

# Unlocking the power of brand trust

Industry insights on managing reputation and risk across the enterprise

RESEARCH STUDY



# Introduction

## Boosting buyer confidence in the age of distrust

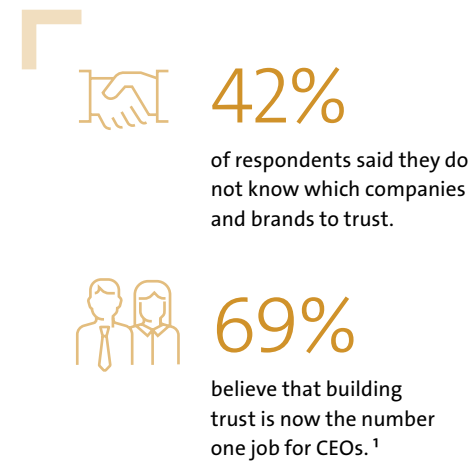
Never has the public been so skeptical about every aspect of society. The Edelman 2018 Trust Barometer reported the largest-ever drop in trust across government, business, media, and non governmental organizations (NGOs). The U.S. saw the most significant decline, demonstrating that the global disruption dominating recent headlines has eroded U.S. brands. In fact, 42 percent of respondents said they do not know which companies and brands to trust, and 69 percent believe that building trust is now the number one job for CEOs. <sup>1</sup>

In this environment, managing brand risk is a top strategic priority that should move every business to take a closer look

at its risk management practices. Trusted organizations gain more customers, command premium pricing, attract investors and employees, and are more likely to be perceived as leaders in their industries.

With companies relying heavily on reputation to acquire new customers and sustain growth, failure to protect their brands can result in severe consequences. Stories of businesses suffering financial and reputational damage from product failures or abuses of security, safety, privacy and trust have become commonplace. Most reputational issues can be prevented or contained with proactive planning.

UL set out to understand how leading global manufacturers and retailers manage their brands and perceive and address marketplace threats. This report summarizes the key findings of a survey fielded to 300 respondents in roles directly and indirectly responsible for brand performance.



# Executive summary: Factors influencing brand success

In a highly connected global environment, brands can be positively or negatively affected by a dizzying array of elements. UL's study of the factors behind the brand reveals that:



Product quality is the top brand identity element for manufacturers and is among the three leading factors retailers consider essential for building trust.



More than half of organizations experienced customer relationship issues and just under half suffered revenue losses as consequences of damaged brand equity.



Reputational loss is most frequently associated with product quality concerns, followed by product design infringement and lack of confidence in marketing claims.



Of the potential scenarios that could threaten their brands, enterprises are most prepared to address trademark infringement, but not as well prepared to address counterfeiting, gray market products and online brand infringement.



Both reputational and monetary losses from damaged brand equity are heaviest when they involve a loss of product quality, often as the result of a product recall.

These insights suggest many companies may not be fully aware of or prepared for the myriad risks jeopardizing their enterprises.



# Understanding brand management practices

Most companies consider the brands associated with their products or services to be among their most valuable assets. Consequently, they invest considerable resources in designing, communicating, nurturing, and protecting these brands. However, merely having a brand does not guarantee success. Brand recognition can be positive or negative and will influence people's actions accordingly. In the end, only the most trustworthy brands will foster loyalty.

We sought a better understanding of the brand management strategies firms use to build, sustain, and leverage their brands, including brand identity, functional roles, and key influencers.

Not a single retailer ranked product quality as the top contributor to brand identity, focusing instead on marketing activities. This is significant because, without a high-quality product to promote, marketing efforts have little impact on revenue growth and could harm brand perception.

## Manufacturers



29 percent of manufacturing respondents ranked product quality as the most important aspect of communicating brand identity, with product research and development (R&D) professionals most focused on quality.



Among manufacturing verticals, electronics and high-tech product or component manufacturers rate product quality highest, followed by consumer product goods (CPG) competitors.



Manufacturers in North America rank quality as the top brand identity element, followed by those in the Asia-Pacific region.

## Retailers



C-suite executives for retail brands were most likely to rank their company website as the most critical brand identity element.



Retail survey respondents in marketing and brand roles rank advertising/promotions/content marketing as the top element.



European retailers consider content marketing and retail presence/point-of-sale displays to be more critical than websites for establishing brand identity.

Brand identity is how a company presents itself to and wants to be perceived by its customers. Manufacturers and retailers have different perspectives on the elements that form their respective brand identities.

