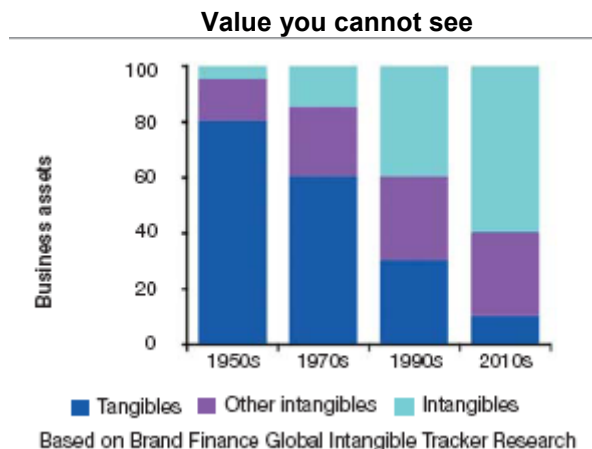


Brands Can Create Value

A Brand's conventionally close association with sales, advertising & marketing are such that many people are unable to see the potential it has as a value creating asset. Ruchi Gunewardene, Managing Director of Brand Finance Lanka dispels this myth surrounding brands.

Context

Research conducted by Brand Finance plc through its Global Intangible Finance Tracker (which tracks the performance of stock exchanges across 53 countries, which includes 37,000 companies) shows the dependence of intangible assets to the value creating process. The changes that have occurred in the value creating process over the last 50 years is reflected in the following chart :



The chart depicts what a dramatic shift there has been over the years in the source of value creation – from tangible assets (such as property, plant, equipment and inventory) to intangible assets (such as brands, stakeholder relationships, IP, skilled employees, corporate culture etc) that don't show up in the balance sheets.

The brand plays a singularly important role within the intangible assets by capturing all of the reputational, relationship and intellectual capital that resides with different stakeholders of the business. The work that we have conducted over the last 8 years in Sri Lanka highlights that many businesses have not been able to actively link these components of value creation to the brand and are thus missing out on the potential to add more value to their business.

CEO as the catalyst

From a Sri Lankan business context, CEO's need to make this shift in mindset in terms of the levers that they could use to create value. Managing the intangible

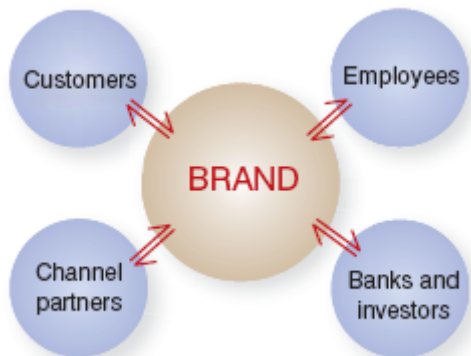
assets still remains as hunches, and guess work, deficient of a disciplined framework which the Board or senior management can access and debate in an objective manner. This is due to the belief that intangibles still remain an unquantifiable entity. Which it is not. Whilst senior management would intuitively realize this, they do not appreciate the financial rewards of getting this right, only because it involves looking at a very different set of matrixes which are not currently found in the standard financial statements.

Yet, in today's environment, brand and intangible values cannot be left unaccounted as they profoundly bear upon the very destiny and sustainability of a firm.

Why does a brand valuation count?

The brand is the single unbroken thread which runs through all functions of the business and connects it with the many stakeholders. Through this link, there is an economic reward or penalty that every firm enjoys or pays through the manner in which it manages its brand.

The link that binds the business



Brand equity or the strength of the relationship that the brand has with its stakeholders can be measured through market research. The stronger that relationship or bond, greater the loyalty and propensity to purchase which leads to commanding a premium; thus, greater is the ability for the brand to earn cash into the business. This translates into a higher value for that brand and therefore to the business.

The brand valuation process (which is now established as an ISO standard) is able to turn what used to be an “immeasurable” intangible asset into a financial number. This has brought a new dimension into the way businesses can monitor their performance. Undertaking a valuation enables management to take appropriate actions to enhance its value over time and also hold employees accountable to increasing value, whilst penalizing or avoiding those actions that destroy value.

