

THE POWER OF BRANDS

By

David Muir

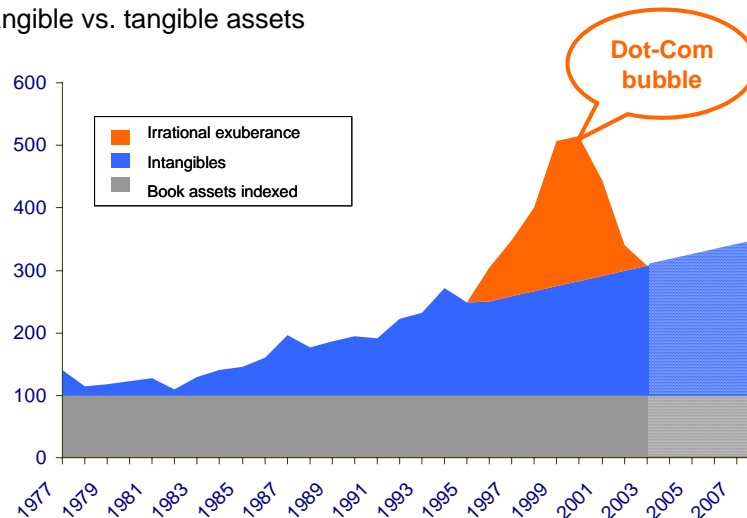
Why brands matter

Brand over the years has been subservient to trading within most retailers. However, the retailers that are creating real, substantial, value for their shareholders hold the two as equally important, and accountable.

In 1977 intangible asset value were roughly comparable in value to tangible assets. By 2007 intangible assets are worth three times that of tangibles, reflecting our move to a post-industrial world where intellectual property and services drive the global economy.

Figure One – Our “Thin Air” Economy where intangible’s are three times the value of tangibles.

Intangible vs. tangible assets



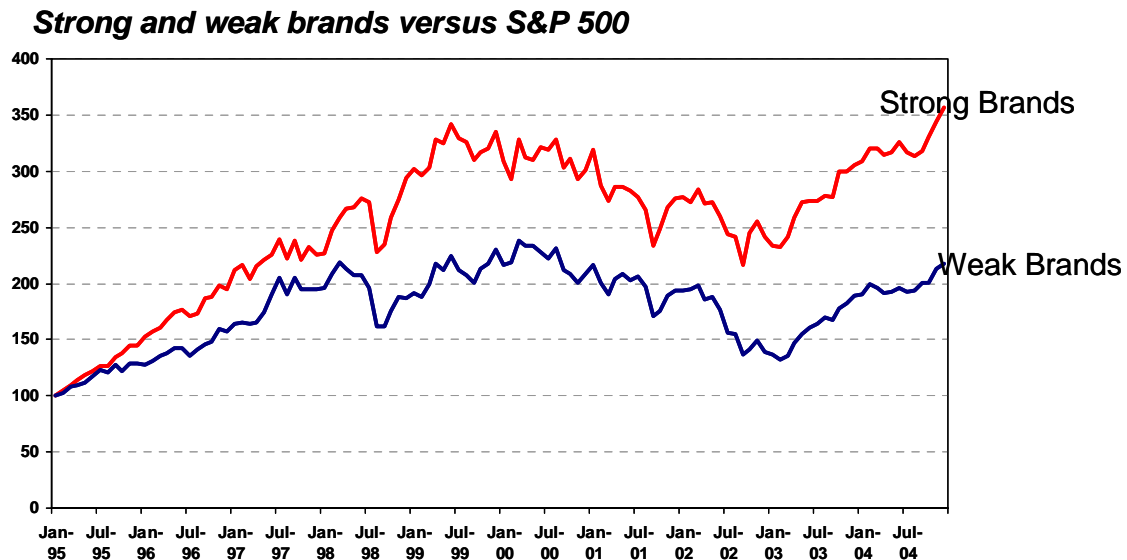
Source: Millward Brown Optimor analysis

Brands build business value in four ways:

- Stronger brands tend to enjoy stronger revenue growth
- Stronger brands tend to have large, more sustainable gross margins
- Stronger brands tend to exhibit less “systematic” business risk
- As a result of these, the deliver, bigger more stable cash flows and hence create substantial shareholder value

That's why you will find a basket of strongly branded businesses will always tend to outperform a basket of shares from poorly branded businesses.

