

Consumer Buying Behavior in Response to Corporate Scandal: The Case of Martha Stewart

The purpose of this study was to determine, from a consumer's perspective, if the conviction of Martha Stewart had an impact on the Martha Stewart Living Omnimedia Corporation. Specifically, the study investigated the consumer view of Martha Stewart's credibility before and after her trial and if the level of credibility was different between the people who intended to purchase Martha Stewart brand products versus those people who do not intend to purchase Martha Stewart brand products. A convenience sample of 186 subjects, 18 years of age and older, was utilized for this study. Subjects included graduate and undergraduate students in the Departments of Family and Consumer Sciences and Social Work at California State University, Long Beach. Results of the *t*-tests revealed a difference in credibility before the Martha Stewart trial and after her trial and a difference in the level of post-trial credibility in the people who intend to purchase a Martha Stewart brand product versus those people who do not intend to purchase a Martha Stewart brand product. Levels of credibility differed pre and post-trial.

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Introduction

The use of celebrities in advertising has proven to be profitable in the past since the announcement of a celebrity endorsement contract has been shown to actually increase the value of a company's stock portfolio (Agrawal & Kamakura, 1995). Advertisers use celebrities because consumers tend to buy products from companies when they can identify with the endorser (Basil, 1996). The identification with an endorser then correlates with the purchase intentions of the consumers (Ohanian, 1991). Ohanian also explains the effect of the endorser's expertise on the perceived credibility of a company, which also affects the purchase intentions of consumers.

Corporate credibility and corporate ethics also play a significant role in a consumer's decision to purchase or not purchase certain products. Corporate credibility is defined as "the perceived expertise and trustworthiness of a firm" (Lafferty, Goldsmith & Newell, 2002, p.44). Consumers have shown a willingness to pay more for products from a corporation perceived in good ethical standing (Creyer, 1997). There has also been a rise in ethical consumerism, or the "importance of non-traditional and social components of a company's products and business process to strategic success" (Auger, Burke, Devinney & Louviere, 2003, Abstract, para. 1).

An example of a celebrity endorser potentially affecting the credibility of a corporation is the recent indictment, trial and conviction of Martha Stewart. The Martha Stewart product line (home goods, magazines) is named for the founder. Therefore, credibility or the perceived trustworthiness of the corporation is vital to Martha Stewart Living Omnimedia due to the association between Martha Stewart (the person) and Martha Stewart Living Omnimedia.

Martha Stewart has had a long-standing reputation as an expert on "domestic arts" (Martha Stewart Living Omnimedia, 2004). In 1982, Martha Stewart published her first book, *Entertaining*, and in 1991, her magazine, *Martha Stewart Living*, was published. The Martha Stewart Living Omnimedia Corporation (2004) created "how-to" content and merchandise for its eight core areas: home, cooking & entertaining, gardening, crafts, holidays, keeping, weddings, baby & kids. There are four types of media outlets for Martha Stewart Living Omnimedia, which include Publishing, Television, Merchandising and Internet/Direct Commerce (MSLO, 2004).

After Martha Stewart was indicted on June 3, 2003, she made her first decision to step down from her post as Chief Executive Officer, she moved into a position with a reduced amount of responsibility; Chief Creative Officer. The indictment and conviction was based on her lying to federal investigators and conspiracy about the sale of non-company stock on March 5, 2004. This conviction and indictment represents an ethical violation, which consequently affected the credibility of her corporation. As a result of her conviction, and in an attempt to salvage the company's good name on March 15, 2004, Martha Stewart made her second decision to resign her position as

Chief Creative Officer (MSLO, 2004). In 2005, Martha Stewart started her new talk show in the expectation that this would improve her image.

The Martha Stewart Living television audience decreased by 50% after her trial due to sponsors and networks withdrawing their support of her (MSLO, 2004). The Martha Stewart Living Omnimedia (2004) annual report states the net loss in profit in 2003 was \$6.4 million as compared to 2002 when there was a profit of \$20 million. Thus, the indictment of Martha Stewart had a negative fiscal impact on the company.

Purpose of the Study

The purpose of this study was to determine, from a consumer's perspective, if the conviction of Martha Stewart had an impact on the Martha Stewart Living Omnimedia Corporation. Specifically, the study investigated the consumer view of Martha Stewart's credibility before and after her trial and if the level of credibility was different between the people who intended to purchase Martha Stewart brand products versus those people who do not intend to purchase Martha Stewart brand products.

Hypotheses

H₀1: There is no significant difference in the consumer's perception of credibility of Martha Stewart before her trial versus after her trial.

