



ISSUES & CRISIS RETROSPECTIVE: KETCHUM COUNSELORS REFLECT ON TOP CRISES OF 2006

From the safety of our food, to corporate gaffes, to rampaging celebrities – topics of drama, risk, scandal and disintegrating public confidence in corporate performance provided daily fodder for the global news media in 2006.

Ketchum issues and crisis counselors from around the network took a moment to review the types of events that drew attention in their regions of the world and the potential impact for crisis communications professionals.

CRISES ERODE CONFIDENCE and CREDIBILITY in 2006



CHRIS NELSON
Ketchum New York

All too often, companies facing crises find huge gaps between stakeholder expectations and the realities of their situations. All too often in 2006, organizations failed to close those gaps effectively.

If 2005 was the year of natural disasters, surely 2006 was the year of crises of confidence. Most of the major crises of the year left stakeholders feeling burned by organizations that failed to uphold their end of the bargain.

Repeated E. coli outbreaks made us question the safety of foods coming from Salinas County, Calif. Hewlett-Packard's management and board seemed to spend more time sticking their fingers in the dike than paying attention to market share, cash flow and earnings. The College Board handed out more than 4,400 SAT scores that should have been significantly higher. Executives in a number of companies got caught backdating stock options.



Congressman Mark Foley got caught trying to seduce Congressional pages, and the Republican leadership was accused of trying harder to keep it quiet than to protect the minors working on Capitol Hill. And then they got creamed in the midterm elections.

Maybe the most prominent example involved BP's crisis at Prudhoe Bay. For years, BP has told consumers it's moving "beyond petroleum," and creating a company with an environmental conscience focusing on alternative and renewable fuel sources. The revelation that BP's oil pipeline in Prudhoe Bay was corroding and spilling oil into the Alaskan environment resurrected the notion that BP is very much an oil company. Further, it left consumers with the perception that BP wasn't even pumping enough money into its infrastructure to ensure the integrity of its lines, let alone protect the safety of the environment. While oil spills are crises in their own right, this situation was worse

because it suggested BP was telling the public what it wanted to hear while doing business as usual. Even more unfortunate for BP, it all happened as the company was defending litigation related to a severe explosion at its Texas City refinery in 2005 that killed 15 contractors.

At Ketchum, we're fond of saying a company facing a crisis of confidence must respond with "the appropriate overreaction." It has to walk the walk... and then some. It has to recognize the gap between expectations and the reality of the crisis and close that gap as quickly as possible, regardless of the cost. A nickel and dime response that trails expectations could be rewarded with defection by large groups of customers who decide the company has lied to them. Simply put, the crisis is the moment when the company gets to demonstrate publicly whether its slogans and tag lines are a way of life or just hollow tools to seduce customers.

Overall, the scandals and crises of 2006 took their toll. Too many organizations failed to bridge the gaps between expectations and the realities of their situations. Too many failed to deliver on what stakeholders believed were corporate responsibilities, and as a result those stakeholders have become even more cynical. To rebuild trust in 2007, managers will need to be more vigilant than ever in ensuring their operations deliver on company promises. And they'll have to respond more quickly and more efficiently than ever when crisis strikes.

OBESITY Prevention & Energy Crisis



JAVIER REINALDO
Ketchum Madrid

Obesity prevention measures by the government and the public purchase offer from EON to energy company Endesa were the most significant issues covered by the Spanish media during 2006.

Government-initiated obesity prevention measures have the potential to impact the entire food industry and could affect several companies worldwide. It will be important to track the cumulative impact of trans-fat bans in local markets like New York City alongside national efforts in countries such as Spain, and assess what changes these restrictions may prompt for manufacturers.

Endesa is a Spanish energy company that received a public purchase offer from the German company EON. The Spanish government tried to put some conditions on this offer, but the European Union blocked its attempts. In the case of Endesa the conclusion is that, even though the European Union will determine the specifics of the purchase, the local authorities in each country still have to consider how they will interact with the company and determine appropriate lobbying strategies for coordination with the EU.

