover.

Often, the employees were not fired for lack of performance; in fact they may have even been top performers. They find new jobs. The CEOs, who personally make millions of dollars by firing employees will likely be gone too, either to a beach to enjoy their riches, or to another company, explaining to those shareholders how firing employees will be in the corporation's best interest. The hypothesis is that the downsizing CEOs and the downsized families will both survive the latest organizational restructuring. It is the brands of downsized companies that may not!

PURPOSE

The purpose of this study is to assess the effect downsizing has had on a company's ability to continue to care for its brands. In the future, corporate success will be related to the brand's ability to continue to delight consumers and generate profit. Larry Light, editor of the *Journal of Advertising Research* said "The marketing battle will be a battle of brands, a competition for brand dominance. Business investors will recognize brands as the company's most valuable assets." Some businesses such as Colgate-Palmolive have created a manager of brand equity position to be the **guardian** of the value of brands. (Aker 1991)

This extraordinary attention to brands makes sense when it permits companies to reap future profits from their brands. Profits can come in three ways. The most obvious is the added price consumers will pay for a preferred brand. It removes the branded product from the pure commodity marketing position, where cutting price is the dominant concern in the market. Secondly, the brand can make continued growth easier by using equity in the brand to establish new products in the market via line extensions, or new products. Finally, the brand has intrinsic value on the open market should a corporation choose to sell the company or the brand.

This last point of value is ironic. The value of a brand is not reported anywhere on the profit and loss statements. In fact, any dollars spent on increasing the value of the brand, and thereby the value of the company, are treated as expenses, which in fact reduce profitability. Yet the day a corporation sells its company or brands to another company, and the purchasing company pays an amount of money far in excess of its asset value for a "name," it is reported as goodwill. In a more extreme case, after the bankruptcy and total failure of Pan Am Airlines, the name Pan Am was sold at the bankruptcy auction for $1 million. Even in the death of a company, the brand alone may survive.

Previous research has indicated that job satisfaction has significantly decreased in the onslaught of corporate downsizing. One study found that there were three areas of most dissatisfaction: 1) increased workload, 2) change in duties, and 3) fear of job loss in the future. (Lee 1996). But little comparable research has been conducted on the effect of downsizing on brands.

This research attempts to explain why downsizing, despite its perceived attractiveness to Wall Street, has had little if any positive impact on earnings. Our hypothesis is that brand equity has been severely damaged by downsizing. We have investigated this hypothesis by studying the impact downsizing has on brand managers in companies who were candidates or actual victims of downsizing.

METHODOLOGY

The methodology is qualitative in nature and based on "Post Modern Research Alternatives" (Sherry 1991). In this study, the authors met with and interviewed a significant number of people falling into three different classes.

They included : executives potentially available to be downsized, executives who went through a downsizing and remained with the company (not fired), and executives who left the company after a corporate downsizing (fired). All the executives interviewed were in the medium to large companies in the consumer products industry and were located in the northeast United States. Table 1 shows the types of industries represented by the respondents.

The executives interviewed were selected via a convenience sample. Two sources for respondents were used: Executives who directly contracted the authors for advice pertaining to a potential or recent downsizing, and executives who were identified by colleagues to the authors whose companies were involved in some aspect of downsizing. Table 2 indicates how many respondents were included in each category.

TABLE 1
Types of Firms Represented in Executive Sample

Food Products Companies	14
Beverage Companies	8
Non-food Distributed in Grocery	9
e.g. paper products or cleaning products	===
TOTAL	31

TABLE 2
Number of Respondents in Each Category

Potential for Downsizing	9
Downsized and Remained	15
Downsized and Fired	7
	====
TOTAL	31

Because of the fear associated with the issue of downsizing within the companies, the respondents were promised that not only would their names be withheld, but also that their titles and even the companies where they worked would remain confidential. The level of paranoia was so high that the respondents feared that if a company discovered its employees were discussing this issue, the employees would be fired. Indicating the level of concern, one interview was conducted in a diner, well out of town, in the back of the restaurant, with the employee's back to the door. In their interviews, the executives discussed issues related to their daily job performance either currently or immediately before being downsized. They talked specifically about their abilities to perform the traditionally accepted roles of a brand manager or product manager. The interviews varied in tone from very formal and matter-of-fact to very emotional.

The interview protocol was composed of questions shown in Table 3, but the emphasis varied by category of respondent. The respondents currently going through a downsizing were more questioned on the current environment, and those fired and those remaining after a downsizing were questioned more on what they will do next.

TABLE 3
Sample Interview Protocol

How have you been spending your time during the past few months? (note: this time we vary, e.g., weeks, depending on how long the downsizing has been known or suspected.)

