



## The Value of Brands: Key Threats of Brand Devaluation

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# About Brand Finance

**Brand Finance is the world's leading independent brand valuation and strategy consultancy.**

- Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For over 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.
- Brand Finance puts thousands of the world's biggest brands to the test every year, evaluating which are the most powerful and most valuable.



MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand-based decisions and strategies.



FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.



TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing, and brand ownership arrangements.



LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

# About Brand Finance

## What we do

### 1. Valuation: What are my intangible assets worth?

*Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.*

- Branded Business Valuation
- Trademark Valuation
- Intangible Asset Valuation
- Brand Contribution

### 4. Transactions: Is it a good deal? Can I leverage my intangible assets?

*Transaction services help buyers, sellers and owners of branded businesses get a better deal by leveraging the value of their intangibles.*

- M&A Due Diligence
- Franchising & Licensing
- Tax & Transfer Pricing
- Expert Witness



### 2. Analytics: How can I improve marketing effectiveness?

*Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.*

- Market Research Analytics
  - Brand Audits
- Brand Scorecard Tracking
- Return on Marketing Investment

### 3. Strategy: How can I increase the value of my branded business?

*Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.*

- Brand Governance
  - Brand Architecture & Portfolio Management
  - Brand Transition
- Brand Positioning & Extension

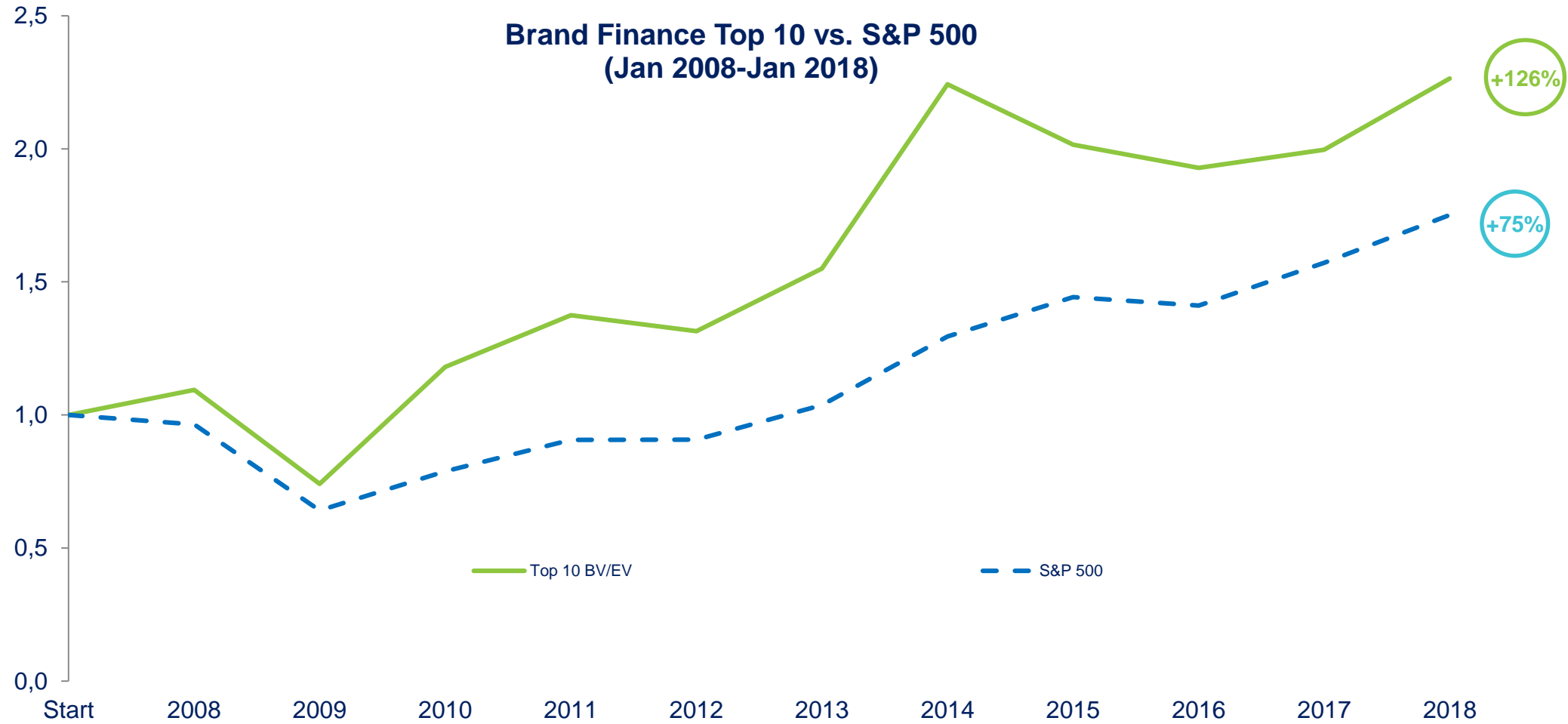
# How do brands create value?

