

Thursday, July 28, 2005

# Branding In Bankruptcy

By William Golden Wilkins

This article studies the challenges faced by insolvent companies in maintaining their brand equity during the painful process of restructuring, and at the value of branding in bankruptcy.

## THE DILEMMA

Branding is more often than not the last thing on the minds of the executives charged with restructuring an insolvent company. The ongoing challenge of pacifying creditors, engaging in legal proceedings, restructuring financial obligations, retaining key employees and maintaining critical relationships with suppliers cannot be understated. However, throughout this ordeal, maintaining and developing the image and reputation of the firm is critical if the firm wants to emerge from bankruptcy as a viable competitor.

The brand equity of a bankrupt firm plays a major role when it comes to the critical task of sourcing financing. A bankrupt company with a strong brand and a great legacy has a better chance of securing adequate exit financing than one that does not, just as a firm with a modern, efficient physical plant or a large worldwide operation would be more appealing to financiers than one lacking in such strengths. In bankruptcy, the brand is still the most powerful asset in the company's possession, although more often than not the brand is badly tarnished in the financial implosion leading up to the bankruptcy filing (this is especially true if any scandal, such as accounting fraud, is involved). However, the nostalgia and sentiment for a company with a good reputation prior to entering bad times can be a powerful force, one that can be harnessed and exploited through effective brand communications.

Before moving into a discussion of branding in bankruptcy, it is worth briefly reviewing bankruptcy itself, so that readers from parts of the world where bankruptcy means liquidation will not be completely perplexed by this article. In the United States, Canada, and a few other countries, companies that cannot pay their debts are not forced into liquidation. Rather, they have the option of filing for bankruptcy protection, in which the company is given time to revise its operations and restructure its debt, and hopefully re-emerge as a stronger competitor. The bankruptcy process, while derided by some economic Darwinists as preserving companies that should go out of business, has actually managed to save millions of jobs over the years, and has often allowed creditors of an insolvent business to get much more of their money back than they would in a straightforward liquidation. In the United States, Chapter 11 bankruptcy protection is invoked to allow an insolvent company to restructure its debts and reemerge (as opposed to Chapter 7, which is liquidation). A few other countries feature similar legislation, with some quirks (for instance, in Canada, directors are personally liable for any unpaid wages). The system is not perfect, and recently US laws were changed to prevent abuse of the bankruptcy process, but it is definitely better than the alternatives faced by insolvent companies elsewhere in the world. All four case studies reviewed in this article are US companies, but what we discuss here applies to any bankrupt company, anywhere, that has the option of a court-assisted restructuring.

The economy is slowly emerging from the dark days following the telecom crash, and the number of major bankruptcies is likely to decline for the foreseeable future, making this the ideal time to take in the lessons learned in the previous downturn, so that we might fare better during future twists of the business cycle.

## BEST PRACTICE

In observing the major bankruptcies of the past five years that have not resulted in liquidation, one notices that those firms that have had the greatest success in their internal restructuring efforts have shown considerable acumen in managing their brand through the restructuring. The three observable characteristics of their brand management efforts tend to be clarity, consistency and an image of transformation.

Embracing clarity in managing the brand of an insolvent company means maintaining an open and honest dialog with stakeholder groups, providing frequent and informative efforts on the company's restructuring efforts, and making sure that everyone is able to understand what caused the bankruptcy and what the firm's strategy is in dealing with the aftermath. Clarity is critical, because the last thing a bankrupt company wants is the image of being shifty or opaque in its dealings. Most people tend to have concerns about dealing with an insolvent organization, and the free supply of relevant information can help alleviate their well-justified misgivings.

As important as clarity is in preserving trust in a bankrupt company, consistency is even more important. In a successful branding program for a bankrupt company, consistency manifests itself in two ways. First, the company “walks the talk” in its restructuring efforts, and does not change attitudes, positions or strategies that it has assumed since filing, unless forced to by extenuating circumstances (in which case the virtue of clarity becomes obvious). Second, the company establishes a link between the positive attributes it had in the minds of stakeholders before filing with its operations in bankruptcy, with the goal being to capture the positive brand equity of the past, infuse it with a touch of sentimentality and a whiff of nostalgia, and make it relevant to the current environment in which the firm operates. The goal is to cause stakeholders to remember the positive experiences they had with the firm in the past, and to create an emotional connection with them, encouraging them to continue to deal with the firm in the present and future. If played correctly, this angle can motivate customers and other stakeholders to patronize the bankrupt firm to the exclusion of potentially superior competitors, in the interests of saving what they consider to be a well loved corporate friend. Of course, tapping into such nostalgic sentiment requires that the firm have had a positive perception in the past, an asset lacked by many bankrupt companies (and a motivating factor behind their collapse, in many cases).

