Performance of Globally Most Valued Brands - A Comparative Study of Service and Product Brands

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ABSTRACT

Creating and maintaining brand identity is regarded as a formative brand building step with the benefits contributing to the creation of valuable brands. Consequently, research that provides brand identity management insights has the potential to be of considerable academic and managerial interest. This study analyses the performance of the service sector brands and compares the performance of global service sector brands with global product brands. The study presents an analysis of secondary data from the research undertaken by 'Interbrand' – one of the world's largest branding consulting companies. This empirical study analyzes the performance of service and product brands of different industries during a twelve year period from 2001-2012 and highlights the differences between the performance of service brand and product brands. The study will attempt to bring out the growth/de-growth patterns of globally most valued brands belonging to various product categories. The findings of the study will highlight the marketing strategies of the globally most valuable service and product brands in comparison to their competitors.

Introduction

Branding is the most powerful tool available today. Some people feel that branding is marketing blah blah backed by advertising jargon. However, branding has moved well beyond the marketing function to demonstrate its overall role in building strong businesses. Interbrand's valuation of the world's biggest brands clearly demonstrates in business terms the huge financial value that branding can provide an organization.

Brands have value because they mean something to their constituents – consumers, trade, employees, associates, investors and all other stake holders. The more powerful the meaning, the greater is the brand equity and higher the value of the brand. Coca Cola represents America, and because it stands for such a powerful concept, it has become the brand with the highest valuation in the world (Refer Table 1: Top 10 Globally Most Valuable Brands). Building brands is all about building meaning and this obviously is more than just a marketing task. This is an organizational task that stems from the very purpose of the organization. One measure of the strength of the brand is its valuation, which is a function of the brand's equity. Brand valuation reflects the health of the brand in financial terms depicting the valued derived from owning the brand. This is determined through the brand's current earnings and its potential future earnings.

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Table 1 : Top 10 Globally Most Valuable Brands

S. No.	Brand	Category	Value (in $ bn)	% CAGR (2001-12)
1	Coca Cola	Beverages	77.8	1.11
2	Apple	Consumer Electronics	76.6	27.1
3	IBM	Business Services	76.5	3.4
4	Google	Internet Services	69.7	35.2(2005-12)
5	Microsoft	Computer Software	57.9	-1.1
6	GE	Diversified	43.7	0.3
7	McDonald's	Restaurants	40.1	4.3
8	Intel	Computer Hardware	39.4	1.1
9	Samsung	Consumer Electronics	32.9	16.1
10	Toyota	Automotive	30.3	4.5

Source: Interbrand Annual Reports – Best Global Brands 2001 – 2012

Many factors work towards increasing valuation of brands. These range from the brand's relationship with trade to its ability to command a premium over competition to the quality of the people working for the brand. Brands need to focus on pushing their valuation higher as this is a sign of financial health. However, for a brand to have a truly enduring growth in brand valuation, it has to go beyond purely financial parameters. This is because the human element plays a vital role that is central to any brand, whether it is in the form of the consumer's relationship with the brand or the employees' and associates' loyalty and commitment to the brand. To be consistently successful, brands need to have a proper mix of business and people perspectives and brand valuation is a measure of not just the hard side of the business but the softer side too. As many have found, it is possible to run an increasingly profitable business while maintaining ethics and humanity in their dealings. In fact, this is the only way to run a successful and sustainable business. Branding shows the direction for successful and sustainable practices and brand valuation takes a beating when these practices are flouted.

Significance of Brand Building

To understand the relationship between running a business in a decent ethical manner, brands and valuation, one must understand what branding is all about. Branding is about brands providing a meaningful relationship to their constituents that have commercial value. A relationship can take the form of liking, preference, a sense of trust, a belief in quality, etc. that leads the constituent to want to continue consuming the brand. If there is no relationship with it, then an offering has only a name but it is not a brand. Going by this definition, a much-advertised product does not become a brand because of high awareness levels; only when the consumer develops a relationship with the offering does it become a brand. However, the relationship created has to also have a commercial value. Constituents should be willing to pay a commercial value for maintaining the relationship and this is a good test of a brand. One can easily create habits with free products, and this can be mistaken for a relationship, but the proof of the relationship is the brand's ability to get a decent return on its transaction with the consumer.