A brand is effectively a promise



# A strong brand drives a larger, more profitable business

In turn, higher business returns allow investment which drives a more valuable brand



# Royalty Relief Approach to Brand Valuation

1



## Brand Strength Index (BSI)

A brand strength benchmarking process with a score expressed out of 100.

2



## Brand Royalty Rate

The BSI score is applied to a sector royalty rate range to identify an appropriate rate

3



## Forecast Revenues

The royalty rate is applied to forecast revenues to derive brand revenues

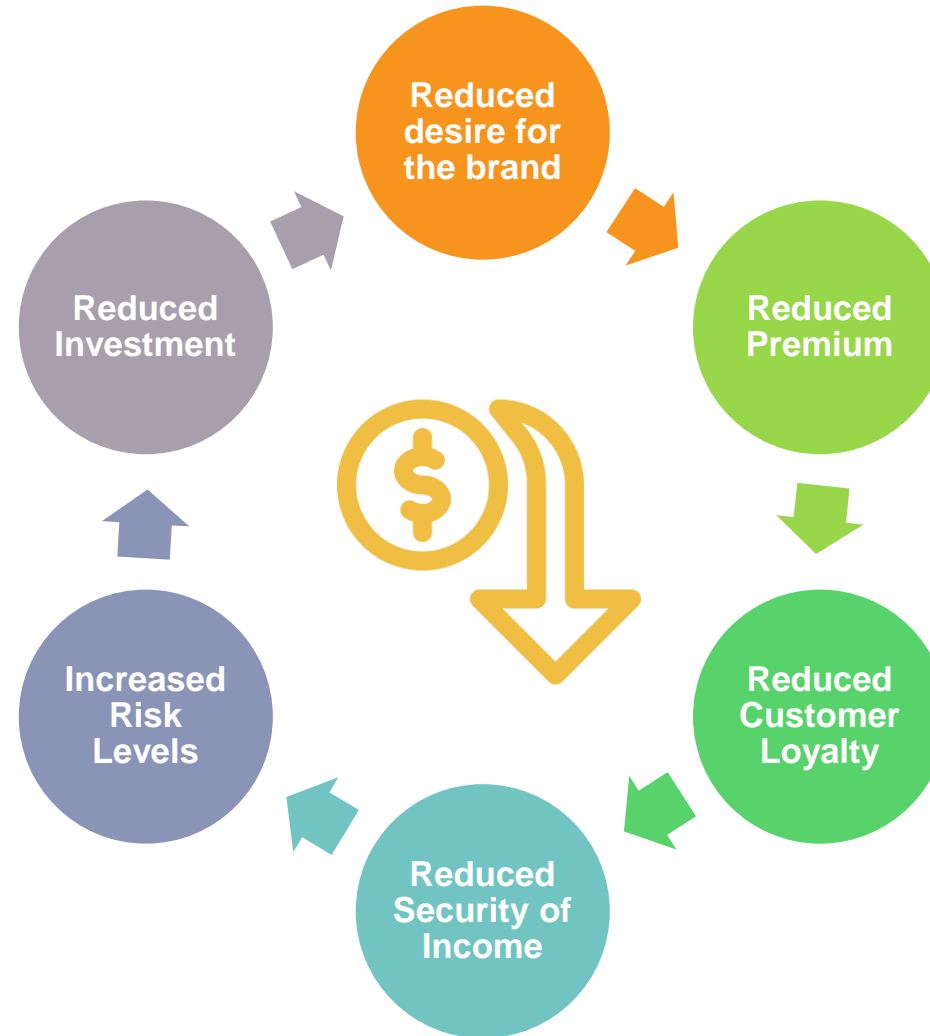
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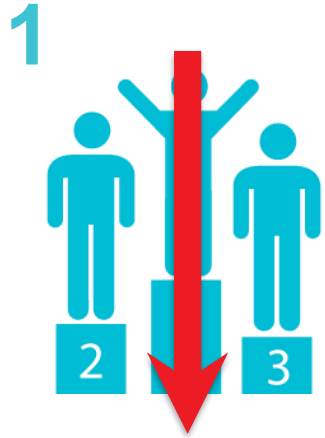
## Brand Value