Having an image of transformation is essential in assuring stakeholders that things will be different, and that the mistakes that led to the bankruptcy filing will not be repeated in the future. The image of transformation must be projected in cases where the bankruptcy is primarily the result of internal circumstances such as mismanagement or accounting fraud, but should be avoided in those exceedingly rare cases where the bankruptcy is primarily the result of situations beyond the company's control (some might argue that all bankruptcies are the result of internal problems, while others would point to cases such as the California utility bankruptcies of 2001 as examples of external stimuli causing insolvency). The actual degree of change varies dramatically between different bankruptcy cases, with some companies requiring far more restructuring than others. The

goal of communicating a sense of transformation isn't to reflect on or seek to quantify or qualify the actual changes themselves, which in many cases might be negatively perceived by some stakeholders (you wouldn't want to mention massive layouts in consumer advertising, to give an obvious example) but rather to show positive change, improving the organization for the better.

Finally, the importance of careful execution in branding a bankrupt company cannot be overstated. An insolvent company does not have the financial resources to throw away money in advertising campaigns with a low return on investment. Likewise, revenue-eroding sales promotions should be avoided, as they will create a “fire-sale” mentality that will destroy brand equity, and might provoke a devastating price war with competitors that could easily kill the firm. The emphasis should be on communications campaigns likely to generate a high ROI, including highly targeted advertising in relevant media, high impact buzz-building campaigns, strong public relations, and appealing direct marketing communications. A general corporate advertising effort should also be made to encourage public confidence in the firm, but here too, discretion should be exercised in terms of the media selected, the frequency of advertising, and the nature of the advertisements themselves. The goal for all communications programs should be to maximize return on investment for the given level of spending.

The worst thing the bankrupt company can do is to not communicate at all. Bankrupt firms that don't advertise, don't maintain active public relations dialog, and that fail to communicate with relevant stakeholder groups about their progress usually don't emerge from bankruptcy in a desirable state, if at all. Marketing is essential, and as long as a company can afford to spend any money at all in it, it should be maintained. Not to do so can be suicidal, especially for an insolvent company.

## CASE STUDIES

In showing examples of a good branding program helping a bankrupt firm, I've selected two case studies: United Airlines and Worldcom, the latter now known as MCI. In showing how poor brand management can harm a bankrupt firm, I will review the post-filing branding efforts of Kmart and Enron, the latter surely the world's most despised company.

### *United Airlines*

United Airlines is on track to emerging from Chapter 11 protection under the US bankruptcy code at time of writing, and barring an unforeseen disaster, is likely to be out of bankruptcy by the end of the year. United has been consistently excellent in branding throughout their history, but had started to make some serious errors in terms of customer service and communications with passengers, starting in the year 2000. In re-evaluating their brand under the guise of Chapter 11 protection, they have not only corrected these problems, but have managed to make their brand more appealing in many respects than it was before they filed.

One of the smartest moves United made in rebranding had to do with its visual appearance. United's current visual identity first began appearing in 1998, when the sleek wordmark it had used in the 1950s and 60s was revived and combined with the famous “Big U” designed in the 1970s. The livery (paint scheme) that United featured on its aircraft at the time was a dark gray affair that was created in the early 1990s in a previous identity program under the direction of then-CEO Stephen Wolf. The identity was remarkably short-lived, but the livery, being relatively new, was retained. United's no-frills Shuttle operation was also slightly rebranded, and collateral was extensively redesigned. Following the loss of two United aircraft in the vicious terror attacks in 2001, the old, dark livery took on profoundly negative connotations, and United wisely replaced this interloper of a brand with a new livery reflecting the 1998 visual identity, in early 2004. The new livery was applied to new aircraft being delivered to United affiliates, and to existing aircraft only as they underwent heavy maintenance. The program was brilliant in several respects: the new, brightly colored livery is consistent with the rest of United's identity as redesigned in 1998 and is more appealing to prospective passengers, the new livery lacks any tragic historical references, applying the new livery is cost-effective because the aircraft have to be repainted anyway when undergoing heavy maintenance, and finally, the unveiling of the new livery in 2004 was a PR event in itself. Replacing the livery with a more relevant, cohesive and appealing design is a profound example of creating an image of positive transformation, and one that has paid off well for United.

