



UNITED NATIONS  
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS  
STATISTICS DIVISION

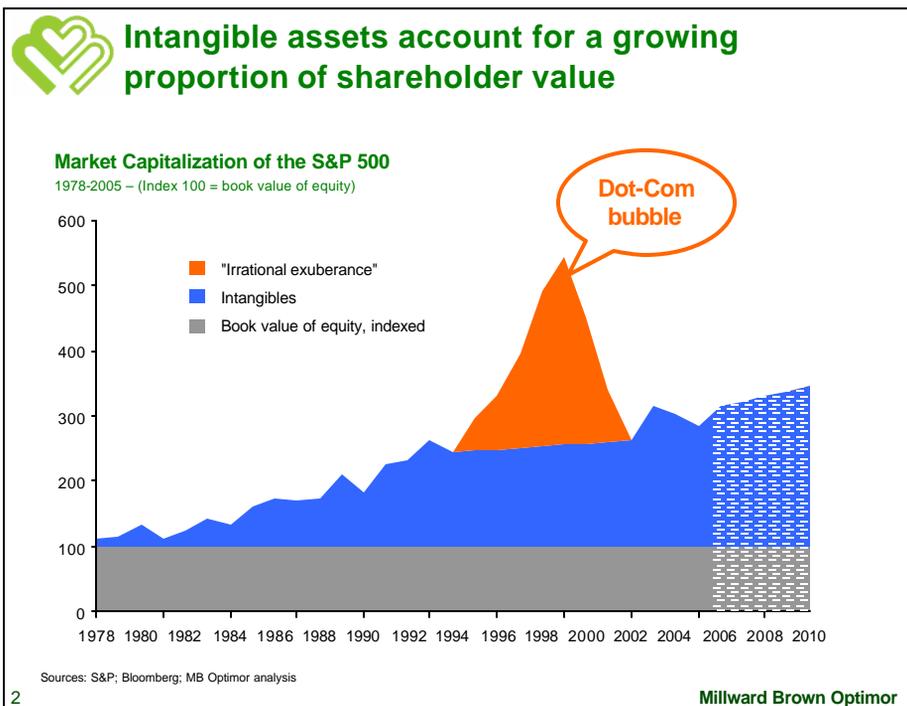
IA/13  
14 July 2006

**Seminar  
Creation, Recognition and Valuation  
of  
Intellectual Assets**

**New York, 13 – 14 July 2006**  
United Nations, Conference room 6

**Brands and marketing investments**

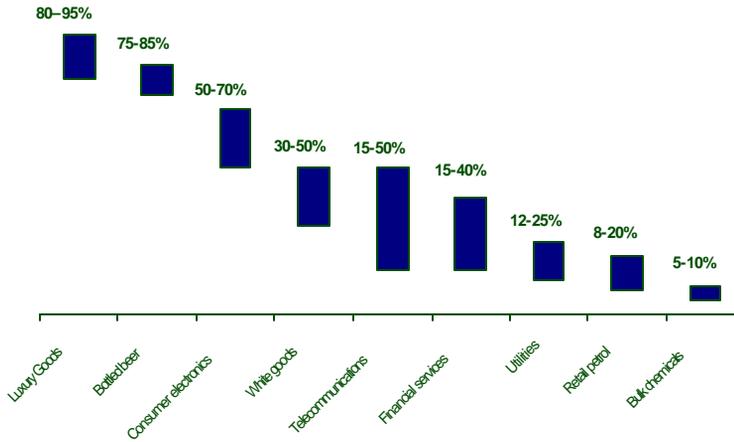
Joanna Seddon  
Millward Brown Optimor.





## Brand contribution to financial value varies by industry—overall one third is attributable to brand

Brand contribution index: industry examples  
Globally, by industry



Source: Millward Brown Optimor analysis

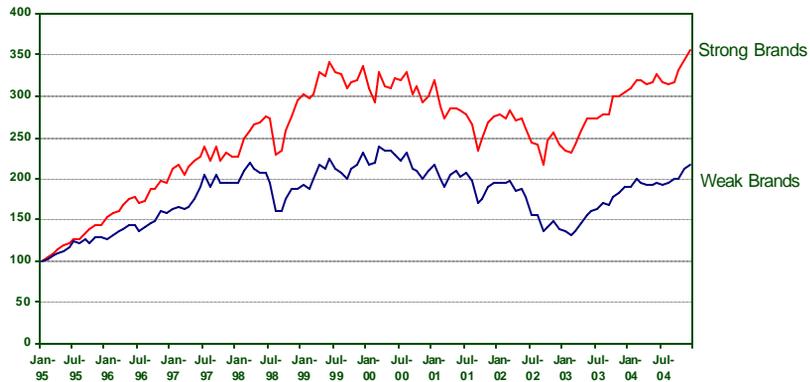
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## Businesses with strong brands command higher share prices

Indexed Share Price of Branded and Unbranded Companies



Source: Proprietary WPP BrandZ™ brand strength data

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## What is a brand?

