Boycotts: the ultimate weapon

A boycott is defined as a free, voluntary and ideological refusal on a systematic basis to consume a company’s products or services (or that of a country) for the purpose of obliging it to meet a demand.

Boycott campaigns are a means to:

− Increase consumer awareness of a risk or an abuse;
− Put pressure on companies: impact on the company’s reputation, employee motivation and recruitment;
− To penalise: impact on sales, the value of the brand, shareholders.

An advanced form of voicing opinions, the boycott, as it has been transformed from a political form (appeal by Ghandi to boycott English products, by Martin Luther King, Jr.’s boycott of public buses, boycotts called on the Olympic Games in Moscow, etc.) to an economic form, is now addressed in particular to companies.

Nonetheless a boycott of a country or its government for political or ideological reasons can also impact companies:

− The boycott of foreign firms active in South Africa during the apartheid regime.
− The boycott of French wines in the US (penalising the French stance on Iraq): 13% decline in sales, with a greater impact on the least expensive wines (as they could be easily substituted) and on the most expensive wines (offered as a gift, where image plays a major role).

While boycotts are practiced more frequently in the US and the UK, 25% of European consumers (source: Credoc 2007) have already boycotted a specific product (26% in 2003).

The reasons most often cited for boycotting a product are:

− Child labour (57%),
− Redundancies when the company is making a profit (31%),
− Pollution (28%),
− Labour code not respected (21%).

Lastly, 91% of consumers state that they are prepared to boycott the products of companies for poor behaviour.

According to the same study, boycotts are more widespread among the wealthy and more educated socio-economic categories:

− 53% of managers have already boycotted a specific product
− Only 15% of those with no diplomas have boycotted a product
− 46% with revenues above EUR3,100 per month have boycotted a product
− Only 25% of those with revenues below EUR1,500 per month

In all, 27% of the people surveyed stated that they are careful not to buy brands produced by companies whose behaviour they disapprove of.
Measuring a company's vulnerability to a boycott

The Boycott Vulnerability Ratio (BVR)

US financial activists have recently introduced astute boycott strategies. Created by Max Keiser, the BVR attempts to identify list companies that are financially the most sensitive to a boycott. We have refined this concept in our scoring model.

The "boycott" indicator as a measure of the company's vulnerability to its clients.

In addition to the (difficult) analysis of its financial impact, the boycott is a pertinent extra-financial indicator insofar as its criteria for effectiveness bring together all the factors of a company's vulnerability in the face of the power gained by demand over the supply.

Conversely, the difficulty in boycotting a company appears to be a good indicator of the company's resistance to factors of consumer empowerment.

Vulnerability to a boycott

- Hyperchoice
- Hyperinformation
- Hypercomparability

Resistance to a boycott

- Possible alternatives
- Research costs
- Administration costs
- Tariff costs
- Time necessary for change
- Psychological cost
- Learning costs

A high substitution cost (exit costs + entry costs) therefore produces a significant dissuasive effect. However, it is important to bear in mind that substantial resistance to a boycott is often a good indicator of the threat of possible regulation.
## Boycott criteria

<table>
<thead>
<tr>
<th>Sector criteria</th>
<th>Substitution</th>
<th>Are there alternative(s)?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>What is cost of the change for the consumer?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Time and procedures for the change?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Renewal rate for this type of product?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Index of comparability</td>
</tr>
<tr>
<td>Image</td>
<td></td>
<td>Is brand image important for this category of product?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vulnerability to other players in the supply chain</td>
</tr>
</tbody>
</table>

### Company criteria

- Size
- Local or global presence
- Possibility of identifying the company and its brands
- Does the brand communicate it values?

Source: Cheuvreux

## Sector vulnerability to boycotts (C vulnerable - AAA not very vulnerable)

<table>
<thead>
<tr>
<th>Automobiles and auto components</th>
<th>Banks</th>
<th>Consumer goods</th>
<th>Food, beverages and tobacco</th>
<th>Insurance</th>
<th>Luxury goods and cosmetics</th>
</tr>
</thead>
<tbody>
<tr>
<td>BB</td>
<td>AAA</td>
<td>CCC</td>
<td>C</td>
<td>AA</td>
<td>CC</td>
</tr>
<tr>
<td>Media</td>
<td>Pharma-ceuticals and biotech</td>
<td>Retailers</td>
<td>Technology hardware and equipment</td>
<td>Telecoms services</td>
<td>Air transport</td>
</tr>
<tr>
<td>C</td>
<td>AA</td>
<td>CCC</td>
<td>B</td>
<td>BBB</td>
<td>B</td>
</tr>
</tbody>
</table>

Source: Cheuvreux

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### in terms of the substitution factor...

Thus in mobile telephony, a very dissuasive substitution factor despite the low financial cost of the substitution masks a significant administrative cost, a certain lack of transparency with respect to comparability and above all a very heavy psychological cost as long as there is no mobile telephone number portability. First national regulations, then European ones, now make it much easier to change supplier, above all guaranteeing the free portability of mobile telephone numbers within ten days.

Various studies show the following costs:
- EUR250 to change mobile operators (all included)
- EUR400 minimum to change electricity suppliers
- EUR335 for the average French client to change banks

### which depends on the level of captivity

Whereas certain surveys have revealed the importance of the psychological factor:
- 54% of consumers believe that it is complicated in France to change electricity supplier (even though a Directive stipulates that changing supplier should be free of charges).
- 40% of consumers believe that it is complicated to change banks (source: CSA 2006).

A UFC study has thus identified various types of costs in the bank sector.