### Top 3 brand identity elements



Manufacturers



Product quality



Advertising and promotions



Logo



Retailers



Website



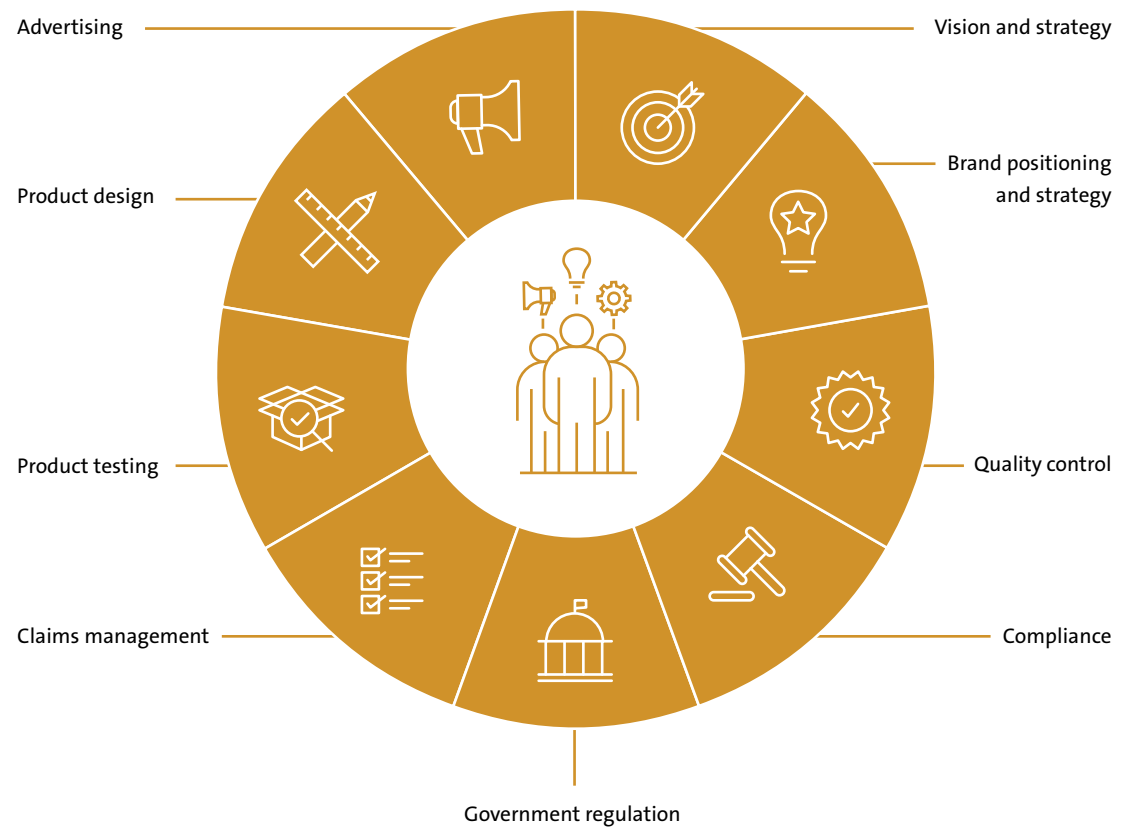
Retail presence/point-of-sale display



Advertising and promotions

## Brand building is cross-functional and collaborative

Nearly every business role or function touches the brand in some way. When it comes to managing and strengthening brands, an enterprise-wide approach is essential. We found that companies across segments adopt brand-building practices that cross all departmental lines, including:



Compliance and research activities constitute the most frequent brand protection functions, closely followed by quality oversight, compliance and legal, with anti-counterfeiting and brand infringement ranking third.

These responses indicate that companies recognize the importance of diversifying

the responsibilities that contribute to brand presence. However, the wish for a cross-functional perspective underscores the need for a cohesive brand strategy that starts at the C-suite and guides how businesses present themselves in the marketplace. With so many teams and roles involved, firms need to determine who will make the defining call on brand messaging.

**Most enterprises surveyed involve an average of 6 roles in brand protection, most frequently including:**



**Executive and externally facing roles are perceived to be the most influential when it comes to brand reputation initiatives.**

**Most influential**



- Brand team
- C-suite
- Marketing
- Product quality

**Moderately influential**



- Customer analytics/insights
- Sales and business development
- Product research and development

**Least influential**



- Legal
- Government/regulatory affairs
- Supply chain
- Finance
- Third-party support vendors
- IT



# From brand threats to brand opportunities

Senior executives around the globe have named brand reputation damage the greatest threat facing their organizations.<sup>2</sup> That is not surprising; reputational risk combines the impacts of many other brand threats from across the enterprise, from product quality to brand and trademark infringement.