H₀2: There is no significant difference in the level of post-trial credibility between people who intend to purchase Martha Stewart brand products versus those who do not intend to purchase Martha Stewart brand products.

Literature Review

Martha Stewart became a household name not only for her entertaining savvy, but also for her conviction of conspiracy and lying to federal investigators. Because specific research on Martha Stewart is non-existent, this section will cover corporate and celebrity issues as they relate to consumer purchase behavior.

Corporate Ethics

Corporate ethics have become increasingly apparent in recent years. Research has shown that consumers value and establish purchase decisions based on the ethics of a company (Auger et al, 2003). The degree to which consumers take ethics into consideration varies by the level of the ethical violation and type of product being purchased (Auger et al, 2003). Since Martha Stewart, the former CEO of her corporation was the official representative of her company at the time of her conviction, her actions as an individual reflected on the corporation.

Consumer Loyalty and Group Association

Martha Stewart has been regarded as America's hostess. Therefore, it is suggest that consumers will buy her products in the hope that they will be able to emulate her. This phenomenon is known as "brand personality" (Aaker, 1997). Aaker (1997) defines brand personality as "the set of human characteristics associated with a brand" (p. 347). If consumers attach emotion to a product or to the celebrity endorser, and are satisfied with the result, the consumer will be loyal to the company (Yu & Dean, 2001).

Association endorsements are similar to celebrity endorsements because consumers perceive expertise from a well-known association in the same way consumers perceive expertise from a celebrity endorser. Daneshvary & Schwer (2000) found identification with the association will lead to a greater perception of credibility of that association and consumers who are loyal to that association will be more inclined to purchase products endorsed by that association.

Influence of Celebrity

A celebrity can have economic influence. Corporations spend millions to attract celebrities to endorse their products. Agrawal and Kamakura (1995) found that the simple announcement of a celebrity endorsement has been shown to raise the stock portfolio of the company.

Another study by Mathur, Mathur and Rangan (1997) examined the effect of Michael Jordan's 1995 return to the National Basketball Association (NBA) on the stock portfolios of the companies for which he endorsed

products. The study found evidence that the announcement of Jordan's return to the NBA significantly increased the stock portfolios of those five Michael Jordan endorsed companies (Mathur et al., 1997), clearly illustrating the direct economic impact of the celebrity endorsement.

Brand Attitudes

Till & Busler (2000) found that if a product designed to increase one's attractiveness is endorsed by an attractive person, then the brand attitude will be favorable. They refer to this pairing of an attractive endorser and product to increase one's attractiveness as the "match-up" factor (Till & Busler, 2000). Till & Busler (2000) explained if ads are matched up by attractiveness and expertise the brand attitude will be more favorable. As a result of favorable brand attitude, they found purchase intentions are greater (Till & Busler, 2000). Similarly, expertise is also an important factor in the formation of brand attitude (Till & Busler, 2000). Till & Busler (2000) state when a spokesperson is perceived to be knowledgeable on an aspect of a brand (e.g. athletes and energy bars), brand attitude and therefore purchase intentions will be greater.

Corporate Credibility

Corporate credibility has also been studied as a factor in purchase intentions (Lafferty, Goldsmith & Newell, 2002). Central to the study of purchase intentions is the dual credibility model. The dual credibility model offers a causal sequence-attitude toward the advertisements, which leads to attitude toward the brand, which leads to purchase intentions (Lafferty et al., 2002). Lafferty et al. (2002) presented the dual credibility model to explain the influence of corporate and endorser credibility on the formation of brand attitudes and purchase intentions.

Goldsmith, Lafferty & Newell (2000) argued that corporate credibility plays such an important role in purchase intentions; companies should allocate money previously earmarked for celebrity endorsements to ensuring the company has a positive and credible image. They also state consumers tend to be more influenced by corporate credibility than endorser credibility (Goldsmith et al., 2000). In the case of Martha Stewart, she is a celebrity endorser but she is also one of the company's owners. Now, as a result of recent events, the company plans to earmark funds to create a new positive image (MSLO, 2004).

Negative Information and "Negativity Effect"

When forming an opinion, or attitude about an ad, or brand, consumers may still consider negative information when considering purchase intent. A classic study conducted by Mizerski (1982) found respondents were more likely to process negative or unfavorable information as opposed to favorable information. Unfavorable information tended to trigger a stronger stimulus than favorable information (Mizerski, 1982).

The "negativity effect" is "the greater weighing of negative as compared with equally extreme positive information in the formation of overall evaluations" (Ahluwalia, 2002, p. 270). The level of consumer involvement with a product can dictate how the consumer processes information about the product. The weighting of the "negativity effect" will depend on the consumers' level of involvement with the product or information. Thus, consumers are constantly hearing negative information regarding Martha Stewart in news and print media, so that negative information will be activated every time they hear or see anything pertaining to Martha Stewart.

