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How do luxury brands manage crises effectively and rebuild their reputations?

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Abstract

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This thesis aimed to explore crisis management strategies used by luxury brands to rebuild their reputation post-crisis. Utilizing a qualitative research approach, incorporating case study methodology and existing literature, this study delved into diverse types of crises possible and devised effective strategies to manage them, not only for recovery but also as a precautionary measure against potential future crises.

Focusing primarily on crises arising from marketing practices, this study examined real-life examples from both luxury and basic brand companies. The study integrated recent research findings, examined both basic and luxury brand methods in crisis management and reputation restoration.

While initially hypothesizing notable differences between luxury and basic brand approaches, the study ultimately uncovered surprising similarities in their strategies. Through thorough analysis and comparison, this study offered invaluable insights for future professionals in the field of crisis management.

Keywords: Crisis Management, Rebuilding Reputation, Luxury, Marketing

The originality of this thesis has been checked using Turnitin Originality Check service.

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1 Introduction

Brand crises are among companies' worst nightmares and now due to social media, brand crises occur more frequently (Van Heerde, Helsen and Dekimpe 2007; Xie and Peng 2009; Dawar and Pillutla 2000).

The exclusivity of luxury brands makes them particularly vulnerable to crises which can tarnish the carefully cultivated reputation with the potential to undo decades of brand-building efforts. Today, marketing turns traditional practices upside down for profitable success. This may have negative consequences for the brands (Bernard Dubois 1998).

Over the past few years, the luxury sector has witnessed notable crises, including Marc Jacobs facing backlash in 2016 for cultural appropriation (Qureshi 2016), Gucci's blackface sweater controversy in 2019 (NPR 2019), Dolce & Gabbana's history of making racist, homophobic, and misogynist comments (Kibwe Chase-Marshall 2018), and Balenciaga's accusations of child exploitation in 2022 (Danya Issawi and Cohen 2022).

Crises of this type manifest both short- and long-term negative effects, encompassing immediate sales losses, diminished marketing effectiveness, and erosion of consumer trust (Van Heerde et al. 2007; Xie and Peng 2009). It is clearly very important that managers respond in the right way to restore customer confidence and rebuild the reputation of brands.

Considering the substantial negative impact that a single scandal may have, it is crucial to comprehend the various types of crises possible and devise effective strategies to manage them, not only for recovery but also as a precautionary measure against potential future crises.

The thesis will start by exploring the spectrum of crises that could impact brands, with a particular emphasis on those originating from within the brand,

potentially influenced by marketing practices. The study will discuss various crisis management strategies and compare those between basic brands versus luxury brands to understand aspects that could be unique only to luxury brands. Given the controversial nature of the literature on this topic, the thesis will delve into disagreements among researchers. Ultimately, the study will investigate how brands undertake the challenging task of rebuilding their reputation and regaining customer trust, should they manage to do so.

The qualitative research approach will be used for this study. Both the case study methodology and existing literature will be used to collect information. Previous research will be studied and analyzed to gain deeper insights and create new ideas. Given the nature of the topic and the research question, quantitative research methods involving numerical data will not be used.

2 Brand crises

In this chapter, we will look into the definition of brand and a brand crisis as well as the difference between basic and luxury brand.

2.1 Brand, basic brand and luxury brand

A brand is a name, symbol, term or a design, either individually or in combination that identifies the maker or seller of a product or a service (Kotler 2019). Today, customers anticipate products to have branding, and most of the time they build a relationship with the brand. Ultimately, customers tend to purchase from brands they trust, despite alternatives in the market (LeanMarketing 2024).

The editor of Vogue, Suzy Menkes (2015) defines luxury in the following way: "The definition of luxury can change in all sorts of ways depending on who is designing it and who is buying it." A brand that is selective, exclusive and offers consumers creative and emotional value is referred as a luxury brand. It can be argued that consumers buy luxury products for two main reasons: their own

pleasure and as symbols of success (Godey, Manthiou, Pederzoli, Rokka, Aiello, Donvito and Singh 2016; Tini 2023).

In this study the term 'basic brand' is often mentioned. In this study a 'basic brand' defines all necessity items that can be bought from retail stores.

The difference between a basic brand and a luxury brand is that basic brands are usually necessities that are needed for survival, well-being and functionality such as clothing or food. Luxury items are to satisfy people's unnecessary needs. Luxury is not a necessity nor is it an ordinary need of life (Tini 2023).

2.2 Defining brand crisis

When consumers' perceptions of a brand changes because of hearing unfavourable information about the brand, regardless of whether the company is at fault for the information's contents, it can cause damage to the brand's equity. This is known as a brand crisis (Dawar and Lei 2009).

The concept of brand equity has been defined in several different ways for a variety of purposes and before there was not a common viewpoint about how to conceptualize and measure brand equity. Brand equity can be referred to the intangible value that a brand possesses because of consumer perceptions, experiences, and associations with the brand name or symbol. It represents the added value that a well-established brand name brings to a product beyond the functional benefits it offers. Brand equity is developed over time through consistent delivery of quality, positive brand experiences, effective marketing efforts, and customer loyalty (Keller 2013).

