Brand Finance®

Whitepaper

How Brands Can Overcome Unprecedented Crises.

David Haigh
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+ Coronavirus pandemic could trigger the worst downturn in 100 years
+ Aviation sector, oil & gas, hotels, restaurants to be most affected by COVID-19 outbreak
+ All brands must show resilience, adaptability and seize the digital revolution

There has not been a serious recession in the UK since the great crash of 2008-2009 (Subprime debt crisis) although there have been two serious economic downturns in 2011-2012 (European debt crisis) and again in 2015-2016 (Global Oil price war). Commentators have suggested that the world is long overdue for a major recession, which conventional wisdom says comes about once every 10 years.

The definition of a recession is two quarters of negative GDP growth. Several European economies, including the UK, have flirted with recession in recent years (no doubt connected with Brexit fears), but the actual effects have been relatively minor, and apart from a slump in Sterling since 2016, and perhaps because of it, the UK economy has remained strong and growing for the last 3 years.

However, the CoronaVirus pandemic has now triggered the long-anticipated downturn. The pandemic has developed far faster than anyone could have imagined. There seems to have been a complacent belief that it was largely a Chinese or Asian problem and that Europe would cope better and with less severe consequences. However, since December 2019, when the first outbreak occurred in Wuhan, the Chinese government has taken unprecedented action to control the disease which has now plateaued there. The huge Chinese economy is apparently getting back into action and even offering help to others.

Meanwhile, European countries have taken little action, with the result that the outbreak has grown exponentially, and all European economies are now in lock down.

One consequence of the pandemic has been a reduction in global demand for oil and gas which has caused a disagreement between members of OPEC about voluntary curbs on oil supplies to keep prices high. Unfortunately, the Russians and Saudis cannot agree on supply curbs and quotas and so the Saudis opened the flood gates and have driven oil prices down from $70 a barrel to $30, crucifying shale oil producers in the US and all the oil majors, who require high oil prices to keep their more expensive wells profitable. So to add to the health crisis several oil producing economies and companies are being badly hit.

It is quite unusual for there to be such an immediate recession, a stock market slump, both supply and demand side contractions, an oil price collapse and massive unemployment all at once. It's unprecedented, in fact. Some now say that this could be the worst downturn in 100 years.

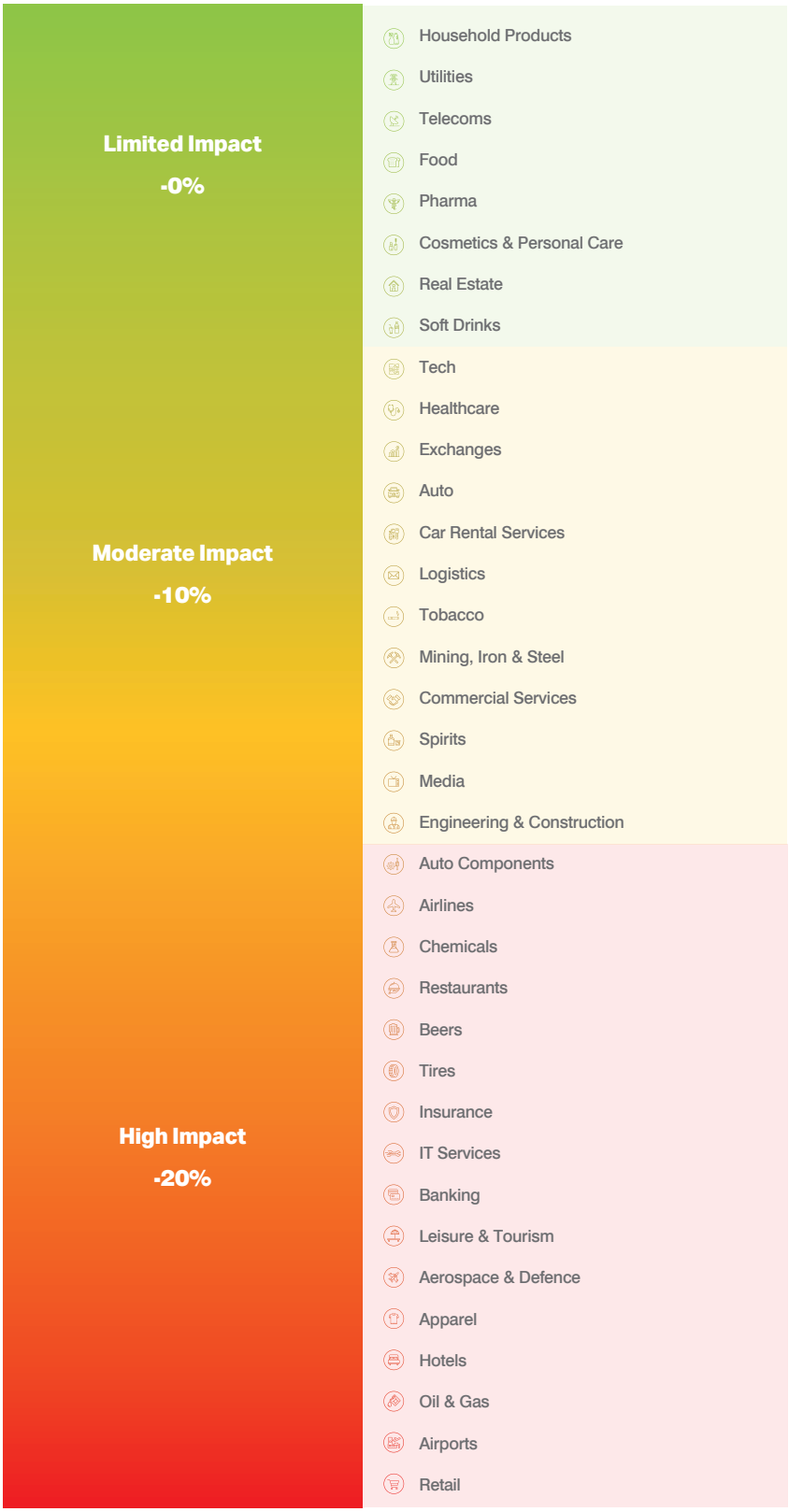
Against this background, it is being seriously suggested that the UK will be locked down for a minimum of 3 to 6 months and that the UK's GDP will shrink by 10% in the first half alone. The government has scrambled to provide monetary and fiscal stimulus and support. Bank Base rates will be virtually zero for some time and many taxes are being cut or deferred. Direct loans and grants will surely follow to prevent the economy melting down, particularly in specific sectors like aviation, transport, hotels, leisure and retail. But there will be significant unemployment and some industries will be seriously damaged despite government assistance.

