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THE 'ICK' FACTOR

Carnival's Long-Haul Challenge Ahead

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COVER IMAGE: Carnival Triumph is a post-Panamax Destiny/Triumph-class cruise ship operated by Carnival Cruise Lines in the Caribbean, entering service in 1999. It came to media attention in 2013 when an engine room fire stranded the ship at sea for several days with a loss of power that crippled not only the ship's propulsion, but also support systems.

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Sequestration — with— Kevin Kelly

In this LEVICK Daily video interview, we discuss the potential impacts of federal budget sequestration with Kevin Kelly, a Vice President at Van Scoyoc Associates Inc. Should sequestration come to pass, it will trigger indiscriminate, across-the-board cuts for the full spectrum of government agencies and programs. At a time when effective deficit reduction requires meticulous precision, the sequester is a blunt instrument that will impact every American business.

It Was A Wonderful Life

How Banks Can Revive Their Reputations

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There was indeed a time when banks were trusted, respected, and a part of the fabric of our communities. And there's a way for banks to get it back.

Where have you gone, George Bailey?

Here in 2013, conjuring the ghosts of It's a Wonderful Life likely strikes most in the financial services industry as the height of naivety. But I do it for two reasons. First, it reminds us that there was indeed a time when banks were trusted, respected, and a part of the fabric of our communities. As a child, I knew my father's bankers. They were there to help. That was a time when they were seen as true enablers of the American Dream; and when a screenplay about consumers coming to a distressed banker's aid wouldn't be laughed out of Hollywood. The movie is a testament to what banks once were and what they can be again.

Second, it brings us to a second film, The Perfect Storm, which is what the banks find themselves in today. New sources of competition, lagging innovation, and new regulatory and reputational challenges are converging to bring about a sweeping sea change. Banks will either adapt, survive, and regain public trust, or be swept up by the tempest that is transforming the financial services industry faster than those within it realize.

Consider first that bank lending is down and non-bank lending is up as outsiders seek to fill the demand left by shuttered institutions—institutions that, importantly, are not coming back. Consider also that crowd-funding is poised take off when the U.S. Securities and Exchange Commission issues the long awaited rules that will govern the practice. At the same time, next generation banks are emerging in the form of companies such as Walmart, Facebook, and others that are leveraging technology to test the waters of consumer finance.

Second, there is the banking service experience, which is opening competitors' window of opportunity. It maintains the relics of George Bailey's day, but none of the charm. Imagine if walking into the Apple store was like walking into a bank. Rather than being greeted by a problem solver at the door, you would be asked to sign in and wait for the next available representative sitting behind three inches of bulletproof glass. Common questions and service requests would not be handled on-site. Instead, you would be directed to online and mobile banking venues that routinely force consumers to fend for themselves. If you were lucky enough to get answers, they would come with a fee. You would be seen not as a consumer, but as a revenue stream. In the end, Apple would be completely fungible with any other technology store.

Add the larger reputational issues that are compounding consumers' anger and frustration, and the storm clouds really begin to churn. Libor settlements are raining down like manhole covers. The media is still conducting its financial crisis postmortems and wondering why the SEC and DOJ failed to claim any high-profile scalps. Embarrassing employee emails demonstrate a callousness and ruthlessness that not even guardian angel Clarence Odbody could reform. All of this is reinforcing the notion—correct or otherwise—that there is nary a finan-

cial transaction in which consumers aren't left holding the bag.

Perhaps most troubling is the fact that the numbers support the divorce between consumers--once the industry's evangelists—and their own banks. The banks' Financial Trust Index remained stagnant at 28 percent for December 2012. In other words, three out of four Americans don't trust their financial institutions. That's a far cry from the days when public confidence sat at 75 percent—a figure that stood for more than three decades after Clarence got his wings. More specifically, Ernst & Young's Global Consumer Banking Survey 2012 finds that the number of consumers planning to change banks grew 5 percent last year; that customers with only one bank (also known as brand loyalty) fell 10 percent last year; and that customers with three or more banks are up 11 percent from 2011. No wonder not a single bank showed up on a recent Harris Interactive survey asking consumers which U.S. companies maintain the strongest reputations.

If the problem can be boiled down to one overarching theme, it is that consumers, investors, regulators, and the media have forgotten what banks really are—the engines that enable us to open small businesses, own a home, buy a car, or send our kids to college. Because that narrative is absent from the conversation, instances of bad news and poor service operate in an informational vacuum that allows them to dominate marketplace perceptions.

That has to change before banks can get back to the reputational salad days of George Bailey's Building and Loan. How can they do it?

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1. EMBRACE THE DEMOCRATIZATION OF THE MARKETPLACE.

Thirty years ago, banks could rest easy on the notion that if their institutional investors were happy, things were good. After all, there weren't as many of us in the market. Today, however, 54 percent of Americans hold stock in one form or another. These relatively new investors can't count on home appreciations for financial stability and a comfortable retirement. They are at the market's mercy, and the market is at the mercy of the banks. That makes just about everyone with an IRA, 401K, or investment portfolio a bank constituent.

