



Why Advertising Safety Isn't Safe

Providing information that signals safety or quality may have a negative impact on sales, if it draws consumers' attention to product safety risks.

Consumer trust in baby milk formula produced in China was forever changed in 2008. After six infants died and 300,000 others became sick from drinking formula based on milk powder laced with melamine to elevate its protein levels in standards tests, Chinese consumers turned in large numbers to home-made soybean milk or buying milk formula from overseas for their children.

Even though the response of the authorities was swift and firm, involving an investigation of Sanlu, then the fourth largest Chinese dairy company, for adding melamine to its powder and the sentencing of Sanlu's chairwoman to life imprisonment, confidence remained low. Further investigations later found that dozens of milk brands were also tainted by melamine, which was a "known secret" in the dairy industry. One of the biggest problems was the opaque and complex nature of the industry's supply chain, which made tracing the source of the contamination and enforcement of quality difficult.

Given the gravity of the safety lapse, brands that were tested clean went on a PR offensive to reassure customers with positive messages of safety. It is widely accepted in economics literature that providing more information on quality increases consumers' willingness to pay for a given product, especially where such information disclosure is not

made mandatory by regulators or is absent. However, as I find in my latest research paper, "**Why Advertising Safety Isn't Safe**", in certain contexts, disclosure of quality information can actually do more harm than good, especially when it reminds consumers of a particularly negative experience.

Trust us, we're safe

In my paper, with Zhaoning Wang and Tarun Khanna of Harvard, we studied Beingmate, a Chinese infant milk powder producer whose products were tested clean during and after the melamine scandal. Beingmate, which obtained ISO9001:2008 certification, invested US\$3.2 million in a product traceability system after the crisis to reassure customers that its products were safe. The traceability system included QR codes on packaging so that consumers could instantly access information on the product's source and history via smartphone.

We conducted two experiments to investigate the effects of this voluntary disclosure of quality information to see how it affected consumers' purchasing decisions.

In the first experiment, we conducted an online

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survey experiment on customers visiting Beingmate's online store. Visitors were shown different types of quality-related information via a pop-up window and then asked to complete a survey after making a purchase. One group was shown a pop-up about Beingmate's traceability system, another was shown information about the company's ISO certification, another was presented with a generic positive brand message about Beingmate and a control group was shown nothing. We found that the disclosure of quality-related information had a negative effect on purchase behaviour, with those shown traceability information 16-21 percent less likely to make a purchase and those shown ISO certification information 14-18 percent less likely to buy. Our survey also revealed that disclosure of quality-related information leads consumers to report a lower level of trust in China's milk powder industry.

We also conducted an offline experiment in 87 supermarkets in Hangzhou, Zhejiang province, where Beingmate is headquartered. We randomly assigned stores to the same treatment and control groups as our online experiment. We instructed Beingmate to attach an information card to the product racks on one of the following: traceability, certification or a generic ad. We then examined dollar and volume sales before, during and after the experiment to test the impact on sales. We find that all three treatments had a negative impact on average daily sales. We also compared the income level of different districts and found that the negative effect was significantly stronger in high-income districts, compared with low-income districts, suggesting that wealthy consumers are more likely to respond negatively when reminded of safety lapses.

Beware of what you disclose

Our results are consistent with recent developments in behavioural economics, which show that more information about product quality may change consumer behaviour in unexpected ways when it diverts consumers' attention and triggers recollections of past experiences.

Across our studies, we observe this negative "reminder effect" which challenges the conventional view that consumers always respond to product quality information with an increased willingness to buy. The Chinese milk scandal shows that despite efforts to go above and beyond to showcase product safety, the severity of the milk scandal of 2008 was made salient in people's minds whenever quality or safety information about milk powder was provided, producing an undesirable and inefficient outcome.

Institutional distrust in the developing world

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We are not suggesting that product quality information is useless. Voluntary disclosure of such information has been proven to increase consumers' purchase intention in developed markets where trust is taken for granted and product safety is taken more seriously at an institutional level. However, even in developed countries, in certain contexts, it is advisable to avoid reminding consumers of safety lapses or accidents. This is why airlines don't advertise their safety features, as customers would be reminded of the past air disasters. Instead, their advertising focuses on functional features like comfort and flight experience.

Our research is particularly relevant for brands operating in emerging markets where trust isn't taken for granted, and consumers are naturally suspicious of the information they are provided by corrupt governments or industries that may have been associated with safety lapses in the past. This is a socio-economic phenomenon that I refer to as "institutional distrust" – a collective belief that businesses and governments are corrupt and untrustworthy. In the Chinese milk powder setting, consumers were nervous when provided with product quality information, and asked, "Why do you want to assure me your products are safe?" The lack of trust worsens an already tough situation, and makes it impossible for a good producer to effectively differentiate itself from a bad one. Consequently, companies may not have the incentive to invest in safety and quality, and the whole market "races to the bottom."

Trust is the foundation for markets and organisations to function. A firm is a nexus of long-term implicit labour contracts, whereby employees "tie" themselves into a company by making firm-specific investments, for example, learning organisational routines, practices and cultures that support this particular company, and they count on managers to compensate them for these firm-specific investments that are generally valueless elsewhere. Without employees' trust in managers, organisations wouldn't move forward. Adam Smith noted the importance of trust to the functioning of markets in his *Theory of Moral Sentiments* written in 1759. Five of the world's seven billion people are living in the developing world, where trust in advertising, managers, businesses and even governments are often not taken for granted. All the reputable businesses in developing countries have worked to cultivate trust. Alibaba, for example, not only created an e-commerce platform that enables sellers to display their products, but also created an ecosystem that allows both parties of the transaction to cultivate trust. Chinese buyers prefer to develop trust through their own interactions with sellers rather than acting on other users' ratings. Buyers wanted to be able to see a seller's online status and communicate with them instantaneously. That is why

Taobao's built-in instant messaging system became its competitive edge over eBay in China. When it comes down to cultivating trust in the developing world, businesses that respond creatively stand out.

Juan Ma is an Assistant Professor of Strategy at INSEAD.

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