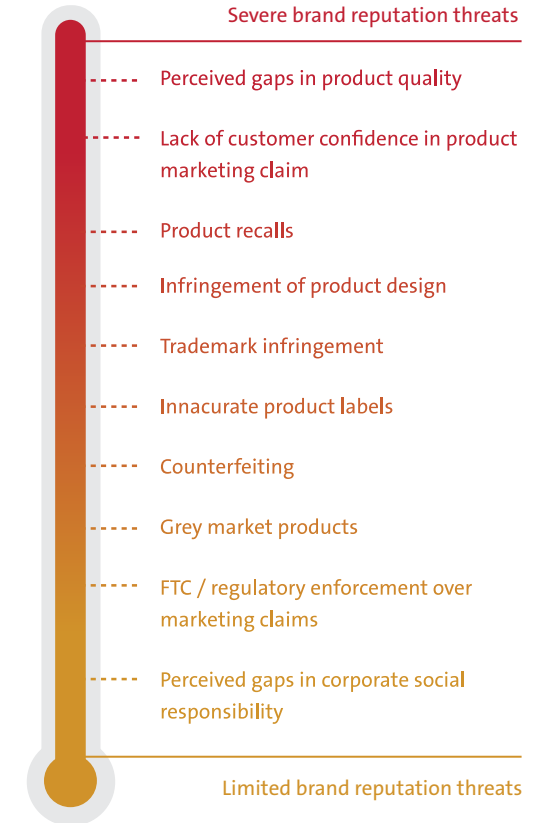
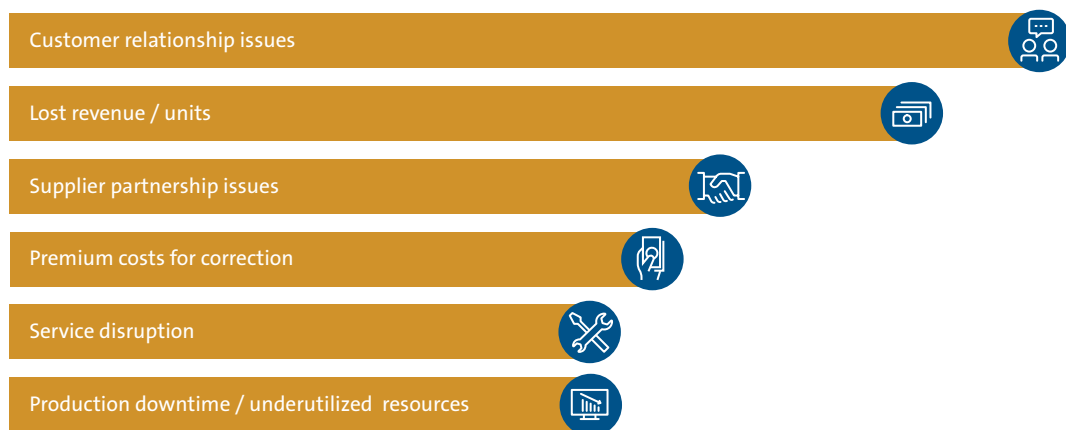
Some threats are beyond an organization's control. Retailers are especially vulnerable to external threats because of their large, decentralized workforces. Events like

a hurricane or a terrorist strike, where a company's response in the first few hours can make all the difference, are also outside of their direct control. Often, though, a reputational threat comes from within the enterprise as the result of inadequate or failed internal processes, people or systems.

Risks to brand reputation can come from anywhere at any time. We asked survey respondents across segments to rank common brand threats according to the severity of their impact on brand reputation.

Each of these threats can have serious consequences. However, four findings stand out because they present brands with unprecedented opportunities to expand and enhance their brand management practices.

## Most frequent consequences of damaged brand equity



## 1. Strong brands are rooted in quality

Most companies are committed to selling or manufacturing high-quality products. However, globalization and supply chain complexity, combined with competitive pressure on companies to bring new products to market quickly, has created product safety and quality issues. From cars to baby mattresses, millions of products have been recalled for defective or harmful components – and many of these products are manufactured by trusted brands. In response, consumers, regulators and government agencies have demanded

stricter measures to monitor product quality and safety and keep dangerous products off store shelves.

Meanwhile, consumers are taking to blogs, social networks, and online review sites to post their complaints about product issues. Many of these complaints are re-posted by thousands of other people around the world, putting brand reputations in jeopardy. At the same time, media coverage and campaigns on product issues reach global audiences. Whether the claims are real or exaggerated, people everywhere are listening.



Across all industries surveyed, **52 percent of respondents** experienced customer relationship issues and **48 percent indicated they lost revenue** as a direct result of damage to their brands.



















## Impact of product quality on brand reputation

Companies across industries point to loss of product quality as the primary threat to brand reputation.

Our survey revealed that overall, loss of reputation is most frequently associated with product-related concerns, which are the leading brand-related issues for B2B manufacturers and are among the top concerns in retail and consumer goods.



Perceived gaps in product quality cause the most significant reputation loss for companies in **5 of the 7 industry groups surveyed.**

	 Consumer goods manufacturer	 Retailer (online or traditional)	 Chemicals or formulated products manufacturer	 Electronics/high tech product or component manufacturer	 Building products/ systems manufacturer	 Energy and industrials	 Furniture/ furnishings manufacturer
Most severe threat	Negative product reviews	Negative brand commentary on social media	 Perceived gaps in product quality	 Perceived gaps in product quality	Product recalls	 Perceived gaps in product features	Grey market products
2 <sup>nd</sup> most severe threat	Competitors/ new market entrants	Lack of customer confidence in product marketing claims	 Perceived gaps in product features	 Perceived gaps in product features	Online brand infringement	 Perceived gaps in product quality	Competitors/ new market entrants
3 <sup>rd</sup> most severe threat	 Perceived gaps in product features	 Perceived gaps in product quality	Inaccurate product labels	Negative product reviews	 Perceived gaps in product quality	Negative product reviews	Counterfeiting















## Impact of product quality on revenue

When asked to rank the same scenarios according to their impact on monetary loss, respondents indicated perceived gaps in product quality, often evidenced in product recalls, represent the most significant financial impact on brands.



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	 Consumer goods manufacturer	 Retailer (online or traditional)	 Chemicals or formulated products manufacturer	 Electronics/high tech product or component manufacturer	 Building products/ systems manufacturer	 Energy and industrials	 Furniture/ furnishings manufacturer
Most significant loss	 Perceived gaps in product quality	 Perceived gaps in product quality	 Perceived gaps in product quality	 Perceived gaps in product quality	 Perceived gaps in product quality	Product recalls	Counterfeiting
2 <sup>nd</sup> most significant loss	Product recalls	Negative product reviews	Perceived gaps in product features	Product recalls	Perceived gaps in product features	Grey market products	...
3 <sup>rd</sup> most significant loss	Lack of customer confidence in product marketing claims	Lack of customer confidence in product marketing claims	Lack of customer confidence in product marketing claims	Lack of customer confidence in product marketing claims	Counterfeiting Online brand infringement (tied) Trademark infringement (tied)	Counterfeiting	...