Interestingly, the crisis has revived nationalistic economic policies. Most major economies are providing very substantial financial help to prevent 'strategic' national industries going to the wall, even though such action is explicitly banned under the EU and WTO competition rules. Vulnerability to long supply chains is also making countries consider rebuilding national industries long closed by Asian manufacturing competition. Pharmaceutical and medical equipment sectors are just one where reliance on China could slow the process of dealing with the health crisis.

The immediate impact of the crisis is still hard to entirely predict. It depends on how severe the pandemic gets and for how long. It also depends on economic and social policy responses by governments.

Although the final impact is hard to predict, Brand Finance analysts summarised the stock market's view by assessing the impact of the COVID-19 outbreak based on the effect of the outbreak on enterprise value, as at 18 March 2020, compared to what it was on 1st January 2020. We conducted this analysis and separated the effect by sector. Each sector has been classified into 3 categories based on the severity of enterprise value loss observed for the sector in the period between 1st January 2020 and 18th March 2020.

The overall loss on enterprise value has been upwards of $8trn, constituting more than 30% losses in some sectors. Assessed as the hardest hit sector are airlines, leisure and tourism, aviation, aerospace

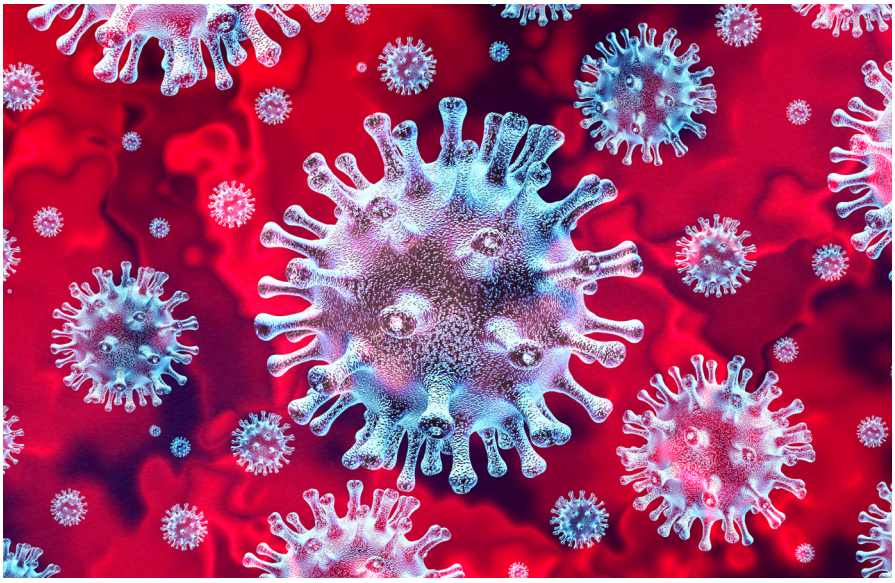


and defence. The global airline industry has called for up to €200bn in emergency support and Boeing called for €60bn in assistance for aerospace manufacturers. The International Air Transport Association (IATA) has said most carriers will run out of money within two months as a result of the closure of borders for arrivals as governments order a shutdown to contain the coronavirus outbreak. A large number of major airlines have grounded most of their fleets and announced plans to lay off thousands of staff as they now confront a crisis unlike anything ever seen before in the airline industry.

The luxury industry, also classified as high impact, is feeling immediate effects from COVID-19 outbreak. The highest spend on luxury comes from China, where the outbreak began, and as the health epidemic takes its toll on the high street and forces shops to shut, the impetus for luxury purchases will be the first to fall.

Perversely, some economists argue that the shakeout of weak companies and brands is a desirable process. Persistently low interest rates since the 2009 financial crisis have kept 'zombie' businesses and brands on life support when by rights they should have gone bust. Heavily indebted, inefficient and slow-growth companies should, they argue, be allowed to die to free resources for new market entrants. Brands like Carphone Warehouse, Laura Ashley, and Debenhams spring to mind.

The national unemployment rate was until recently only 3% of the UK working population, which is deemed by many economists to be full employment. It certainly is in London, which explains the huge demand for immigrant labour in the booming South East region. Full employment constrains the labour supply for fast-growing new industries and businesses.



Seldom has the world been such an unpredictable and risky place for marketers and their brands. The $64,000 dollar question is which brands will actually survive the carnage. At Brand Finance we have been tracking brand values continuously since 2007 when we first started publishing the Brand Finance Global 500 ranking the world's most valuable brands. We have tracked how brand values have fluctuated during the three major economic downturns experienced in 2009, 2012, and 2016.