Due to social media, corporate crises are even more unpredictable because they can be driven by irrationality. The ability to add freely and instantly own's opinion to the Internet discussion is a new power to influence held by social media users who are continuously reacting, rather than reasoning, to anything occurring online and offline (Sims 2009).

Several scholars have studied the classification of a brand crisis from different points of view. Corporate social responsibility and corporate ability are two categories into which Brown and Dacin (1997) divided corporate crises. Corporate social responsibility is related to a company's dedication to social responsibilities while corporate ability mostly refers to a company's product quality, production capabilities, and knowledge.

Coombs (1998) divided brand crises into three different categories: 1. victims of negative exposure incidents which include rumours and product tampering, 2. occasional negative exposure incidents including product harmed events and injuries caused by technical failure, 3. intentional exposure of the negative incidents including corporate crime and the negative exposure of human events.

Pullig, Netemeyer, and Biswas (2006) thought that a brand crisis could be divided into performance associated events and values associated events. Performance associated event referred to the serious injuries which had been or might be caused by products and values associated events referred to the adverse events about the corporate social image or ethical performance.

In subsequent research, Coombs (2007) categorized crises into three different categories based on attributions of crisis responsibility. The first category is called the victim crisis, in which the brand has very weak attributions of crisis responsibility and they are viewed as a victim of the event. The second category is the accidental crisis, in which the brand bears limited responsibility for the negative event, often viewed as unintentional or beyond its control. Lastly, the intentional crisis, in which the brand is perceived to bear significant responsibility for the crisis and the event was caused intentionally.

Wei Haiying (2011) divided the crises into two categories: initiative brand crisis due to corporate poor management, product quality issues, false advertising, non-compliance with corporate social responsibility or violation of business ethics and passive brand crisis due to changes in the external environment,

competitors' malicious slander, false media reports or restrictive government regulations (Wu 2011).

When confronted with crises, brands have various methods and strategies for addressing them. The next chapter look more into the strategies researchers have delved into.

3 Crisis management

Crisis management is the implementation of strategies designed to help a company deal with an unexpected and significant critical event while still maintaining business continuity (White 2022). As mentioned in the Chapter 2, a critical event can be anything from a minor public relation crisis to an incident involving a serious injury. The process prepares managers and employees to act in unforeseen situations in the organization. Having a strategy also prevent the situation from getting worse for the customer as well as for the business.

Numerous academics have delved into various approaches to crisis management and most of the crisis management processes can be attributed to three stages. The stages are preparation, response and recovery. Various scholars suggest that the company should make a plan which outlines roles, responsibilities and procedures for addressing diverse crisis. During a crisis, it is advised to establish transparent communication channels and provide timely updates to stakeholders, employees, customers, and the public to maintain trust and credibility. Finally, the company should evaluate the effectiveness of the strategy to recover and adjust strategies based on feedback and evolving circumstances (Coombs 2019; Fink 2013; Ulmer 2019; Pearson 1998).

Another approach is called Burnett Model of Crisis Management which was developed in 1998 by John Burnett. In the model Burnett identifies key factors which are time pressure, control issues, threat level concerns and response option concerns. After addressing these factors, a company can manage a crisis. Each of the inner sections are categorized with two steps: identification,

confrontation, and reconfiguration. Burnett's model progresses through goal setting, environmental analysis, strategy design, evaluation, implementation, and strategic control (Gurdatta, Mavani and Sonawane 2023).

When the crisis arises the managers develop a plan, the company implements the plan and exercise strategic control, which includes the oversight of crisis management as well as postcrisis review (Gurdatta, Mavani and Sonawane 2023).