### Brand = Identity + Reputation

#### **Identity**

- A clear and simple mark, with concrete and legally defensible attributes

#### **Reputation**

- A set of associations in the mind of customers which lead them to prefer it over competitors above and beyond purely rational considerations

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## How does brand create value?

- Through the *customer experience*:
  - ↪ The points at which the company interacts with customers and potential customers
- These include Marketing and Non-Marketing related activities
  - ↪ Traditional marketing activities: visual and verbal communications
  - ↪ All the physical operations of the business
- Brand establishes a non-rational hold over the buying behavior of the consumer.
  - ↪ This creates a pact between consumer and the company, which guarantees a flow of future sales and profits.
- A brand has the unique ability to transfer customer loyalty
  - ↪ Between product, services and categories over time and to separate it from the tangible activities of the company.

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## Brands impact key value drivers

Ensure levels and security of demand, greater market share

Revenue Growth Rate

Command premium pricing, improve supplier terms

EBITDA Margin

Reduce tax rate through internal licensing

Cash Tax Rate

Lower staff acquisition costs, increase productivity and retention

Working Capital Investment

Reduce capital cost of entry into new categories

Capital Expenditure

Create differentiation, overcome commoditization

Competitive Advantage Period

Reduce overall business risk, lower WACC

Cost of Capital

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## What is brand valuation?

*“The concept that brands are valuable assets which should be invested in, tracked and expected to perform like any other financial asset.”*

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## The old picture—a multitude of accounting standards for brands

	U.S. FAS 141	IAS IAS 38	UK FRS 10	Germany	France	Australia & NZ	Japan	Netherlands
Separate recognition • Acquired • Internal	Yes No	Yes No	Yes No	Yes No	Yes Yes	Yes Yes	Yes No	Yes No
Do brands have a limited economic useful life?	No	Yes	No	Yes	No	No	Yes	No
Amortization period	UEL* or Indefinite	UEL, No maximum but not indefinite	UEL, Rebuttable presumption of 20 years, may be indefinite	UEL, Maximum 4-10 Years	UEL or Indefinite	UEL or Indefinite	UEL, Maximum 5-10 Years	UEL or Indefinite
Do brands need to be amortized**?	Yes over UEL or no if indefinite life	Yes over EUL	Yes over UEL or no if indefinite life	Yes over UEL but not > 10 years	Yes over UEL or no if indefinite life	Yes over UEL or no if indefinite life	Yes over UEL but not > 10 years	Yes over UEL or no if indefinite life
Revaluation above carrying amount?	No	No	No	No	Yes	Yes	No	No

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## The new picture—accounting standards are converging but are still marked by asymmetry

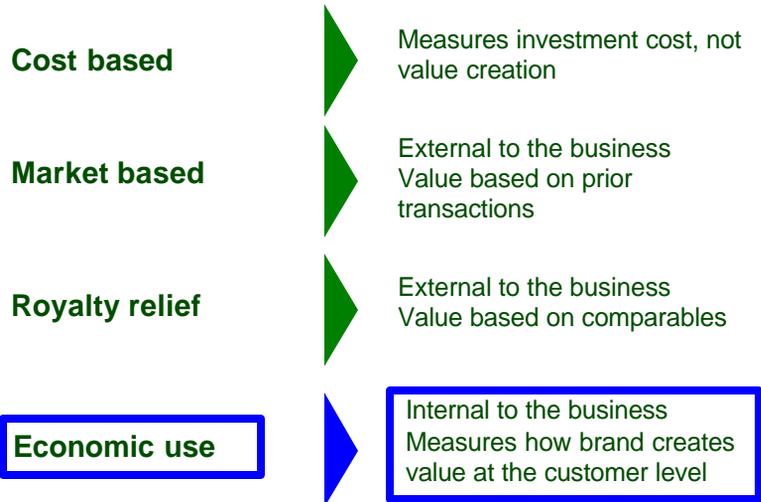
	U.S. FAS 141 & 142	EU & ROW IFRS 3
Separate recognition • Acquired • Internal	Yes No	Yes No
Do brands have a limited economic useful life?	No	No
Amortization period	UEL* or Indefinite	UEL, No maximum but not indefinite
Revaluation above carrying amount?	No	Yes?