There are 405 brands whose brand value can be tracked continuously since 2008, through all recent recessions. We found that during the three recessionary periods average brand value growth was lowest across the whole sample. We also found that some brands habitually fall in value during downturns and that they come from specific sectors. The attached table summarises the Consistent 100 Winners and the Consistent 100 Fallers on average over the three downturns.

Interestingly, banking is particularly vulnerable, with 74 of the Consistent 100 Fallers being bank brands. This is perhaps not really surprising because banks are the backbone of the wider economy and are highly leveraged. If their borrowers default it can rapidly undermine the integrity of the banking business and the balance sheet. In addition, recessions usually lead to lower interest rates and therefore constrained margins for banks. In many respects people don't appreciate that banking is a highly leveraged, high risk, low margin business. So weaker banking brands fare worse. High quality, higher margin banking brands like American Express and Coutts perform better during recessions.

Looking at the Consistent 100 Winners, banks are also well represented with 30 of the top 100 brands listed. However, telecoms and a wide variety of other sectors are featured. 14 of the top 100 Winners are telecoms companies, perhaps because demand for communications and entertainment grows during recessions.

The notable feature of our long-term analysis is that strong brands, as measured by Brand Finance, perform better, whichever sector they are from. Considering brand strength, we find that over the period from 2008 to 2019, the Consistent 100 Fallers have average Brand Strength Index (BSI) scores of 66 while the Consistent 100 Winners have average BSI scores of 70. This finding is in line with other research we have conducted which correlates brand strength with overall stock market out-performance. AAA+ brands, as measured by Brand Finance via our brand evaluation process, consistently outperform the S&P 500.

The COVID-19 pandemic is now a major global health threat and its impact on global markets is very real. Worldwide, brands across every sector need to brace themselves for the Coronavirus to massively affect their business activities, supply chain and revenues in a way that eclipses the 2003 SARS outbreak. The effects will be felt well into 2021.

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One thing we have to consider is that all business valuation and brand valuations are conducted on a Fair Market Value basis which considers what a willing buyer will pay a willing seller, in an arms length transaction, for the subject asset. Willing buyers demonstrate that they are willing to pay a premium for strongly branded companies. What this says is that they believe that strongly branded companies are expected to have more reliable demand, lower cost profiles, more efficient marketing leverage, and lower cost of capital for longer into the future, for which they are prepared to pay an investment premium.

So much for macro economic effects created by the current health crisis and so much for the average performance of brands over a long period, through thick and thin. The question now is during the current downturn how are specific brands likely to fare. It is early days, but trends are already emerging.