Consumer Response

Ohanian (1991) studied different aspects of source credibility on intention to purchase. Endorser expertise was determined to be the most significant indicator of perceived credibility (Ohanian, 1991). Ohanian (1991) explained expertise as "the knowledge that the communicator seems to possess to support the claims made in the advertisement" (p. 46). Consumer perception of an event can be a crucial element in the response of that consumer (Louie & Obermiller, 2002). If the blame is clear, the perception of the credibility of the corporation can suffer (Louie & Obermiller, 2002). In high blame negative events (i.e. not an accident) consumers will respond unfavorably (Louie & Obermiller, 2002).

The role of commitment plays a vital role in consumer response to negative information (Ahluwalia, Burnkrant & Unnava, 2000). If a consumer has little commitment to a brand, the consumer is more likely to discontinue use of the product or just lower their evaluation of the brand (Ahluwalia et al., 2000). Conversely, if a consumer has high commitment to a brand, the consumer will counter argue negative information (Ahluwalia et al., 2000). Their study also further qualifies the negativity effect, the heavier weighting of negative information,

(Ahluwalia, 2002) by adding the concept of the degree of commitment to the effect of negative information (Ahluwalia et al., 2000).

Methodology

Sample

A convenience sample (n = 186) was used to obtain an adequate sample size. Participants were recruited at a large state university in Southern California - California State University, Long Beach in the Departments of Family and Consumer Sciences and Social Work. Undergraduate and graduate classes were surveyed. If participants reported they were not familiar with Martha Stewart, the survey was not used.

Instrumentation

The instrument used in this study consisted of three parts: demographic data, the Source Credibility Scale, and the intention to purchase section. The scale portion of the instrument was Ohanian's (1990) Source Credibility Scale; a 15-item semantic differential scale measuring attractiveness, trustworthiness and expertise. The demographic and intention to purchase sections of the survey were developed by the researcher

Data Analysis

Two separate *t*-tests were run to compare the groups in the survey. The paired samples *t*-test was run to compare before trial opinions of Martha Stewart to after trial opinions of Martha Stewart. The 2 independent samples *t*-test was run to compare the level of post-trial credibility between people who intend to purchase a Martha Stewart brand product versus people who did not intend to purchase a Martha Stewart brand product. A significance level of $p \leq .05$ was used.

Results

Table 1
Sample Demographic Data (n = 186).

Variable	n	%
Sex		
Male	27	15
Female	159	85
Age		
18-22	60	32
23-35	107	58
36+	17	9
Marital Status		
Single	146	79
Married	30	16
Divorced	5	3
Separated	2	1
Familiar with Martha Stewart		
Very Familiar	46	25
Somewhat Familiar	89	48
Familiar	51	27
Familiar with Martha Stewart product line		
Very Familiar	23	12
Somewhat Familiar	70	38
Familiar	51	27
Not Familiar	42	23
Purchase of Martha Stewart product		
Yes	74	40
No	112	60

Variable	<i>n</i>	%
Receive News		
Daily	91	49
Weekly	44	24
Monthly	20	11
Only Big News Stories	16	9
Never	15	8
Aware of Martha Stewart court case		
Very Aware	33	18
Somewhat Aware	89	48
Aware	61	33
Not Aware	3	2

Table 2

Paired Sample *t*-test Results Investigating the Level of Credibility Before the Martha Stewart Trial Versus After the Martha Stewart Trial.

Variable	N	Mean	SD	t-value	<i>p</i>
Pre-Trial Credibility	186	9.44	4.24	13.13	.000*
Post-Trial Credibility	186	6.17	3.59		

* = significant at $p \leq .05$

Table 3

Independent Sample *t*-test Results of Level of Post-Trial Credibility Between People Who Intend to Buy Martha Stewart Brand Products Versus People Who Do Not Intend to Buy Martha Stewart Brand Products.

Variable	N	Mean	SD	t-value	<i>p</i>
Intend to Purchase	127	6.61	3.87	-2.35	.020*
Do Not Intend to Purchase	59	5.20	3.78		

* = significant at $p \leq .05$

Discussion, Conclusions and Recommendations for Future Research

Discussion

Hypothesis 1 stated there is no significant difference in consumer perception of Martha Stewart's credibility before her trial versus after her trial. This hypothesis was rejected. The results indicate the level of credibility was significantly higher before her trial when compared to after her trial. These results support an earlier study by Louie & Obermiller (2002) who found that the perception of the event, in the Martha Stewart case the crime of conspiracy and lying to federal investigators, is related to the response of the consumer.