DRAMA ON THE DINNER PLATE



**CHRIS
CHAMBERLIN**

Ketchum West

A steady diet of food borne illnesses rocked consumer confidence in the nation's food supply this year and threatened the livelihood of produce growers throughout the western U.S. News of the E. coli outbreaks at Taco Bell and in bagged spinach roared across the country for months and joined a chorus of regional outbreaks that tainted everything from Thanksgiving ham to Jamba Juice smoothies.

Consumers seeking easy answers about what is being done to protect their health and safety have been left mostly frustrated by science, bureaucracy and, in some cases, legal posturing. Indeed, the widely varied approaches that the individual companies and organizations have taken in handling their respective outbreaks have provided exceptional lessons for crisis practitioners. The most important is the need for greater collaboration in crisis management and communications between all parties, both public and private, involved in the management of an industry's overall supply chain.

Absent of this cooperative approach, consumers will remain frustrated and their lack of confidence will be translated into weak sales, new regulations and damaging litigation.



JOHN BRADBURY
Ketchum New York

The year 2006 saw two significant food safety scares. While the same pathogen was involved in both cases, it impacted two different segments of the food industry. First was the multi-state outbreak of E. coli infections from fresh spinach sold in the grocery segment, followed by an E. coli outbreak at a number of Taco Bell locations in the Northeast, impacting the

restaurant segment. Food safety scares are typically very high profile media events because the food industry plays an integral role in all our lives, not just one segment of the population, and such events undermine the inherent trust consumers have that their food is safe. Additionally, the impact of a food safety crisis on the affected company or organization is often immediate and potentially long-term if not managed effectively.



PHOEBE LEUNG
Ketchum Hong Kong

Given recent concerns over the presence of the potential carcinogenic chemical malachite green (MG) in various fresh water fish – and carcinogenic materials linked to vegetables, chicken, fish, eels, pork and beef – consumer confidence in food has plummeted in Hong Kong. The news created waves of headlines in daily newspapers over several months.

Ironically, later reports from food authorities said exposure to levels of MG found in locally available freshwater fish were unlikely to cause significant adverse health consequences to consumers. In fact, health problems due to MG are not probable even when a person consumes up to 290 kg of freshwater fish each day. However, the media focused their coverage on a perceived risk.

With the added threat of bird flu from poultry looming and SARS a not-so-distant memory, the never-ending food crisis news has raised concern among Hong Kong residents about shopping for the most basic need of life besides water – food.

Food safety is a complex issue in Hong Kong because the mainland is the source of most of its fresh produce and meat, but the food safety regulation there is far from perfect. Therefore, consumer confidence in mainland food plunges each time another case of contamination is revealed. Food companies will need to be well-prepared for even the most insignificant issues because badly frightened Hong Kong consumers are likely to over-react to small food-related issues and crises, and media cannot wait to play the devil's advocate.

THE GRINCH WHO STOLE CHRISTMAS



BROOKE CLARKE
Ketchum London

An estimated 150,000 Farepak customers lost their Christmas – or about £40 million collectively – when the Christmas hamper savings firm collapsed a few months ago. Halifax Bank of Scotland (HBoS) has been under fire for its role in the disaster: HBoS financed Farepak's parent company EHR and recovered most of its £28 million loan when the company went into administration. In mid-December, dozens of Farepak customers demonstrated outside HBoS's headquarters in Edinburgh.

However, the bank has claimed that a 'lack of gratitude' from campaigners may have deterred donations to the Farepak Response Fund – a charity set up to help customers who lost millions after the company's collapse.

In a letter to the campaign group Unfairpak Forum, HBoS said: "We believe your very negative stance may have discouraged other corporate contributors. Perhaps if you had issued a more gracious response following our donation [£2 million], the fund would be significantly higher than it was when it closed."

In response to this, MP Jim Devine called on HBoS to add more to the fund than the £2m it has given so far. Devine, whose constituency contained the Farepak call centre, said: "Today is the final day to contribute to the Farepak Fund and I believe that HBoS' reputation as a socially conscious organisation is on the line. Less than four days of the banks' profit would fill the gap and meet the losses of the thousands of families whose Christmas has been cancelled."