All brands in the airlines, hotels, retail, hospitality, leisure, luxury, and beer sectors are suffering. Brands like British Airways, Virgin Atlantic, and Lufthansa have almost unbelievably all suggested they may go bust. Many will go bust if they are not bailed out to survive. But other sectors are doing well.

Brands involved in all aspects of medical and health provision (NHS, BUPA, Nuffield, Boots, GSK) are all in the front line and are booming.

Brands involved in online retailing (Amazon, Walmart, and Ocado) are all performing strongly. In fact, Amazon has announced that it will be recruiting 100,000 extra staff to cope with increased demand as customers self isolate and get their provisions and products via the internet.

Brands involved in communications and entertainment (BBC, Amazon Prime, Netflix, Vodafone, Orange, Verizon) are all experiencing significant uplift in demand as bored people sit at home both working and trying to entertain themselves.

Many brands in the business to business world seem to do well whether things are bad or good! So Deloitte, which has mobilised in an unprecedented way to help its staff, clients and governments worldwide to help, will be doing well. In the various recessions we saw that PwC, EY, and KPMG also performed well. They move fast to fulfil the needs of companies in recessionary and non-recessionary periods alike.

However It is not all doom and gloom. Some brands will fare better under COVID-19: Amazon, Netflix, WhatsApp, Skype, BBC and BUPA are all booming.

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Certain consumable and household product brands are also booming. Paracetamol analgesics, Andrex toilet paper, Marigold gloves, and various alcohol brands are all in big demand.

Some brands are not looking to enhance their financial performance but to build reputation and goodwill rather than revenues, at least in the short run. For example, The National Trust has waived all entrance charges for people on lock down who want a walk in the great outdoors. This will build their brand in the long term. No doubt there are many other altruistic brands that will be remembered for such gestures.

The final question facing the marketing world is how should brand managers react in the way they behave and what should they do about investment in brand communications?

It is easy to argue that brand managers should lay low and wait for the worst effects of the crisis and the recession to disappear. But as The National Trust action demonstrates, such moments do create opportunities to present their brands well to the world and to their stakeholders, particularly to their internal stakeholders. Every brand manager should consider what is authentic, appropriate and casts their brand in a favourable light for the time when things improve.

Our own data supports this phenomenon. Amazon has been the world's most valuable brand for the last two years according to our valuation analysis, having grown at breakneck speed for the last 20 years. During the financial crisis, from 2007 to 2010, Amazon increased its level of marketing spend relative to revenue consistently every year and by 2010 the level was 30% higher than 2007. In 2010, its brand was 143% more valuable than it was in 2007. Ebay, by comparison, reduced its level of sales and marketing investment by 13% and saw its brand value fall by 22%. Amazon's fortitude during the crisis years, buffeted it from many of the issues facing retailing and set it up for its astronomical growth in later years.

On which note the other $64,000 question is should advertising budgets and activity be curtailed? The simple answer is no. In fact, from a contrarian perspective advertising and promotion should be increased. Firstly, the cost of media usually decreases in recessions. Secondly, consumers are more receptive and have more time to absorb brand messages. Thirdly, if the messaging is appropriate it can have a more powerful emotional effect. This is why PIMS and LBS found that during the 1993 recession those companies which advertised consistently and heavily during the downturn experienced a significant growth in market share in the two years following the recession.

So the moral of the story is get the message right and get out there and communicate. People are responsive and looking for reassurance from brands they like, trust, and respect at a crucial and scary time in their lives.

Consulting and Evaluation Services.

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

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 +
Return on Marketing Investment +
Brand Audits +
Brand Scorecard Tracking +

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+ Franchising & Licensing
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+ Expert Witness

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 +

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.

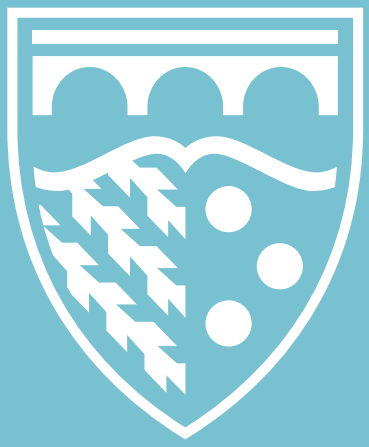
TAX

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.



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 more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:

- **Independence**
- **Technical Credibility**
- **Transparency**
- **Expertise**

We put thousands of the world's biggest brands to the test every year, evaluating which are the strongest and most valuable.

Brand Finance helped craft the internationally recognised standard on Brand Valuation – ISO 10668, and the recently approved standard on Brand Evaluation – ISO 20671.

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