Has this been any different from the time prior to the downsizing?

What is different?

Follow-up with: Are you using more outside suppliers? Are you attending classes or seminars? Are you traveling as much?

Has your relationship to higher management changed?

(If changed) What is the nature of the change?

Has the relationship between employees in the company changed?

(If changed) What is the nature of the change?

How do you expect to change your business activities over the next few months?

Have you spent much time job hunting (asked of those fired)?

(If Yes) How have you done this?

FINDINGS

Before the Announcement

The key finding was that the employees who are in a situation of a potential downsizing are distracted by the uncertainty of their situation even before actual announcements are made. It was clear to every executive interviewed that downsizing was "underway" and announcements would be forthcoming. In some companies the period of uncertainty lasted up to one year. All executives in this situation reported that they spent very little time focusing on their brands or their customers and consumers. They looked for activities that might make them appear indispensable, which often meant becoming involved with internal issues such as committees and special projects. Over 50 percent of the executives reported that they spent a significant amount of time trying to second-guess management. Whereas in previous times they might have defended their brands and ideas to the managers they reported to, now they did as they were told. They were worried about their future, and when they did spend time with suppliers and customers (retailers), they often discussed job possibilities rather than concentrating on adding value or developing a differential advantage for the brand. During the pre-announcement period about 34 percent recognized they were on the block and spent their networking time in the employment market rather than at professional meetings intended to enhance their abilities to do a better job at work.

There was also a tendency to be out of the office as infrequently as possible. There seemed to be a belief that if they were "at the office" they would have more control of the situation. Attendance at professional meetings, and seminars to augment skills were sharply curtailed during the "threat of downsizing" period. Every one of the people interviewed indicated they were not proud of their behavior but felt a survival mode was necessary to keep their jobs.

The overriding theme among the people in this category was to just keep going until after the announcement of who stays and who goes, and then worry about the brand if they "made the cut." In every case, morale was very low and the related work environment was non-conducive to innovation and excitement. Issues such as creating value-added programs took a back seat to status quo and not making a mistake. The most common response to any suggestion was "Let's look at that after the announcement."

The Retained

The key finding for the employees who actually lived through a downsizing and retained their jobs was that their stress levels approximated those "waiting for the ax to fall." After a brief period of elation from finding out they still had a job, the reality set in. They realized that there were now fewer people to do the same work as before. All of the brand managers interviewed indicated that they were currently doing the work of two and sometimes three people prior to the "announcement." In one company, the marketing department went from 12 people to 2 people within one year. Unfortunately, because many of those who were downsized had neglected their brands for an extended time, some catching up needed to be done.

The employees who remained were spending most of their time trying to get the most basic tasks done rather than spending time nurturing the brand, finding new and better ways to delight the loyal consumers of the brand, and most importantly adding value to the brand that could lead to higher prices. Less than 10 percent of the executives interviewed indicated they were again focused on the consumer. They were not spending time examining the changes in consumer tastes and preferences or understanding how competition was responding to their brands. They still did not have time to attend seminars to advance their skills or knowledge. Their promises to themselves to change their behavior toward their brands "after the cut" were unfulfilled, as they were too busy catching up. In more than 60 percent of the cases executives reported that they used more outside assistance from both advertising agencies and research suppliers. In at least two cases the advertising agency was running the marketing departments with brand managers just signing the invoices. In addition, much of the promotional dollars were spent on various rebates and incentives to the trade--increasing sales versus building brand equity. The objective was "just keep it on the shelves even if we have to buy the space.".

The brand managers' attention was focused on just getting the product out, and meeting the never ending deadlines with no frills marketing. The art and science of managing a brand, including getting and staying close to the customer and consumer, understanding the changes in the competitive world, and finding new and exciting ways to delight the consumer were gone. These concepts are not corporate luxuries, but basic brand management activities. Close to 100 percent of those interviewed and who had survived a recent downsizing were also personally distracted. One person claimed to focus on business and let the cards fall where they may. Almost all of them had spent the past six months to a year waiting for the "word" on who goes and who stays. During that time they had not had their minds completely business. Now that they had survived the cut, they were starting their new tasks with their brands in a disadvantageous position. The brands they had ignored before the announcement were now even further behind in the market, and they had less time to catch up. Not only were existing brands put into jeopardy, the whole new product development process slowed to a crawl as new-product development teams fell to the downsizing ax. For example, in 1996 launches of new food products fell by more than 20 percent, their sharpest decline in at least two decades (McCarthy 1997).

