# Valued measure of success

Managing brands is no easy task but a new ranking brings science to a black art, writes **John Willman**

Brands are among a business's most valuable assets - and are the most valuable for some. Yet they are hard to create, can prove ephemeral and are easily destroyed. The management of these intangible assets is thus a vital element in business success, a fact increasingly understood by companies around the world.

But effective brand management cannot be half-hearted. Businesses that wish to maximise brand value must devise long-term strategies to achieve that target and structure their organisations appropriately. They must also reward their executives for success in implementing their strategies, making brand value a key performance indicator.

Without a robust measurement of that value, the management of brands would remain an art rather than a science, however. Various valuation methodologies are now available from branding consultancies - the best known is from Interbrand, the Omnicom subsidiary that compiles the league table of top global brands published annually in BusinessWeek. Now Millward Brown Optimor, part of the WPP marketing services group, has entered the field with a new approach that has produced its BrandZ Top 100, unveiled in this Special Report *(see rankings on pages 2 and 3)*.

The importance of the role of intangibles in business valuation has been driven home by the growth in merger and acquisition activity. Shareholders naturally want more than hunches in assessing the merits of a bid and the claims of incumbent management about the value of their brands.

Studies have also shown that businesses with strong brands consistently outperform their relevant stock market indices around the world. Those with weak brands usually underperform. This is true not only for consumer businesses, but also those that sell to other businesses.

**AT A GLANCE**

The FT, with Millward Brown Optimor and Euromonitor International, the consumer market intelligence company, unveil the BrandZ Top 100 ranking, an innovative measurement of the value of global brands.

The key features:

- **BRAND CONTRIBUTION:** Establishes what proportion of intangible earnings from the branded businesses is driven by the brand alone
- **BRAND MOMENTUM:** A unique feature that projects the brand's earnings forward, based on forecast growth and risk expectations
- **SECTORS DISSECTED:** From apparel to technology, the ranking assesses the big names and many more beyond the Top 100.

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The annual Interbrand league table shows some eye-watering valuations. Coca-Cola's brands again topped last year's rankings with a value of $67.5bn and Microsoft lies in second place at $59.9bn. Its top 100 is stuffed with familiar consumer brands, such as Disney and McDonald's, as well as business-to-business brands such as Cisco and Oracle. In some cases, the 2005 brand value represented more than hah" the market capitalisation of the parent company - for Coca-Cola and McDonald's, for example.

BrandZ's global top 100 most valuable brands table shares many of the same names, putting Microsoft top with a brand value of $62bn. However, there are widely differing values put on some of the best-known brands: BrandZ puts IBM in eighth place, for example, valuing the brand at just $36.1bn, while Interbrand ranks it third at a much higher $53.4bn; on the other hand, it rates Marlboro more highly at $38.5bn, fifth highest, while Interbrand puts the world's biggest cigarette brand in 10th position, worth $21.2bn.

But there are some bigger surprises. BrandZ includes China Mobile in fourth place with a brand value of $39.2bn, while Japan's NTT DoCoMo is at number 23, worth $19.5bn, and Tesco, the British supermarket group, is valued at $15.5bn as a brand, putting it in 30th place. None of these is in Interbrand's top 100 which does, however, include names such as Tiffany & Co and Hertz that do not make the BrandZ Top 100.

Differences in ranking and brand value in some cases are a function of the passage of time. Interbrand's table last summer put Google in 38th place, with a brand value of $8.5bn. BrandZ has it in seventh place this year, with a brand value of $37.4bn that must reflect the internet search business's continuing explosive growth.

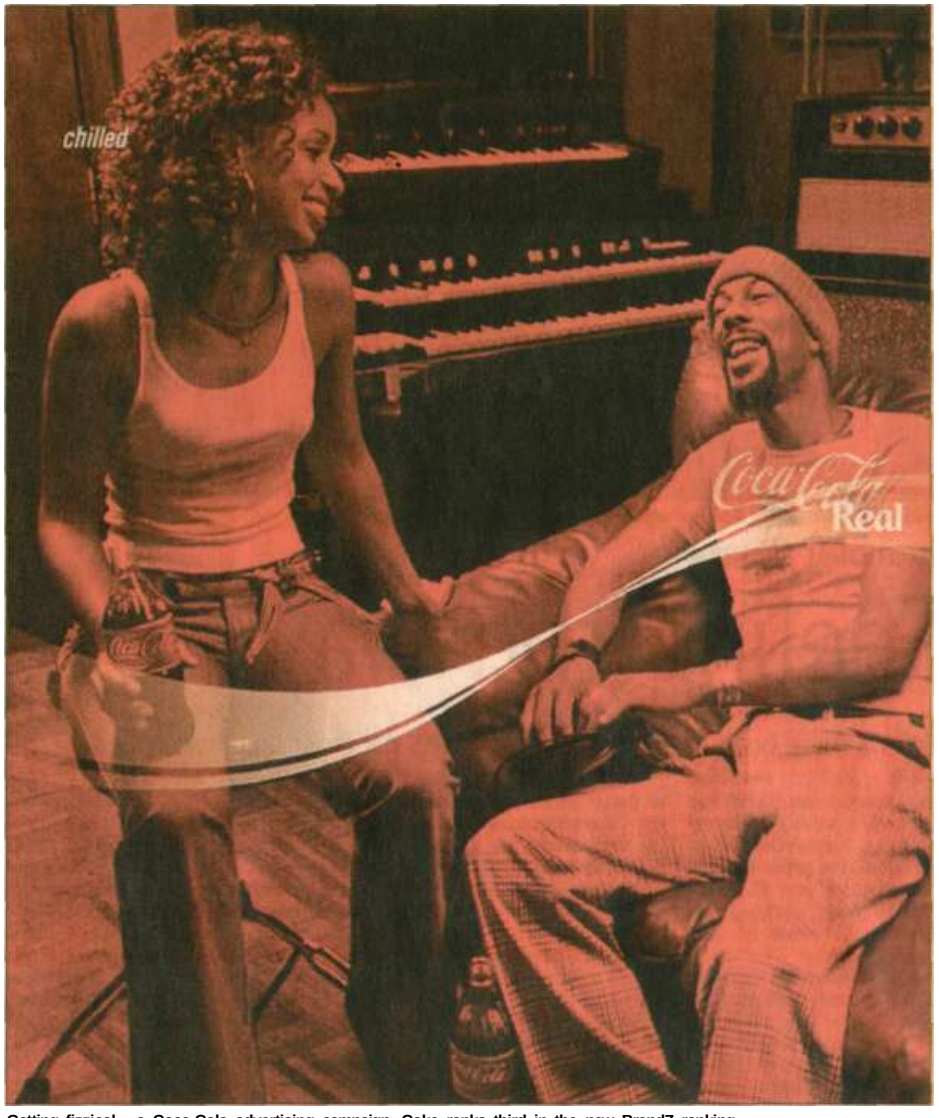
But there are also significant differences in the methodologies adopted by the two consultancies. Both calculate the present value of the brand's projected future earnings - as do other consultants in the field. But their scope and the source of the information used differ.