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## Approaches to brand valuation



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## Risks attached to a purely accounting view of brands

### Hewlett Packard:

- ⌘ 2002 acquired the Compaq name and put it on the balance sheet for \$1.422 billion. since under FAS 141 and 142 it cannot be amortized, it remains there at just under 2% of the Company's total assets
- ⌘ Meanwhile, HP has practically discontinued use of the Compaq brand, which is generating virtually no real value.

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## Managing the brand as a financial asset

We use brand valuation for strategic and management purposes

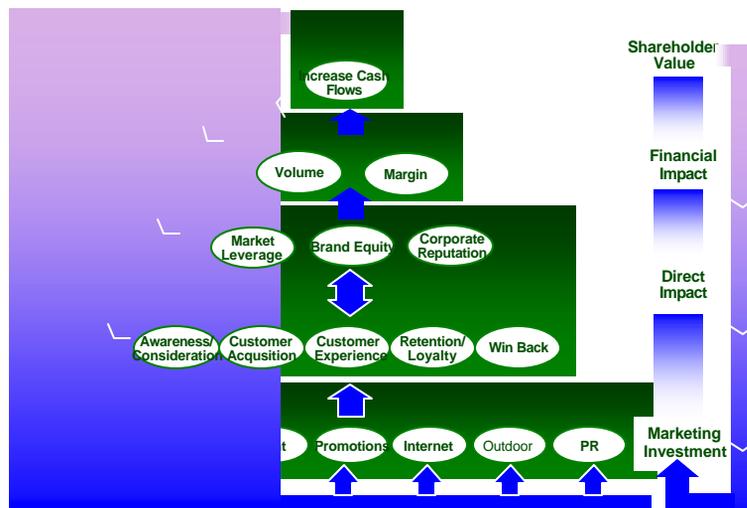
- A *strategic tool* for making rational decisions about brand investments
- A *recognised* and *reliable* way to link brand to business financials
- Identifies *how* the brand drives value
- *Identifies* opportunities to increase the value of the brand
- Estimates the *ROI* from brand investment

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## Linking brand and marketing to business financials



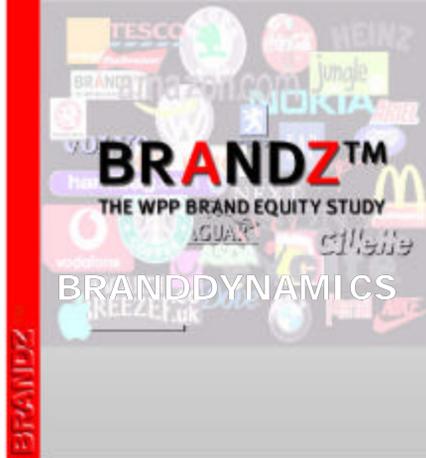
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## BRANDZ™ - a global database of brands

- The WPP global brand equity study
- 20,000 brands
- 30 countries
- 1998 - 2005+



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## Loyalty thinking sits at the heart of BrandZ

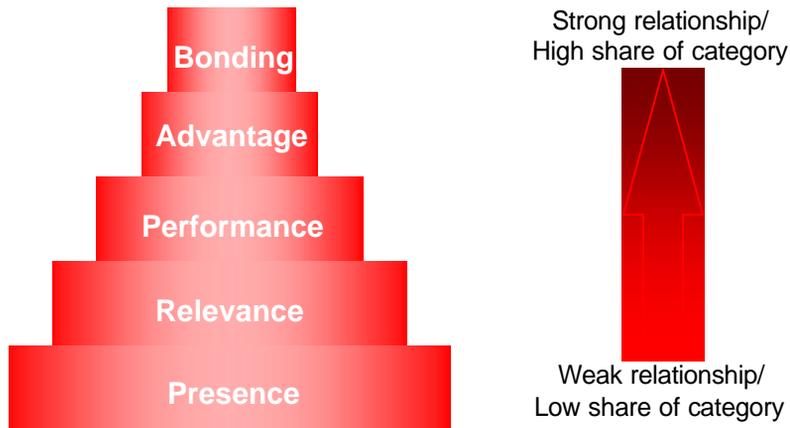


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We find the greater the loyalty the higher the share of wallet