The second smart move United made in rebranding involved the launch of its new low cost airline-within-an airline. United Shuttle had been discontinued shortly before United entered into bankruptcy, to free up newer aircraft to replace United's ancient fleet of Boeing 727s. United Shuttle, as a brand, had already been renamed once (it was originally known as Shuttle by United), and had never been able to forge a particularly positive connection with consumers. In launching a new subsidiary, United, with the help of its ad agency Fallon Worldwide, was able to completely reverse this, by creating a positive connection with customers before the customers even knew what the brand was all about.

A highly dynamic and effective buzz-branding campaign was created in Denver, Colorado, where United maintains a large hub, and where the new subsidiary would initially be based. A mysterious, unseen character named “Ted” began appearing in different ways: taxi drivers wore buttons saying “I'm not Ted”, “Ted” treated the unsuspecting customers of a Cheesecake Factory restaurant to dinner, and other curious incidents involving “Ted” began to occur. Then, a website appeared, [meett.com](http://meett.com), featuring jazzy music and a long introduction making cryptic references to leisure travel. Finally, some enterprising viewers of the website linked it to Fallon Worldwide, and observers on aviation websites such as [Airliners.net](http://Airliners.net) noticed that the bold orange color liberally applied to the website was “Friendship Orange”, a color that had been boldly applied to United's 1970s-era livery in the form of a fuselage stripe. It was realized that Ted would be the name of the new low cost airline that United had been talking about launching for months previously, under the code-name “Starfish.” United went public with the brand, and since then Ted has successfully revitalized United's presence in major leisure markets. The huge amount of interest United was able to generate on a national scale with a buzz building campaign primarily conducted in Denver, and

the successful launch of Ted, demonstrates both the effectiveness of buzz marketing, and the importance of efficiency and discipline in conducting a branding campaign.

The final act of wisdom on the part of United and Fallon has been in United's corporate branding campaign. United has run a series of infrequent, intelligently placed television commercials and print advertisements, created by award-winning illustrators and animators, and set to "Rhapsody In Blue", the classic composition by George Gershwin that has been associated with United for decades (note that there are no expensive actors in the ads, thus avoiding that potential cost). The advertisements borrow strongly on the rich legacy of the airline, and are rich in emotional appeal. This is an ideal example of consistency and cost-effectiveness in a branding program. The one area in which United has unfortunately been lacking is also related to consistency, and to clarity: on several occasions, they have announced plans to emerge from Chapter 11 protection by a certain date, and then postponed emergence. Corporate communications on the reasons behind these delays have not been very persuasive, and the result is lost confidence in the management team and the efforts of the firm to restructure.

### ***Worldcom/MCI***

The largest accounting fraud in US history was that at Worldcom, the telecommunications giant that collapsed into bankruptcy in mid-2002. The extent of Worldcom's accounting fraud was unimaginably massive, with earnings overstated by an amazing \$10.8 billion. Worldcom had originally started under the name LDDS, or Long Distance Discount Services, in the early 1980s, with the goal being to capture long distance market share from AT&T. The pioneer in competitive long distance service was of course, MCI, a company that at its peak was regarded as one of the most innovative and entrepreneurial companies in America. MCI, originally Microwave Communications International, had started in the 1960s with the idea of building a microwave radio link between Chicago and St. Louis, and brazenly challenged AT&T's regulated monopoly in long distance service. MCI prevailed with the FCC, and started commercial service in 1971, growing to be the second largest provider of long distance telephone service. It was acquired by Worldcom in 1997 in a \$37 billion deal, which was at the time the largest merger in US history.