Local business and government councils also are investigating the possibility of withdrawing their accounts from HBoS, potentially worth millions of pounds to the bank.

What does it all mean? When you've lost the Christmas savings of nearly 150,000 people, it doesn't pay to twist the knife. HBoS's reputation would have been much better served by showing empathy and support rather than heaping insult upon injury.



WAL-MART®

Wal-Mart's Ad Agency Roulette



TED MCDUGAL
Ketchum Midwest

Wal-Mart's surprise decision to overturn its previously announced selection of DraftFCB for the retailer's \$580 advertising account – which Mayor Daley labeled a shot in the arm for Chicago business – sent many scrambling. DraftFCB was in the early stages of hiring as many as 200 additional employees at its Chicago headquarters. Although no contract had been signed, the agency publicly celebrated the assignment as a sign that comeback efforts at Interpublic, plagued by account losses and accounting irregularities, were bearing fruit.

The story reinforces persistent questions about Wal-Mart's impact on small businesses and society. It also comes on the heels of the Wal-Mart blogging flap and challenges about its marketing practices. Now, Wal-Mart's top marketing executive is out of a job amid allegations she had accepted gifts, including meals, from the agencies taking part in the review, and the editors of *Advertising Age*, who had selected DraftFCB as 2006 agency of the year, have rescinded that choice.

Look forward, not back. Be careful not to get too far out in front of a story, and resist self-promotion, especially if a contract has not been signed. Most important, DraftFCB and Interpublic should vigorously promote and defend their reputations for ethical business practices, so the future growth of the agency is not compromised when a prominent client or prospect reverses direction. "We were disappointed to hear of Wal-Mart's decision," is an inadequate response.



Bird Flu Crash Landing



TOM BARRITT
Ketchum New York

Avian influenza ruled the roost in early 2006, prompted by reports of several human deaths and concerns around possible transmission from certain species of birds. Intensive media scrutiny – from full-length scientific reporting in the *New York Times* to speculative "What if ..." documentaries on *Dateline NBC* – proliferated. Poultry manufacturers even took a hit to the business. U.S. corporations scrambled to organize crisis response plans around avian flu. But, as soon as flu season had run its course and the weather turned warmer, media interest in bird flu took a complete nose dive, and corporate focus waned as other priorities loomed. This occurred despite the fact that many experts agree a pandemic is inevitable, although it is less likely to be prompted by avian flu.

The situation clearly showed the power of the media to sound the alarm, and then like a skilled illusionist, draw our attention elsewhere. Corporations and the public find it all too easy to follow. It is reminiscent of the period after 9/11, when both the media and corporate crisis responders were on high alert but eventually grew more complacent, although the threat of terrorism had not dissipated. The lesson here is to avoid letting the media dictate the corporate agenda. If the threat is real, take real steps to prepare, regularly review and update the crisis plan.



BRAVE NEW WORKPLACE SPYING SCANDAL AT HP

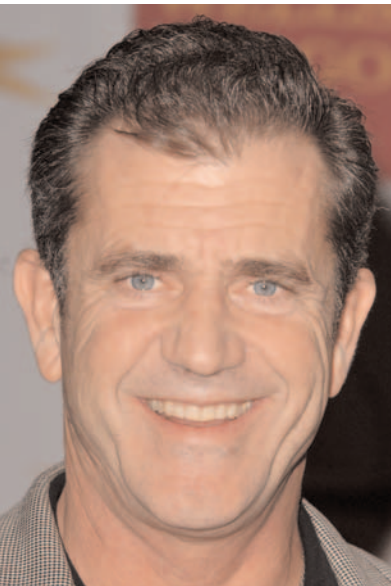
Hewlett-Packard (HP) dominated headlines earlier this year when reporters uncovered that Chairwoman Patricia C. Dunn had ordered a wide-ranging investigation that ultimately included gaining access to private phone records of board members and reporters. Dunn and four others were charged with felonies, including identity theft and conspiracy, in a spy scandal that has sparked congressional hearings and a highly publicized resignation from Dunn. The spying was prompted when nearly two years ago, the board began noticing the media was publishing information only an HP director could know.

