

BRANDING

BY THE NUMBERS

Business boils down to numbers. We count inventory. Book fees. Record earnings. Measure performance. Project sales figures. Take head counts. The list goes on and on. Yet one area of business remains elusive to the application of numbers: branding.

It's really too bad that branding, like much of marketing, is still seen by many corporate executives as a fuzzy discipline. While other corporate functions, such as sales, finance, operations, R&D, even HR and administration, are managed by numbers, branding is perceived to be too slippery for figures to stick. This is, happily, not entirely true.

True branding is largely qualitative, defined by attributes, perceptions, and preferences, as opposed to product specs, accounts receivable, payroll, and the like, which are purely quantitative. But branding's chief indicators not only can be measured, they should be measured. This argument really has no serious rebuttal. What is worthy of debate, however, is which methodologies produce appropriate brand measures, and subsequently, meaningful indicators of branding success.

CROSSING THE TANGIBLE/INTANGIBLE DIVIDE

America's accounting practices, guided by accounting standards issued by the Financial Accounting Standards Board (FASB), may currently allow for a higher degree of creativity when booking earnings than many shareholders would like. But one aspect of financial accounting is crystal-clear and uncontroversial: tangible assets are put on the balance sheet, and intangible assets are not.* For those non-numbers folks out there, a quick primer: Tangible assets are simply those things you could literally stick a price tag on, such as inventory, property, facilities, equipment, and, of course, good ol' cash. Intangibles, on the other hand, are assets of indisputable worth, but of disputable value. Intangible assets include good will, patents, license agreements, management expertise, and trademarks (the legal indicator that a brand is present). Intangibles are worth something; it's just hard to get people to agree precisely how much they're worth.

*Recently, FASB has issued FASB rules 141 and 142 which allow companies, under very defined circumstances, to carry—sometimes even indefinitely—intangible assets on their books. This is a big step and good news for companies that have historically had to write off good will and other intangible assets post-acquisition.

MAKING THE CASE FOR VALUATION

Interbrand in London has been pursuing a standard method for brand valuation for years. They claim that brand value represents fully one-third of the market capitalization of the world's 100 most valuable global brands. They're certainly not alone in ascribing so much weight to the power of brand on valuation. Corporate Branding, LLC, believes branding is responsible for 5% to 7% of the change in any given company's stock price. At Prophet Brand Strategy, another consultancy, David Aaker claims that for every 1% increase in brand equity, the shareholder value of a company also increases 1%. But perhaps most convincing is the seminal study "The Financial Information Content of Perceived Quality," (*Journal of Marketing Research*, May 1994), conducted by Professors Aaker and Jacobson (of Berkeley and the University of Washington, respectively), which proved positive relationships between brand awareness and perceptions of quality, and between perceptions of quality and stock return.

Consultants and academics alike make compelling cases for the positive influence a strong brand can have on business performance. Still, most executives are not satisfied. Old habits and perspectives die hard, sustaining the belief that if a brand's value could be measured, decisions about what to spend on supporting it would be much easier.

YOU WANT A NUMBER? WE'LL GIVE YOU A NUMBER

Knowing that client executives want numbers has motivated several consultancies to invent ways of providing them. Chief among them is London-based Interbrand. They have made famous (at least in brand and marketing circles) their publication of the "World's Most Valuable Brands." First published in London's *Financial Times* and now published in *BusinessWeek*, this list places a precise dollar figure on the world's top 100 brands owned by public companies. Here's how they torture a figure out of the financial information available on public companies.

Step 1. Interbrand teams with Citibank to figure out the future discounted earnings of a firm (this is, of course, classic valuation).

Step 2. They subtract taxes, cost of capital, and operating expenses. They attribute the remainder to intangible earnings.

