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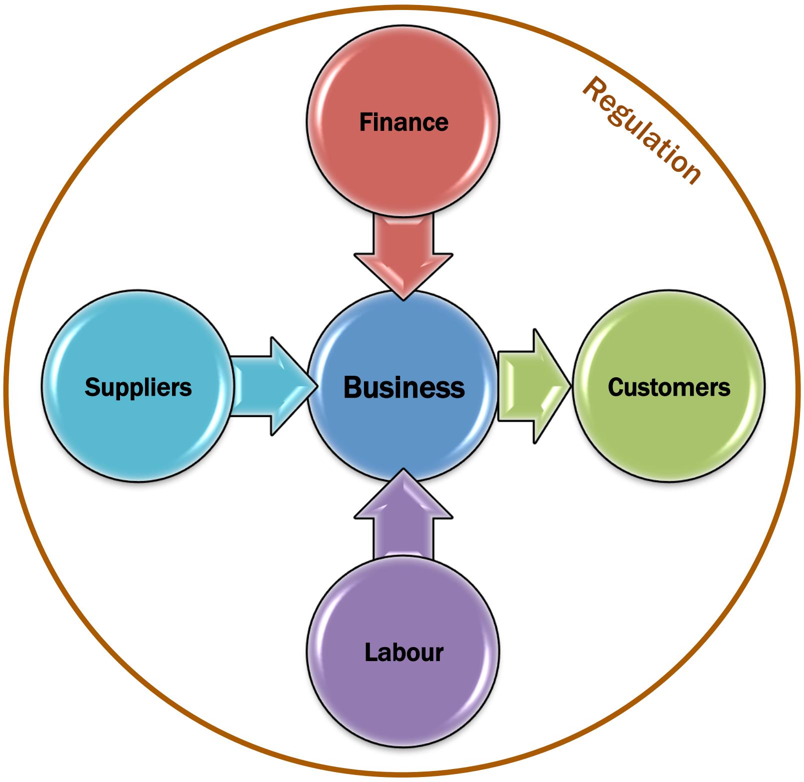
Helping non-profits to strengthen their impact in advocacy, campaigning & communications for social & environmental justice

Advocacy & Campaign Planning Mini-Guide #5

Corporate Vulnerability model

There is a danger that campaigners, who usually only participate in the business process as an end-consumer, see consumer action as the only or best form of influence over the corporate sector. In many cases, there are more effective levers.

There are four key 'relationships' that businesses have to manage in order to maximise their profits and minimise their risks. Different businesses will be vulnerable to disruptions in each of these relationships to a different extent, depending on their particular business model and circumstances. To be effective in changing corporate behaviour, campaigners need to identify each business's particular vulnerability.



At the centre of the model is the business that is the target of the campaign – either the whole business or a single 'business unit' or 'business process' within a larger enterprise. Surrounding the business are the four key relationships that are key to the business's profitability: **Suppliers** provide a range of inputs that the company turns into products or services that it sells onto **customers**, creating 'added value' in the process. In order to do this, it also requires **finance** and **labour**.

Every one of these actors is seeking to minimise their costs and risks while maximising their current and future income. Some relationships will be long-term while others could be more transitory. The strength and profitability of each relationship will depend on a number of factors, but core to these are **scarcity, competition** and **reputation**.

The business operates within a regulatory framework that sets rules for how the relationships operate as well as other aspects of the business process, including its impacts on local communities and the environment. Therefore, businesses also seek to manage their relationships with **regulators** and wider **civil society**.

Applying this model and mapping vulnerability in the corporate value chain should help campaigners to select the most effective approach to influencing individual companies or while business sectors.

Customers

Theories of free-market capitalism portray the customer as king, with their purchasing decisions determining what products and services are produced and their quantity and quality. In practice, life is more complicated. It should be remembered that most trade is business-to-business, so customers are more often other businesses or public sector bodies. Only sometimes are customers the end-consumers. Furthermore, free market theories tend to assume 'perfect markets', where customers make rational free and informed choices of all available products. This rarely happens.

In assessing how much power customers have over the business, the choices available to the customer can be mapped:

1. How much do they need this product or service? Do they perceive it as a luxury or an essential?
2. Can they obtain this product or service from alternative suppliers? How are competitors differentiated (eg, by price, convenience, quality, status)?
3. Can they obtain alternative products or services that fulfil the same need? How are these substitutes perceived by the customer?

