

Brand Valuation

Separating Fundamentals from Speculation

by

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The world has changed from a safe to an unsafe place. The economy has experienced wild fluctuations. People are skeptical. Hopes, dreams, promises and wide-eyed optimism don't work anymore. Caveat emptor is the new phrase for everybody who buys soap to homes. Speculation runs rampant today.

Brand Merchants promise miracles. Advertising agencies profit from the creation of brands, while investment bankers and management consultants profit from the sale of brands and branded businesses. **Brand Merchants** embrace a philosophy that brands will modernize the image of a company, improve moral and margins and increase sales. And they promise all this without measuring over time the **fundamentals** of the brands they are hawking. The **Brand Merchants** are out of sync with the changing times.

Who would have imagined Gold at \$2000¹ an ounce with today's futures closing around \$1000 per ounce? Only ten years ago gold was at \$250 per ounce? Who could have dreamed that oil would sell for \$150² a barrel? What about global food prices that have risen 77%³ since 2005? The price of wheat has doubled in the last year alone. As for the housing market, the result of the sub prime mortgage crises is that Americans will default on \$316,000,000,000 of home mortgages this year alone.⁴

There appears to be a growing dichotomy between American's perspectives on market fundamentals and market speculation. For example, the number of Americans who declared bankruptcy last year increased by 40%,⁵ while 55%⁶ of Americans still believe the value of their home is growing. These are just some of the examples of major forces creating speculation within the global economy.

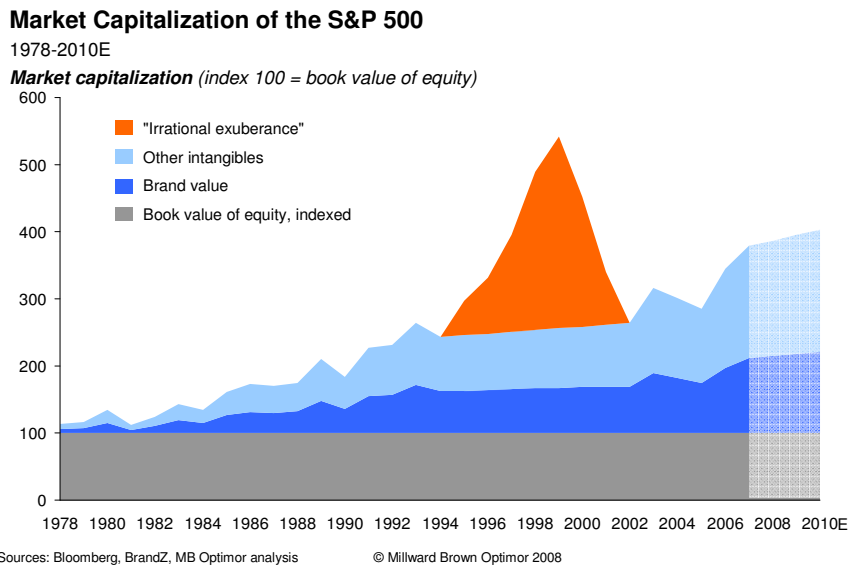
For the past fifteen years Young and Rubicam's BrandAsset® Valuator, (BAV) which is both a Consultancy and Research group, have been measuring the **fundamentals** of brands globally. In our data base, which is the largest in the world, we have over 35,000 brands against over 75 brand metrics. Working with professors from Columbia Business School and the University of Washington, BAV's efforts have produced the most stable and predicted financial model for valuing brands and branded businesses. Based on our research over the past few years, we have witnessed a growing divergence between **brand fundamentals** and **brand valuation**, or a growth in **brand speculation**.

The result of our work at Young and Rubicam, we at BrandAsset® Consulting continuously separate the fundamentals from the speculative hype. We identify the brand dimensions and brand drivers that create growth, as well as the marketing activities that diminish it.

More and more is being published on brands’ share of market value which in turn fuels the **Brand Merchants** story. The chart below, from Millward Brown Research shows that brands now account for 30% of market capitalization of the S&P 500. It also shows the **growing portion** of brand as a percent of market capitalization.