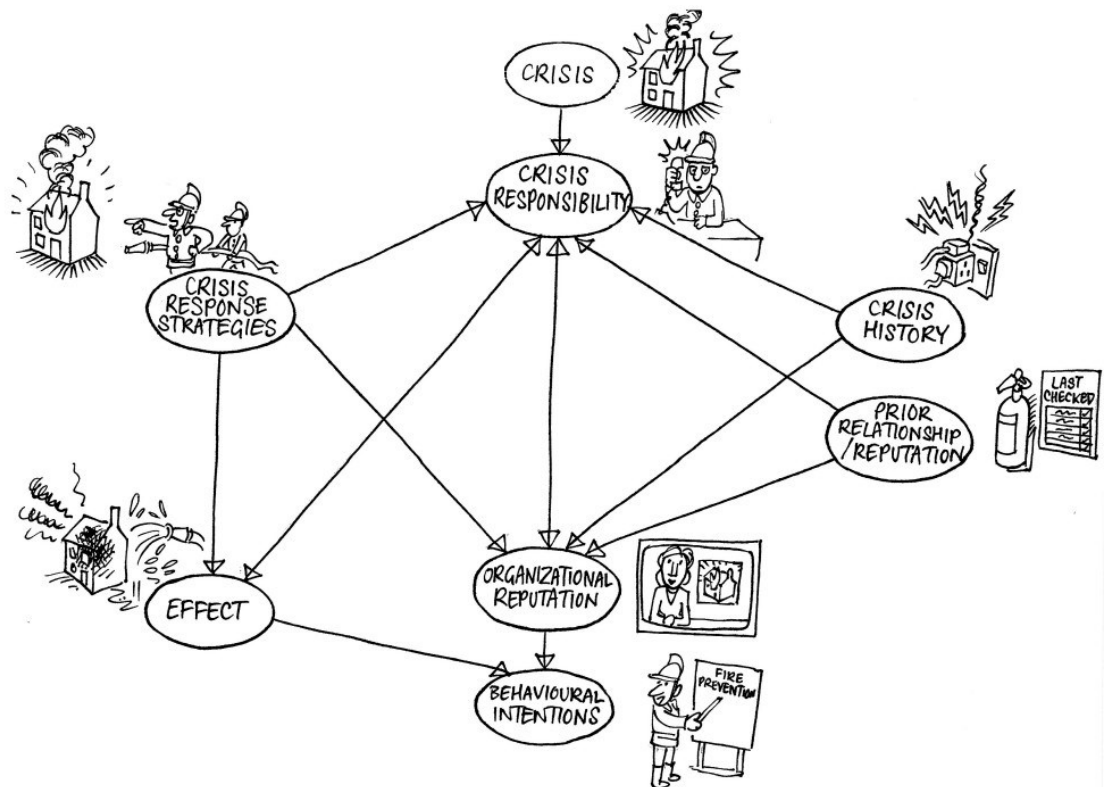
Burnett Model of Crisis Management



Picture 1 Burnett Model of Crisis Management (Burnett 2007)

Situational Crisis Communication Theory is a framework developed by Timothy Coombs in 2007. The theory is rooted within Attribution Theory (Verwer s.a.). The framework of Situational Crisis Communication Theory outlines response strategies for companies to manage crises meanwhile considering both responsible party and the level of threat it poses to the company's reputation (Swetha Amaresan 2023).

Attribution Theory defines that people assess the causes of a crisis based on attributes. Attribution theory has been used to analyse crisis communication between the management of a company and stakeholders. It is pivotal in understanding stakeholders' perceptions and responses to crises, shaping their attitudes, behaviours, and decision-making processes. By understanding how attributions affect reactions, the companies are able to anticipate responses and change communication strategies and manage reputational risks during crises if necessary (Amirhossein Rasooli, Zandi and DeLuca 2018).



Picture 2 Situational Crisis Communication Theory model (Trompenaars and Coebergh 2014)

As mentioned in previous chapter, Coombs identified three types of crises in their Situational Crisis Communication Theory which are victim cluster, accidental cluster, and intentional cluster. In the victim cluster the company is a victim of the crisis which results to minimal attributions of crisis responsibility and a mild reputational threat. Examples of a victim crisis can be natural disasters as well as rumours. Crises which build up from unintentional actions

are called accidental crises. This leads to moderate attributions of crisis responsibility and reputational threat. Examples can be such as technical errors or malfunctions. Finally, the intentional cluster is a situation where the company knowingly risks consumers safety, joins inappropriate actions or break laws. These crises have strong attributions or crisis responsibility and has a strong reputational threat. Examples of intentional crises can be human errors and violating laws and regulations. To choose an appropriate response strategy, it is necessary to comprehend the crisis type to match it with the circumstances of the crisis (Verwer s.a.).

In Coombs' theory the response strategies are divided into primary and secondary approaches. Primary strategy comprises deny crisis response strategies, diminish crisis response strategies, and rebuild crisis response strategies. The secondary strategy is used additionally to the primary strategies and that is called bolstering crisis response strategies (Verwer s.a.).

| Strategy | Tactic | Tactic Explanation |
|------------|--------------------|--|
| Deny | Attack the accuser | Claiming something is wrong |
| | Denial | Asserting that there is no crisis |
| | Scapegoat | Blaming some person or group outside the crisis organization |
| Diminish | Excuse | Minimizing responsibility by denying intent to do harm and/or claiming inability to control the events that triggered the crisis |
| | justification | Minimizing the perceived damage caused by the crisis |
| Rebuild | Compensation | Offering money or other gifts to victims |
| | Apology | Accepting responsibility and asking the stakeholders for forgiveness. |
| Bolstering | Reminder | Telling stakeholders about its past good works |
| | Ingratiation | Praising stakeholders and/or reminding them of past good works by the organization |
| | Victimage | Reminding stakeholders that the organization is a |

Picture 3 Situational Crisis Communication Theory

However, Fred Fiedler revealed that there isn't one perfect crisis management strategy. He emphasized that a style effective in certain circumstances, might

not work in others. It can be argued that no crisis management manual should be followed as infallible during a company's crisis, as what succeeds initially may not work again the next time (Cui, Wang, Ping 2016).

3.1 How basic brands apply Crisis Management Strategies?

The following segments will examine real-life cases of crisis management involving basic brands. Subsequently, the crises faced by luxury brands are looked into and the approaches and strategies used are analyzed.