One individual even lamented the impact this would have on future brand mangers who had been trained under the above circumstances. Future brand managers would tend to focus on short term, emphasize increasing sales rather than building brand equity, and pay less attention to the consumer and customer. In fact, a *Wall Street Journal* article noted that the surviving brand managers now spend considerable time hunting for new suppliers and for new ways to cut brand costs (Ibid.).

The Fired

There appears to be an additional significant factor that will negatively affect the performance of brands in downsized companies. Increasingly, those individuals who have been downsized are being hired into competing companies or starting their own entrepreneurial activities. In many cases it is in the same industry as their previous employers. This should come as no surprise since the downsized employee is often very experienced in that industry. While about 25 percent of the fired executives thought they were treated well, the remainder felt that it would be good business to "go after" their previous employers. After all, they are likely to be ripe for the taking. Their current brand caretakers (brand managers) are distracted by other issues, and their past caretakers are now in new jobs in other companies and most likely trying to "take down their past employers." It was not uncommon to hear fired employees say that they wanted to show their past CEOs that "they had made a mistake." Virtually all of the newly downsized executives indicated they would relish competing with their former employers and would intensify their attack on the company that had just said "good-bye" to them.

Although this group of executives wanted to move on, our findings suggest that when competing with former employers, the "fired" tend to be more aggressive than when competing with non-former employers. Apparently, AT&T so underestimated this effect, that the company took out full page newspaper advertisements announcing to competitors the availability of their recently downsized executives. While AT&T took the moral high ground on this issue, it is likely that the AT&T downsized executives will get the chance to say "I'm back."

Counterpoint

Some would argue that this "era of downsizing" is not such a bad situation since many of the national brands are in the same boat, creating a situation of competitive parity. While this may be true, there are two other factors that exacerbate the situation faced with downsized brands. First, as previously mentioned, the downsized executives are not just retiring to the beach like the CEOs. They are out looking for new jobs. They are being hired by the small and medium sized entrepreneurial companies that in the past could never have afforded to employ people with such skill and experience. Now, advanced brand management technology is available to the entrepreneur at a reasonable price. The small regional players or niche competitors are poised to make their big move. And whom will they move after? They are going after the recently downsized brands that they know are in no position to fight back. They have watched from the sidelines for years as the giants outspent them, and kept them "in their place." Now, with new experienced staff, they will attack with renewed energy.

The second factor is the resurgence of private label or store brands. Once relegated to the position of cheap (in both price and quality) alternatives to "real" brands, private labels are making a run at prominence. Part of the success is due to manufacturer's technology spreading to the retailer. In many cases the store brand, such as Sam's Choice at Wal-Mart is the number one "brand" in the category.

One important point that continually came up was that all employees recognized that it was often necessary to "cut some fat" from the organization. Firing people and cutting budgets is part of corporate life, and they expected it now and then. But firing significant numbers of employees is more than a realignment. It is a new way to run a corporation. It is making profit by shifting assets, not by gaining new customers or by keeping more of the current customers.

SUMMARY

Many current CEOs and shareholders of downsized companies have mortgaged the equity in their brands to please Wall Street and generate higher stock prices. However, institutional investors are not fooled by such short term thinking. In fact, these investors engage in share price profit-taking when the downsized companies initially report strong earnings, knowing that these short term profits are coming at expense of depleted human resources and neglected brand equity. There is only so much value to be siphoned off from the hard earned equity in the brand. When these companies eventually struggle, Wall Street will move their money elsewhere.

Wall Street no doubt believes the words of the 1992 Noble Laureate in Economics, Gary S. Becker, who said, "Human capital is a far more important form of wealth than stocks and bonds and is largely unaffected by market gyrations." (Becker 1997). Stockholders of the downsized companies will be looking at each other asking "What happened?" and ultimately the CEO will be held accountable for the poor performance. A new CEO will get on board and say "It's back to basics. Back to building the brands that made us successful and that our consumers want. Back to giving a reason to trust our brands and a reason to spend a few cents extra for the added value we put into each and every product."

When the history of brand management is written, the closing decade of the 20th Century be viewed as "Dark Age" of brand management. This does not demean the efforts of the thousands of brand managers who have worked under adverse conditions to create great brands that truly delight their customers, nor does it mean that every company is selling off their brand's equity for higher prices on Wall Street.

However, the real long term loser from corporate downsizing will be the **brands** of the downsized companies. It is ironic that Hammer's Reengineering, the very concept that was introduced to make the consumer and customer a more integral part of the corporate planning activities, became synonymous with downsizing, the factor that is destroying the brands reengineering meant to strengthen.

In the final analysis, the long term value of any business is based on brand-building, not on "slash and burn" activities. The research reported here gives credence to this statement and a rationale for understanding why downsizing should be perceived as a destructive rather than a constructive force on brands and their respective companies.

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