Figure Two – Strong brands deliver greater shareholder value



It is perhaps unsurprising that many businesses, including retailers, attempt to capture the impact the brand has on their operations.

How to measure brand value

Since 2006, WPP's Millward Brown Optimor has published with the world's most authoritative business title, The Financial Times, a global survey of the world's most powerful brands.

Brand value is calculated in three very simple and intuitive steps as detailed in the chart

Figure Three – How Brand Value is Calculated

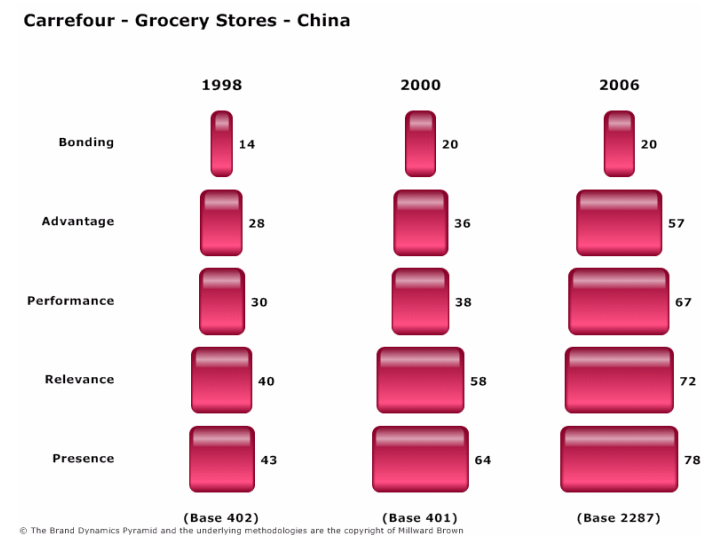


- Step 1 - Intangible corporate earnings are allocated to each brand by country based on annual report data
- Step 2- The contribution of the brand is calculated by examining from BrandZ™ the number of loyal consumers of the brand
- Step 3- A Brand Multiple is then applied to this pool of branded earnings based upon how fast growing the category, brand, and the country. Hence, if you are penetrating the fast growing Chinese retail market this will increase your multiple and ultimately your valuation.

Next to the financial data, the BrandZ™ data is the second most important ingredient to calculating value. BrandZ™ helps WPP client and agencies measure brand equity on consistent basis in 28 countries, over three million consumers have been interviewed since 1998.

The central theoretical construct of BrandZ™ is that the greater the consumer loyalty, the more powerful the brand. As can be seen in Figure Four, Carrefour in China could be classed as a growing, brand as it increases the number of loyal (“bonded”) consumers from 14% in 1998 to 20% in 2007.

Figure Four – Carrefour in China



This growing equity in China helped raise the brand value of Carrefour on a global basis.

The world's most powerful retail brands

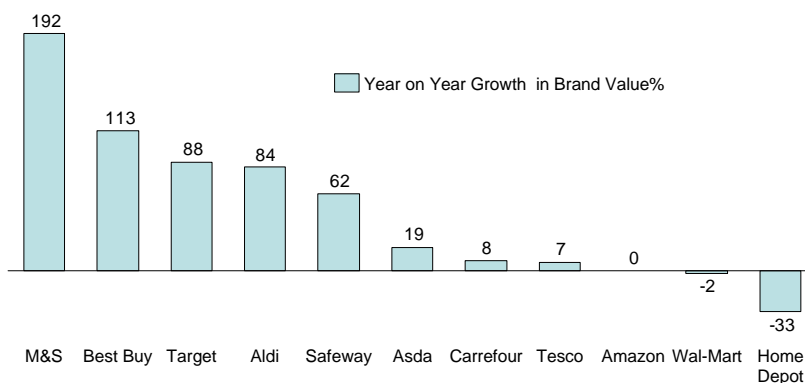
Figure Five – World's Most Powerful Retail Brands

