Justifying brand investments

DON E SCHULTZ

EVERY brand manager knows the brand is a valuable corporate asset. It differentiates often-undifferentiated products from "me too" competitors. It generally represents unrivalled intellectual property, builds ongoing bonds with consumers, enables premium pricing and has a whole litany of other values that are important to the organisation.

And for the most part, senior managers inside the organisation know many of these 'brand truths' too. But when it comes to funding the brand, all those platitudes go right out the proverbial window. Bottom-line driven senior managers suddenly become 'brand deaf' when faced with a request to pony up some money for brand support.

A host of rational, and sometimes irrational, excuses are conjured up: "Can't measure it," "Not a priority," "Competitors aren't spending on branding, so why should we?" and "Let's hold off until business gets better."

Sounds familiar? It should, because it points to one of the most common complaints I hear in brand conferences and seminars around the world. Brand managers often have difficulty selling a branding programme to a group of hard-nosed business leaders who are focused on stock prices and quarterly returns. And when economic times are tough, as they are in many in Western countries today, brand investments become more of a plea than a proposal. Talking about investing in the brand ranks just above resurfacing the corporate tennis court on senior management's to-do list.

The branding situation was succinctly explained by David Haigh, chief executive of Brand Finance, London, in his opening statement of the 'Brand Finance Global 500' report released last March. He said, "Brands are the most valuable intangible assets in business today. They drive demand, motivate staff, secure business partners and reassure financial markets. Leading-edge organisations recognise the need to understand brand equity and brand value when making strategic decisions."

When put that way, it seems downright silly that senior managers would resist making brand investments, that is, until you focus on the key words in the comment -- intangible assets.

That is what frightens some managers, challenges others and excuses a great many more. This is because intangible assets often do not appear on the balance sheet, and, even when they do, little detail is provided. They are not the basic tools senior managers and hoards use to discuss the state of the organisation. Those are all tied up in tangible assets like cash-on-hand, land, factories, inventory or contracts, all things that have an immediate and bankable value that can be agreed upon.

But the brand or a group of brands are ephemeral, soft, squishy values, often subject to interpretation or, most of all, based on subjective views. They often use seemingly arcane tools that do not provide the same answers.

Figure 1 shows the most recent rankings in order of the top five brands in the world, by the top three global valuation firms. All three valuators have a different ranking of the top brands. For the most part, they even have a different set of brands. Yet, all those valuations were derived from a set of legitimately arrived-at numbers by the brand ranking firm, albeit with a different set of assumptions.

No wonder senior managers and boards question the value of the brand. These values are determined and derived by methods they do not understand and do not even agree on. So what is a brand manger to do?

One thing I have found that resonates with chief executive officers, chief financial officers, chief marketing officers, boards and other senior managers is a framework that allows them to understand what the brand's intangible value really means to the firm. In other words, what determines the importance of the brand as an intangible asset to the organisation -- is it big, small or somewhere in between?

Brand finance creates a relevant relationship in its rankings that is useful in sorting brand value out from the overall value of the firm. It simply relates enterprise value (defined as the combined market value of the equities and debt of a business less cash and equivalents) with the brand value to create a ratio, a comparison and a relationship of tangible value and intangible value that gives senior managers some idea of the importance of the brand to the firm.

Figure 2 contains the numbers for the top five brands in the brand finance listings for 2011. Using this approach, the brand manager, rather than trying to argue for a brand budget, would approach brand investment as spending against a major part of the firm's overall value. When put in that context (that the brand is a part of the overall value of the organisation, and often a large one), senior managers start to see the value being managed.

In comparison, manufacturing organisations often have legions of people managing the plants and factories -- plant managers, operations directors and maintenance supervisors. The brand is often a growing asset. Shouldn't investments be made in something that has potential to increase in value in the future, not just decline?

I have found that this argument is one that often casts a new light on the brand. It makes the brand an integral part of the firm, not something that sits off in a corner. Additionally, once brand managers understand the proportion of actual organisational value they are managing, they are much more enthusiastic about arguing for brand support even in the face of hard times and declining profits.

The writer is expected to attend the World Marketing Summit in Dhaka as a speaker.

FIGURE1:

TOP THREE GLOBAL VALUATION FIRMS

BRAND FINANCE	INTERBRAND	MILLWARD BROWN
GOOGLE	COCA-COLA	APPLE
MICROSOFT	IBM	GOOGLE
WAL-MART	MICROSOFT	IBM
IBM	GOOGLE	McDONALD'S
VODAFONE	GENERAL ELECTRIC	MICROSOFT

FIGURE2:

TOP FIVE BRAND FINANCE BRANDS

BRAND FINANCE	BF BRAND VALUE	ENTERPRISE VALUE	BRAND VALUE/ ENTERPRISE VALUE%
GOOGLE	$44,294	$143,016	31%
MICROSOFT	$42,805	$166,725	26%
WAL-MART	$36,220	$154,326	23%
IBM	$36,157	$189,716	19%
VODAFONE	$30,674	$192,456	16%

Drugmakers leaving Europe as crisis saps returns

REUTERS, *London*

EUROPE'S debt crisis is not only making its citizens poorer, it is also reducing their access to cutting-edge medicines. Cash-strapped governments have slashed drug prices, racked up close to $20 billion in unpaid bills for treatments and are becoming increasingly reluctant to pay for innovation.