At the same time, everyday customers are beginning to flex their muscles in ways that make direct consumer outreach an absolute imperative. The same Ernst & Young study cited above found that 71 percent of banking customers seek advice on products and offerings from friends, family, or colleagues, not bankers or financial advisors. Of that group, 44 percent seek guidance via social media. That makes every customer not just a constituent, but a potential market influencer.

These points demonstrate that the banking industry can't conduct the lion's share of its public affairs in New York City skyscrapers or Washington, D.C.'s halls of power. It needs to talk to its customers the same way Apple and Amazon do--doing all it can to emulate companies that understand the great power consumers wield and the infinite market knowledge they possess.

2. THINK LIKE THE CONSUMER.

To better engage customers, banks need to think like the customers. They need to put themselves in consumers' and small business' shoes, recognize their pain points, and take steps to alleviate them.

Here, it isn't the front-page scandals at the root of the problem, it's a lack of transparency, a lack of innovation, and, above all, the fees. Ernst & Young finds that "clearer communication and transparency about fees is the most sought-after improvement globally." At the same time, 44 percent of consumers report that banks don't adapt products and services to meet their needs.

With high fees, low interest, and stagnant service, many consumers are wondering why a checking or savings account is a preferable alternative to their mattresses. They must also be wondering why ATMs cost some consumers $200 to $300 a year—especially when the public was told 30 years ago that ATMs would cut costs and save consumers money.

To transform their reputations, banks need to change the way they do business. Improved access to home, car, and student loans can't be the only reason that consumers maintain relationships with their financial institutions. If the banks don't change the status quo, you can bet that Walmart and Facebook will.

3. DON'T BE AFRAID OF THE CONVERSATION.

Perform a Google search for terms such as "bank," "loan," "finance," "home loan," or "car loan." What you find are individual offerings. The overarching narrative about the industry's role as an economic engine is nowhere to be found. While industry trade associations work within the Beltway and the banks hawk their products, no one is communicating the most important message of all.

Where are the high-profile bloggers who can validate banks' efforts to improve service and fiscal strength? Where is the social media outreach that creates the kind of customer loyalty that saved George Bailey's skin? Where are the content management strategies that ensure that the flow of information is targeted and timely?

The American Bankers Association's blogs are solid resources for bankers, but they have yet to be deployed as consumer outreach tools that can help move the overarching conversation about banks where it needs to be. Citi's use of Twitter to solve customer service problems is a template that has yet to be widely emulated. These and other forays into social and digital media can't be the exceptions when the industry's audience has grown beyond watching golf on Sundays.

They are essential first steps. The sooner they are taken, the better.

CLOSING THE TRUST DEFICIT

Winston Churchill famously said that "Men occasionally stumble over the truth, but most of them pick themselves up and hurry off as if nothing had happened." The longer the banks emulate this wisdom and ignore the forces that are changing their industry, the wider the trust deficit will grow. Reputational problems aren't just a cost of doing business; with the storm gathering, they are threats to banks' very existence.

As such, the time has come for banks to assert more control over the narratives defining their industry. After all, not everyone has a guardian angel.

Richard S. Levick, Esq., President and CEO of LEVICK, represents countries and companies in the highest-stakes global communications matters—from the Wall Street crisis and the Gulf oil spill to Guantanamo Bay and the Catholic Church.

THE 'ICK' FACTOR
Carnival's Long-Haul Challenge Ahead

Richard S. Levick
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The narrative surrounding the ill-fated cruise ship Triumph may have taken an encouraging turn for the Carnival Corporation. Grisly as the facts are—both in terms of what occurred and potential marketplace impact—a palliative counter-story had already emerged in the early media coverage of the engine fire on February 10, the third day of the Triumph's aborted journey from Galveston, Texas to Mexico City.

Of course the dominant story was all about the disgusting sanitary conditions that resulted after the loss of power. One passenger called it "a floating toilet, a floating Petri dish, a floating hell." That description is from a lawsuit the passenger filed on Friday, and Carnival can expect a lot more of those.

But juxtaposed with the sickened memories we have equally vivid descriptions of how "most passengers said the one thing that kept their sanity was the professionalism of the crew." It was yeoman's service, no pun intended, as stewards and other crew members worked tirelessly, checking on passengers, providing whatever sanitary ameliorations were available, and, yes, smiling as often as possible.

The duel between these narratives, or between the seamy details of the Triumph mishap and any countervailing narrative, won't be easy for Carnival to simply win. From a public communications standpoint, you can't ask for a worse scenario than human beings trapped in a sewer. Especially not in the age of social media when Triumph passengers could nimbly telegraph their distress to family members, reporters, Facebook friends—anyone who cared to follow the stomach-churning saga as it unfolded.

The visuals (along with sundry other sensory afflictions) that define this crisis are likely unprecedented. It's often human nature to forget that an airplane crashed. It's also human nature to not forget the kind of thing that happened on the Triumph. No one makes fun of fatal accidents, but the Triumph ordeal was the subject of a withering skit on Saturday Night Live. Such waggish parody and jokes (intentionally in poor taste) effectively memorialize the event, threatening to decisively vitiate the Carnival brand as a result.