Some of the several benefits that strong brands enjoy are listed below. It is never worth losing out on any of these for short-term benefits. The benefits are:

- Brands drive volumes consistently: A good brand sells a base consistent level of volumes in its market regularly. Whether it is Coca Cola, Apple, Samsung or Toyota, these brands have a base consistency in terms of sales to consumers. In these days of mass production and just-in-time supplies, it is important to ensure that there is a consistent base demand for the brand from the consumers. This provides economies of scale and keeps costs under control. Brands have a relationship with their customers, and this relationship ensures that the consumers consistently consume the brand.
- Brands ensure better profitability by commanding a premium: Strong brands are often able to get a premium over competition based on their brand equity. Often we find that consumers are willing to pay a premium to buy a known brand instead of its not-so-well-known competitor.
- Brands build insurance against bad times: It is easy enough to forgive a friend for a mistake; however, it is not so easy to forgive a stranger for the same mistake. Similarly, consumers tend to be more forgiving towards known brands that have made a mistake than they would be towards unknown labels. This is why strong brands that have had to pull back products due to existing or perceived flaws have been able to recapture their consumers' faith without fading into obscurity. The strong relationship that these brands had with their constituents prevented them from dying the way mere labels would have. Relationships often have tied up with them a past (with memories of good time or convenience), a present and an unexpected future. Customers who face problems with a brand often look at their past experiences with the brand and forgive the brand for a current problem as they also see the brand continuing to play a relevant role in their future.
- Good brands commands shelf space: Trade often favors big brands and the majority of the extremely scare shelf space is dedicated to big brands. Trade tends to accept less-favorable terms from big brands because the consistency of volumes of these brands gives them fairly large and regular earnings. A Procter and Gamble almost never have problems with getting adequate shelf space while a new label from an unknown company may not even manage to get shelf space.

- Big brands attract the best talent: Big brands tend to get good manpower. Prospective employees flock to them for recruitment even though many big brands do not pay very well except in the senior positions. The task of getting high-quality manpower at fairly economical rates becomes easier for companies that are well known and respected. Employees of these brands tend to compensate themselves for slightly lower salaries with the security and the reflected aura of the brand that employs them.

- Good brands have no dearth of willing lenders: One of the less-discussed but extremely obvious advantages of a big brand is the relative ease with which it can raise money. Financiers would probably fight each other to be able to lend money to blue-chip brands like Cisco or Microsoft. Money comes to them easily either through public issue of shares or through loans payable in attractive installments. Financial institutions often are reassured by the strength of a borrowing brand's equity and this often plays a large role in smoothening the loan-sanction process

- Best brands claim to immortality: There is no telling the life of a label, but brands have long lives because of the relationships they enjoy and the values they represent. Some of the world's best-known brands are over 100 years old.

Methodology

There are several criteria for inclusion in Interbrand's annual Best Global Brands ranking. The brand must be truly global and needs to have successfully transcended into geographic and cultural boundaries. It must have expanded across the established economic centers of the world and be establishing a presence in the major markets of the future. In measurable terms, this requires that:

- At least 30% of revenues must come from outside the brand's home country

- It must have a presence in at least three major continents, as well as broad geographic coverage in emerging markets

- There must be sufficient publicly available data on brand's financial performance

- Economic profit must be expected to be positive over the longer term, delivering a return above the brand's operating and financing costs

- The brand must have a public profile and awareness above and beyond its own market place

Interbrand's valuation methodology seeks to determine, in customer and financial terms, the contribution of the brand to business results. A strategic tool for ongoing brand management, it brings together market, brand, competitor and financial data into a single framework within which the performance of the brand can be assessed, areas for improvement identified, and the financial impact of investing in the brand quantified. It also provides a common language around which a company can be galvanized and organised. It is believed that a strong brand, regardless of the market in which it operates, drives improved business performance. It does this through its ability to influence customer choice and engenders loyalty: to attract, retain and motivate talent and lower the cost of financing. This approach explicitly takes these factors into consideration. There are three components in all of Interbrand's valuations: analyses of the financial performance of the branded products or services, of the role the brand plays in the purchase decision and of the competitive strength of the brand.

Financial Analysis

This measures the overall financial return to an organisation's investors, or its "economic profit". Economic profit is the after-tax operating profit of the brand, minus a charge for the capital used to generate the brand's revenues and margins. A brand can only exist and therefore, create value, if it has a platform on which to do so. Depending on the brand, this platform may include, for example, manufacturing facilities, distribution channels and working capital. Interbrand, therefore allows for a fair return on this capital before determining that the brand itself is creating value for its owner. It builds a set of financial forecasts over five years for the business, starting with revenues and ending with economic profit, which then forms the foundation of the brand valuation model. A terminal value is also created, based on the brand's expected financial performance beyond the explicit forecast period. The capital charge rate is determined by reference to the industry weighted average cost of capital.

Role of Brand

Role of Brand measures the portion of the decision to purchase that is attributable to the brand, relative to other factors (for example, purchase drivers like price, convenience, or product features). The Role of Brand Index (RBI) quantifies this as a percentage. Customers rely more on brands to guide their choice when competing products or services cannot be easily compared or contrasted and trust is deferred to the brand (example: computer chips) or where their needs are emotional, such as making a statement about their personality (example: luxury brand). RBI tends to fall within a category-driven range, but there remains a significant opportunities for brands to increase their influence on choice within those boundaries, or even extend the category range where the brand can change consumer behavior. RBI determinations for this study derive, depending on the brand, from one of the three methods: primary research, a review of historical roles of brand companies in that industry or expert panel assessment. RBI is multiplied by the economic profit of the branded products or services to determine the earnings attributable to the brand (brand earnings) that contribute to the valuation total.

