Strong names beat the market
Salamander Davoudi

Branding is becoming ever more important as companies face an increasingly global and competitive marketplace.

Millward Brown Optimor's third annual ranking of the world's top 100 most powerful brands is based partly on WPP's Brandz database, which covers more than 50,000 of them. It found that the world's top 100 brands have a total value of about $1,900bn, equivalent to the GDP of Italy.
"Brand is becoming more and more important," says Joanna Seddon, chief executive of Millward Brown Optimor. "Technology brands have done very well this year, Google and Apple are in the top 10. For the second year running Google is the world's most valuable brand.

"Some of the world's most successful companies are successful because they built their brand along with the business," she adds. "Orange is a good example of that. They invested in the brand before they even had a business."
But Millward Brown Optimor has also been measuring the effects of brand on stock market performance - an area where little research has been done. It has created a "Brandz" portfolio incorporating all the brands in its top 100 survey that it was possible to invest in.

The brands had to be public limited companies with liquid stock. The portfolio returns were measured in US dollars so the results are subject to currency effects.

The Brandz portfolio is benchmarked against the S&P 500 as this exchange mirrors its composition most closely - large and small caps, industry and inter-national exposure.

"We didn't use the FTSE, as eight of the world's top brands are in the US so it would be skewed by currency effects," says Malte Nuhn, senior consultant at Millward Brown Optimor.

Not all companies received equal investment at the onset of the portfolio. There was a higher investment in companies with stronger brands and those whose branded businesses were a larger part of the group.

Millward Brown also isolated the stronger brands into a separate portfolio - those that have a brand contribution above 30 per cent (in the rankings the brand contributions are indexed but in fact they are percentages). This "Strong Brands" portfolio incorporates around two-thirds of the world's top 100 brands.

On April 3, the S&P had risen 3 per cent over 12 months, the Brandz Top 100 portfolio was up 15 per cent and the strong brands portfolio was up 22 per cent.

On December 31 last year the S&P was up 11 per cent, the Brandz Top 100 portfolio was up 25 per cent and the strong brands portfolio was up 34 per cent.

The Millward Brown study showed that products and companies with strong brand value enjoyed markedly stronger returns in good times and also during the recent market downturn.

Hayes Roth, chief marketing officer of Landor Associates, the consultancy, says: "There is remarkable consistency between strong brand value and stock performance."

"Brand power can be significantly linked to stock market strength, adding on average - and depending on category - more than 25 per cent market value to an organisation."

Ms Seddon believes that the drivers behind this outperformance include the fact that strong brands can more readily increase their revenues and market share. This is because people are more attracted to the products and are more likely to be loyal to them.

"You also may have the possibility of achieving a price premium," adds Mr Nuhn. "Apple's products sell for roughly 20 per cent more than equivalents from rivals, which will affect margins."

But there are plenty of examples of strong brands hitting nasty bumps in the road.

"Look at Starbucks. You can do a world class job of building brands and do every-thing right but when you rapidly expand your global footprint it is hard to maintain what made the brand great in the first place. They over-extended themselves," says Mr Roth.

"McDonald's suffered with the Americanisation of the world but they went back and reinvented themselves and they have moved up the list," he adds.

Studies have shown that a strong brand affects not only demand but also the supply chain. For example, if you have a strong brand such as Goldman Sachs or Microsoft it is easier to attract top graduates from business schools.

"You can pay them less and they will stay longer, you can get better terms with suppliers. If you have a strong brand and invest in new products or markets you can get somebody else to take your investment risk," says Ms Seddon.

There are no global brand funds to date, although Millward Brown Optimor says its study has generated a lot of interest from the fund management community who have mooted the idea of creating a global brand fund where they would use the data as a basis for stock picking.

Mr Roth says: "Look at the Optimor study. If you had picked the top five you would have done OK. Of the top 100 brands there is a lot of jockeying up and down because there are other things that affect performance."

"But strong brands will see you through and leave you in a far better place. A global brand fund would be a long-haul investment, it ought to look like a blue chip fund. It would be terrific to see. There is certainly a lot of interest."

US brands still rule the roost as China marches on

The strength of US brands is underlined by the North American Top 10, which shares eight brands with the top 10 in the global rankings. Only the two leading brands in Asia and Europe, China Mobile and Nokia respectively, make it into the global top 10.

The two extra brands in the North American ranking are Wal-Mart, which fell out of the global top 10 but is still 13th overall, and Bank of America, which slipped one place in the Top 100, to 14th, but had the consolation of seeing its main rival Citi fall seven places, to 15th.

China Mobile and the three Chinese banks in the Asian Top 10 - ICBC, China Construction Bank and Bank of China - all achieved big rises in their brand value, whereas the gains at the other Asian companies were much more modest, and Samsung even suffered a 7 per cent fall. The disparity emphasises the stronger dynamics of mainland China as compared with Japan, South Korea and Hong Kong.
In Europe, Vodafone's 75 per cent rise in brand value, to $37bn, takes it to second place in the regional ranking and up 11 places to 11th in the global 100. Porsche's 62 per cent surge in brand value takes it to sixth spot in the regional top 10, and 12 places up the global top 100 to 28th.
Tesco, up seven places to 25th in the top 100, is the fifth most powerful European brand with a value of $23.2bn, and second strongest UK brand. Two other retailers, Marks & Spencer and Asda, come fourth and ninth respectively in the UK ranking.

Disponível em: <http://www.ft.com>. Acesso em 24/4/2008.