Even the tragic deaths that occurred in a prior Carnival disaster—when in early 2012 the Costa Concordia ran aground in Italy and 32 people perished—are less likely to obsess the public imagination than the unsavory details of this story. This year, in fact, cruise bookings are reportedly up 10% over the corresponding 2012 post- Concordia period, suggesting a fairly steady recovery from the effects of that tragedy. Yet one wonders if Carnival will recover quite as well from this accident even though no fatalities occurred aboard the Triumph.

Carnival has its work cut out. It is only one first step, albeit a very promising one, for the company to celebrate the humanity and professionalism that its employees demonstrated during the crisis. Multiple other positive narratives are needed as only a full chorus of future-looking public commitments can supersede a story that may unfortunately have such an idiosyncratically extended half-life. To that end, Carnival's predictable full refunds and additional $500 compensation bestowals are mere table stakes.

There are longer-term strategic considerations, to be sure.

First, Carnival must get at the underlying cause of these engine failures—not just a one-off explanation of what specifically happened on the Triumph. These engine fires have occurred with suspicious regularity. It was only a month or so after the Concordia that the engine on Carnival's Costa Allegra liner also caught fire and lost power in pirate-infested waters. Thousands of merchant ships ply the sea lanes without similar mechanical problems. What's wrong with these vessels?

In other words, Carnival must isolate a cause. Only by isolating it can the problem be solved and the public reassured that it won't happen again.

Second, Carnival needs to reexamine its disaster plans at multiple levels. That seems painfully obvious, but the company might also consider publicly sharing those plans or at least divulging enough about how they're being updated to send a resolute message of greater public accountability.

Third, Carnival needs to prepare for tougher fights with safety watchdogs and officials. The consecutive accidents are a trigger for industry critics to broaden their attacks on ancillary

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fronts. A case in point are industry tax loopholes, an issue already raised in these pages and a favorite hobby horse of Sen. Jay Rockefeller, Chairman of the Commerce, Science and Transportation Committee. In hearings right after the Allegra incident, Rockefeller was very curious as to why cruise lines can use the resources of forty U.S. agencies without paying U.S. taxes.

In that sense, the Carnival problem is an industry-wide problem. As a fourth strategic consideration, Carnival and Royal Caribbean, along with smaller companies, would therefore do well to consolidate their messages about safety, about customer commitment, about whether this industry has become too big to function in the best interests of the consumer.

Actually, it is a highly regulated industry. Industry expert Andrew Coggins Jr. points out that cruise ships are governed by International Maritime Organization regulations and not by the laws of the countries (often developing nations) where they're registered. Safety certification, a prerequisite for buying insurance, is provided by independent classifica-

tion entities, advises Coggins, a professor of management at Pace University's Lubin School of Business.

We comfortably trust our lives to airline pilots we never see, whose names we don't bother to remember. We do so because "safety first" is historically and deeply communicated by every carrier, and because we know that regulators are on the job. These are points that the cruise industry should now underscore about its own operations.

Jay Rockefeller threw down the gauntlet. "…at sea…once they are beyond three nautical miles from shore, the world is theirs," he wrote last week to Coast Guard commandant Admiral Robert Papp [emphasis added]. "…The Carnival Triumph incident only serves to further validate this view."

Left unanswered, Rockefeller's criticism spells trouble ahead for an industry that needs to hold on to old customers and woo new ones. The industry must be perceived as no less accountable than the airline industry. It must counter with messages of control—from within and without—even amid images that bespeak a singular loss of control. L

Richard S. Levick, Esq., President and CEO of LEVICK, represents countries and companies in the highest-stakes global communications matters—from the Wall Street crisis and the Gulf oil spill to Guantanamo Bay and the Catholic Church.

BLOGS *worth following*

THOUGHT LEADERS

Amber Naslund
brasstackthinking.com
Amber Naslund is a coauthor of The Now Revolution. The book discusses the impact of the social web and how businesses need to "adapt to the new era of instantaneous business."

Brian Halligan
hubspot.com/company/management/brian-halligan
HubSpot CEO and Founder.

Chris Brogan
chrisbrogan.com
Chris Brogan is an American author, journalist, marketing consultant, and frequent speaker about social media marketing.

David Meerman Scott
davidmeermanscott.com
David Meerman Scott is an American online marketing strategist, and author of several books on marketing, most notably The New Rules of Marketing and PR with over 250,000 copies in print in more than 25 languages.

Guy Kawasaki
guykawasaki.com
Guy Kawasaki is a Silicon Valley venture capitalist, bestselling author, and Apple Fellow. He was one of the Apple employees originally responsible for marketing the Macintosh in 1984.

Jay Baer
jaybaer.com
Jay Baer is coauthor of, "The Now Revolution: 7 Shifts to Make Your Business Faster, Smarter and More Social."

Rachel Botsman
rachelbotsman.com
Rachel Botsman is a social innovator who writes, consults and speaks on the power of collaboration and sharing through network technologies.

Seth Godin
sethgodin.typepad.com
Seth Godin is an American entrepreneur, author and public speaker. Godin popularized the topic of permission marketing.

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