For example, Interbrand draws its league table from publicly available information and excludes brands that do not derive a significant share of their earnings outside the home country. It draws up its rankings in a two-stage process: first using financial analysis to assess how much a brand can be expected to earn over the next five years, drawing on analysts' reports; then applying weighting and discount factors - based on expert opinion - to reflect the risk profile of those earnings.

The BrandZ Top 100 draws on its database of brand equity, which it says is the world's largest. It has consumer data collected in more than 30 countries since 1998 and this is used to establish brand value on the basis of consumer loyalty.

This leads to a three-stage process: intangible corporate earnings are allocated to each brand in each country; then BrandZ data is used to calculate what share of those earnings is based on consumer loyalty; finally, BrandZ data is also used in calculating a multiple reflecting each brand's growth and risk potential.

"The crucial difference is that in stages two and three, consumer research is driving the metrics," says Andy Fair, chief research officer at Millward Brown Optimor. "Our BrandZ data have been shown to have predictive value in terms of growth in market share."




Getting fizzical - a Coca-Cola advertising campaign. Coke ranks third in the new BrandZ ranking

The comprehensive BrandZ database allows the company to explore particular regions and sectors, including strong domestic brands that would not make a global ranking. China Mobile's ranking at number four globally, for example, reflects its position in a market growing very fast.

It also allows inclusion of retailers such as Wal-Mart and Tesco to measure the strength of their own-label products as against leading consumer brands. In some cases, consumer loyalty to retailers' brands is greater than for the branded products they sell.

Since this is BrandZ's first year of publication, it is not yet possible to analyse changes over time. Interbrand's top 100 shows, for example, how the success of the iPod digital music player has lifted Apple Computer - languishing a few years ago - to 41st place in last year's survey, with a brand value of $8bn. In the inaugural BrandZ ranking, Apple is in 29th place, with a brand value of $16bn.

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# Valuable tool for business success

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Losers in last year's Interbrand ranking included Volkswagen, the German carmaker, and Levi Strauss, producer of the eponymous jeans - losing 12 and 11 per cent of their brand value respectively since the previous year. VW is 71st in the BrandZ ranking while Levi's falls outside the BrandZ top 100. It ranks llth in BrandZ's top 15 most valuable apparel brands

The benefits of focusing on brand management can be seen from the upward trajectory of Samsung. The Korean consumer electronics and home appliances group has transformed itself over the last decade from a commodity electronics manufacturer to a strongly branded business selling up-market mobile telephones and flat-screen televisions.

And while it has gained brand value, Sony of Japan has lost ground with a fragmented brand strategy and *a* dearth of successful innovations to rival the likes of Apple's iPod.

In the BrandZ rankings, Samsung is 43rd with a brand value of $12bn, while Sony is in 63rd place with $9.4bn. The Interbrand league table tells a similar story, with Samsung at 20th and a brand value of $15bn and Sony in 28th position with $10.8bn.

"Brand valuation has been a very important strategic tool for Samsung," says Jez Frampton, chief executive of Interbrand in London. "It recognised there was a large intangible gap between its valuation and Sony's - one that was due to Sony's brand value."

Lauren Henderson of FutureBrand, part of the InterPublic marketing services group, says: "The brand affects company performance at every step in the business's value chain. A strong brand generates revenue and sustains earnings by encouraging customers to purchase from that company again and again, at a premium price.

"The gap between companies with strong brands and weak brands is even more remarkable in a recession - people go with brands they trust. Brands help companies weather the bad times."

As in any walk of life - sucji as in the performance of schools or hospitals - rankings will inevitably provoke as much controversy as agreement. As a way of highlighting the importance of brand value, league tables will continue to fascinate business executives and the wider investment community.

Fonte: Financial Times, USA, april 3 2006. Special Report, p. 3.