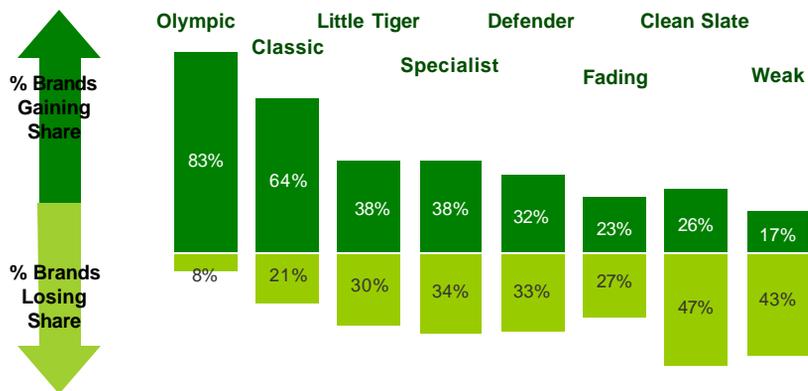


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BrandZ is a predictor of revenue growth



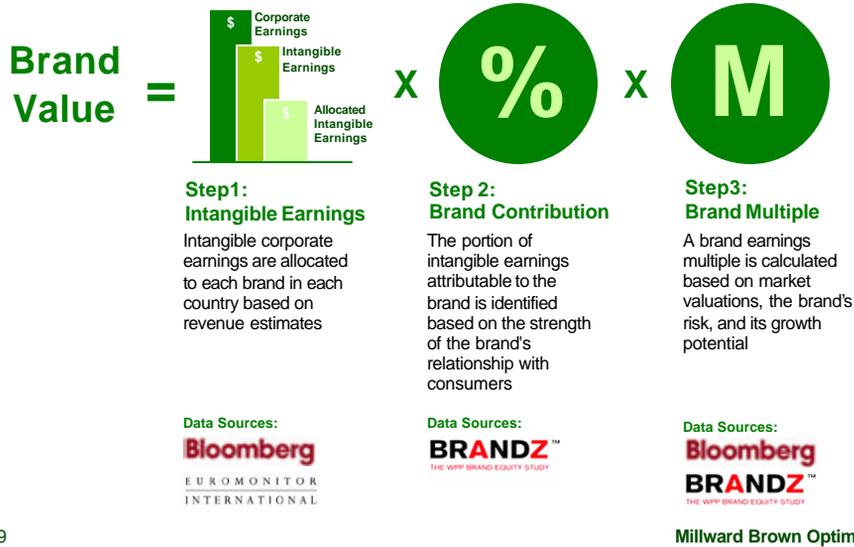
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## How Brand Value is calculated

Our methodology uses three key components



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## Global Top 30 most valuable brands

#	Brand	Parent	Value in \$m
1	Microsoft	Microsoft Corporation	62,039
2	GE (General Electric)	General Electric Company	55,834
3	Coca Cola	The Coca Cola Company	41,406
4	China Mobile	China Mobile (HK) Limited	39,168
5	Marlboro	Altria Group, Inc.	38,510
6	Wal-Mart	Wal-Mart	37,567
7	Google	Google Inc	37,445
8	IBM	International Business Machines Corporation	36,084
9	Citi	Citigroup Inc	31,028
10	Toyota	Toyota Motor Corp	30,201



Note: Coca-Cola includes both Coke and Diet Coke / Coca-Cola Light, it excludes all other brands of The Coca-Cola Company. Coca Cola's Brand entire brand portfolio is worth \$64bn

Sources: BRANDZ™, Company reports, Euromonitor, MB Optimor analysis

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## Global Top 30 most valuable brands (continued)

#	Brand	Parent	Value in \$m
11	McDonald's	McDonald's Corporation	28,985
12	Bank of America	Bank of America Corporation	28,155
13	Home Depot	The Home Depot, Inc.	27,312
14	Nokia	Nokia Corporation	26,538
15	Intel	Intel Corporation	25,156
16	Vodafone	Vodafone Group Plc	24,072
17	BMW	BMW AG	23,820
18	Disney	The Walt Disney Company	22,232
19	UPS	United Parcel Service, Inc.	21,829
20	Cisco	Cisco Systems, Inc.	20,922
21	HP	Hewlett-Packard Company	19,732
22	TIM	Telecom Italia Mobile SpA	19,551
23	NTT DoCoMo	NTT DoCoMo Inc	19,518
24	Louis Vuitton	LVMH	19,479
25	American Express	American Express Company	18,780
26	Dell	Dell Inc.	18,303
27	Gillette	The Gillette Company	17,832
28	Mercedes	DaimlerChrysler AG	17,801
29	Apple	Apple Computer, Inc.	15,976
30	Tesco	Tesco PLC	15,532

Sources: BRANDZ™, Company reports, Euromonitor, MB Optimor analysis

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## A small selection of companies using brand valuation



Note: some of this work was done by team members while at other companies

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## Why are they doing it?