Monetary loss from damaged brand equity is highest when it involves product quality gaps, which are often evidenced by product recalls. Looking only at manufacturers:

- 21 percent would incur more than 25 percent in losses.
- 94 percent would lose more than 5 percent.

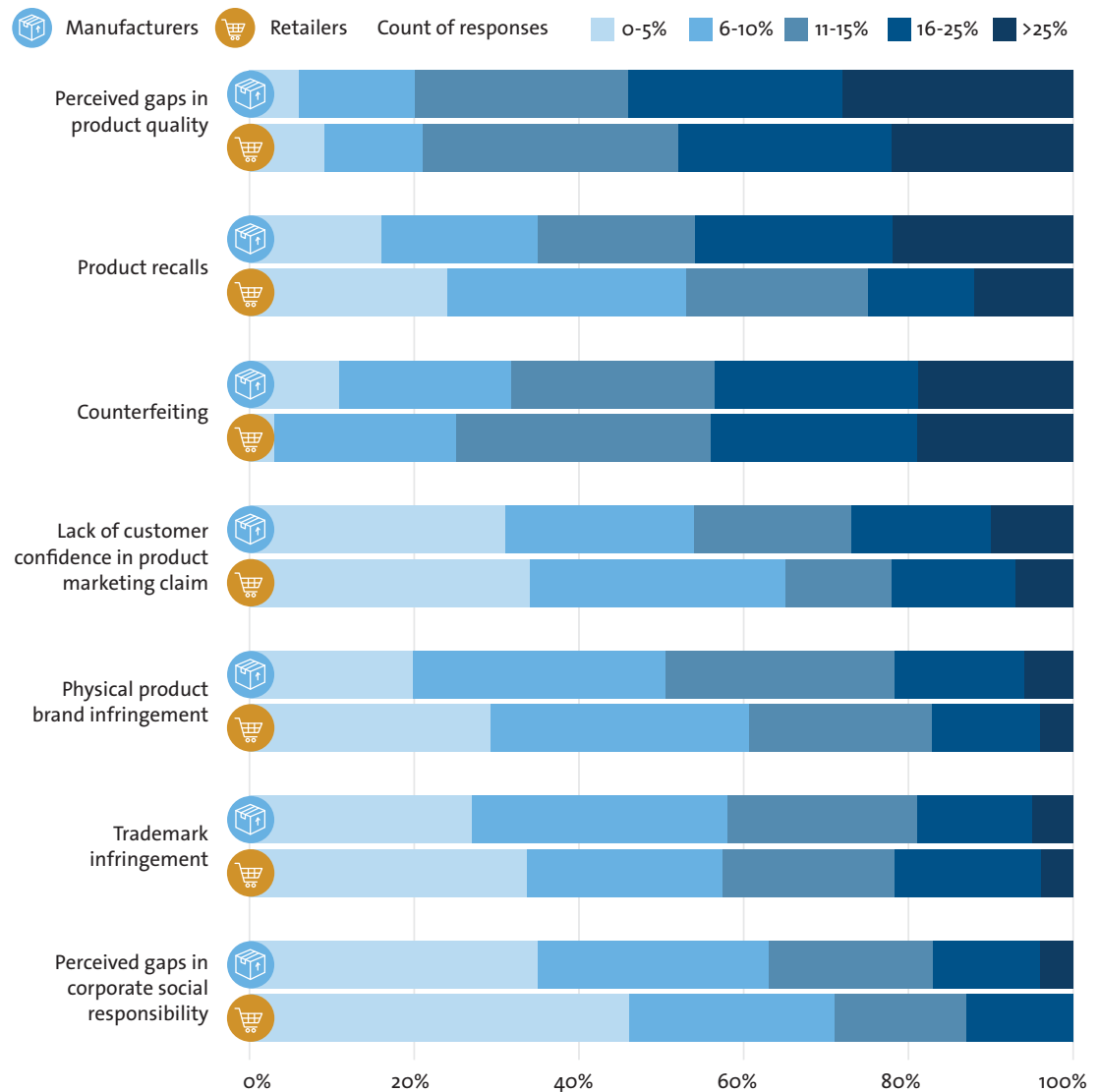
Retailers also report heavy financial losses when product quality is compromised, but the impact is amplified when poor quality is combined with negative product reviews.

- 91 percent would experience more than 5 percent in monetary losses.
- 20 percent would incur more than 25 percent in financial damages.

In the energy and industrial sector, brand damage caused by product recalls accounts for the highest monetary losses, followed by gray market products and counterfeiting.

Furniture manufacturers are most affected financially by product counterfeiting.

**Respondents were asked to rate the potential monetary loss their organizations would incur as a result of the following situations.**



B2B companies should be just as diligent as consumer companies when it comes to managing risk. For example, supply chain risks can impact a company's reputation, whether it sells directly to consumers and no matter how far up the chain they may be. B2B companies should understand who's downstream from them and what other organizations at each level of the supply chain are doing to produce a quality product and manage risk.