> For example, petrol/gasoline for cars is an undifferentiated product whose retail sales are largely driven by price competition and convenience (location of filling stations). The numbers of customers who can be persuaded to purchase one brand over another on a purely ethical basis is very limited. Coffee, on the other hand, is a more differentiated product with a choice of brands and sub-brands available at each retail outlet. Although many customers will still make purchases based on price and taste, a significant number can be persuaded to prioritise ethical considerations.

People, whether acting for themselves or on behalf of a business or public sector body, do not want to evaluate every single purchasing decision they make without good cause. Furthermore, there may be a real cost to making a change. So campaigners also need to assess how much they can influence the purchasing power of customers.

There are many examples of successful campaigns that have used customers to influence corporate behaviour. Clothing manufacturers have improved wages and conditions for workers as a result of pressure from clothing retailers (who are their direct customers). Nestlé has improved its marketing of baby milk in response to a consumer boycott of Nescafé (its leading brand). However, there are many other boycott campaigns that have failed because the cost of lost sales is negligible or is outweighed by the cost of taking action to address the campaigners concerns.

Suppliers

Every business buys inputs from suppliers. Retailers buy the products they sell. Manufacturers buy raw materials, part finished goods or components. Service providers buy equipment and supplies. All companies buy energy and other services.

Some inputs may be plentiful with many suppliers competing for few customers. In these cases, the power in the relationship between the business and suppliers is weighted towards the business. The business can drive down prices and may seek to transfer risk to the supplier through 'just in time' contracts (where the supplier becomes responsible for stockpiling and warehousing supplies for the business before they have even been purchased). Businesses are unlikely to be significantly affected by pressure exerted through these suppliers.

> An example is food retailing in the UK, where 4 supermarket chains have 73% of all grocery sales.

Other inputs may be scarce or controlled by monopoly suppliers (including state monopolies). The purchasing company has less power in the relationship, not only having to pay more for the inputs but may also have to pay up-front or through long-term contracts that involve other financial or social obligations. Businesses needing these inputs are vulnerable to pressure from suppliers or through disruptions to their supply chain (possibly as a result of a blockade or other disruptive direct action).

> Depending on the industry sector, scarce inputs could be energy, water and some rare-earth metals.

Finance

Providers of finance can be the owners of the business (shareholders) or lenders of funds (such as private and public investment banks).

Some businesses will have high holdings of cash in relation to their investment needs (for example, Google) and so don't need to borrow money. Other businesses, however, will need to borrow money in order to invest in capital-intensive projects (for example, oil companies). They need to convince their shareholders and lenders that investments are low risk in relation to the likely return. Investors and lenders could provide the funds to the business's competitors if it appears that the return will be greater or the risk lower.

Campaigners might be able to exploit any vulnerabilities in a company's relationships with its owners and other suppliers of finance by increasing the perceived risk of the investment – not just the financial risk of the project failing but also the reputational risks of association with an unethical company. Persuading individual and institutional investors to adopt ethical guidelines or disinvest from certain companies or industries could cut off some sources of finance (probably to be replaced by other sources of funds, but at a higher cost to the business). Shareholders could demand a change in the business strategy. Risk could be highlighted in the business media and to ratings agencies (being careful not to commit libel).

