Marketing lessons from the financial crisis

By Niraj Dawar

The saying "Success has many fathers, but failure is an orphan" goes back at least as far as Tacitus (around 100 B.C.). So calling the financial crisis of 2008 a financial crisis, has the benefit of finding at least one father for that failure: the field of finance, and its real-world embodiment, Wall Street.

But calling it a financial crisis may obscure some of the lessons to be learned from the crisis. What happened on Wall Street during the early part of this century, and that led to the crash of 2008, the extinction of Lehman Bros., the collapse of AIG and the near death of many other financial institutions was as much a failure of marketing as it was a failure of finance.

I know, it's foolish for any field to raise their hand and claim even partial responsibility for such a calamity. But there are important lessons to be learned from it.

The crisis, you will remember, was triggered by banks selling sub-prime mortgages to NINJA (no income, no job or assets) customers, packaging these mortgages into AAA-rated instruments that were then wholesaled to other financial institutions, who bought them or sometimes just bought insurance against their decline in value. When some of the component mortgages in those packages turned out to be toxic, everybody was as shocked, shocked as Captain Renault in Casa Blanca. The valuations of the packages plummeted, and the global financial system went into cardiac arrest.

Now consider another story, this one about pet food sold under various brands and private labels in North America. From the Food and Drug Administration's website: "On March 15, 2007, FDA learned that certain pet foods were sickening and killing cats and dogs."

As many as 150 brands of pet food were affected, including large brands such as Iams and Purina. Thousands of pets died or went into kidney failure.

The source was traced to Menu Foods, an Ontario-based pet food supplier. Menu Foods traced it to a toxic ingredient imported from China that contained melamine. The recall nearly destroyed several pet food brands. Menu Foods battled several lawsuits from pet owners, and was eventually bought out by Simmons Pet Food in 2010.

What is common to the two crises is that in a complex global supply chain, toxic ingredients were introduced by unscrupulous or ignorant intermediaries, and caused significant damage downstream. The ingredients were included in innocuous packages that were branded by resellers who did not or chose not to understand the risks of the products they were selling.

Similar stories abound in many industries, from lead in toys, to the wheels on baby strollers.

As sourcing fragments into global supply chains, each manufacturer or ingredient supplier is producing a small part or component of an end product. Quality control at every stage is always incomplete, because quality control can only measure a few salient variables – who'd a thunk to test wheat gluten for melamine, or S&P AAA-rated instruments for toxic assets?

Is there a marketing solution to the ingredient problem?

Brands are the mechanism by which sellers are held to account in a marketplace. By putting their brand on a product, the seller takes responsibility for its quality, and risks a reputation if the quality doesn't meet customer expectations. Note that quality here could mean anything, not just quality as defined and measured on a few pre-determined variables. So the seller is kept on his toes.

So is it possible that if ingredient suppliers were putting their reputations at stake, they would be more careful with the quality of their products? Should ingredient suppliers be branded?

Intel, not long after it launched its intel-inside ingredient brand campaign, also launched the Pentium chip. In November 1994 news of a bug in the new Pentium chip – a technical floating point error – lit up the internet. Initially, Intel responded in a technical fashion, stating that the errors caused by the bug were so rare (1 in nine billion calculations were minutely affected) that only those who could prove their calculations were materially affected would be offered a replacement. By December, realizing that its brand was at risk, Intel offered to recall and replace all Pentium chips.

The brand places a much greater burden of quality on the seller. Could that have reduced the risk of toxic mortgages in AAA packages, and melamine in pet food ingredients in global supply chains where the ingredient manufacturers remain anonymous?

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