Finland
10
2017
The annual report on the most valuable Finnish brands
May 2017
Foreword.

David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits. Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

Brand Finance’s recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.

Acknowledging and managing a company’s intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.
Definitions

+ **Enterprise Value** – the value of the entire enterprise, made up of multiple branded businesses

+ **Branded Business Value** – the value of a single branded business operating under the subject brand

+ **Brand Contribution** – The total economic benefit derived by a business from its brand

+ **Brand Value** – the value of the trade marks (and relating marketing IP and ‘goodwill’ attached to it) within the branded business

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**Branded Business Value**

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or ‘enterprise value’.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

**Brand Contribution**

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike, an assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

**Brand Value**

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as “a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value”.

**Brand Strength**

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

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**Effect of a Brand on Stakeholders**

![Diagram showing the effect of a brand on stakeholders: Potential Customers, Existing Customers, Influencers (e.g., Media, Trade Channels, Strategic Allies & Suppliers), Investors, Debt providers, Sales, Middle Managers, Directors, All Other Employees, Middle Managers, Directors, All Other Employees, Production, Sales, All Other Employees, Middle Managers, Directors, All Other Employees, Production.](image)
Methodology

League Table Valuation Methodology

Brand Finance calculates the values of the brands in its league tables using the ‘Royalty Relief approach’. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

**The steps in this process are as follows:**

1. Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world’s largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

2. Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance’s extensive database of license agreements and other online databases.

3. Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand’s sector is 0-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.

4. Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.

5. Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.

6. Apply the royalty rate to the forecast revenues to derive brand revenues.

7. Brand revenues are discounted post tax to a net present value which equals the brand value.

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**Brand Finance Typical Project Approach**

1. **Inputs**

   - **Brand Audit**
     - Audit the impact of brand management and investment on brand equity
   - **Trial & Preference**
     - Run analytics to understand how perceptions link to behaviour
   - **Acquisition & Retention**
     - Link stakeholder behaviour with key financial value drivers

2. **Brand Equity Value Drivers**

3. **Stakeholder Behaviour**

4. **Performance**

5. **Valuation Modelling**

   - Model the impact of behaviour on core financial performance and isolating the value of the brand contribution

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**How We Help to Maximise Value**

1. **Base-case brand and business valuation (using internal data), growth strategy formulation, target-setting, scorecard and tracker set-up**

2. **Optimise brand positioning and strength**

3. **Portfolio management/rebranding Group companies**

4. **Build core business through product development**

5. **Build core business through market expansion**

6. **Build scale through licensing/franchising/partnerships**

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**League Table Valuation Methodology**

**Brand strength index (BSI)**

- Strong brand
- Weak brand

**Brand ‘Royalty rate’**

BSI score applied to an appropriate sector royalty rate range.

**Forecast revenues**

Royalty rate applied to forecast revenues to derive brand values.

**Brand revenues**

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

**Brand value**

Forecast revenues discounted post tax to a net present value which equals the brand value.
Executive Summary

Finland 10

Finland’s most valuable and fastest growing brand, Nokia, is one of the more remarkable success stories of 2017. It was a regular feature in the Brand Finance Global 500 and reached a peak brand value of €22.5 billion in 2008, making it the world’s 9th most valuable brand. Its slow response to the emergence of smart phone technology led to a well-documented decline at the hands of Apple and Samsung. Brand Value sunk to a low of just of €1.5 billion in 2014.

However, after a period of consolidation, Nokia is firmly on the road to recovery. After the mobile device division was sold in 2014, the company continued in the networks business (rebranded from NSN) and acquired a controlling stake in Alcatel-Lucent in 2016 to create one of the largest players in the sector. Alcatel-Lucent has since been rebranded as Nokia, further reinforcing the position of the brand.

2017 marks another turning point in Nokia’s saga, as the brand is once again visible on mobile devices following the launch of a range of new smartphones by HMD Global Oy, exclusive licensee of the Nokia brand for mobile phones and tablets (founded by Nokia veterans in 2016). This newfound momentum sees Nokia’s brand value climb 56% to €4.4 billion while the fundamental brand equity measures are improving too, which sees Nokia’s brand strength rating upgraded from AA to AA+.

Second-placed Kone grew 23% in brand value to €1.5 billion. Despite a decrease in new orders in China, Kone’s Q2 operating income increased by approximately 7.2% year on year. Kone has secured various orders in the US and the Middle East, somewhat offsetting the decline in China. Furthermore, the launch of its ‘Connected Services’ function, which facilitates remote monitoring and managing of Kone’s global maintenance base follows a multi-year agreement signed with IBM to use its analytics tools.
Executive Summary

Brand Value Over Time

Dairy brand Valio enjoys strong demand from abroad thanks to both the quality of its products and the strength of the Finnish national brand. Finland’s governance, heritage and pristine environment creates positive associations for its agricultural, food and beverage brands. However, Valio is the fastest falling Finnish brand this year, its value down 24% to €564 million. Valio cut approximately 200 jobs from its 3,500-strong workforce and shut down a facility in the city of Tampere.