So disillusioned drugmakers are cutting back operations in Europe and launching more and more drugs elsewhere - trends that look set to accelerate as they question the case for clinical research in countries that may never pay for their inventions.

The frustration is evident at pharmaceutical giants like Britain's GlaxoSmithKline and Germany's Bayer, both of which have deep manufacturing and research roots in their home markets.

"Europe has unfortunately slipped in terms of its willingness to pay for innovation," GSK Chief Executive Andrew Witty told analysts last week.

"We're now at a point where we have to take the view and I think face the reality that really it's about the US and, excitingly anew, it's about Japan in terms of where innovation should be driven."

It is not as if the United States and Japan are pushovers.

There was protest from Big Pharma on Monday about plans for $364 billion of US healthcare savings over 10 years that industry said could cause massive job losses.

Witty argues, however, there is a widening gulf between attitudes in Europe, which is "stuck in a bad place," and those in the United States and Japan.

Modern drugs for complex diseases like cancer can cost tens of thousands of dollars but may transform outcomes for patients.

The United States in 2010 accounted for 61 percent of all sales of new drugs launched during the preceding five years, while Europe made up just 22 percent, according to IMS Health, which tracks prescription drug sales and trends worldwide.

Witty's comments will resonate, since the boss of Britain's biggest pharmaceuticals group is also the influential head of the European Federation of Pharmaceutical Industries and Associations (Efpia).

"He doesn't speak up in public unless it's needed. Everybody in the industry thinks the same way - this is a problem that is growing by the day," Richard Bergstrom, director general of the European lobby group, said in a telephone interview.

"The euro crisis has triggered the worst in the national governments. That is what really frustrates CEOs. People in governments don't seem to realize the risks they are taking, both in the short term with supplies and longer term with innovation."

Myanmar's economic promise faces pitfalls

AFP, *Naypyidaw*

RESOURCE-RICH Myanmar is seen as a hot new business frontier as reforms tempt investors, but with currency distortions and a banking system in tatters, analysts warn the economy could be slow to bloom.

International economic experts meeting in the capital Naypyidaw last week agreed there was almost a contagious faith in the country's potential as it opens up after years of isolation.

Aside from its abundant natural resources, including oil and minerals, Myanmar has huge scope to develop its tourism industry after years of boycotts against the former ruling junta.

The country was once known as the "rice bowl of Asia" because of its agricultural riches. But economic mismanagement during nearly 50 years of direct military rule left the country deeply impoverished.

Today, as a new government pushes through political reforms at a rate that has stunned observers, many hope it can take advantage of its opportunities and a strategic location between China and India.

"In many ways it is well-positioned to provide enormous investment opportunities," Nobel Prize-winning economist Joseph Stiglitz, of New York's Columbia University, said at the meeting of experts.

"The fact that there has been so little investment in the past means the potential returns are very high."

The government, which remains dominated by former generals, took power last year and has since been hailed for reforms such as the release of hundreds of political prisoners.

Western countries are now considering lifting economic sanctions, fuelling the huge growth in interest by outside business.

Myanmar's government said in January that it planned to offer eight-year tax exemptions to foreign investors as Western companies rushed to build ties with the one-time international pariah.

The International Monetary Fund has pointed to Myanmar's "high growth potential", estimating real GDP growth in the 2011-2012 fiscal year could hit 5.5 percent.

But it said currency reform is a priority in the country, which currently has an informal exchange rate almost 100 times better than the official one.

It's a view shared by Stiglitz, who stresses the need for "not only the unification of the foreign exchange but bringing down the foreign exchange rate, which is adversely affecting the competitiveness of their economy".

Myanmar's banking system is almost non-existent following a major crisis in 2003.

A recent report by the British risk analysis group Maplecroft said Myanmar has the world's worst legal system for doing business, retaining a position it has held for the past five years despite recent reforms.

The country must also professionalise its administration, which is stamped with a military culture and chronically under-skilled.

"The political changes in a way have gone very well and the story is relatively well-known now," said Myanmar historian Thant Myint-U.

"But the economic story is still very murky.

"I think the government is trying to undertake a lot of very wide-ranging reforms but how it's actually going to come together, how it's actually going to strengthen not weaken the political process, I think remains to be seen."

The government of President Thein Sein appears to be pulling out all the stops to persuade the European Union and United States to lift sanctions.

All eyes are now on April 1 by-elections, which opposition leader Aung San Suu Kyi has been allowed to contest after years of detention and marginalisation.

If the vote is perceived as free and fair, the country is likely to be rewarded by a further thawing of international relations -- and more foreign direct investment.

"We have to make sure it's responsible, that it is not just coming here for a very short term and then just run away with the profits," said Myanmar economist Aung Tun Thet. "But we really want serious partners."

Myanmar is likely to receive support from the Association of Southeast Asian Nations, of which it has been a member since 1997.

ASEAN wants to build a single market, giving Myanmar access to a network of regional trading partners.

Experts say the key to the country's success is to prepare for long-term sustainability to prevent the economy from overheating.

"The important thing is not to get carried away by the upswing," said Ronald Findlay, professor of economics at Columbia. Instead they should "damp things down a little bit before they get totally out of hand".

AFP

A local resident waits for his order at a roadside food stall in downtown Yangon. Myanmar's reforms have caught the attention of foreign investors, eager to do business in the resource-rich nation.