Brand is a critical driver of shareholder value: Brand currently accounts for 30% of market capitalization



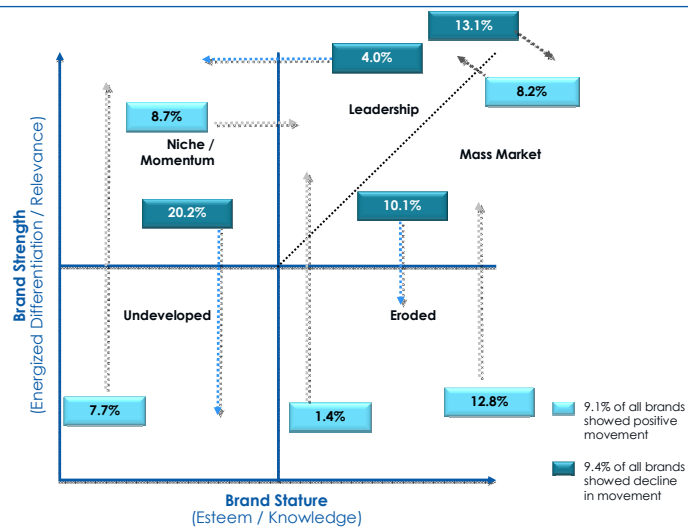
This growing importance in brand valuation, however, does not conform to the brand fundamentals that we have been measuring. First, it is worthwhile to look at many of the statistic tracks or footprints that brands leave behind as they move.

Brand Footprints

Statistical Footprint	% change in score (2500 brands) 10+ years
Brand Awareness	-20%
Brand Esteem	-12%
Trust	-40%
Brand Quality	-24%

The next chart examines the change in the two most important summary brand metrics. Over the last 5 years, there has been very little movement in **Brand Strength** which controls future growth and **Brand Stature** which, in turn, drives current performance. Specifically, over 70% of the brand do not grow or move. Those 30% of brands that did move over the last 5 years were as likely to decline as to grow. Interestingly, when it comes to brands that are transactions/commodity type, there appears to be more brands recovering than declining. At the same time, brands that are in the momentum space are twice as likely to decline as to recover.

Those 30% of Brands Who Move Are as Likely to Decline as to Increase

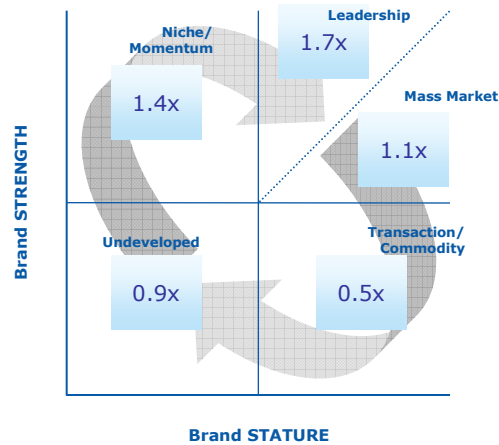


It is not enough to prove that brands are mostly stagnant in each of the quadrants on the above chart. We need to establish that brands' position in the quadrants strongly relates to valuation.

The chart below shows how intangible value relates to each quadrant. Based on over 1000 data points for mono brands over a ten year period, each quadrant has an average intangible value per dollar of sale

Power Grid Quadrant Explains how intangible value relates to Strength of a brand

Multiple of Intangible value per dollar of sale



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How is it possible that brands can be a growing portion of market capital and at the same time, most brands are not growing? There are two possibilities.

One: an increasingly smaller number of brands account for a significantly greater share of market capitalization. For example, 50% of Google valuation is attributable to the value of the company. But how many Googles are there in the market place?

Two: speculation is creating the gap between overall brand fundamentals and the growing importance of brand in the total valuation of a company--a much more likely scenario. We are also seeing the discrepancy between brand fundamentals and brand value across many economic sectors.

At Young and Rubicam, we build assessments and strategy based on Brand Fundamentals. BrandAsset® Valuator, (BAV)'s enormous data base and predictive models are the foundation that guide this process, Together, they remove the hype, false hopes and dreams that are the basis of speculation in the economy today.

¹ "\$2,000 an ounce gold is in the cards" by MarketWatch March 18 2008;
<http://www.marketwatch.com/news/story/gold-2000-ounce-horizon/story.aspx?guid=%7B301FED8C-A4AA-4E26-99F2-1FF9887191E3%7D>

² "New 'super-spike' might mean \$200 a barrel oil" By Steve Gelsi, MarketWatch, March 7, 2008;
<http://www.marketwatch.com/news/story/goldman-sachs-raises-possibility-200/story.aspx?guid=%7B4B702F7F-41F8-45F0-A133-630F12F2C764%7D>

³ "Harper's Index", Harper's Magazine, March 2008

⁴ "Harper's Index", Harper's Magazine, March 2008

⁵ "Harper's Index", Harper's Magazine, April 2008

⁶ "Harper's Index", Harper's Magazine, April 2008