Post-tax brand revenues are discounted to a net present value which equals the brand value

# How do brands lose value?



# What happens when brands devalue?



## Brand Strength Index (BSI)

A brand strength benchmarking process with a score expressed out of 100.



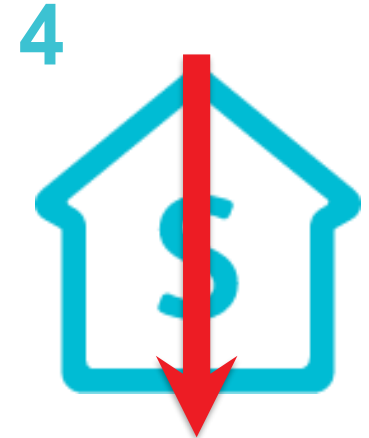
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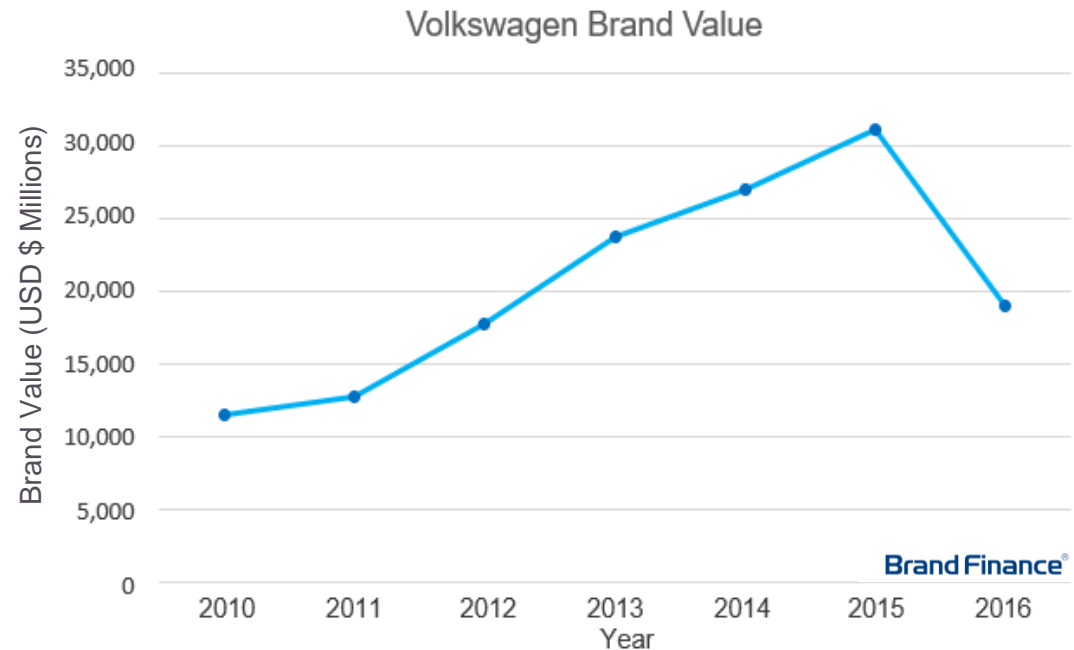
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# Devaluing of Brands

## Volkswagen Scandal

- September 2015 it emerged that VW was cheating emissions tests on diesel cars.
- Engines fitted with 'defeat device' to detect when they were being tested.
- Loss of customer trust for Volkswagen Group.
- Potential fines of up to \$18 billion.



