Brand Finance®

Whitepaper

Avoid Arguments and Improve Performance with a Value-Based Approach to Brand Transition Decisions.

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- **Businesses should evaluate the effect of brand transition, based on demand as well as cost efficiencies**
- **In some cases, poor planning has led to over 20% loss of customers following a transition and no significant increase in acquisitions**
- **The stakes are high but so are the opportunities - a structured evaluation of the benefits to business value is key when deciding on a brand transition**

Multi-divisional businesses are generally considering the structure of their brand portfolios regularly. Sometimes things are fine, sometimes change too hard, but sometimes the factors seem right for at least considering the potential improvement in business performance from a change in the brand of a division, business or activity.

Historically, businesses have looked at brand strategy as a means to rationalise portfolios to create clarity and consistency of brand management. However, this approach implicitly reviews only the cost and complexity of brands rather than their ability to create value – both improving earnings and reducing cost – overall. Thankfully, more businesses are recognising the need to identify all benefits or disadvantages and see that branding is more than an administrative cost but we at Brand Finance believe more should be done to make this point of view established practice.

There are many triggers that might provide the opportunity to add value to a business through a change of brand. For example:

- M&A: acquiring companies often want to combine marketing efforts with their acquisition to avoid waste and inefficiency. This is often a primary concern but often overlooks impacts on demand from changes causing significant reductions in value.

- Global or regional marketing: it can be more likely your subsidiaries capture the benefit of global marketing if they are under the same brand as that being marketed. Vodafone's global rise was created partly through global sponsorship which created an impetus to switch its local brands.

+ Increased competition: a new brand in the market may indicate a need to hit back with a competitive response. When Uber enters a new market, for example, focus is needed and competitive sub-brands may need to merge to benefit from joined-up marketing.

+ Changing tastes: customers may decide, for example, something traditional is now better than contemporary or transparency becomes more important than simplicity.

+ New product launches: shifting the product or service focus of the entity might mean marketing works better under a new positioning. A gas provider launching in to internet of things – for example – may need a change from a positioning focussed on warmth, care and reliability to technology and security.

+ Executive order from above: sometimes the board just wants to move to a single brand with no explanation. Finding the way to minimise risk and maximise gain from a change is just as, if not more, important than where a specific benefit is identified.

Establishing whether it's possible

The first step in any assessment is to determine whether it is even possible to change brands.

Often, group companies cannot be rebranded due to a lack of ownership and control, usually meaning 50% or 75%+ of voting rights. Without this it may be impossible or unwise to rebrand due to a lack of control over its potential use and, even where it exists, a lack of support either in the parent or subsidiary company may render the initiative not worth the bother. Regulatory requirements in some industries – in particular banking – also complicate matters, necessitating ownership hurdles that must be satisfied in order to use or reference a parent brand name.

That being said, where management control exists or where it doesn't but management supports a rebrand many companies can and do decide to use different or new brands. With the case of the latter, these often take the form of a licencing structure akin to Virgin's business model where Virgin has no or limited ownership of the underlying companies but manages and protects its brand while extracting a royalty.

Licencing can create issues though, particularly where the brand being licenced-in is owned by a major shareholder. Non-controlling interests rightly scrutinise any action by a major shareholder that does not look arm's length, meaning that appropriate royalty rates to be used need to be scrutinised and justified carefully.

Internal considerations unrelated to brand can also become sticking points. Where there are plans to sell the business being considered for a rebrand, it would usually not make sense to transition the company's visual identity

unless you are planning to licence the brand to the acquiring company – rebranding costs needed by the acquirer would likely reduce their bid.

Identifying branded businesses with potential for value growth

The fundamental questions for establishing an opportunity are:

+ How much, if at all, will a rebrand upset current customers?
+ How much, if at all, will it entice new customers?
+ How much will it cost?
+ What, if any, are the benefits to the wider group?

Questions we are attempting to answer

1 Churn	**a.** Who will immediately churn? **b.** Who will incrementally churn over time?
2 Acquisition	How many more acquisitions will be gained for the same period?
3 Cost/Time	**a.** How much will it cost? **b.** How much time will it take?
4 Wider Benefits	What are the other benefits to the rest of the group?

In most cases there will be implicit, or even explicit, aversion to the new brand driven either through loyalty to the old or perceptual problems with the new. Take, for example, a logistic firms which owned a company which operates sorting and distribution terminals under a different brand which it was considering rebranding. Its subsidiary offered services to the parent company's competitors who, it quickly became clear, would be less likely to sort and distribute their goods through the subsidiary's terminals were the subsidiary to rebrand to the parent brand. The benefits of a rebrand may, therefore, not outweigh the costs.