This company of superlatives was under enormous pressure to outperform Wall Street's expectations, and resorted to incredible fraud to meet its numbers. The artificially inflated numbers put Worldcom's competitors into a disagreeable position, since not one of them was able to match the apparent profitability of Worldcom. Some have linked Worldcom's fraudulent numbers and the pressure they created to the four-way split of AT&T in 2000. The direct and indirect impact of Worldcom's accounting fraud sickened the general public when the fraud became apparent in 2002, and fueled the flames of anti-corporate sentiment roaring at the time. The Worldcom brand was totally disgraced. Luckily, unlike many companies that fell into accounting fraud, Worldcom still had the relatively untarnished MCI brand, which had been kept as the main brand for Worldcom's long distance services following the 1997 merger, and had briefly been publicly traded as a tracking stock. It was blindingly obvious that Worldcom should switch to the MCI brand, which it did,

changing its name in April of 2003.

The company also did a great job managing its existing untarnished brands during bankruptcy. Shortly before Worldcom's collapse, The Neighborhood Built By MCI had been launched, a bundled package of local, long distance and other services that arguably was the best branded service of its kind, with brilliant work on the brand done by ad agency Deutsch, Inc. This brand was carefully nurtured and developed during the restructuring process, as MCI struggled to remain competitive in the consumer segment (an FCC ruling in 2004 later caused both MCI and AT&T to throw in the towel when it came to marketing their services to consumers, but The Neighborhood brand was kept intact and helped MCI to retain slight control over the torrent of departing customers). The consistency with which these brands were managed helped to downplay the effects of the bankruptcy to existing Worldcom customers, and the firm was largely able to avoid widespread customer defection.

One other interesting move that the firm made when it changed its name to MCI was in reverting to the 1995 logo Interbrand had created for MCI. This logo was exceedingly well designed, but had unfortunate negative connotations resulting from its modification into a logo for Worldcom, during which the shooting star on top of the logo was reversed. Moving back to the MCI logo had a certain honesty and clarity to it: by reversing the shooting star back to what it had been, it conveyed an image of redemption, and of the company reverting to the honorable roots of a more illustrious corporate predecessor. This is an example of what I mean by clarity in branding: by reverting to the old MCI logo, it was an admission of the firm having done wrong, and seeking to redeem itself by returning to its roots. It also furthered the image of transformation. MCI's rebranding efforts while in bankruptcy were a success, and the firm emerged in 2004. Since then, MCI has agreed to be acquired by Verizon. It will be interesting to see if the storied MCI brand outlives yet another acquisition.

## ***Kmart***

Having covered two brands that were successfully managed and transformed in the bankruptcy process, we now move to discuss two brands that were not. We will start with Kmart, a company that probably has the worst brand image of any US retailer, aside from some of the unionized grocery store chains in Southern California. Through two decades of gross mismanagement, neglect of in-store retail environments, marketing initiatives that were at best, trite, and at worst, annoying, and a total lack of respect for the importance of customer service, Kmart was able to induce feelings of disgust and disdain at the mere mention of its name. In one film, a retarded character played by Nicholas Cage uttered the line "Kmart sucks", a sentiment which most of the audience undoubtedly agreed with. Kmart is one of the big three US discount retailers, and at one time was actually the largest. It started as an operator of "five-and-dime" stores around the turn of the twentieth century, known as Kresge's. The first of the present-day Kmart discount stores opened in 1962, in Garden City, Michigan, coincidentally the same year that the first Wal-Mart and Target stores were opened (what a great year for bargain shoppers 1962 proved to be). By the 1970s, Kmart was by far the leading operator of discount stores, but quickly lost its edge to Wal-Mart and Target in the 1980s.

The company then decided to take a stab at becoming upscale, bringing in brands of clothing and household goods from Martha Stewart, Jaelyn Smith and other fashion/entertainment personalities.

At the same time, management made no real progress at improving perceptions of the company, or making its locations, some of which were unbelievably drab and depressing, more appealing. Distracted by its forays into premium merchandise, and devastated by an idiotic price war with Wal-Mart (a move which was so obviously insane that it prompted the legendary strategy consultancy McKinsey & Co. to resign its account with Kmart), the company collapsed into bankruptcy in early 2002.