# The Threat of Regulation

## Plain Packaging

*Removal of all branded features from external packaging, except for the brand name written in a standardised font, with all surfaces in a standard – often drab brown – colour.*

Plain Packaging for tobacco:

- Australia, France, Britain, New Zealand, Norway and Ireland have already implemented plain packaging for tobacco products.
- Many others, including Canada, Georgia, Slovenia and Hungary have legislated for it.



# Is it imminent?

## Increasing calls to extend the legislation

- In 2015 *Tobacco Atlas*, called for extending plain packaging to alcohol and some food and drink products.
- In March 2017, Wolfram Schultz, winner of the €1 million Brain Prize, called for plain packaging to be applied to fast foods.
- In November 2017, medical journal *The Lancet* called for plain packaging to be considered for alcohol.
- Current proposal for legislation in Ireland to add cancer warning labels to alcoholic products.



[www.oma.org](http://www.oma.org)

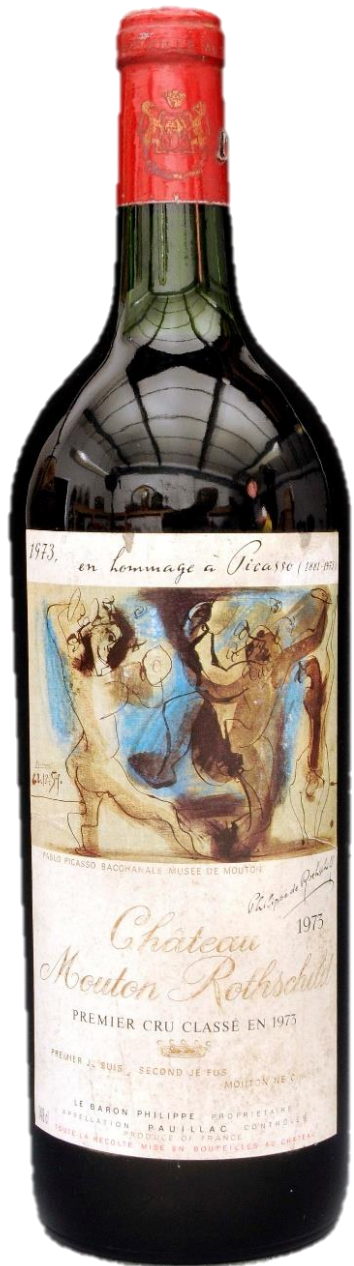


Ontario Medical Association



@Ontariosdoctors





“It is not unimaginable that bottles of Château Mouton Rothschild, which once bore the artwork of Salvador Dalí and Pablo Picasso, might one day be required to have plain packaging and images of oesophageal cancer or a cirrhotic liver.”

The Lancet, November 2017

# Brand Finance Plain Packaging 2017

- Brand Finance analysed the potential impact of a plain packaging policy on food and beverage brands in 4 categories:
  1. Alcohol
  2. Confectionery
  3. Savoury snacks
  4. Sugary drinks
- Brand Finance's valuation methodology has been adapted to consider the impact on brand and enterprise value of the removal of branding elements.
- 8 major brand-owning companies were analysed.