This effect also happens with consumer brands. A food delivery app in the US, for example, was considering how to reorient the company to fight off a recent entrant that was well financed and growing quickly. It had recently acquired a competitor in order to eliminate its competition from the market, acquire its customers and combine product development and investment budgets around one, single-branded platform. After analysing the impact of marketing spend on awareness

for the parent and sub brand, it became clear that the parent brand's marketing spend was much more effective at driving awareness and user growth than the sub-brand – a finding attributed to it being bigger and better thought of in almost all market segments. It seemed clear that the plan to rebrand should occur as soon as possible.

However, we reviewed the responses of existing brand customers to the new brand and its product, many of which were negative. 4-5% of customers said they would definitely not, and over 20% probably not, order from the app if it were under the new brand, a number which increased when considering only regular users of the existing brand – the high value group. This analysis on the rate of potential customer loss was confirmed after reviewing two previously rebranded acquisitions which had seen 15-20% customer losses.

It was also noted that the acquired app was known by a number of potential customers unaware of the parent brand. A switch in brand would remove a distribution channel for acquiring new customers since those who were aware of the sub-brand but not the parent would not know to search for the latter. The risks showed the solution was to rebrand slowly, with plenty of reminders and signposts about the impending switch.

How much, if at all, will it entice new customers?

Fundamentally and across all sectors, customers tend to purchase more from brands when:

+ They are aware of the brand;
+ They think the brand represents something they like; and
+ They are selling a product they want at a price they're happy with

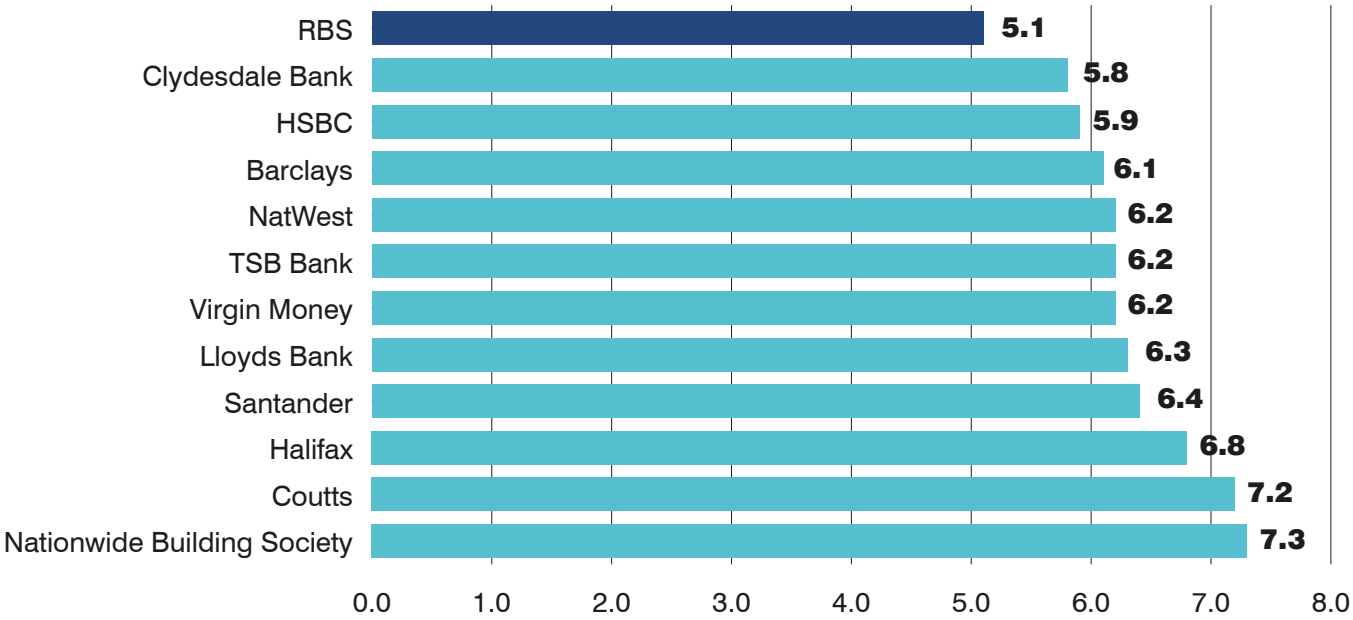
Assuming the product offer would be the same under either the existing brand or the new brand, the questions to be answered can be narrowed to awareness and the brand's equity – perceptions held by customers and other stakeholders. Brand tracking and business performance data are therefore the most useful information to be used to review architecture opportunities.