The cause is Russia’s embargo of certain EU food products, imposed in retaliation for western sanctions. This comes amidst global overproduction and weak global demand for milk products. Furthermore, the company was fined €70 million for abusing its dominant market position by selling basic milk at too low a price. Competitors may now seek damages, a process which could take years. Valio is therefore having to explore other ways to leverage its brand. Baby-food is not one of Russia’s proscribed products, so Valio has begun exporting dairy-based baby food to the country for the first time in 15 years. The vast Chinese market, where European food brands are also prized, is another source of growth. Despite this year’s sudden drop in value, there are clearly positive signs for Valio’s brand.

Telecoms brand Elisa posted a 6% jump in revenue in the third quarter of 2016 as a result of an uplift in mobile data revenues, improved efficiencies and the July purchase of regional operator, Anvia. Elisa also added 58,000 broadband subscribers in the quarter. Elisa’s brand value grew 17% to €857 million. In contrast, DNA, the only other telecoms brand in the table, fell 17% to €338 million.
Understand Your Brand’s Value

A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand’s value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary
Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

Brand Value Dashboard
Drivers of Change
Three key areas impact Brand Value (EURm)

Brand Performance
An ideal balanced scorecard of fundamental brand related measures

Brand Investment
Drivers that drive the Brand Equity and financial results

Brand Strength Index
A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

Brand Strength Index
• Internal understanding of brand
• Brand value tracking
• Competitor benchmarking
• Historical brand value

Brand Valuation Assumptions
Investing economic assumptions used in valuation

Determining the Royalty Rate
In order to apply for Brand Strength Index, a hypothetical royalty rate range needs to be set.

Competitor Royalty Rates
Competitor royalty rates will be different based on different strengths of the brand, having different operating segments and company-specific long-term affordability.

Royalty Rates
Analysis of competitor royalty rates, industry royalty ranges and margin analysis used to determine brand specific royalty rate.

Cost of Capital
A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

Trademark Audit
Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

A full report includes the following sections which can also be purchased individually.

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How we can help

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.

2. Analytics: How can I improve the value of my branded business?

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

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.

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.

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

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

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

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

For further information on Brand Finance®’s services and valuation experience, please contact your local representative:

For all other enquiries, please contact: enquiries@brandfinance.com

+44 (0)207 389 9400

How can we help

Contact details

Contact us

For brand value report enquiries, please contact:
Alex Haigh
Director of League Tables
Brand Finance
a.haigh@brandfinance.com

For media enquiries, please contact:
Robert Haigh
Marketing & Communications
Director Brand Finance
r.haigh@brandfinance.com

For further information on Brand Finance®’s services and valuation experience, please contact your local representative:

Country | Contact | Email address
--- | --- | ---
Australia | Mark Crowe | m.crowe@brandfinance.com
Brazil | Pedro Tavares | p.tavares@brandfinance.com
Canada | Bill Ratcliffe | b.ratcliffe@brandfinance.com
China | Minnie Fu | m.fu@brandfinance.com
Caribbean | Nigel Cooper | n.cooper@brandfinance.com
East Africa | Jawad Jaffer | j.jaffer@brandfinance.com
France | Violette Russuit | v.russuit@brandfinance.com
Germany | Dr. Holger Mühbauer | h.muehbauer@brandfinance.com
Greece | Ioannis Loui | i.lou@brandfinance.com
Holland | Marc Cloosterman | m.cloosterman@brandfinance.com
India | Ajmon Francis | a.francis@brandfinance.com
Indonesia | Jimmy Halim | j.halim@brandfinance.com
Italy | Massimo Pizzo | m.pizzo@brandfinance.com
Malaysia | Samir Dixit | s.dixit@brandfinance.com
Mexico | Laurence Newell | l.newell@brandfinance.com
LatAm (excl. Brazil) | Laurence Newell | l.newell@brandfinance.com
Middle East | Andrew Campbell | a.campbell@brandfinance.com
Nigeria | Babatunde Odumere | b.odumere@brandfinance.com
Portugal | Pedro Tavares | p.tavares@brandfinance.com
Russia | Alexander Eremenko | a.eremenko@brandfinance.com
Scandinavia | Alexander Todoran | a.todoran@brandfinance.com
Singapore | Samir Dixit | s.dixit@brandfinance.com
South Africa | Jeremy Sampson | j.sampson@brandfinance.com
Spain | Lorena Ramírez | l.ramirez@brandfinance.com
Sri Lanka | Ruchi Gunawardene | r.gunawardene@brandfinance.com
Switzerland | Victor Rusati | v.rusati@brandfinance.com
Turkey | Muhterem Iğınar | m.iginar@brandfinance.com
UK | Alex Haigh | a.haigh@brandfinance.com
USA | Ken Runkel | k.runkel@brandfinance.com
Vietnam | Lai Tien Manh | l.mai@brandfinance.com

Disclaimer

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