#	Brand	Parent	BV '06 (\$m)	BC '06	BM '06
1	Wal-Mart	Wal-Mart Stores Inc	36,880	2	7.5
2	Home Depot	Home Depot Inc	18,335	2	4
3	Tesco	Tesco Plc	16,649	3	4
4	eBay	Ebay Inc	12,927	2	10
5	Carrefour	Carrefour Sa	11,710	3	4
6	Target	Target Corp	11,560	2	7
7	Marks & Spencer	Marks & Spencer Group Plc	9,509	3	6.5
8	IKEA	Ikea	7,373	3	5.5
9	Best Buy	Best Buy Co Inc	6,674	2	6.5
10	Amazon	Amazon.Com Inc	5,964	2	10
11	Auchan	Auchan	5,570	3	5
12	Asda	Wal-Mart Stores Inc	5,540	3	3.5
13	ALDI	Aldi	4,712	2	5.5
14	Costco	Costco Wholesale Corp	3,784	2	6.5
15	Safeway	Safeway Inc	3,772	2	5

Wal-Mart dominated this year's ranking with a brand value of \$36.8 billion and average Brand Contribution (BC) and growing Brand Momentum (BM).

However, the major driver of this valuation is Wal-Mart's giant market cap. The brand represents a mere 20% of market capitalisation. The British retailer, Marks and Spencer has spent a considerable deal revitalising its brand and as a result the brand accounts for roughly 43% of market capitalisation.

Figure Six – Brand Value Growth

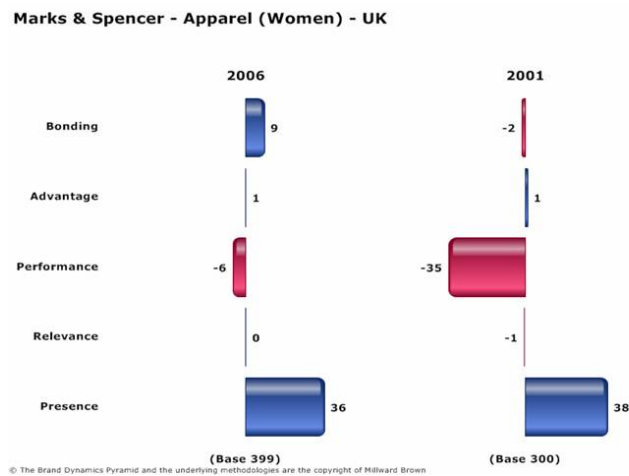


Of the fastest growing retail brands in the world, the top three Marks and Spencer (M&S), Best Buy and Target put the brand at the absolute centre of the business.

All three retailers have peerless execution married with a strong premium strategy and the ability to fight hard on price when they need to.

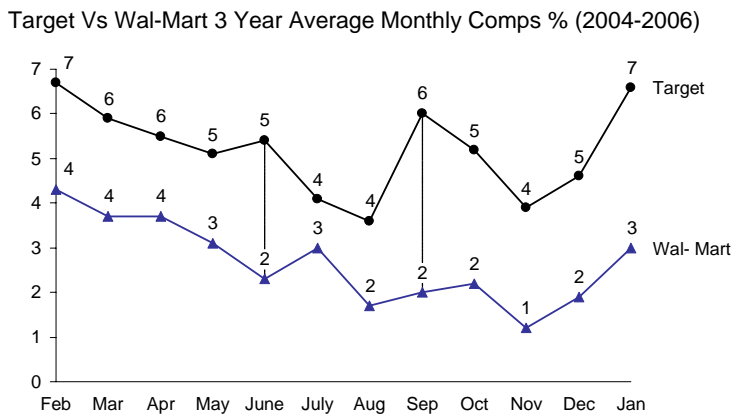
M&S's revitalisation stemmed from getting the execution right. In 2001 BrandZ™ identified M&S as a “fading star” big, but lacking vitality. As a result, it enjoyed lower levels of loyalty.