Businesses that are underperforming may represent one such architecture opportunity. At Brand Finance, we have noted that the RBS brand of Royal Bank of Scotland group in the UK was falling in value, RBS' retail customers were leaving at a faster rate than competitors and new customers were joining more slowly. It was also returning to profitability more slowly than other banks.

Having asked the question "How reputable do you think this brand is?" to a sample of 1000 since 2015, it became clear to us that this underperformance correlated with the brand's position as the worst perceived big bank in the UK.

In the last few years, RBS has transitioned to NatWest in England & Wales: the group clearly also noticed an opportunity for a reputational revamp.

How reputable do you think this brand is? Average response (/10)



Identifying the attributes customers value in a brand and analysing their impact on demand – drivers analysis – is key here for identifying whether there would be opportunities from a rebrand. When Vodafone was embarking on its global expansion strategy, it became clear that in many markets Vodafone was considered superior to the brands of their local acquisitions – on network coverage, international prestige, reliability and many other important drivers of demand – despite not yet being present in the market. Those markets offered the easiest opportunity for value growth since little more than switching the brand identity was needed to create a benefit.

How much will it cost?

Rebranding requires investment in management time, research, training, brand guidelines, on-going performance and compliance audits to name just a few of the main areas. It necessitates the updating of everything from packaging, uniforms, delivery vehicles and delivery systems to business cards, advertising campaigns and stationery. It also creates the need for incremental investment explaining the change through advertising and promotion.

These costs can be significant. A shipping company with fifty thousand containers each costing $1,000 to rebrand will face a cost of $50m to complete what would only be a small part of the overall transition.

Just as the drivers of demand for brands differ between sectors, so do the activities and costs associated with branding and marketing and therefore what needs to be done for a rebrand to be successful.

One of the first steps in a rebrand is therefore to identify what will need to be updated and how feasible, and costly, any changes are. A step usually best completed after speaking with brand identity management specialists and internal teams closer to the action than central office.

What, if any, are the benefits to the wider group?

The benefits to the group depend on what strategy is being pursued.

Building a single-brand group structure can have benefits including:

+ **Build Confidence and Trust:** The perception of greater scale can create greater trust and willingness to deal with the brand amongst customers. For example, a business needing to prove that it can offer global service to a high quality may want to move to one brand to increase the likelihood of winning work with multinationals.

+ **Create a Brand Culture and Share Best Practice:** A single brand across a portfolio can help employees to feel part of the brand group, and to operate consistently across national and cultural boundaries.

+ **Generate Marketing Efficiency:** It can enable above the line expenditure to be used more efficiently, benefitting all companies within the group, and creates other efficiencies in production costs. In particular, global sponsorship and celebrity endorsement campaigns will likely have the same effect as local advertising for less cost when enough countries are under one brand.

+ **Maximise Growth Potential:** A stronger, larger brand can help to enable market entry and secure new business partnerships. Combining brands can also increase the sale of similar or bundled goods and upgrades to existing purchases.

Brands are not always switched to become the same as their parent because transitioning to a multi-brand structure can help to build value by:

+ **Allowing Targeted Propositions:** Strong brands can be tailored to different businesses and customer segments. Highly targeted use of marketing spend - focusing on specific audiences can be more efficient and effective.

+ **Capitalising on existing Brand Equity:** Using a locally known brand rather than a global master brand could benefit from existing perceptions rather than having to build them from scratch.

+ **Reducing the Risk of Contagion:** Running multiple brands prevents the risk of reputational damage in one part of the business spreading to the whole organisation.

+ **Creating Strategic Flexibility:** Separate brands allow maximum flexibility for strategic activity (e.g. M&A, divestment).

The effects of each benefit can be modelled either by its impact on demand or on cost. This is important since transitioning to a new brand can frequently be value-destroying. Balancing any potential loss with a wider benefit is therefore key in establishing whether the move is worthwhile.

Getting the go-ahead and planning execution

According to the well-established singular business objective of the maximisation of shareholder value, the appropriate approach for determining whether and how a brand is transitioned should be by identifying the option that creates the most business value. This will be determined by: limiting costs and pushing them as far in the future as possible; and maximising earnings as soon as possible.