Brand Finance®



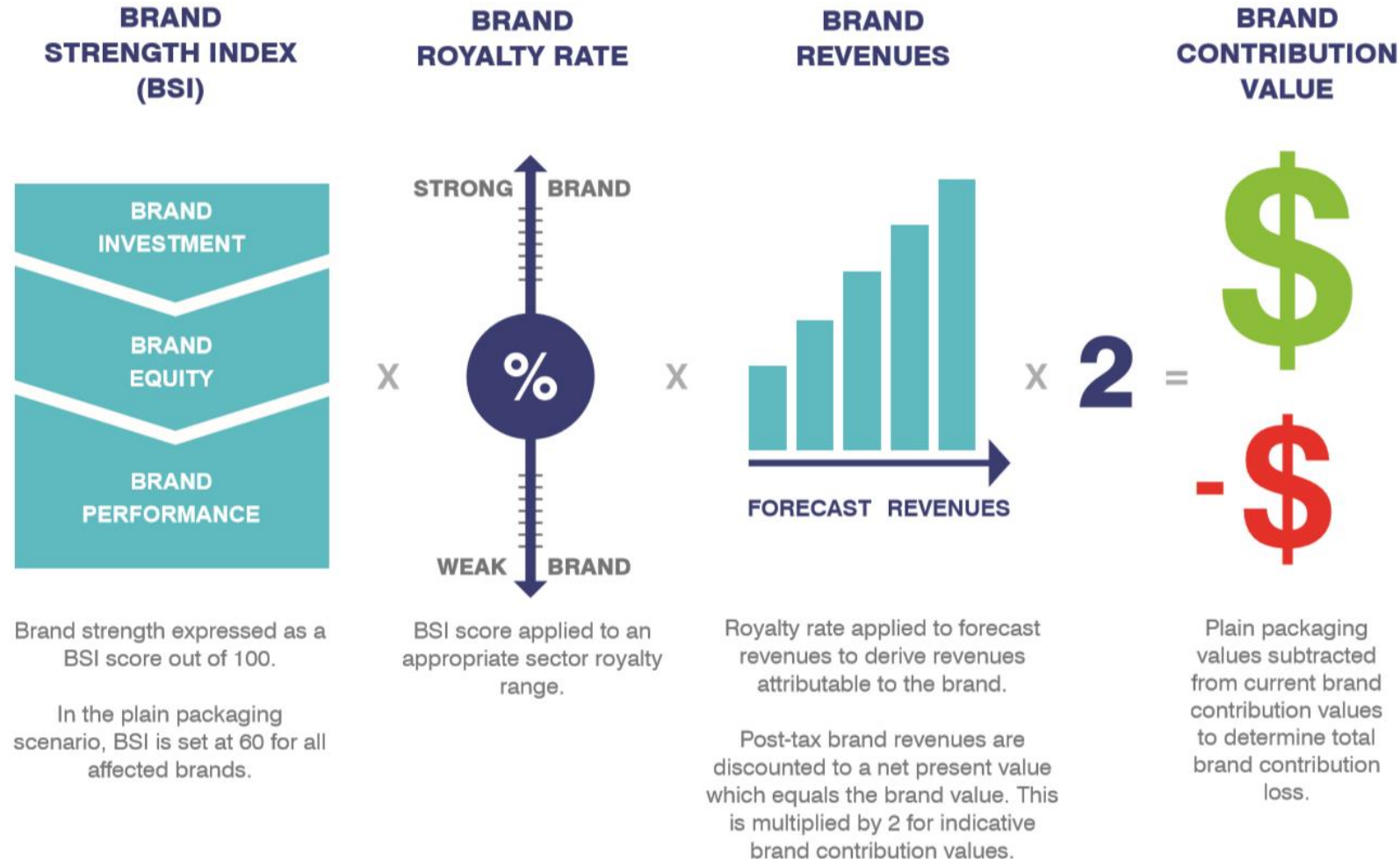
## Plain Packaging 2017

Brand Impact Analysis  
December 2017












































# Methodology

## Valuation Methodology



- Royalty relief method.
- Weak brand = Brand Strength Index (BSI) in the range 50-70.
- Assumed in absence of branded packaging, scoring in mid-point of this range = 60.

# Methodology

Parent Company	Identify All Brands	Determine Whether Brand is Affected		Number Affected	
 DANONE	139			13	 Conduct before and after plain packaging analysis on each affected brand
				126	
 Nestlé	114			38	
				76	
	101			52	
				49	
	105			72	
				33	
	135			84	
				51	
	196			196	
				0	
 Pernod Ricard <i>Créateurs de convivialité</i>	218			218	
				0	
	234			234	
				0	

# Key Findings

**\$187 billion** of total implied loss in value for 8 major brand-owning companies as a result of reduced brand strength and marketing effectiveness

