



#### Corporate reputations

## The blog in the corporate machine

CHICAGO

### Bloggers can be vicious, but they can also help companies avert disaster

THEY have always had their critics, but corporations are having an especially hard time making friends of late. Scandals at Enron and WorldCom destroyed thousands of employees' livelihoods, raised hackles about bosses' pay and cast doubt on the reliability of companies' accounts; labour groups and environmental activists are finding new ways to co-ordinate their attacks on business; and big companies such as McDonald's and Wal-Mart have found themselves the targets of scathing films. But those are just the enemies that companies can see. Even more troubling for many managers is dealing with their critics online—because, in the ether, they have little idea who the attackers are.

The spread of "social media" across the internet—such as online discussion groups, e-mailing lists and blogs—has brought forth a new breed of brand assassin, who can materialise from nowhere and savage a firm's reputation. Often the assault is warranted; sometimes it is not. But accuracy is not necessarily the issue. One of the main reasons that executives find bloggers so very challenging is because, unlike other "stakeholders", they rarely belong to well-organised groups. That makes them harder to identify, appease and control.

When a company is dealing directly

with a labour union or an environmental outfit, its top brass often take the easy route, by co-opting the leaders or paying some sort of Danegeld. Until a couple of decades ago, that meant doling out generous union contracts and sticking shareholders, taxpayers or consumers with the bill. More recently, the fashion has been for "corporate social responsibility". This might involve spending money on a pressure group's pet project; or recruiting prominent activists to a joint committee, dedicated to doing good works.

In the blogosphere, however, a corporation's next big critic could be anyone. He might be an angry customer or a disgruntled employee—though that sort of tie to the company is not essential; nor does he need lots of industry experience or lengthy credentials to be a threat. All a blogger really needs to devastate a company is a bit of information and plausibility, a complaint that catches the imagination and a knack for making others care about his gripe.

Mike Kaltschnee's site, HackingNetflix.com, became a force to be reckoned with for Netflix, a video-rental outfit that delivers to people's homes. When Netflix said it was not interested in Mr Kaltschnee passing on questions from consumers, he posted the exchange online, hurting the

**Management reading**, our review of business journals and books, is published online at

[www.economist.com/managementreading](http://www.economist.com/managementreading)

firm's reputation among loyal customers. The company now treats him much more respectfully and his site has gained a large following.

Increasingly, companies are learning that the best defence against these attacks is to take blogs seriously and fix rapidly whatever problems they turn up.

One firm that could have saved itself a lot of trouble is Diebold, an Ohio-based firm that makes automated cash machines. After America's presidential election in 2000, which featured a vote-counting fiasco in Florida, the firm decided to expand a part of its business that made electronic voting machines by acquiring Global Election Systems (GES) in early 2002. The deal turned into a disaster when computer scientists and voting-rights groups educated the public about problems with machines such as those made by GES. The critics complained that GES's voting devices could not leave an audit trail because, among other flaws, they did not print paper ballots. By 2004 the mainstream print and broadcast media were also hammering away on this issue, leading several states, including Ohio, to reject GES's machines.

Evolve24, a consultancy which analyses corporate reputations and watches online trends closely, has used its blog-sniffing software to find out what was available on the internet before Diebold bought GES. It discovered that not only were a couple of voting-rights activists calling attention to the machines' drawbacks on their blogs well before the acquisition, but also that research papers highlighting the problems were available on technical websites. Diebold did traditional forms of due diligence before buying GES,

such as verifying its financial health. But by ignoring the blogosphere, it failed to spot some crucial risks.

Although its response was much quicker than Diebold's, Kryptonite, a firm that makes high-priced bicycle locks, also learned the hard way how important blogs can be. In September 2004 word spread quickly through the blogosphere that U-shaped locks by Kryptonite and other firms could be picked, quickly and easily, using only the plastic casing of a Bic pen. Then somebody made a video showing how to do it, and posted it on the Engadget blog site, one of the most popular on the internet. After Kryptonite discovered the problem, it came up with a plan to take care of its customers and improve its locks. But Donna Tocci, Kryptonite's media chief, says that she now checks 30-40 blogs every day.