3.1.1 Burger King

Burger King UK faced a crisis concerning their plant-based burgers when found out that those were unsuitable for vegans. The burger had mayonnaise and was cooked on the same grill as meat burgers. Despite having a disclaimer on their website indicating the burger's non-vegan status, Burger King faced backlash and a lawsuit from activists, risking customer loyalty (Anderson 2023).

In response to the situation, Burger King clarified that their plant-based burgers were not meant for carnivores, instead the burgers were intended for flexitarian customers who want to reduce meat consumption (Anderson 2023).

Due to Burger King's proactive preparation and the presence of the disclaimer, the lawsuit was withdrawn, allowing Burger King to address the issue before it escalated. This incident underlines the importance of proactively addressing problems before they develop into crises (Anderson 2023).



Picture 4 Burger King (Burger King 2021)

3.1.2 Pepsi

Pepsi launched a new well-intentioned advertising campaign featuring Kendall Jenner, aiming to promote unity, and understanding. However, the advertisement sparked widespread controversy and public backlash. Critics accused Pepsi of trivializing serious social justice movements and appropriating the struggles of marginalized communities (Abbas 2023).

The advertisement received a huge amount of criticism as soon as it was released which led to fierce backlash. People believed that by suggesting a soda could resolve deep-seated societal problems, the advertisement ignored real-life difficulties. Social media platforms were used by users and numerous organizations to express their disappointment. The public response made it clear how important it is to handle social justice movements with consideration and decency (Abbas 2023).

Initially, Pepsi stumbled in their crisis management approach by defending the advertisement, exacerbating damage to their brand reputation. Upon recognizing the gravity of the situation, Pepsi adjusted their approach and removed the advertisement from the internet. They issued a sincere apology, acknowledging their misjudgement and taking full responsibility for the advertisement's insensitivity. They emphasized their commitment to learning from the incident, enhancing processes to prevent similar missteps, and recognizing the importance of listening to feedback and engaging in meaningful dialogue when addressing sensitive social issues (Abbas 2023).

It is worth noting that apology's effectiveness ultimately depends on the sincerity and actions that follow. Through ongoing learning from errors, incorporating modifications, and showcasing a sincere dedication to creating positive effects, brands can foster long-term trust and make a meaningful difference (Abbas 2023).



Picture 5 Pepsi campaign (Getty Images for Pepsi 2017)

3.1.3 Procter and Gamble

Towards the end of 2017 and the beginning of 2018, Procter and Gamble encountered an unexpected business crisis unrelated to the company's actions. The Tide Pod challenge, where teenagers filmed themselves consuming Tide Pods laundry detergent, went viral on social media platforms. This challenge garnered significant attention, posing a crisis for Procter and Gamble. Despite the crisis originating from external sources, P&G recognized the importance of taking action to safeguard its reputation (Knowledge at Wharton 2018; Anderson 2023).

Acknowledging the need to address the situation swiftly, P&G collaborated with YouTube to remove challenge videos and actively engaged with consumers on social media. They created advertisements and humorous posts that were widely shared, generating memes and GIFs to underscore the dangers of the Tide Pod challenge and redefine it from "cool" to "foolish." In response to the situation, P&G made the dissolvable plastic harder, thicker and added a bitter taste to encourage spitting out the pod. Additionally, they enlisted influencers to convey the message that Tide Pods are not meant for consumption (Knowledge at Wharton 2018; Anderson 2023).

Through these actions, P&G demonstrated clear signs of validating the concern, showing action, and controlling the narrative without issuing an apology, as they didn't perceive themselves as responsible for the crisis (Knowledge at Wharton 2018; Anderson 2023).



Picture 6 Tide pod challenge (YouTube / Proctor & Gamble 2018)

3.2 How luxury brands apply Crisis Management Strategies?

In this chapter I am focusing on crises which luxury brands have faced during the years and after compare the actions between basic and luxury brands.

3.2.1 Gucci

In February 2019 Gucci was caught in a social media firestorm regarding their sweater which they had launched months ago. The sweater was a black jumper style balaclava which had a pull-up neck and a hole around the lips. The hole had red circle around it. Numerous people brought up the fact that it was released during Black History Month and the sweater resembled the racist act of blackface (Givhan 2019).

Gucci removed the sweater from their online store as well as from their physical stores and made a statement on social media. They apologised, acknowledged the mistake, and stated that the company is fully committed to increasing diversity throughout the organization (Givhan 2019).

Gucci described the incident as an influential learning opportunity and revealed intentions to offer scholarships in partnership with schools across the world. Additionally, Gucci invested \$5 million to community projects in 10 locations across North America, enabling their employees to volunteer during company time in their local communities. Finally, Gucci announced that they are hiring a global director to implement a new strategy to increase diversity and inclusion (Givhan 2019).

GUCCI

Gucci deeply apologizes for the offense caused by the wool balaclava jumper. We can confirm that the item has been immediately removed from our online store and all physical stores.