In the bankruptcy process, Kmart shuttered a large number of stores. So many locations were closed that it is conceivable that many customers felt like the company was going out of business in its entirety. Relatively little television advertising was done to counter the image, and so the notion of a decrepit, dying Kmart quickly took root among consumers. The company did not do a good job of demonstrating consistency in its bankruptcy process: rather than tapping its legacy and seeking to revive the little bits of remaining positive brand equity it had left, it simply let everything slide, and the image of the company was devastated in the process. Prior to filing for Chapter 11, Kmart had actually done something intelligent in branding: it had revived the famous “Bluelight Specials” it was once known for, built a website around the idea, and in general, used the concept to powerful effect in attracting customers to the store. The modernized Bluelight displays remain intact at many Kmart locations, but they have been untouched for some time.

Kmart, to its credit, did scrap its excruciatingly bad “signed K” logo when it emerged from bankruptcy, replacing it with a sleek, streamlined design. However, its post-chapter 11 website was terribly put together for a year following emergence, and the new brand mark was generally damaged and made to look unprofessional. The company took its own sweet time in implementing the new identity, and to this day you will still find examples of the old logo at many Kmart locations. Meanwhile, post-emergence, Kmart stock rose considerably due to the notion that billionaire Eddie Lambert, the new CEO, was planning on transforming the firm into primarily a real-estate company, phasing out the retail operations, and becoming a twenty-first century Warren Buffett. The fact that Kmart was classified as a “real estate operating company” and its retail operations were totally ignored, can only be attributed to the sloppy job of corporate communications the company had done. Kmart then surprised everyone by announcing it was acquiring Sears, Roebuck & Co. and would make a renewed effort at retail. Since then, the merged company has actually done a decent job of managing both brands, with new uniforms at Kmart, and vastly improved signage at the locations of both chains. So one could argue that the Kmart brand is finally starting to recover, although many speculate that all Kmart locations over time with the exception of those in what could politely be described as “Rural America” will be converted to Sears stores. As good as the Kmart brand is belatedly becoming, it could be a lot stronger if the firm had done an effective job managing the brand during their restructuring.

## ***Enron Corporation***

For our final case study, we will discuss what is surely the most infamous corporation ever, the much-despised Enron. While many of our competitors bash Enron's pre-bankruptcy branding in their brochures and academic work, the reality that few in the branding industry would like to admit is that prior to its spectacular collapse in 2001, Enron was actually one of the best-branded companies in America. Any branding consultancy would have advised Enron to do exactly what it did do to its brand in the boom years in the late 1990s. Enron had arguably the best logo of any company in history, a brilliant masterpiece that was the final work of the legendary graphics designer Paul Rand, who passed away in 1996. Enron used the “The Big E” extremely well, placing stunning three dimensional neon-lit versions of it around its headquarters building in Houston. Enron had stunning annual reports and an amazingly elegant website layout, with brilliantly detailed collateral designs helping to enhance the brand message. Inspirational banners decorated the lobby of its corporate headquarters, and a remarkable series of television commercials was created by Enron's ad agency, Ogilvy & Mather. Enron's goal was to become “The Energy Franchise,” an objective it was definitely able to accomplish. Protestations from branding consultancies that Enron was terrible at branding should be dismissed as attempts by our industry to distance itself from the bubble mentality of the late 1990s and Enron's collapse.

Where Enron really did fail was in managing its brand after filing for chapter 11 protection. Enron had undeniably become notorious after its bankruptcy scandal, and the California energy crises in which it was implicated (along with Dynegy, El Paso, Reliant and other firms in the “merchant electricity” business). That said, there was an amazing amount of public sympathy for Enron's employees following the firm's entry into Chapter 11 on December 2<sup>nd</sup>, 2001. This sympathy later disappeared. Obviously Enron had PR problems unequaled in size, which only grew worse with the widely-televised Senate hearings on the collapse of the company. However, following Ken Lay's departure as CEO and the arrival of restructuring specialist Stephen F. Cooper, Enron did almost nothing to regain a measure of control over the PR crises. In fact, the firm viewed its brand as a liability, rather than an asset, in spite of the fact that just a few years earlier the Enron brand was one of the strongest in North America. The end result of this, in my opinion, was that Enron's creditors received much less of a return than they could have attained had the brand been properly managed during Enron's bankruptcy.