Figure Seven – Marks and Spencer Female Apparel improvement



By 2006, vitality as measured by Voltage™ had increased as had loyalty. The major driver of that change was sourcing much better female apparel and then telling people about it in the now iconic “Your M&S” campaign.

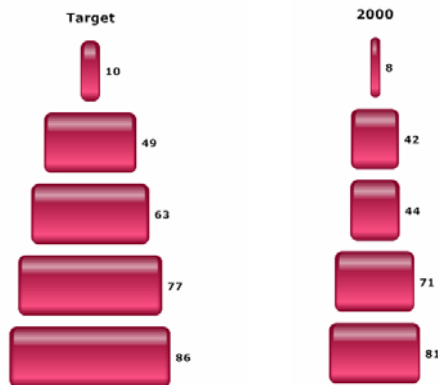
Figure Eight – Target vs Wal-Mart Organic Growth Rates



Target has consistently stronger organic growth rates, and a major driver of this has been its brand platform of “Expect More. Pay Less”. Target’s CMO, Michel Francis, has mono-maniacal focus on the brand which extends to examining whether the shopping check out dividers are “on-brand”.

Unsurprisingly Target continues to grow the number of loyal (“bonded”) consumers. Since 2000, Target has increased the number of outright loyal consumers by 25%. For that reason Target recorded significant gains in brand value this year.

Figure Nine – Target’s Loyal Customers



The challenge for Target will now focus on how it can internationalise its proposition in order to fuel further growth.

French retail with Chinese characteristics – The Success of Carrefour China

One retailer that has fuelled business and brand value growth has been Carrefour. Carrefour faces significant pressure in the local French market where it has been aggressively targeted by super-discounters. As a result it has seen its brand loyalty erode.

Figure Ten - Carrefour Under Pressure in its local market



This pressure has made it an imperative for Carrefour to grow internationally. As part of this growth strategy Carrefour has developed a strong business in China. BrandZ™ has tracked the success of Carrefour in China since 1998. As can be seen in Figure Four, the brand has consistently grown the number of loyal consumers.

One of the reasons why it has been so successful in China is that it has deliberately tailored its offering to meet Chinese needs. The Chinese shopper is extremely discerning and values freshness of produce. As a result, many Chinese shoppers value the “wet market”. Carrefour while bringing Western products has created wet markets in its retail outlets in China, in order to capture the demanding Chinese shopper.

Figure Eleven – Carrefour Wet Market



Unsurprisingly Carrefour is now growing revenues at nearly 21% per annum in China versus 7% in continental Europe.

Bringing it all together

From M&S to Carrefour in China we have found that retailers who place the brand at the heart of the trading operation tend to grow substantial brand and business value.

They tend to do this by doing four things very well. First, whether they are actual market share leaders or not, they display category leadership in mindset. Target is a good example of this in US retail, where it has led other larger retailers to follow its ethos of good, everyday design.

Second, strong retail brands have strong clarity of purpose. M&S is all about great quality and everyday prices.

Third, powerful retail brands have to deliver a great experience, everyday. Carrefour in China is an exemplary case study of this where it has delivered an experience in its wet markets that Chinese consumers want.

Finally, all of these retailers have consistently innovated whether in communication or in-store design in order to continue to refresh its proposition to shoppers.

By doing all these four things well they have created substantial value for their shareholders.

David Muir is CEO of WPP knowledge community The Channel. He is responsible for the funding and development of BrandZ™. For further information on BrandZ™ go to www.brandz.com. If you would look to examine how you can measure brand value please contact Joanna Seddon at Millward Brown Optimor (Joanna.seddon@us.millwardbrown.com)

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