In order to model these fundamental elements of business performance the broad steps to be followed are:

1. Understanding the brand and business' drivers of value

2. Clarifying objectives, scenarios and initial hypotheses

3. Planning post-switch actions

Understanding the brand and business's drivers of value

In order to identify the business impact and return on investment of any brand decisions, it is important to establish the drivers of value in the business.

Understanding these drivers and using this understanding to build a flexible business valuation model that can be adjusted for different scenarios is the first step for analysing value potential.

They might be related to pricing for example. Utilities providers find that their return is extremely closely linked to the margin they are able to collect on fuel and electricity sales. Any impact from a change in brand on the price it can charge could shave large amounts off its profitability. If pricing is not reduced in order to maintain margins customers could be lost, again reducing overall profit.

They may also be related to customer acquisition. Uber is a company in a high growth market and its value is dependent on its ability to grow its customer base in the anticipation that a large market share will generate profit in the long run.

They may be related to customer retention. Banks derive their value from their ability to generate lower borrowing costs through current and savings accounts from their customers and their ability to cross-sell other products. Since it is a low growth but high competition sector in most developed countries, maintaining that customer base is key.

Or they may be something else: a wholesale energy supplier will be more interested in regulatory agencies allowing it access to wholesale markets; a professional services firm may be more interested in recruitment; and another company may find supplier costs a more important driver of value.

Clarifying objectives, scenarios and initial hypotheses

As we have already established, there are many benefits expected from transitioning from one brand to another. As a reminder, some of the key ideas are:

+ That the brand is expected to be more efficient translating marketing money to preference

+ It is more effective creating a market for new product launches

+ It is intended to reduce the overall group cost of marketing

Modelling relies on testing the impact of these objectives. Each effect requires different types of research and different elements in a valuation model. Since analysing unnecessary elements can be costly, confusing and pointless, clarifying what these are is essential at the outset.

Similarly, when analysing a brand switch it is usually not as simple as reviewing the impact of one business model against a totally different business model as the journey from one to the other is as important as the end state itself. This journey might include: the time taken to prime the market for the switch; whether a period of endorsement is necessary; the design of the new or endorsed logo; and the level of marketing investment support.

Initial analysis of brand strength, media channel effectiveness, available spend in the media market and available resources in the business is needed to identify a small number of potential options to choose from.

Once these options are established, creating initial hypotheses on the effects of scenarios can help to set up modelling and corroborate findings. For example, if you know that communicating with customers usually leads to higher churn regardless of content or that competitors have been known to use negative adverts, it may be necessary to review those effects when modelling potential impacts. Alternatively, if you are aware that 15% of a previously transitioned brand's customers churned on switch then significantly different results for the analysed scenarios would be a reason to revisit assumptions.

Once these analyses and hypotheses have been used to create a hierarchy of options – with an identified sensitivity of results – a decision can be made on the best approach.

Planning post-switch actions

The previous step enables the different brand options to be evaluated under ceteris paribus (steady-state) conditions. However, once a particular option is chosen it is necessary to identify the most effective approach for transitioning the brand's touchpoints, whether there are any efficiencies to be made in investment in marketing, and the method for tracking performance during any interim period and the preconditions for full transition.

There are usually many items where the brand is seen that need to be updated, like merchandise and office supplies, websites and other IT infrastructure, outdoor signage, logistics vehicles, events, and packaging to name a few. Rebranding all at the same time can create a 'big bang' that improves the impact of the rebrand.

However, it can be hugely and unnecessarily costly and, since switching too quickly can have an impact on quality, it does not always deliver the positive impact predicted. Therefore, some touchpoints that are less often seen or are less impactful can be left and replaced at the end of their replacement cycles while others should be changed immediately. Identifying the cost and impact of transitioning each touchpoint is therefore necessary at this stage.

It may also be possible to use available media more effectively to increase the impact of any change. A customer newsletter which can reach 20% of the market or a sponsorship property which can reach 15% can build huge amounts of awareness and preference with almost no investment since only the brand's application needs to change. Interesting PR or new advertising creative as well can improve the impact of media and their effects for the same or limited extra spend and can and should be tested.

All of these activities – which may include organisational change too – will have expected impacts, modelled through a model based on market research and financial information. However, these models are based on expectation which identifies the most likely outcome, not the exact outcome. Therefore, it is important to track performance over time and make changes to activities to ensure timelines and targets are met. The type of tracking depends on long term objectives but at its simplest, understanding familiarity and preference for the new brand versus the old is a simple way to keep track since this enables the content and quantum of any media investment to update as the market's customers progress down the marketing funnel.