A brand valuation unearths the upswing that can be generated, which would focus managements attention, whilst identifying the value destroying areas, which would steer management away.

The challenge of managing brands - For Value

There are several issues that surface in managing brands for value.

Most managers “feel” they need to act on brands and intangible assets, and many have an intuitive sense of “what” companies need to do to leverage value from these potential assets. But, because there is a lack of quantification, it drifts into the area of “gut feel”. In the modern business world this is unacceptable and Boards should neither tolerate this type of discussion nor depend on them.

Secondly, there is greater focus on generating short term results or just fire fighting rather than taking a long term view for value generation. As a result investments are directed at generating short term solutions which do not address the core underlying issues or opportunities of creating value. As a result organizations merely drift along without tackling the core value creating levers that are at their disposal.

Where organizations need to get to is, to find the balance of delivering today whilst creating value for tomorrow. However, to do so, it must have carried out an objective analysis of where the most value reside and where value is being destroyed and, a road map which sets out how this value can be captured by the business.

Establishing a value based marketing approach

In order to move into such a system, an organization must have an external perspective on the value drivers of the business and an internal analysis of the performance of products/services, brands/sub brands, customer segments, key accounts/channels etc. By breaking down the consolidated financial information into relevant segments and through appropriate valuations, the company is able to better identify where value is being created and where it is being destroyed.

This segmental approach to analyzing the brand and the business enables us to carry out the following :

Context : A clear, coherent definition and articulation of the brand and the role the brand can play within the business.

View : Have a clear view of which products/services, brands/sub brands, customer segments, key accounts/channels are generating economic profit or loss and the reasons behind that.

Analysis : Which of these factors are performing as per market opportunities on a defined set of parameters to assess return on investments.

Strategic scenarios : Which of the options provide the greatest return on investment with the right resource allocation.

Through the use of quantitative market research the value uplift can be established and the impact this would have on brand value creation can be estimated. It is this rigour of analysis and accountability through quantifiable numbers which turns “marketing” from being a “gut feel” or communication exercise, to that of driving financial performance.

Marketing’s inability to be accepted in Board rooms, is due to this change in orientation that is sorely sought, and unless marketers respond to this call of strategic analysis coupled with greater accountability through numeric assessment with a financial outcome it is never going to be seriously considered.

However, it is incumbent on the Board and senior management to also understand this and to create an environment which demands such a process be followed within their organizations.

Where it should and can be applied

Another common myth is that marketing and branding is only relevant to fast moving consumer goods (FMCG) brands or customer facing brands. Nothing can be further from the truth. There is a huge amount of untapped value that reside in many of Sri Lanka’s services and corporate brands when looked at from this value creating perspective. Where there is reputation, relationships, and intellectual capital, there are opportunities to create more intangible value and the challenge is to establish the granular details of these in each individual business.

The corporate brand usually does not have a custodian and thereby responsibility lies with the CEO, who has little time to consider the role that the brand can play in enhancing value. He would invariably be preoccupied with new business initiatives, ensuring smooth operations and very often short term growth of the business. Which means the opportunities to leverage the brand is often neglected, and by default it is left to manage itself.

However, it is those export businesses, corporate brands which represent several companies under them, or the business to business brands which have the highest potential to generate value through the adoption of a strategic value based marketing approach.

New environment requires new dynamics of operating



As businesses strive to compete and set themselves up for the new challenges facing the country, it is those that pro actively adapt to the changing ways of managing value that will thrive and succeed.

To do so, they need to adopt a different set of numbers to what they have been used to. And that is to quantify their intangible assets and understand the value uplift potential. This will determine the new opportunities that each business faces.

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Brand Finance is an independent consultancy focused on the management and valuation of brands and of branded businesses. Since 1996, Brand Finance has performed hundreds of brand valuations with an aggregate value of over \$150 billion. Brand Finance is headquartered in London and has offices in Toronto, São Paulo, Madrid, Amsterdam, Paris, Bangalore, Colombo, Singapore, Hong Kong and Sydney.

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