By Thebe Ikalafeng

Brands on boards

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Fortune Magazine predicted in 1997 that "in the twenty-first century, branding ultimately will be the only unique differentiator between companies. Brand equity is now a key asset"

Although the founder of Quaker, John Stuart recognised the value of brands circa 1900 with his profound observation, "If this business were split up, I would give you the land the bricks and mortar, and I would take the brands and trademarks, and I would fare better than you.", it wasn't until the late 1980s that the real value of brands took centre stage when Nestle paid £2,5bn, double its market valuation, for Rowntree in 1989 and Phillip Morris acquired Kraft for a staggering 600% more than its book value in 1988.

Both the *Interbrand BusinessWeek's* and Millward Brown's World's Most Valuable Brand rankings, dominated by American brands which occupy two-thirds of the table, value leading brands Coca Cola, Microsoft and GE among their top five brands at between $67bn and $35bn, underscoring the value of the brands.

As soon as Interbrand Sampson published their top 10 most valuable brands in South Africa, Vodacom challenged the valuation of MTN at $1,540bn ahead of 58% local market leader Vodacom at $1,125bn. The counter estimate by brand valuation authority Prof Roger Sinclair yielded a significantly different and much higher value of R20bn for Vodacom ahead of the Interbrand Sampson leader, Standard Bank. The fact that Vodafone subsequently paid Venfin R15,6bn for its 15% share of Vodacom, boosting its own holding in the company to 50%, an offer Venfin's Johann Rupert said would have been difficult to turn down, probably put the debate to rest.

Similarly, the Absa board and shareholders could not resist the offer of £2,6bn by British giant Barclays for control of one South Africa's big four banks. The real point of contention was which brand to take to market – the globally recognised Barclays franchise or the brand which is perennially ranked among the most admired bank brands in the Markinor *Sunday Times* Top Brands Survey? The group opted to leverage the local equity of the Absa brand, endorsed by the Barclays brand.

Because of the sheer value and investment in branded assets, and the requirement for boards to approve prices that far exceed the net asset value of acquired assets by several multiples, the subject of brands and their location on the balance sheet has now become a matter of board importance. According to Sinclair, "Companies will now have to recognise the brands they take on as assets, value them and reflect them on the balance sheet, which will solve the problem of what to do with a large potion of the premium paid, traditionally recognised as goodwill by accountants."

Changes in accounting standards, specifically, IFRS 3, require that the Absa brand, for example, be valued and appear in Barclay's balance sheet as an acquired intangible asset, although Barclays is not recognised as an asset in its books because it is internally generated and the accounting standards do not accommodate internally generated brands. Sinclair believes it is just a matter of time before the practice is rectified.

Economic and market value

An analysis of over 300 brands valued by Sinclair established that the brand, along with cost control, consistent product quality, consumer loyalty, human capital and customer relations, is one of the key drivers of economic value and the eventual market value of companies. The brand, a recent report by *Selling Power* established, is the reason the USA's No 1 coffee café brand, Starbucks' stock has risen from $17 in 1992 to $527 in 2006, and the company far exceeded its "one store a day" target in 2005, opening a staggering 1 672 stores.

Conversely, not paying attention and protecting the brand can have far reaching implications as the headline corporate governance breaches of the late 90s and 2000s confirm. This saw Enron's share price decline from $80 to $0 in few months and its accounting firm, Andersen, one of big 5 firms with an 89-year history and a

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28 000 staff complement, lose over 300 corporate clients and go into bankruptcy. The value of the brand is also the reason Pick 'n Pay willingly offered a R5m reward to nab the culprit who spiked canned food at its stores with cyanide, which cost the company an estimated R250m, as up to 14% of customers avoided Pick 'n Pay during the scare period and a further 15% said they would not buy from Pick 'n Pay without thinking twice again.

There are three agreements about brands. One is that customers are the drivers of brands; secondly, the brand is first and foremost the interpretation of the strategy, the bridge between the organisation and its most important consumers; and, finally, it is a repository of value. Brands reassure customers about the quality of products and services, provide a platform on which to develop other businesses and brands, create barriers to entry, facilitate entry to new markets, have lower price elasticity and earn companies a premium. Branding is how the organisation's resources are brought to bear to deliver on the value proposition to customers and drive bottom line results.

Ill-understood and marginalised

However, because of the rare influence and representation that marketing has around the boardroom, the role of brands is often ill-understood and consequently marginalised. But marketers are to blame. First, as Professor Philip Kotler of the University of Chicago's Kellogg's Business School notes, marketers are even lucky if they have full control of one of the four P's of marketing. The most common "P"-promotion, which encompass advertising, communication, identity and sponsorship, is often isolated and described as "branding", thus reducing the meaning and respect of "branding". But as Professor Malcolm McDonald of Cranfield University cautions, the days of marketers "with bouffant hairstyles and suede booties, who think marketing is about promotions and advertising" are over. Marketers, he says, must be accountable to boards and investors on how they add value and measure success.

Secondly, marketers are notorious for their impatience. In a survey by PA Consulting, senior marketers also claim to be bored after only a year in their roles and are motivated by the size of their spending budgets, not by their profit contribution. Only 14% of them focus on improving economic profit, which partly explains why budget cuts are so disagreeable. Rather than fight for what is right for the firm, marketers move on to bigger budgets elsewhere. Another study conducted by executive recruiter Spencer Stuart published in *Advertising Age* in 2004 also established that although Chief Marketing Officer is a hot title, the average CMO lasts less than two years in the job, half the tenure of the CEOs to whom they report.

Thirdly, marketers don't understand their role on boards. According to the late management guru, Peter Drucker, "A business has two and only two basic functions: marketing and innovation. Marketing and innovation produce results: all the rest are costs." Marketers' role on the board of directors of companies, according to Kotler, is to bring the "voice of the customer" into all the strategic thinking and planning. They must, according to Scott Davis of Prophet, "understand the customer better than anyone else in the organisation and promote that knowledge throughout the corporation."

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Marketing's role is as leader in driving the customer experience and profitability across the enterprise. To restore their credibility, according to McDonald, marketers have to understand how success is measured in capital markets — shareholder value added, time, value of money, and cost of capital.

Finally, the brand is the interpretation of the strategy and the bridge between the organisation and its most important consumers. Therefore, if strategy – like governance – is the board's domain, then the brand is the job of the board. A study by the Zyman Institute of Brand Science at Emory established that the CEO, as the key link between the board and the organisation, makes it all happen, helping to create and nurture the brand, safeguarding its reputation and, as an architect of the brand, a key driver of shareholder value. ■