We consider diversity to be a fundamental value to be fully upheld, respected, and at the forefront of every decision we make. We are fully committed to increasing diversity throughout our organization and turning this incident into a powerful learning moment for the Gucci team and beyond.

Picture 7 Gucci crisis (Instagram 2019)

3.2.2 Dolce & Gabbana

Dolce & Gabbana has a track record of controversies over the years, with the latest scandal occurring in November 2018 when they released a video series titled "Eating with Chopsticks", just four days prior to their major fashion show in

China. Social media users swiftly denounced the videos as stereotypical, racist, and disrespectful to Chinese women, leading to widespread anger across various social platforms and the emergence of the "Boycott Dolce" movement (Hills 2021; About Resilience 2023).

Despite Dolce & Gabbana's prompt removal of the videos, the damage had already spread globally. The situation escalated into a full-blown crisis when screenshots of private conversations between Stefano Gabbana and Michaela Tranova were leaked to the public. Numerous high-profile celebrities withdrawing from the fashion show and terminating their contracts with the brand. Subsequently, the Chinese Cultural and Tourism Department ordered the cancellation of the fashion event (Hills 2021; About Resilience 2023).



Picture 8 Dolce & Gabbana crisis (Instagram: michaelatranova)

In response to the scandal, Dolce & Gabbana claimed that Gabbana's social media account had been hacked and emphasized their respect for China and its

people. However, given the brand's history of politically incorrect comments and actions, the public remained sceptical of their statement. Dolce & Gabbana issued an apology video for their conduct during the crisis. They deactivated their social media accounts and maintained a low profile for several months thereafter (Hills 2021; About Resilience 2023).

However, even five years after the crisis, Dolce & Gabbana continues to face challenges in the Chinese market. Dolce & Gabbana's initial mishandling of the crisis, failure to take responsibility, and blame on hackers, coupled with delayed and insincere apologies followed by a prolonged absence from the public eye, have contributed to the ongoing repercussions. Their charitable actions may be perceived as attempts to appease the public rather than genuine reflections of the brand's values (Hills 2021; About Resilience 2023).

3.3 Discussion

Like mentioned in the beginning of chapter 3, many researchers have agreed on almost same type of procedures for addressing a crisis. Mostly companies are advised to have a transparent and timely communication between stakeholders, employees, customers, and the public during the crisis (Coombs 2019; Fink 2013; Ulmer 2019; Pearson 1998). However, a researcher Fred Fiedler brought to light the fact that one strategy might not work in all the situations or with all companies. He argued that no crisis management manual should be followed during a crisis as what worked last time, might not work again the next time (Cui, Wang, Ping 2016).

A thing the basic brands; Burger King, Pepsi and P&G have in common in their cases are that all of them took swift actions to address the situation to the public in timely manner. They did not wait to see how the situation process further. Burger King took action to defend the brand and was able to dodge a lawsuit. Pepsi stumbled in the beginning by defending their advertising but finally cave in, apologized, and took full responsibility of their actions. P&G quickly collaborated with other businesses to remove harmful media off of social media

channels and creating campaigns to advise people of the dangers of contributing to the challenge, even though they weren't responsible for the crisis.

Now if we look at the luxury brands; Gucci and Dolce & Gabbana, both quite quickly responded to their backlash. Gucci removed the product from their stores and apologized in their social media accounts, acknowledging the fault, and taking full responsibility. Gucci committed to increase diversity within their organization and invested \$5 million in community programs. In Dolce & Gabbana's situation, they promptly removed the video from their social media channels but did not give a statement immediately. However, private screenshots leaked to the public which was like throwing gasoline to an open fire. Eventually, Dolce & Gabbana came forward and only addressed the screenshots by claiming hackers were behind it and later issued an apology.

It is clear that all of the example companies responded promptly to the backlash – so to speak, followed the crisis management manual – but their response was not coherent. Pepsi faltered in their strategy by defending the advertisement but ended up adjusting the approach which led to gain positive feedback from the public and they were able to engage in a meaningful dialogue. Dolce & Gabbana got themselves to the deep end with their actions and getting back to the shore takes much more work. Even until this date, Dolce & Gabbana have issues related to China, because they were unable to gain trust back after the incident. As earlier mentioned, it is advised to establish transparent communication to maintain trust and credibility and it can be seen, that Pepsi was able to gain the trust and credibility back, but Dolce & Gabbana did not.

We might wonder, why did Pepsi gain the trust back but Dolce & Gabbana did not? Dolce & Gabbana has had controversial crises throughout the years and they might have planted that state of mind to the consumers. As mentioned before, apology's effectiveness depends on the sincerity and actions that follow. As Dolce & Gabbana has been involved in numerous controversial crises within their operating years, public does not believe that Dolce & Gabbana were

sincere with their statement. A commitment of the consumer towards the brand plays a huge role (Ahluwalia, Burnkrant and Unnava 2000) and it can be a lifeline for the company to rebuild a reputation after a crisis. We will look more into this further in the study.