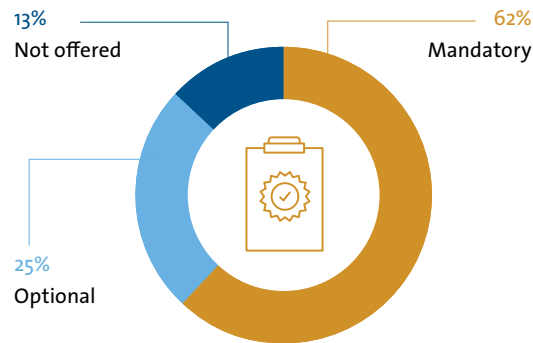


A large U.S. hardwood-flooring specialty retailer is an unfortunate example of how reputation and revenue can suffer from the sale of inferior products. In 2016, the Centers for Disease Control and Prevention (CDC) found that Chinese-made flooring sold by the retailer contained formaldehyde, which can increase the risk of cancer and cause respiratory issues. The retailer suspended its sale of the products and its CEO resigned. However, the controversy sent the company's stock plummeting and spawned a host of consumer lawsuits, contributing to lost sales and millions of dollars in revenue shortfall.

### Quality assurance training reduces risks

Reinforcing the overall focus on quality, 62 percent of surveyed organizations reported they make quality assurance and quality control training mandatory. Education is associated with a 16 percent decrease in legal proceedings and 13 percent lower financial losses from brand damage over the past 3 years, among other benefits.

**Quality assurance is the most important brand-related training topic, required by more than 60 percent of respondents.**



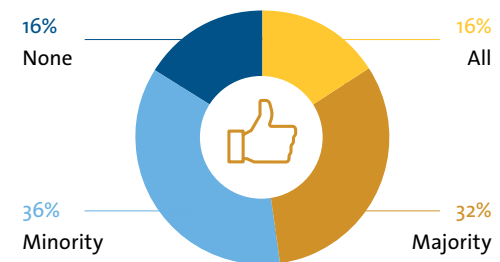
## 2. Credible marketing elevates brands

With hundreds of thousands of similar products from which to choose, and competing claims promising that every product is the “best,” “easiest,” “longest lasting” or “fastest,” it is no surprise that 39 percent of U.S. consumers polled in 2017 did not trust advertising.<sup>3</sup>

Lack of customer confidence in marketing claims ranks among the leading causes of monetary loss for manufacturers and retailers, with 92 percent of UL survey respondents placing it in the top three.

Participants also consider credible marketing claims to be a critical factor in building customer trust, ranking them second after product quality.

**Portion of marketing messaging verified by an independent third party**



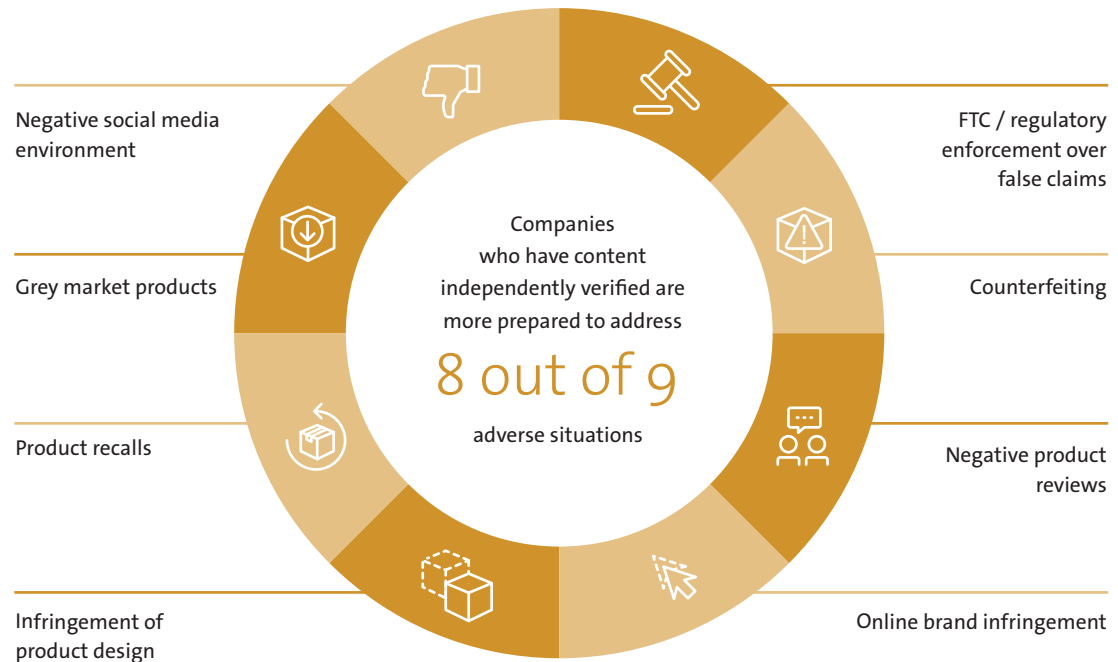
These findings illuminate the fact that, while quality is top of mind for most brands, they cannot take full advantage of it unless they commit to product messages backed by verifiable facts.

Among manufacturing respondents, 84 percent verify at least a portion of their public-facing product messaging with an independent third party. Only 16 percent of organizations verify none of their marketing messages.

Compared to companies that verify none of their messaging, organizations that engage independent third parties for messaging verification experience 6 percent fewer incidents of lost revenue or units and 11 percent fewer incidents of employee turnover due to lost brand equity.