Step 3. The brand valuation experts then determine how much of these intangible earnings are attributable to the brand. At this point, the skeptic in you may be aroused, and rightly so. This is the tricky part. So many factors play a role in consumers' and customers' purchase decisions that trying to isolate the percentage of that decision that is influenced by the brand alone is...well, difficult. Still, Interbrand does it. They use focus groups, among other means, to tease apart the purchase drivers and figure out a weighting for the brand. They then use this percentage to calculate "brand earnings."

Step 4. Interbrand uses the risk-free rate of capital (again, a classic valuation technique) to discount the forecasted brand earnings. They then tweak this value based on a subject assessment of the brand's unique brand strength, based on the brand's market, stability, leadership, support, trend, geography, and protection. And there you have it, a value for the brand. (See table at left.)

The Global Brand Scoreboard

RANK	2001 BRAND VALUE \$billions	2000 BRAND VALUE \$billions	PERCENT CHANGE
1 Coca-Cola	68.95	72.54	-5
2 Microsoft	65.07	70.20	-7
3 IBM	52.75	53.18	-1
4 GE	42.40	38.13	11
5 Nokia	35.04	38.53	-9
6 Intel	34.67	39.05	-11
7 Disney	32.59	33.55	-3
8 Ford	30.09	36.37	-17
9 McDonald's	25.29	27.86	-9
10 AT&T	22.83	25.55	-11

Source: *BusinessWeek*, August 6, 2001

Source: "Brand Power," *Shareholder Value*, March/April 2002

Another huge firm, global advertising agency Young & Rubicam, has its own proprietary methodology for helping companies value their brands. Theirs is called the BrandAsset® Valuator. As Y&R states, "Young & Rubicam has invested over \$70 million in building the most comprehensive global database of consumer perceptions on brands. BrandAsset Valuator is Young & Rubicam's proprietary tool for building and managing brands, and one of the most extensive research programs on branding ever taken." (www.yr.com) They employ customer surveys and use regression analysis to find correlations between indicators, such as differentiation, relevance, esteem, and knowledge. With this data they combine scores of brand strength (differentiation + relevance) and brand stature (esteem + knowledge) to arrive at an asset value for the brand.

WHAT'S IT REALLY WORTH TO YOU?

As you might have gleaned from the descriptions of Interbrand's and Y&R's methodologies, they are not simple calculations you can scribble out on a notepad. They are complex, time-intensive, and very, very expensive. So it's no surprise that the companies on their lists are also the biggest companies on the planet. You may well wonder where this leaves you. The great news is that even the smallest of companies can do a lot to gauge the strength of their brand(s). If you do anything at all, it should be this: a periodic brand tracking study. Conducted semiannually or annually, the brand tracking study monitors your brand's awareness, relevance, and attributes among constituencies within your competitive context. It is a highly cost-effective way to determine how top-of-mind your brand is among customers, how likely they are to select your brand, and why or why not. Best yet, you can track these ratings over time, establishing time-series data that will enable you to make inferences between changes in brand management and business performance. And that is pure market intelligence well worth the modest amount of money required.

LEVERAGE THE VALUE YOU ALREADY HAVE

Brands have value. There is really no quibbling over this assertion. After all, why do people readily pay a price premium for a brand name instead of an identical, and less expensive, generic product? Why do strong brands survive economic downturns better than weak brands? Why is demand for brands more price inelastic? Why do powerful brands enjoy greater channel clout and more profitable partnership deals? The answer: human nature likes the known, the trusted, the sexy, the popular, the leader, the proven. Brands provide the emotional component of our consumer psyche. The other side of our brains, the rational side, finds reassurance in the quantifiable certainty of things. This craving—especially in management circles—for numbers to justify and direct spending is natural, but also naturally at odds with the personal motivations that drive many consumer and customer buying decisions. But this is precisely where and why branding exists—to manage the expectation, perceptions, and quirks of why people buy what they do. Understanding this concept of inherent value is key to getting comfortable with brand spending and management. For whether by design or default, your company has a brand. Making the leap from treating it as an expense to managing it as asset is one of the most valuable things you can do for your company—no matter how you measure it.