4 Communication

The way a company reacts following a brand crisis plays a crucial role in determining the success of rebuilding the brand. Nevertheless, there is no universally accepted pattern for responding as brands exhibit diverse reactions to crises. This aspect is contentious, with researchers holding differing opinions on the appropriate communication strategies in the beginning, during and after the crisis.

A significant portion of the research on corporate response strategies has predominantly concentrated on advising scandalized brands on post-crisis actions, emphasizing options such as denial, apology, or compensation (Dutta and Pullig 2011; Puzakova, Kwak and Rocereto 2013).

For instance, McLaughlin, Cody and O'Hair (1983) propose that all strategies can be categorized as follows: silence, concession, excuse, justification, and refusal. Benoit (1997) outlines five overarching categories of image repair strategies after crises: denial, evasion of responsibility, minimizing the offensiveness of the event, taking corrective action and mortification. Coombs (1998) distinguishes crisis communication strategies into seven distinct categories: attacking the accuser, denial, excuse, justification, ingratiation, corrective action and issuing a full apology.

Recent literature emphasizes the significance of proficient communication, transparency, and collaboration in managing crises effectively. It is suggested that maintaining a brand's reputation and image requires effective communication, proactive response, stakeholder engagement, crisis management plan, collaboration, partnerships and learning and improvement

(Li, Zhang 2020). More literature can be found addressing the same strategy and highlighting communication where public relations prepare, understand, analyse, and communicate a crisis using four phases: proactive, strategic, reactive, and recovery.

Yates N-K (2022) mentions that they always advise companies during crisis to take action immediately. The media and other interested parties set the agenda and as a company or a brand, one needs to catch up and defend yourself and reply to attacks and criticisms. They encourage coordinating with other parties involving the crisis instead of playing the blaming game (Yates N-K 2022).

The common practice within luxury brands such as Kering and LVMH is delaying crisis communication to the consumers. They believe that addressing crises internally before making public statements is more important as the internal audience – employees – are just as important, if not more, than the external audience (Chitrakorn 2022).

In case of a victim crisis, Coombs (2007) advises companies to use deny strategies. In case of an accidental crisis Coombs suggest diminish strategies and rebuild strategies in the case of preventable crisis. For a preventable crisis Claeys and Cauberghe (2014) believe the best response strategy is to take full responsibility and apologize to the customers.

Coombs' deny strategy challenges accusers and deny the crisis or blames outsiders. Diminish strategy minimize company responsibility by denying control over the crisis or by downplaying its impact. Rebuild strategy focuses on an apology (Verwer s.a.).

As observed, researchers do not reach a unanimous agreement on the specifics of crisis communication, except for the consistent inclusion of an apology at the end, irrespective of whether the brand acknowledges responsibility. Numerous studies indicate that an apology is often considered the most effective response strategy for brands responsible for a crisis,

although there are instances where an apology alone may not suffice (Raju and Rajagopal 2008).

4.1 Real life example

Balenciaga has had multiple crises along the way, mostly because of Demna, Balenciaga's Creative Director. Let's begin with remaking IKEA's shopping bag as a luxury bag, putting heels on Crocs, selling destroyed sneakers for almost \$2000 and sending models who looked like refugees down the runway carrying trash bags made of expensive leather. In 2022, New York Times wrote: "Ever since Demna became artistic director of Balenciaga in 2015, the storied brand has become a lightning rod for controversy, often intentionally so." Balenciaga has caused many outrages by themselves, which the media believes to be the whole point – to provoke people. This fits to the Coombs crisis type of Intentional Crisis, in which the event was considered to be purposely (Paton, Friedman, Testa 2022).

Balenciaga released an advertisement about their new collection which featured photos of children holding handbags that looked like teddy bears in leather harnesses. Couple of days later they released another campaign with photos that included paperwork from Supreme Court about child pornography laws. These together caused a huge backlash which travelled all over the internet to the news and became one of the most explicit collisions of internet culture, politics, and fashion to date.



BALENCIAGA Vice President of Communications | New York, NY

Balenciaga - Regular
NEW YORK - United States of America

The VP of Communications guides decision-making on brand image at regional level. You will lead PR, digital and communication activities across the Region.

HOW YOU WILL CONTRIBUTE

COMMUNICATION

Liaise with HQ to plan integrated 360 PR strategies and ensure execution while respecting budget allocated

Develop and maintain key editors' relationship

Activate Americas' media network and maintain a diverse network of contacts amongst key persons in the media

Implement communication plan for product launches, product initiatives, store openings, creating a synergy with retail partners

Manage the communication strategy across a wide range of vehicles (social, print, digital, events, etc)

Support in the development and execution of external and internal crisis communications strategy and responses

Influence press and media coverage in a tailored way across all outlets and generate new ideas

Support HQ in all VIP relations, in implementing VIP dressing and in sourcing local influencers and submit profiles to HQ

Picture 9 Balenciaga crisis (Brown 2023)

Balenciaga stayed silent for two weeks after this scandal. Balenciaga posted to Instagram apology posts, but it didn't work out. Finally, the brand made a statement admitting errors and Balenciaga will take responsibility. They said they have internal and external investigations, and they are reaching out to organizations who specialize in child protection. After all of this, Balenciaga disappeared from social media platforms until 31st January 2023.