Perhaps most notably, manufacturers that independently verify all messaging are more prepared to react to adverse events in 8 of 9 potential scenarios than organizations that do not use third parties for verification.

Increased preparedness may be attributed to the fact that these brands are more aware of threats in general or are stronger brands with more at stake to defend.



## Marketing claim training pays off

Training in product marketing claim development, mandatory for 41 percent of responding companies, was associated with considerably fewer (44 percent) customer relationship issues and 16 percent lower employee turnover resulting from brand damage over a three-year period.

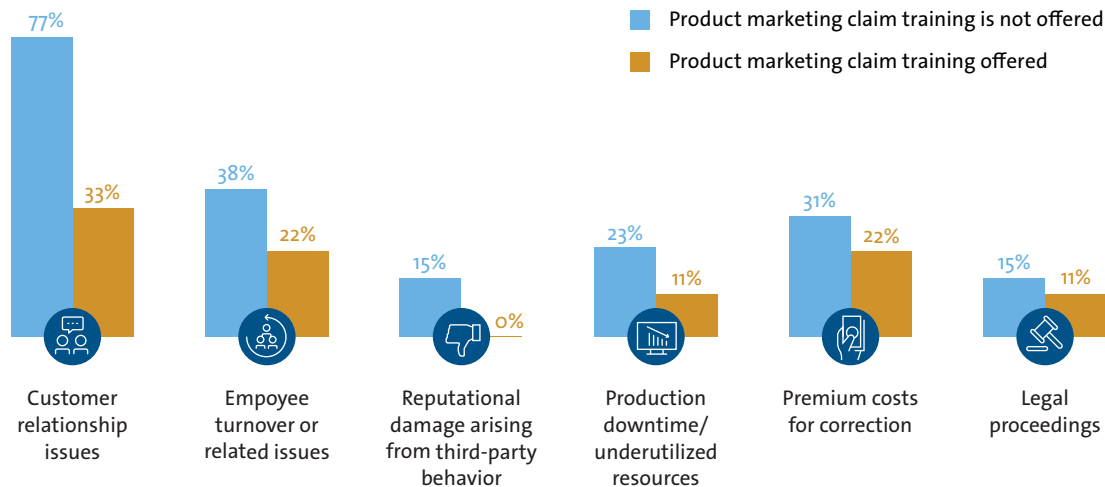
The manufacturers and retailers we surveyed seem to understand the relationship between making accurate product claims and brand reputation, but there may be a gap between knowing what is needed to gain customer trust and how to achieve it. Objective third-

party verification of marketing claims can position brands to stand out from their competitors. Verification of messaging offers tangible proof of a product's features or performance, helping brands to build trust and simplify customer buying decisions.



Brands that require product marketing claim training experience **44 percent fewer customer complaints** than organizations that do not require training.

## Impact of product marketing claim training on brand damage-related revenue loss



### Illuminating lighting claims

LED lights are energy efficient and long lasting. However, they are also sensitive to changes in electrical conditions that can cause them to flicker. Optical flickering can have biological effects on humans and interfere with other electrical products. UL's low flicker Verification program enables manufacturers to communicate the level of flicker in their LED products and differentiate them from competitors with self-declared claims.



### 3. Protecting intellectual property preserves brand equity

Counterfeit goods, software piracy and the theft of trade secrets cost the American economy as much as USD 600 billion a year.<sup>4</sup> In the European Union, the Organization for Economic Co-operation and Development (OECD) estimates that up to 5 percent or EUR 85 billion of imported goods are counterfeit or pirated, causing the loss of roughly 800,000 jobs and around EUR 14 billion in annual tax revenues.<sup>5</sup>



Imports of counterfeit goods are worth nearly half a trillion dollars per year and **comprise around 2.5 percent** of the world's global trade importation.<sup>6</sup>

The social and economic impacts of the counterfeiting crisis can also trigger reputation and brand damage, overproduction costs, safety issues, and product liability concerns. Furthermore, counterfeiting often involves elements of a business' supply chain, making it more difficult to detect and protect firms from perpetrators.

#### We asked respondents to tell us how prepared they are to address common brand threats.



UL is dedicated to combating trade in counterfeit products bearing an unauthorized UL Mark. With 17 locations worldwide, our program continues to grow and adapt to market trends. UL's three-pronged anticounterfeiting approach includes:



**Enforcement:** We take an integrated approach to successful anticounterfeiting actions, partnering with global law enforcement authorities to provide investigation support.



**Education and training:** We work with brand owners to develop customized, product-specific courses for law enforcement through the International IP Crime Investigators College.



**Partnerships:** Our extensive outreach program builds strong and effective public and private sector partnerships through UL brand protection conferences, workshops, and initiatives.

A failure to act on the first few areas in the chart at left can have a costly impact on intellectual property (IP) rights and injure a brand's standing with buyers. It can even affect a company's ability to seek legal remedies.





#### Apple and UL fight counterfeiting

UL and Apple work together globally to fight counterfeit products, including shutting down counterfeit factories in China and removing from the marketplace more than 120,000 fake phone chargers bearing an unauthorized UL Mark. UL also evaluated the danger associated with the use of counterfeit phone adapters and found that 99 percent of the 400 counterfeit iPhone chargers tested lacked sufficient safeguards to protect users and devices.