Hypothesis 2 stated there is no significant difference in the level of post-trial credibility between people who intend to buy a Martha Stewart brand product versus those people who indicated they are not at all likely to purchase a Martha Stewart brand product. This hypothesis was rejected at a significance level of $p \leq .020$. The results indicate the level of post-trial credibility between people who intend to buy a Martha Stewart brand product is higher than the post-trial credibility level of those people who do not intend to buy a Martha Stewart brand product. These results are supported by Lafferty et al. (2002); they relate corporate credibility directly to the purchase intentions of consumers. Also, this study supported a study by Goldberg and Hartwick (1990). Goldberg and Hartwick (1990) found that the reputation of an advertiser can influence their credibility.

These results reflect the loyalty of consumers to Martha Stewart. Consumers exhibit brand loyalty to the Martha Stewart product line. Consumers were able to decipher between negative information regarding Martha Stewart and the quality of the product line bearing her name. Daneshvary & Schwer (2000) identified brand endorsement by association as critical to the perception of credibility. If a credible and trustworthy association endorses a brand, consumers are more likely to associate credibility with the product. The consumers in this study also identified credibility as a factor in purchase decisions by exhibiting a positive relationship between credibility and purchase intentions.

Conclusions

The trial and conviction of Martha Stewart had a resounding impact on the Omnimedia Corporation. Martha Stewart went from television hostess, author and entertainer to defendant in her own conspiracy and lying to federal investigators trial. Martha Stewart was accused of covering up the sale of doomed stocks after receiving tips from her stockbroker. The selected sample used their personal opinion about Martha Stewart to make their assessment rather than the consummate truth. The sample reported having the intention to continue buying products from her line.

The findings of this study are an extension of the concept of consumer sophistication. Consumers are taking other factors, such as credibility, into consideration when making purchase decisions. Consumers are now interested in the entire company and production rather than just the product. Consumer sophistication benefits consumers because corporations are now realizing they cannot take advantage of consumers by lying and hiding facts. Corporations are taking notice of consumer sophistication and acting accordingly. In general, corporations strive to be open about business deals through the use of annual reports. Corporations are now more likely to finance a campaign to improve their image than a celebrity endorsement campaign (Lafferty et al., 2002). In the case of Martha Stewart Living Omnimedia, the corporation is now earmarking funds to clean the image of Martha Stewart (MSLO, 2004).

However, the results of the study also reinforce consumer loyalty. Consumers stay loyal to brands they have trusted previously. Consumers tend to attach emotion to certain products (Yu & Dean, 2001). A consumer may form an emotional attachment to a product, which increases the purchase intention for the next purchase decision.

Martha Stewart's expertise (or perceived expertise) is her greatest asset in the retention of consumers. Consumers still perceive Martha Stewart as an expert in home décor, entertaining, etc. and therefore consumers continue to buy her product lines. Consumers may not, for example, take stock trading advice from her because she is now thought of as a criminal due to her conviction. However, conspiracy and lying to federal investigators is not at all related to the area that first made Martha Stewart a household name. Therefore, while her credibility level lowered due to the trial, her customer base is still prominent.

Martha Stewart Living Omnimedia is continually reinventing itself after the trial. While the corporation experienced a steady decline in sales, television programming, and subscriptions during the trial of Martha Stewart, the corporation is now preparing for a new image. Stock sales have increased since Martha Stewart was released from prison in March 2005. The corporation included a series of "forward-looking statements" in the 2003 Annual Report (MSLO, 2004). These statements were not based on history but rather a mission for the future of the business. One mission is to acquire more sponsorship or to get back the sponsors that rescinded their contract when Martha Stewart was first convicted in March 2004.

Summary

The purpose of this study was to determine, from a consumer's perspective, if the conviction of Martha Stewart had an economic impact on the Omnimedia Corporation. Specifically, the purpose was to investigate a consumer's view of Martha Stewart as a credible spokesperson and if her credibility has changed their intention to purchase her product line. Survey data was collected from 186 respondents. The results were analyzed using a paired sample *t*-test and a 2 independent samples *t*-test. The study compared the level of credibility before and after the trial and also compared the level of post-trial credibility of consumers who intend to buy a Martha Stewart brand product versus those who do not intend to buy a Martha Stewart brand product. Both hypotheses were found significant. The level of credibility was lower after the trial as compared to before the trial. The level of post-trial credibility was lower when people indicated they do not at all intend to purchase a Martha Stewart brand product versus the people indicating they intend to buy a Martha Stewart brand product. Therefore, people indicating they intend to purchase a Martha Stewart brand product had also indicated a high level of post-trial credibility.

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Endnotes

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