Even though there were two campaigns which caused this, the story got mixed up in social media and these two occurrences combined together. This caused people to accuse Balenciaga of promoting a child pornography campaign and glamorizing violence against children.

After two weeks of silence, Balenciaga responded to the backlash by apologizing and removing the campaign from their social media channels. A couple of hours later they addressed the other campaign by blaming the set and taking legal action towards them. Balenciaga filed a \$25 million lawsuit against

the production company and after couple of weeks Balenciaga withdrew the lawsuit.

A year has passed since this incident occurred, yet consumers still remember it vividly. According to Mosha Lundström Halbert, Balenciaga has added a new meaning to the cancel culture. Balenciaga cannot be used only as a case study about mismanagement during crisis but also as a study about how to plan a recovery without publicly throwing the decisions makers out the window (Friedman 2023).

Balenciaga continues to release new collections regularly, but they are not generating significant excitement. Despite active postings on Instagram and TikTok, the brand receives minimal engagement, with few likes or comments on their posts. Some individuals characterize Balenciaga as a social experiment and mock the brand.

It appears that the employed communication strategy was a blend of McLaughlin (1983), Benoit (1997), and Coombs (1998) approaches, involving initial silence, evasion of responsibility, subsequent corrective action, and an eventual apology. This could potentially serve as a cautionary example of what not to do in such circumstances. Consumers typically expect swift action and complete accountability in situations like these. It could be argued that with an alternative strategy and approach, Balenciaga might have recovered more promptly (Claeys and Cauberghe 2014).

4.2 Discussion

As discussed before, there isn't a universally accepted pattern for responding as all the brands and the circumstances are different. The public reaction cannot be forecasted.

It was discovered that researchers hold multiple opinions about appropriate communication strategy. Older studies root for minimum communication and

evasion of responsibility as newer studies show that transparent communication and taking responsibility is the key to success.

In the Burger King and P&G case, both companies followed newer studies, which suggest effective communication, proactive response, learning and improvement (Li, Zhang 2020). In the Pepsi case they somewhat followed Benoit, 1997 study as well as Coombs, 1998 study. Pepsi attempted to reduce offensiveness of the event and tried to justify the advertisement. Later Pepsi implemented corrective action and gave a full apology.

In the luxury brand sector, Gucci adapted to the newer study by communicating transparently, taking responsibility, learning, and improving after the event, similar to Burger King and P&G. Conversely, Dolce & Gabbana clearly leaned towards the older studies with denying and evading responsibility before finally apologising, just like Balenciaga.

It seems that there is not much difference between basic and luxury brands in their crisis communication, as both categories mix and match the studies. Neither there is a clear path to figure out why some companies follow the older study instead of the new one. Public respect swift responses from the company as well as explanations. People might feel that the company is hiding something if they stay quiet too long after the crisis. Especially now, that social media is at its peak, rumours start spreading fast and the harm of silence and denying can be enormous.

5 Reaction and Rebuilding reputation

Rebuilding the reputation is not only in the brands' hands. Ahluwalia et al. (2000) find that commitment of the consumer toward the crisis brand can moderate the negative effect of brand crisis. In their studies, they find that consumers who are high commitment toward the brand are more likely to counter argue the negative information than consumers who are low commitment toward the brand.

Previous studies have shown that different types of brand crisis affect consumers' attitudes or emotions on brand differently. A study was conducted which resulted showing that independent self-construal consumers who are more likely to focus more on the product itself than making rational decisions based on logical reasoning are more likely to show negative responses to brand crises associated with corporate ability than with corporate social responsibility (Jun, Ju, Kim and Park 2011; Jung, Magnusson and Peng 2023).

A brand crisis which is caused by internal controllable factor or caused by both, internal and external uncontrollable factor, would make customers more disappointed and have a deeper negative attitude towards the company (Kaman 2004). The customers would not have a huge negative feeling about the brand if the same crisis was caused by external uncontrollable factor. This would emphasize customers' trust towards the brand (Wu 2011).

Customers who have strong emotional connection to a brand are more likely to be driven to maintain and guard the bond as well as to ignore negative information as much as possible (Schmalz, Orth 2012). Loyal consumers are willing to forgive and overlook the crisis if their identity is connected or tied to the brand (Trump 2014). With a strong brand-consumer relationship and brand trust, the consumers have more likely defensive attitudes towards the new negative information. Loyal consumers would counter-argue the negative information, and this can be a valuable resource in brand crisis management and even in recovering the brand image after a brand crisis (Jeon, Baeck 2016).

'The ultimate goal of marketing is to generate an intense bond between the consumer and the brand, and the main ingredient of this bond is trust' (Hiscock 2001).

Brand trust is something that can change due to large and sudden shifts which happen outside of the management's control and this can be customers' exposure to new information through media. Yannopoulou, Koronis and Elliott (2011) made research about faulty yoghurt and consumers responses to that.