Brands should consider a three-pronged approach to anti-counterfeiting, including investigation support, training and partnering with law enforcement to remove counterfeit products from the market and identify the people responsible for manufacturing and distributing them.

## 4. Socially responsible practices boost brand reputation and profits

When choosing a brand, buyers now consider more than just the quality of goods and services. Many prioritize products and services that create a positive social impact and hold corporations accountable for driving social change.

To illustrate how critical corporate social responsibility (CSR) has become, a 2017 study found that more than 60 percent of Americans hope businesses will stand up for social and environmental change in the absence of government regulation. Most consumers surveyed (87 percent) said they would purchase a product because a company supported an issue they care about and 76 percent will refuse to buy from a company if they learn it supports activities that contradict their own beliefs.<sup>7</sup>

In sharp contrast, UL survey respondents ranked corporate social responsibility last out of all potential brand threats. They also perceive the lack of CSR programs as having the least financial impact on their brands. While a lack of CSR activities will not necessarily cause brand damage, it can spell lost opportunities.



Mission-driven brands also attract more investors and employees, and these individuals tend to be more loyal to companies that are committed to issues such as fair labor practices, responsible supply chain sourcing and human rights.



UL's SPOT™ database helps architects and designers source UL certified products with reduced human health and environmental impacts, helping companies meet the growing demand for environmentally responsible, resource-efficient building projects.



# Closing the brand trust gap

In an age when customers routinely purchase products and services from companies around the globe, from people they have never met, trust is the fabric that binds buyers and brands. Buyers have many options, and when companies breach their trust in some way, it can be difficult, if not impossible, to regain it.

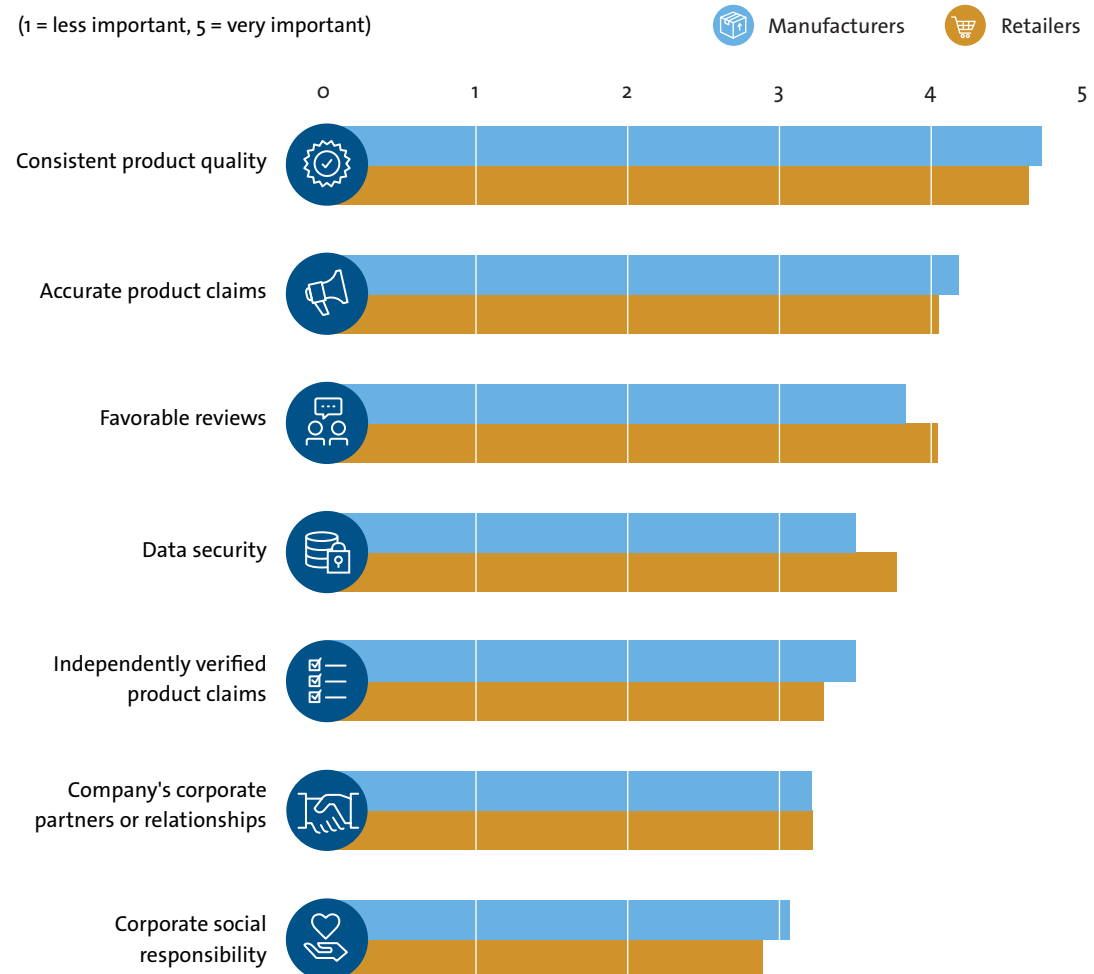
A company's business decisions and performance across an array of functions influence its ability to build trust. We asked survey participants to rank factors they deem essential to earn customer confidence.



Companies focused on building customer trust must consistently deliver a high quality product that is accurately promoted in the marketplace.