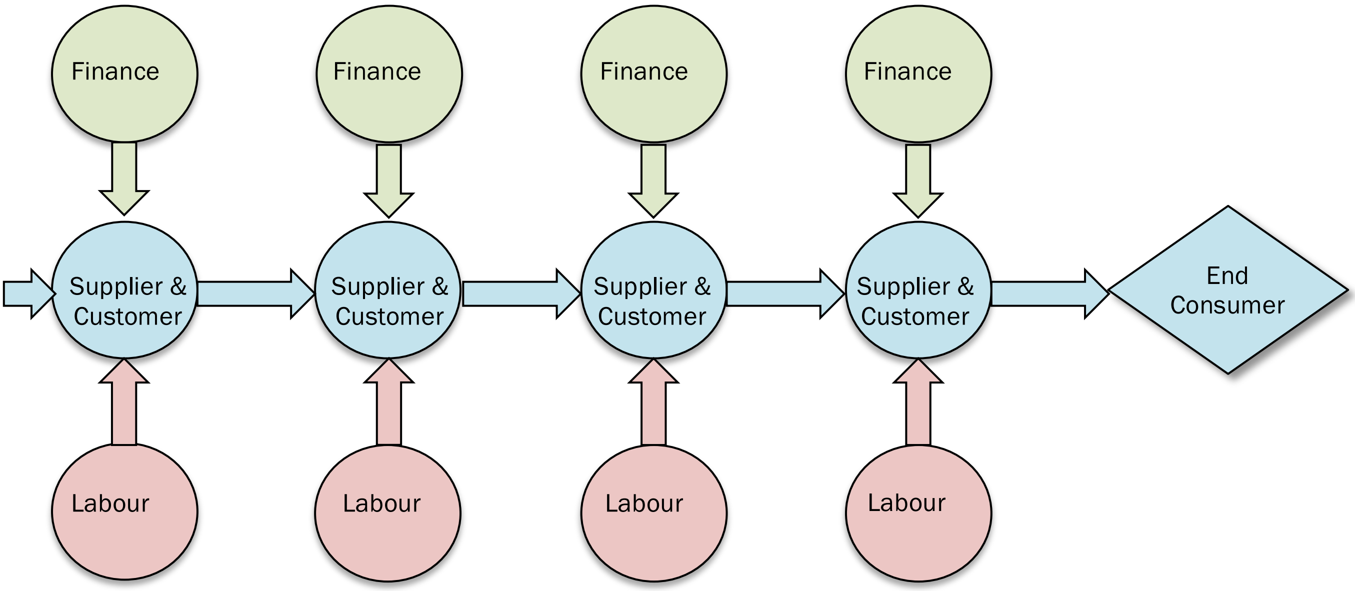
Labour

Winning support from key trade unions or groups of staff can be an effective campaign strategy. While some groups of staff will be in a weak negotiating position with their employers, others will be organised, have scarce skills or be in decision-making roles – giving them significant influence on the company's policy and practice. Even if staff are not organised, most successful businesses are concerned with staff morale and turnover (recruitment being a significant business cost).

> Anecdotal evidence suggests that consumer boycotts of Shell in the 1990s in response to its record on human rights (Ken Saro-Wiwa) and environmental responsibility (Brent Spar) had little noticeable effect on petrol sales, but the damage to their brand reputation meant that fewer of the best engineering and business graduates were applying to join them, making Shell re-position itself as a more ethical company.

The Supply Chain

This business process is repeated many times in the supply chain that leads to each end product. One business's customer is another's supplier.



Like any model, this is a simplification of a more complex reality. Each business will be different, but this model should help identify their key vulnerabilities in most situations.

Remember that if an individual company is targeted and campaigners succeed in reducing their competitive advantage, other companies will take their place in the market. Campaigners need to be sure that these competitors have higher social and environmental standards than the targeted company. If not, they will have only made the situation worse.

Regulators

Each of these four core relationships and other business processes and impacts are governed by official regulation. Where companies are breaking existing regulations, campaigners can either sue those companies in the civil courts or persuade official bodies to prosecute.

Under the banner of promoting free trade and preventing unfair competition, the corporate sector actively lobbies for international trade regulation that seeks to reduce the power of consumers, organised labour, citizens and governments. On the other hand, the business sector usually resists social and environmental regulation, even when it can prevent unfair competition, preferring instead voluntary codes. For campaigners, voluntary codes can sometimes have a role in demonstrating that improvements are possible, but ultimately we have to press for regulation and its effective enforcement to ensure that changes are sustained and not undermined by less ethical businesses.

Big business invests significant resources into building and maintaining relationships with government regulators, employing PR firms, lobbyists and seconding staff to work in government ministries. Their power to influence government is high, but the power of organised civil society action can be greater.

Where campaigners are unable to influence the obvious regulators, they can employ the strategy of 'venue shifting' and try to persuade other regulators (for example at a different tier of local, national, regional or international government, or in a different sector) to take action.

To influence regulation and regulators, an advocacy/campaign strategy should be developed – see Mini-Guides #1, 2 & 3. Depending on the context, this could involve mobilising pressure from the public.

Other relationships

In order to ensure a 'business-friendly' environment, companies are also concerned with their reputation among the local communities where they operate and within wider society. They invest in relationships with the media, charities and other brands to present themselves in the best possible light, promoting their products and reducing the call for more effective regulation. Campaigners can challenge this marketing and public relations activity by publically exposing their bad practices, tracking and countering their PR activities and generally undermining their brand image – creating the conditions for a successful attack on one or more of their four core business relationships.

This is #5 of a series of Advocacy & Campaigning Guides written by Ian Chandler.

Each guide aims to clearly and concisely show how progressive non-profit groups can make greater impact of their advocacy and campaigning. Throughout the series, leading edge concepts and tools are introduced and explained, helping readers make the most effective strategic choices. They can be downloaded for free from www.thepressuregroup.org

This version was published in December 2014.

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- Training and capacity building
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For more details, go to www.thepressuregroup.org or email ianchandler@thepressuregroup.org