- ✦ To measure the economic value of branding
- ✦ A quantitative, fact-based measurement of the brand position
- ✦ To know the return on investment in brand and marketing
- ✦ For brand and marketing budget allocation
- ✦ To rationalize a brand portfolio or change a brand name
- ✦ For input into brand positioning and marketing messages
- ✦ To create a brand scorecard, KPIs and tracking system
- ✦ In M&A or before an IPG
- ✦ For brand licensing
- ✦ To institute "global mobility"
- ✦ For balance sheet reporting and compliance

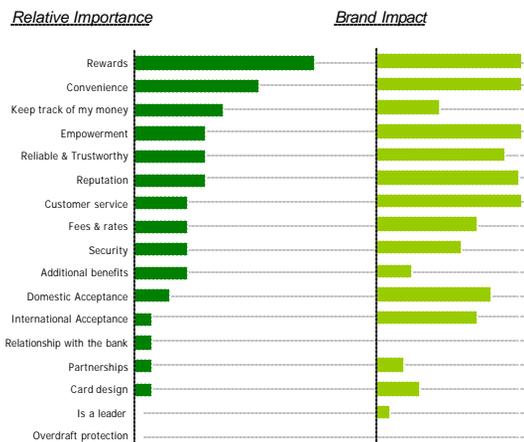
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## Leveraging research, we can identify the role of brand in driving demand

### Example: Credit card usage



- The research allows us to identify the revenue and profit attributable to the brand
- By assessing the impact of marketing activities on these metrics over time, we can calculate brand ROIs

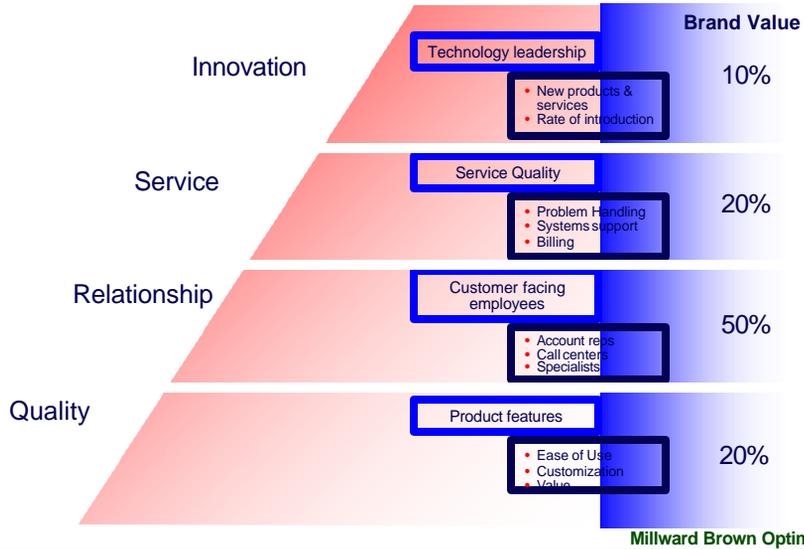
Note: While this analysis is based on actual client work, the data and results have been changed and/or disguised to respect client confidentiality

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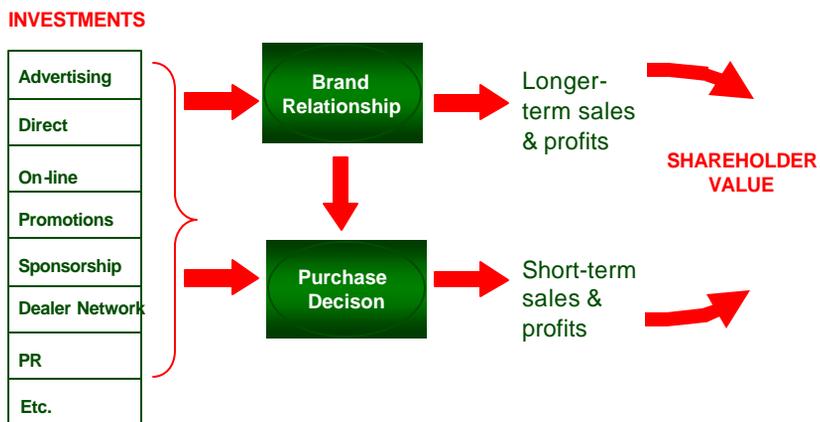
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## Brand valuation can be used to identify sources of value and the touchpoints at which investment will have the most impact



## Marketing builds the brand asset and drives short term sales



Only one common currency....