Brand Strength

Brand Strength measures the ability of the brand to create loyalty and therefore to keep generating demand and profit into the future. Brand Strength is scored on a 0-100 scale, based on an evaluation across ten key factors that Interbrand believes make a strong brand. Performance on these factors is judged relative to other brands in the industry and relative to other world-class brands. The strength of the brand in inversely related to the level of risk associated with the brand's financial forecasts. A proprietary formula is used to connect the Brand Strength Score to a brand-specific discount rate. In turn, that rate is used to discount brand earnings back to a present value, reflecting the likelihood that the brand will be able to withstand challenges and generate sustainable returns into the future. Interbrand's experience and knowledge show that brands in the ideal position to keep generating demand for the future are those performing strongly (i.e., "showing strength" versus the competition) across a set of ten factors that are outlined below. Four of these factors are more internally driven and reflect the fact that great brands start from within. The remaining six factors are more visible externally, acknowledging the fact that great brands change their world. The higher the Brand Strength Score, the stronger is the brand's advantage.

Internal Factors

a) Clarity: Clarity internally about what the brand stands for and its values, positioning and proposition. Clarity about target audiences, customer insights and drivers is important. Because so much hinges on this, it is vital that these are articulated and shared across the organization.

b) Commitment: Internal commitment to brand and a belief internally in the importance of the brand. It is the extent to which the brand receives support in terms of time, influence and investment from the top management.

c) Protection: How secure the brand is across a number of dimensions: legal protection, proprietary ingredients or design, scale or geographical spread?

d) Responsiveness: The ability to respond to market changes, challenges and opportunities. The brand should have a sense of leadership internally and a desire to and ability to constantly evolve and renew itself

External Factors

a) Authenticity: The brand is soundly based on an internal truth and capability. It has a defined heritage and a well grounded value set. It can deliver against the (high) expectations that customers have of it.

b) Relevance: The fit with customer / consumer needs, desires, and decision criteria across all relevant demographics and geographies.

c) Differentiation: The degree to which customers or consumers perceive the brand to have a differentiated positioning distinctive from the competition.

d) Consistency: The degree to which a brand is experienced without fail across all touch points or formats.

e) Presence: The degree to which a brand feels omnipresent and is talked about positively by consumers, customers and opinion formers in both traditional and social media.

f) Understanding: The brand is not only recognized by customers but there is also an in-depth knowledge and understanding of its distinctive qualities and characteristics. (Where relevant this will extend to consumer understanding of the company that owns the brand.)

Analysis and Discussion

When we analyze the top 100 globally most valuable brands, we observe that 63 brands (57.5 percent) are ‘Product Brands’, 32 brands (37.6 percent) are ‘Services Brands and 5 of them of ‘Diversified Brands’ (Refer Table 2: Product Brands and Services Brands). In terms of brand value, ‘Product Brands’ contribute 58 percent of the value of the top 100 brands while ‘Services Brands’ contribute nearly 38 percent. The remaining 4 percent comes from ‘Diversified Brands’.

Table 2 : Product Brands and Services Brands

S. No.	Category	No. of Brands	Value of Brands ($ billions)	Percentage
1	Product Brands	63	796.2	57.5
2	Service Brands	32	521.5	37.6
3	Diversified Brands	5	67.9	4.9
	Total	**100**	**1385.7**	**100**

Source: Interbrand Report – Best Global Brands 2012

- Analysis of Compounded Annual Growth Rates (CAGR) of the brands over a 12-year period from 2001 – 2012 indicates that the ‘Product Brands’ have grown by 7.1 percent (Refer Table 3: Compounded Annual Growth Rates for Product Brands)

Table 3 : Compounded Annual Growth Rates (CAGR) for Product Brands

Category	No. of Brands (2012)	2001 Value in ($ bn)	2012 Value in ($ bn)	CAGR
Product Brands	63	462.5	796.2	7.1
Consumer Electronics	9	82.6	175.9	7.1
Automotive	13	111.8	160.4	3.3
Beverages	4	88.4	111.2	2.1
Consumer Goods (FMCG)	11	44.8	100.8	7.6
Computer Hardware	4	66.9	79.8	1.6
Luxury	7	15.9	58.5	12.6
Alcohol	7	21.4	36.4	4.9
Apparel	4	10.7	33.8	11.1
Sporting Goods	2	11.3	21.8	6.2
Home Furnishings	1	6.0	12.8	7.1
Energy	1	2.8	4.8	4.9