## Importance of key factors in building customer trust

(1 = less important, 5 = very important)



Customers want to know that they are making sound, informed decisions. Many elements are necessary to cultivate customer trust, but two emerge as strategic priorities for firms in any industry.

An organization-wide commitment to quality standards will significantly enhance a business' reputation by creating customer confidence in its products and services. On the other hand, product defects and recalls will diminish customer trust and potentially drive buyers straight to a competitor.

Accurate product claims go hand in hand with product quality as the second most crucial trust factor. Consumers and B2B buyers are increasingly skeptical of advertising, and if they cannot instantly verify a claim, they will assume it is false. Verifiable marketing claims backed by science are the "x factor" that wins business in an age in which articles, product reviews, and social media commentary are mere clicks away.

Beyond these findings, the research illuminates other notable areas for improvement, including the importance of counterfeiting prevention and of implementing socially responsible business strategies. These discoveries can help manufacturers pinpoint opportunities to improve product quality and the overall customer experience and support retailers as they take proactive steps to safeguard and strengthen their supply chains.



## About UL

Around the globe, UL works to help customers, purchasers, and policymakers navigate market risk and complexity. UL builds trust in the safety, security, and sustainability of products, organizations, and supply chains – enabling smarter choices and better lives. In all we do, we apply science and expertise to enable the responsible design, production, marketing and purchase of the goods, solutions, and innovations of today and tomorrow.

UL is prepared to deliver services, solutions, and education to help enterprises strengthen their brands. We invite you to take advantage of our leading-edge insights and domain experts to position your brand for long-term, sustainable success.



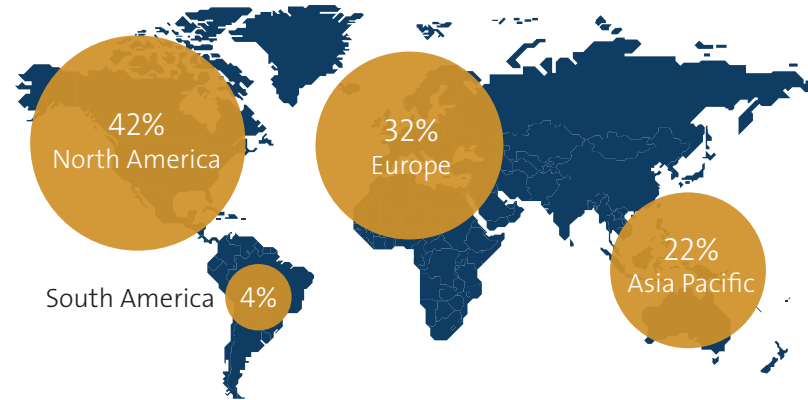
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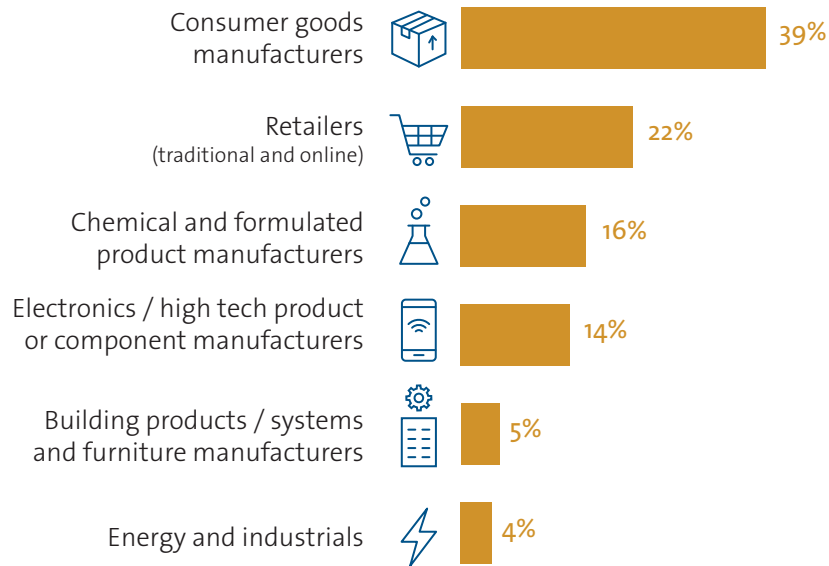
# About the study

The findings in this report are based on a survey of 300 respondents from the Americas, Europe and Asia Pacific. Nearly all respondents were C-Level executives or marketing professionals concentrated among mid-sized retail and consumer product goods manufacturers, along with product research and development, brand team and customer analytics/insights professionals for a balanced perspective of brand protection decision-making roles.

## Country breakdown



## Industry segment



## Roles



## Sources

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<sup>1</sup>Edelman, “Edelman 2018 Trust Barometer,” 2018

<sup>2</sup>Aon, “2017 Global Risk Management Survey,” 2017

<sup>3</sup>YouGov, “America’s trust in advertising grows,” 2017

<sup>4</sup>IP Commission, “The Theft of American Intellectual Property: Reassessments of the Challenge and United States Policy,” 2017

<sup>5</sup>European Economic and Social Committee, “Fake products cost 800,000 jobs annually,” 2017

<sup>6</sup>OECD/EUIPO, “Trade in counterfeit and pirated goods mapping the economic impact,” 2016

<sup>7</sup>Cone Communications, “Cone Communications CSR Study 2017,” 2017