At least **\$293 billion** of total implied loss across the beverage industry

**Fig. 1 - Implied Loss for Analysed Brand-Ownning Companies in the Sample if Plain Packaging Enacted Globally**



**Fig. 3 - Implied Loss for the Beverage Industry if Plain Packaging Enacted Globally**





# PepsiCo Example

Fig. 4a - Effect on Individual Brand Contribution Values - PepsiCo

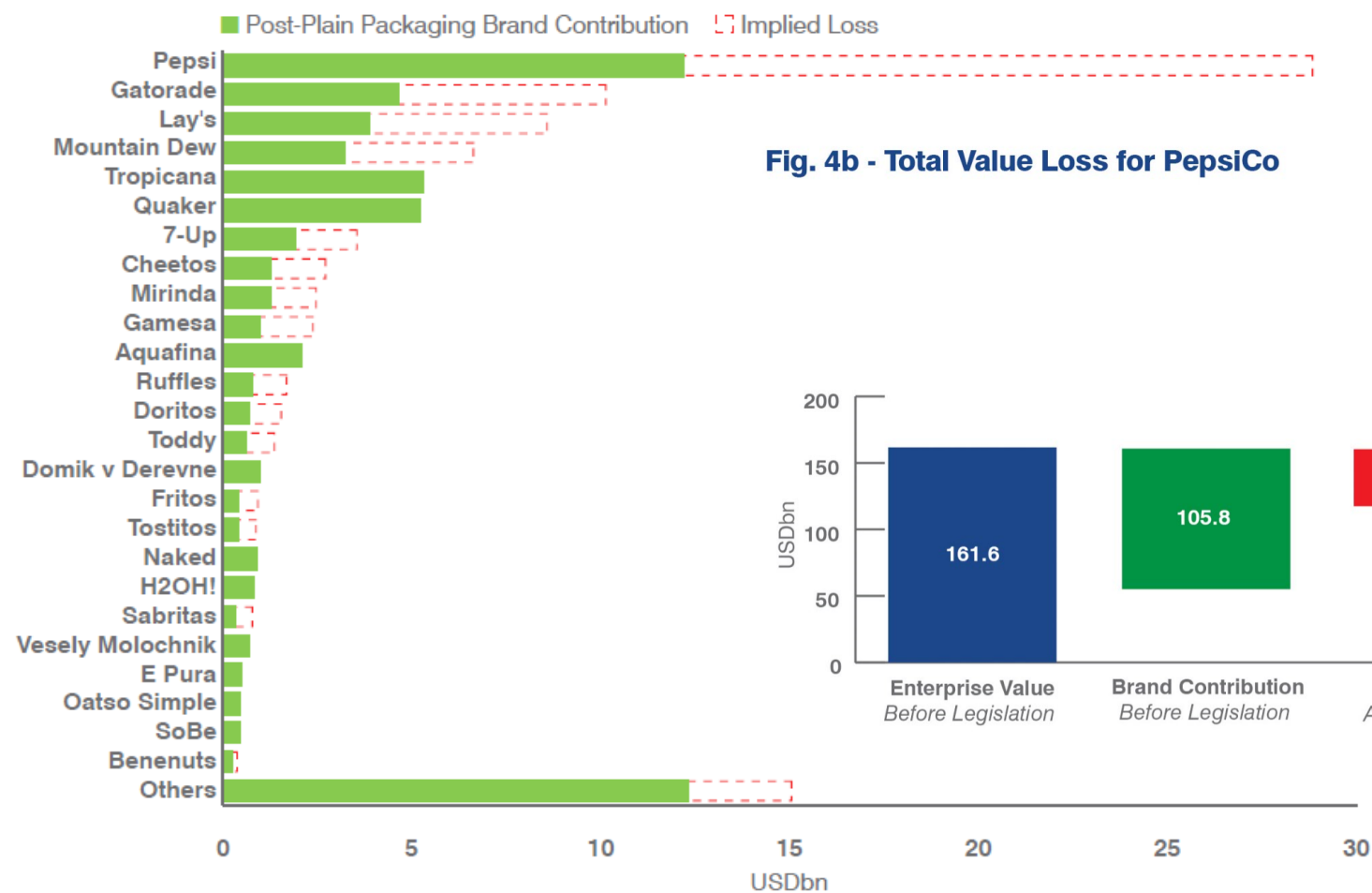


Fig. 4b - Total Value Loss for PepsiCo



# Pernod Ricard Example

Fig. 5a - Effect on Individual Brand Contribution Values - Pernod Ricard

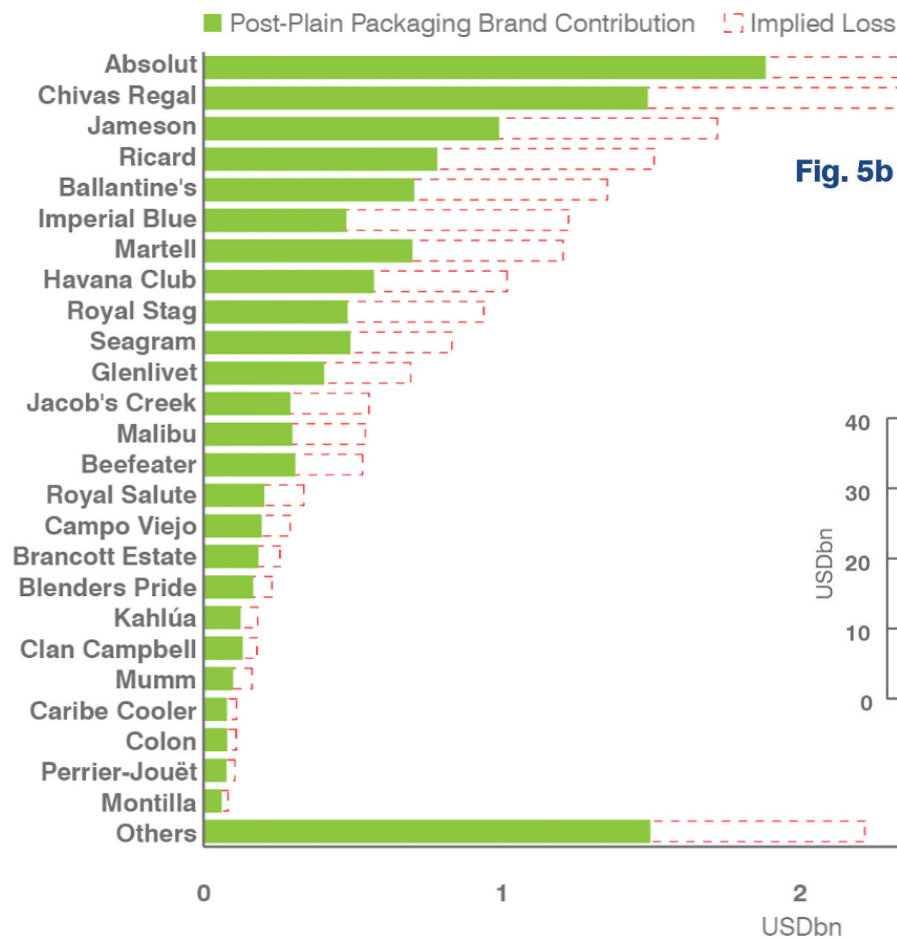


Fig. 5b - Total Value Loss for Pernod Ricard



# Does Plain Packaging work?

## Reducing consumption:

- Debate over the overall effectiveness of plain packaging in reducing consumption of tobacco products.

## Black market trade:

- Rise in unregulated and untested tobacco products sold by criminal gangs at discount prices available to minors.
- Illegal tobacco trade involves large-scale tax evasion.
  - Tax revenue loss due to the surge in illegal tobacco availability and sale.
- **After Australia implemented plain packaging, illegal sales rose by 21%.**



# Why losses to brands matter

**\$ 5.9 trillion in 2014 of “intangible capital,”** - Nearly one third of the value of manufactured products sold around the world, such as branding, design and technology.

*- According to a WIPO 2017 study of the global value chains companies use to produce their goods.*

**The total number of Intellectual Property Rights dependent jobs in the EU rises to 82.2 million (38.1%).**

**IPR-intensive industries generated more than 42% of total economic activity (GDP) in the EU, worth € 5.7 trillion.**

**IPR-intensive industries pay a wage premium of 46% over other industries.**

*- According to European Union Industry-Level Analysis Report, October 2016.*

**Globally, intangible value continues to soar, rising from \$19.8 trillion in 2001 to \$47.6 trillion in 2016, despite a drop of over 50% during the financial crisis of 2008.**

*- Brand Finance GIFT Report 2017.*



# GIFT™ 2017

# Why losses to brands matter



- World's most iconic brands will become unrecognisable, without being able to use any sort of branding for their product.
- Major loss of earnings for all major alcohol, sugary drinks, and fast food brands.
  - Coca-Cola – \$47.3 billion predicted losses as a result of plain packaging, which is equal to 24% of their total enterprise value.
- Knock-on effects in the creative industries, where FMCG's are major clients.
  - Design services
  - Advertising services



# Thank You!

## Contact us

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