While many companies routinely require employees to sign agreements regarding the use of company e-mail and Internet, the HP incident sheds light on the ways in which "monitoring" employees is going high-tech. Some companies are even beginning to track their workers' whereabouts through Global Positioning System (GPS) satellite, outfitting employees with microchips with their knowledge and hiring private investigators to check up on what employees are really doing at work.

As a result, it is likely that other companies may be accused of going too far in their efforts to keep tabs on their employees. If these incidents become more common, we can expect additional lawsuits to be filed against companies, as well as legislation to give employees more protection. Companies can avoid an HP-like incident in a number of ways. First and foremost, companies need to establish clear-cut policies on employee monitoring, and consistently reinforce these policies with employees. When additional monitoring becomes necessary (e.g., if the company suspects its employees are engaged in illegal activity), companies should continually engage their legal departments to ensure monitoring activities are kept legal. Finally, communications preparedness, by way of standby statements and draft messaging, is essential to ensure the company is ready to communicate if its monitoring policies should come under scrutiny.

SHATTERED CLOSE-UPS

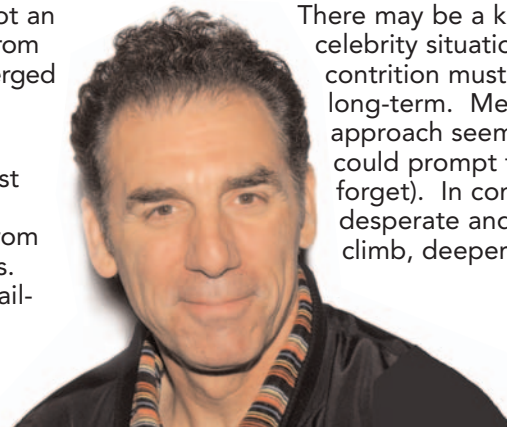
James Donnelly
Ketchum New York



It was "celebrities gone wild" this year, with two most notable episodes.

This summer, Mel Gibson's erratic driving led to a more erratic anti-Semitic and misogynistic tirade against some Malibu officers. After infamously quoting, "I am not an anti-Semite," Gibson faded from the limelight and later re-emerged as contrite and candidly humble.

Michael Richards' rant against comedy club hecklers has tagged him as "KKKramer from Seinfeld" on some Web sites. Raw video footage made available on www.TMZ.com only fanned the flames.



Attempting to heal wounds, Richards quickly appeared on David Letterman's Late Show with a painfully fragmented explanation and apology. Many were left questioning his sanity and whether his career was in tatters.

There may be a key learning from these celebrity situations: an approach to contrition must be real, frequent and long-term. Mel Gibson's measured approach seems more genuine, which could prompt the public to forgive (lest forget). In contrast, Richards' seemed desperate and the hole from which to climb, deeper.



SILENT STADIUM SETBACKS



Brooke Clarke
Ketchum London

Wembley Stadium in North London is one of the highest profile re-development projects in the UK, and one of the country's most loved arenas. Multiplex, Australia's largest commercial building group charged with the redevelopment of the stadium, is now facing a class action suit by a group of investors following delays, missed deadlines and spiraling costs on the project. The investors have mounted a law suit that could cost the ailing company more than £40m.

The Melbourne-based shareholders are suing Multiplex over what they claim to be the company's failure to keep the market properly informed about problems it was having with the Wembley project and the resulting impact on profits. A key

failed promise of the development was that it would be ready to host the 2006 FA Cup Final.

The action has come from 45 investors – both individuals and large institutions – and alleges that Multiplex had incurred costs linked to Wembley Stadium as early as August 2004, but only announced the project would be loss-making in May 2005, nearly a year later. The stadium is now expected to be completed in June 2007, after the FA Cup Final and two years later than originally due to open.

The lesson for crisis managers is that keeping quiet doesn't pay. Even communicating bad news is likely to have a better outcome than not communicating at all.

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