Johnson & Johnson and Tylenol

Companies in Crisis - What to do when it all goes wrong

Crisis need not strike a company purely as a result of its own negligence or misadventure. Often, a situation is created which cannot be blamed on the company - but the company finds out pretty quickly that it takes a huge amount of blame if it fumbles the ball in its response.

One of the classic tales of how a company can get it right is that of Johnson & Johnson, and the company's response to the Tylenol poisoning.

What happened

In 1982, Johnson & Johnson's Tylenol medication commanded 35 per cent of the US over-the-counter analgesic market - representing something like 15 per cent of the company's profits.

Unfortunately, at that point one individual succeeded in lacing the drug with cyanide. Seven people died as a result, and a widespread panic ensued about how widespread the contamination might be.

By the end of the episode, everyone knew that Tylenol was associated with the scare. The company's market value fell by $1bn as a result.

When the same situation happened in 1986, the company had learned its lessons well. It acted quickly - ordering that Tylenol should be recalled from every outlet - not just those in the state where it had been tampered with. Not only that, but the company decided the product would not be re-established on the shelves until something had been done to provide better product protection.

As a result, Johnson & Johnson developed the tamperproof packaging that would make it much more difficult for a similar incident to occur in future.

Cost and benefit

The cost was a high one. In addition to the impact on the company's share price when the crisis first hit, the lost production and destroyed goods as a result of the recall were considerable.

However, the company won praise for its quick and appropriate action. Having sidestepped the position others have found themselves in - of having been slow to act in the face of consumer concern - they achieved the status of consumer champion.

Within five months of the disaster, the company had recovered 70% of its market share for the drug - and the fact this went on to improve over time showed that the company had succeeded in preserving the long term value of the brand. Companies such as Perrier, who had been criticized for less adept handling of a crisis, found their reputation damaged for as long as five years after an incident.

In fact, there is some evidence that it was rewarded by consumers who were so reassured by the steps taken that they switched from other painkillers to Tylenol.

Conclusion

The features that made Johnson & Johnson's handling of the crisis a success included the following:

* They acted quickly, with complete openness about what had happened, and immediately sought to remove any source of danger based on the worst case scenario - not waiting for evidence to see whether the contamination might be more widespread
* Having acted quickly, they then sought to ensure that measures were taken which would prevent as far as possible a recurrence of the problem
* They showed themselves to be prepared to bear the short term cost in the name of consumer safety. That more than anything else established a basis for trust with their customers