Source: Interbrand Annual Reports – Best Global Brands 2001 – 2012

- Among all the product brands in the top 100 globally most valuable brands, 13 brands belong to Automotives sector, 11 brands belong to Consumer Goods (FMCG), 9 brands belong to Consumer Electronics, 7 brands each belong to Alcohol Products and Luxury Products and 4 brands each belong to Beverages, Computer Hardware and Apparel Product categories

- Luxury brands have grown by 12.6 per cent; Apparel brands have grown by 11.1 per cent, FMCG brands have grown by 7.6 per cent, consumer electronics and Home Furnishings brands have grown by 7.1 per cent

- Analysis of Compounded Annual Growth Rates (CAGR) of the brands over a 12-year period from 2001 – 2012 indicates that the 'Service Brands' have grown by 5.5 percent (Refer Table 4: Compounded Annual Growth Rates for Services Brands) (Refer Table: 4)

- Among all the Services Brands, Internet Services brands have grown by 27.5 per cent, Financial Services brands have grown by 6.9 per cent and Business Services brands have grown by 4.9 per cent

Table 4: Compounded Annual Growth Rates (CAGR) for Services Brands

Category	No. of Brands (2012)	2001 Value in ($ bn)	2012 Value in ($ bn)	CAGR
Service Brands	32	290.3	521.5	5.5
Business Services	5	88.5	150.2	4.9
Internet Services	5	7.5	108.6	27.5
Financial Services	12	43.8	91.3	6.9
Computer Software	2	65.1	62.4	-0.4
Restaurants	4	38.3	54.3	3.2
Media Services	3	47.1	41.5	-1.1
Transportation Services	1	0.0	13.1	4.0
Diversified Brands	5	47.3	67.9	3.3

Source: Interbrand Annual Reports – Best Global Brands 2001 – 2012

Table 5 : Most Valuable Services Brands

Category	Brand 1	Value (in $ bn)	Brand 2	Value (in $ bn)	Brand 3	Value (in $ bn)
Business Services	IBM	76.5	Cisco	27.2	Oracle	22.1
Internet Services	Google	69.7	Amazon	18.6	E-Bay	10.9
Financial Services	American Express	15.7	J P Morgan	11.5	HSBC	11.4
Restaurants	McDonald's	40.1	KFC	6.0	Pizza Hut	4.2
Media Services	Disney	27.4	Thomson Reuters	8.4	MTV	5.6

Source: Interbrand Annual Reports – Best Global Brands 2001 – 2012

- IBM, Google, American Express, McDonald's and Disney are the most valuable Services Brands among Business Services, Internet Services, Financial Services, Restaurants and Media Services respectively (Refer Table 5: Most Valuable Services Brands)
- The most valuable Product Brands among different categories are: Coca Cola (Beverages), Apple (Consumer Electronics), Toyota (Automotive), Gillette (FMCG), Budweiser (Alcohol) and H&M (Apparel) (Refer Table 6: Most Valuable Product Brands)

Table 6 : Most Valuable Product Brands

Category	Brand 1	Value (in $ bn)	Brand 2	Value (in $ bn)	Brand 3	Value (in $ bn)
Automotive	Toyota	30.3	Mercedes Benz	30.1	BMW	29.1
Consumer Goods (FMCG)	Gillette	24.9	Kellogg's	12.1	Pampers	11.3
Consumer Electronics	Apple	76.6	Samsung	32.9	Nokia	21.0
Alcohol	Budweiser	11.9	Jack Daniels	4.4	Jonnie Walker	4.3
Beverages	Coca Cola	77.8	Pepsi	16.6	Nescafe	11.1

Source: Interbrand Report – Best Global Brands – 2012

Table 7 : Most Valued Diversified Brands

Category	Brand 1	Value (in $ bn)	Brand 2	Value (in $ bn)	Brand 3	Value (in $ bn)
Diversified	GE	43.7	Philips	9.1	Caterpillar	6.3

Source: Interbrand Report – Best Global Brands - 2012

General Electric, Philips and Caterpillar are the most valuable Diversified brands

Conclusions - the Future of Brand Building

The last five years (since 2008) have been marked by economic crises, sending businesses running for cover and searching for answers. Driven by even more demanding customers, pushed by emerging market competitors and inspired by companies like Apple, many businesses are re-discovering the power of creativity and design, increasing investment in innovation and trying to better understand how brands drive their business. Given this, it is believed that brands will play an increasingly important role and it is clear that in this increasingly competitive world, well managed brands drive profits, so it is logical to expect greater degrees of innovation, sophistication, creativity, understanding and of course accountability to a great degree of sensitivity.

Great brands are “business strategy brought to life” delivering seamless experience across product and services. Though there is not much difference between the growth rates of product and services brands, it is believed that services brands will play an increasingly important role in the years to come.

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