Enron could have launched television commercials apologizing for what had happened, and promising to make things better. Enron could have launched commercials that would have emphasized the remarkable dedication of Enron's employees, and the vital infrastructure of pipelines, power plants and other systems that the company maintained around the world.. Enron could have launched commercials that would have discussed the remarkable efforts Enron had made in the 1990s to introduce clean and affordable electricity to third world countries (an effort that could also have helped counter the negative publicity resulting from Enron's badly stalled Dabhol power project in India). In short, there was a lot of good that could have been discussed. Enron could have saved its face, and kept itself together as a global operator of pipelines and electricity facilities, and the

creditors arguably would have been much better served. Instead, from the day Stephen F. Cooper took over, Enron decided that it had better things to do than try to save its image. Soon press releases began to talk about a renaming of the company at some point, and then, in the ultimate concessionary moment for the brand, the firm began selling off the famous Big E signs around its corporate headquarters building in late 2002. Clearly, Enron as a brand was finished.

Since then, Enron has spun off all of its businesses (under new, often obviously contrived names) except its international energy asset business (dubbed “Prisma Energy International” in what is surely the nadir of 21<sup>st</sup> century branding) and its PGE utility business. As soon as it has sold PGE, it will cease to exist, and creditors will receive equity in Prisma, the successor company. These meaningless changes of names have demonstrated a lack of consistency and clarity. Likewise, during the restructuring process, Enron was extremely opaque, providing the public with a minimum of information about its progress. Even now that it has emerged from bankruptcy protection, Enron's website is still remarkably uninformative, with hugely obsolete content remaining from when Enron first filed for bankruptcy protection. In short, throughout its restructuring, no one was kept abreast of what the company was doing, other than in the vaguest details possible, and Enron readily allowed its name to get completely wiped out. Rather than projecting an image of transformation during its

Chapter 11 bankruptcy, Enron projected an image of self-destruction. It would seem as though the financial rape of Enron's stakeholders did not stop with the change in management.

## CONCLUSION

Any time a company collapses into insolvency and is forced to seek a court-assisted restructuring, it is a sad event, for shareholders, employees, creditors and customers alike. Everyone suffers when a bankruptcy occurs, and sadly, a very substantial portion of bankruptcy cases do end in liquidation. However, hope remains. The chances of the company being able to successfully emerge from bankruptcy and to make a comeback (and the chances of creditors to get a decent recovery of the funds they invested in the insolvent firm) are directly related to how well the bankrupt company can manage its most powerful asset, the brand. We have seen how United Airlines and MCI used clarity, nostalgic sentiment, consistency, an image of transformation, and cost-effective marketing communications to rebuild their brands while in bankruptcy. We also saw how Kmart and Enron failed to manage their brand assets during their restructuring, and how the competitive prospects of the former, and the return to the creditors of the latter, were substantially impaired by this grave error on the part of management.

The fact remains, a large number of executives, when faced with the arduous task of restructuring an insolvent firm, dismiss branding as a trivial expense, something that you do when the firm is doing well, but not something to waste time on in such a financially perilous situation. The reality is that nothing could be further from the truth. **II**

## ABOUT THE AUTHOR

William Golden Wilkins is the founder and chief executive officer of Integral Identity. Mr. Wilkins is an award winning artist and writer with nearly a decade of experience in communications strategy and design. Since 2003, Mr. Wilkins has conducted extensive research in the fields of branding, management and integrated marketing communications.

## ABOUT IINSIGHT

Iinsight is the academic unit of Integral Identity. Iinsight's mission is to further the academic and intellectual development of the branding discipline, and to provide Integral Identity's people with a forum for expressing their thoughts on the discipline. Pursuant to that goal, Iinsight publishes white papers, articles and opinions on branding, marketing, corporate identity and related fields. Iinsight also operates the educational section of the Integral Identity corporate website.

## ABOUT INTEGRAL IDENTITY

Integral Identity is a marketing consultancy specializing in branding and corporate identity. We help our clients build a better image for their businesses through a combination of strategic rigor, marketing acumen and inspired design. Our offices are located in Moorpark, California.

tel: 805.551.9220  
fax: 805.552.0130

[www.integral-identity.com](http://www.integral-identity.com)