Not all company interactions with bloggers involve damaging criticism. Sometimes a careful look at what is happening online can help managers to avoid over-reacting. After the invasion of Iraq, when American consumers turned against all things French, a big French drinks company noticed that its brand names were popping up on boycott lists. But analysis by BuzzMetrics, which specialises in scrutinising blogs and other online forums for corporate marketers, revealed that those who were pushing hard for a boycott tended to be "Budweiser drinkers", who would not have been natural customers for the firm's wines and spirits anyway.

### A hair of the blog

Many big companies have been looking eagerly for ways to tailor their advertising to specific groups of consumers. They have found that web logs and internet discussion groups, which bring together people of similar interests, can help them turn hot links into cold cash. But besides trying to get out their message, companies are also learning that blogs can provide early warning signs of potential problems.

They are increasingly turning to firms that can help them sort through the blogorhea to find what they need. There is a lot to sift, considering that some 27m blogs are online. Last month, responding to growing interest in their services, BuzzMetrics agreed to merge with Intelliseek, another firm that specialises in analysing blogs for business. BuzzMetrics has ties to Nielsen, a media-research firm; Intelliseek has a clutch of former executives from Procter & Gamble, a consumer-goods giant.

Max Kalehoff, vice-president of marketing at BuzzMetrics, says that many of the firm's clients want it to analyse blogs so as to gauge the seriousness of bad news. Drugs firms, for example, want to know what questions are on patients' minds when they hear about problems with a

### Consumer boycotts

## When markets melt away

### European firms feel the sting of a Muslim boycott

**A**YEAR ago, Aria Foods of Denmark was so confident of the potential to sell more dairy products in the Middle East that it switched production of processed cheeses from its home country to Saudi Arabia, where it had already been making dairy foods for 20 years. With regional sales of DKKr2.9 billion (\$465m), Aria already had the Middle East's best-selling butter. Its goal was to expand and double sales by 2010. "We've been here so many years now we believe the authorities consider us a local dairy," an Aria official said at the time.

Apparently not. Decades of hard work by Aria have been wrecked in the past two weeks as it has been hit by a boycott of Danish products throughout the Muslim world. The company is losing \$1.8m a day, and its products have disappeared from store shelves.

Across the region, nervous retailers fear a backlash from the row over cartoons depicting Muhammad. Carrefour, a French retailer, has drawn scorn in Eu-

rope for voluntarily pulling Danish products from its shelves in the Middle East—and boasting about it. Iran has raised the stakes by stopping all trade with Denmark, which accounts for about \$280m in annual imports. The European trade commissioner warned Saudi Arabia that it could be hauled up before the World Trade Organisation, which it recently joined, if it is seen as supporting the boycott.

Danish goods worth about DKKr1 billion a year are thought to be at risk in 20 Muslim countries. Other affected firms range from Novo Nordisk, a leading insulin-maker that reports a slump in use of its products by Saudi pharmacies and hospitals, to Lego, the big toymaker—although the Middle East accounts for less than 1% of its global sales.

While the Danes are in the crosshairs, others stand to gain. Seeking to squelch rumours that could dampen sales, Swiss-based Nestle took out ads last week explaining that its products were not from Scandinavia. Fonterra Co-operative Group of New Zealand and Groupe Lactalis of France, both dairy companies, report new interest in their products. But since two French newspapers have now republished the cartoons, this may not last.

Companies can buy insurance to minimise losses from such maelstroms. But liability is not clear-cut and customers need to read the fine print carefully. "There are no carte blanche, financial-guarantee products," says Charles Keville, a crisis-management expert at Aon, an insurance broker. Part of the difficulty, he says, is determining "when a so-called consumer boycott becomes a political risk." And now that Muslim wrath has spread beyond Denmark to other countries, Mr Keville says it is probably too late for European companies to buy coverage for political risk in the Middle East that takes effect immediately: "We'd look at any potential risk out there very nervously," he says.



medication. Car companies are looking for better ways to spot defects and work out what to do about them.

Steve Rubel, of CooperKatz, a public-relations firm, reckons that companies should also have a ready-made plan for influencing bloggers if a crisis does occur. Mr Rubel runs the firm's Micro Persuasion practice, which helps companies improve their marketing by using blogs and other

conversational media. He recommends setting up a "lockbox blog" that is hidden behind an internet firewall, but can be made visible to the public at short notice. Any websites or video clips that companies might want to direct the public to in an emergency, for example, could be prepared in advance. Then, he likes to tell clients: "in case of emergency, break glass and blog." •