Consumers avoided repurchasing the brand in the short term, but it did not seem to affect their perception of the brand and their brand trust. Consumers thought the faulty yoghurt to be logical and normal side effect of the brand. Consumers expressed increased levels of trust and were willing to delegate the blame to the retailers or even to themselves. When consumers learnt about the crisis from the media, they reshaped their ideas on the incident and consequentially their brand perception and trust changed. It was not until the crisis became public that the consumers started questioning their brand trust and became uncertain and angry towards the brand.

Basic brands selling items that are to a certain level necessity, have a higher chance to get away with crises if it doesn't attract the media. Even after media attention, some people will continue to buy and use the product. In the realm of luxury brands offering non-essential, high-end goods, consumers may be hesitant to return following a global scandal, especially given the resurgence of cancel culture.

Cancel culture refers to the trend where a person's or brand's reputation can be ruined, they can be demanded to get fired, or their career can be destroyed because of an opinion that is perceived as wrong, heretical, or carelessly worded. Sometimes one single word is enough to trigger this process (Romano 2020; Velasco 2020).

In the current era where cancel culture is at its peak and anyone can get cancelled over anything, the brands are in danger as well. For example, Kanye West has caused many scandals with his sayings and actions, and this has caused people to cancel him. Due to Kanye West having collaborations with brands, those brands have also been cancelled by consumers as they express a desire for brands to take a clear stance and distance themselves from controversial figures. A couple of those brands are Adidas as well as Balenciaga.

5.1 Discussion

A study was made stating that if a crisis was caused by internal controllable factor, it would form a deeper negative impression on the brand (Wu 2011). It would be harder for the companies to rebuild their reputation after the crisis if the issue was self-made. Therefore, companies to some extent need to rely on the consumers who they have a bond with. As said before, consumers who have high commitment and are strongly attached to the brand, are more likely to defend the brand during a crisis as loyal customers are more willing to forgive and overlook the crisis (Ahluwalia et al. 2000; Schmalz and Orth 2012; Trump 2014). It remains crucial to have in mind, that the public today is highly aware and sensitive to every minor detail which can be classified as controversial. Inevitably those come to the daylight sooner or later leading the brand to consequences.

Brands who produce basic necessities, can easily rebuild their reputation, because they have a much higher volume of consumers using their product and choosing their brand each time while going to a grocery store. With luxury brands the situation can be a bit different, as the number of customers is much lower and the luxury items are not a necessity for living. Luxury good consumers can quickly swift their consumption to other brands if they feel like their values are unmatched. In some cases, luxury brands can have such loyal customers, who still defend the brand, because their identity is connected or tied to the luxury brand.

Gucci recovered quickly from the crisis by showing sincerity and announcing investments and scholarships. In the Balenciaga and Dolce & Gabbana case, they are still in the process of rebuilding the reputation and trying to gain the trust back from the consumers. As it can be seen, both loyal consumers and influencers continue to use and consume their products, driven either by their genuine love towards the brand or obligations. However, there is still lots of negative energy around the brands and the public seems to be waiting for more issues to rise.

6 Conclusion

In conclusion, brand crises have become more prevalent in today's social media-driven landscape, posing significant challenges for companies. The luxury sector, with its exclusive nature, is particularly susceptible to crises that can jeopardize decades of brand-building efforts. Recent incidents underscore the potential long-term negative repercussions on sales, marketing effectiveness, and consumer trust.

To address such crises effectively, managers must respond thoughtfully to restore customer trust and rebuild the brand's reputation. Understanding the diverse types of crises and implementing suitable management strategies is crucial for both recovery and preventing future crises. The thesis aims to explore these aspects, examining crises originating from within the brand, particularly those influenced by marketing practices. The controversial nature of the literature on this topic was explored, shedding light on disagreements among researchers.

Communication and transparency are identified as crucial components of crisis management. While there is no consensus among researchers on specific communication strategies, recent literature underscores the importance of effective communication, transparency, and collaboration. It cannot be categorized that only luxury brands delay crisis communication, prioritizing internal resolution before public statements as it is not true.

Rebuilding a brand's reputation is a multifaceted process influenced by consumer commitment, brand-consumer relationships, and brand trust. Loyal consumers tend to counter-argue negative information, serving as a valuable resource in brand crisis management. The unpredictable nature of brand trust, influenced by media exposure, is highlighted.

In the era of cancel culture, where reputations can be swiftly tarnished, luxury brands, dealing in non-essential, high-end goods, face challenges in regaining

consumer confidence after a global scandal. The example of Balenciaga, known for intentional controversies, illustrates the complexities of crisis management. Despite employing a communication strategy blending various approaches, including initial silence and subsequent apology, Balenciaga continues to face challenges.

To sum up, there is no one-size-fits-all approach to handling crises because each situation is unique. A strategy that works in one instance may not be effective the next time due to the evolving nature of people and the world. There seems to be no distinction in how basic and luxury brands handle crises. Consequently, restoring a luxury brand's reputation is unlikely to be significantly more challenging compared to a basic brand.

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