What to do with your old brand

If the brand is very or even moderately strong, many people will remember and think positively of it for a very long time. Despite this, businesses decide to discontinue using the brand entirely surprisingly often. This can have an impact on reported financial performance – which I will not cover here – and also on real commercial performance of the business.

The ability of brands to maintain their strength for a considerable amount of time is best illustrated through examples from one of the most pre-eminent books on branding, Managing Brand Equity by David A. Aaker (1991, Free Press):

Datsun: Despite introducing the Nissan brand in Japan after WW2, the Datsun brand was used when the company entered the U.S car market in 1961 but twenty years later, between 1982 and 1984, global strategy dictated that the brand change from Datsun to Nissan in the U.S.

Datsun logo, 1972

Nissan logo, 1983

At the start of this period there was virtually no awareness of the Nissan name, the rebranding was carried out gradually but, still, approximately US$240 million was estimated to have been spent on the “The Name is Nissan” advertising campaign, and total advertising costs were estimated to be in excess of $500 million.

Despite this, the recognition and esteem of Datsun in 1988 was essentially the same as that of Nissan despite the virtual absence of the Datsun name from the market for five years and all the money and effort that had been placed behind the Nissan name.

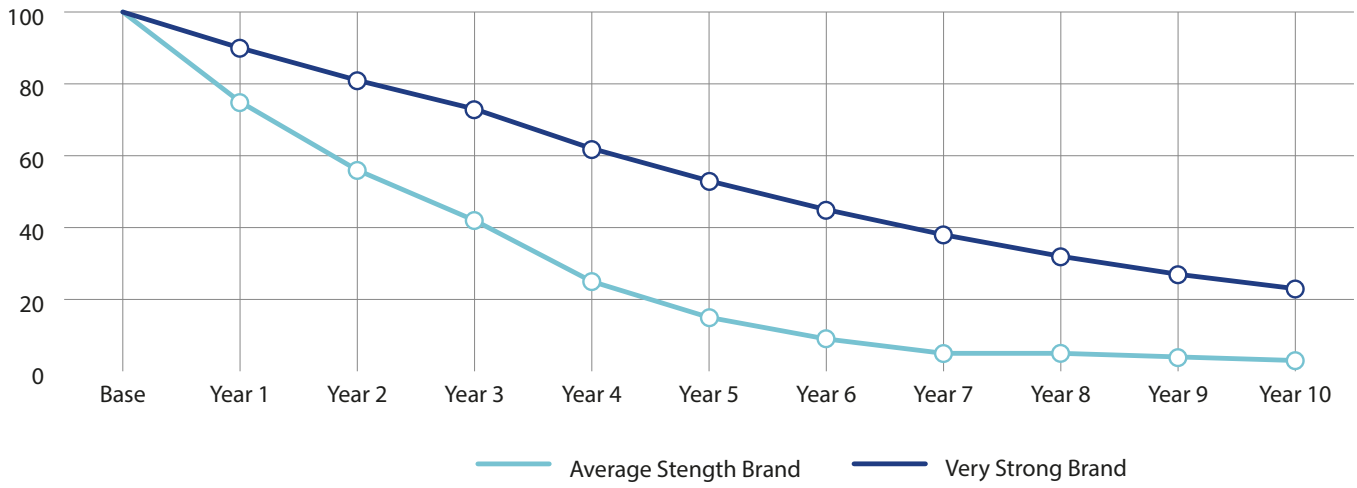
GE and Black & Decker: Black & Decker acquired General Electric’s (GE) small appliance business in 1985, changing the name almost immediately. A US$100 million advertising campaign increased awareness of Black & Decker as a maker of small kitchen appliances from 15% to 57% during the first 18 months. However, the GE name proved persistent. Three years after the change the GE brand was preferred over four times more often than that of Black & Decker.

These examples may show to some people an ineffective or pointless brand transition but my purpose showing them here is not to pass judgment. Rather, it is to highlight the fact that brands retain their value for a long time after removal. Although immediate recall awareness may fall quickly, it can be reignited through advertising long into the future and underlying perceptions can make them far more effective than using a totally new brand.

Although decay rates in brand perception are different between sectors, markets and brands, a high level summary of what is generally seen is shown below:

Brand Strength	Rate of Decay				Residual after 10 years
	Years 1-3	Years 4-7	Years 8-10	Thereafter	
Very Strong	Slow	Moderate-fast	Moderate-slow	Very slow	Moderate-low
Average	Moderate	Fast	Moderate	Slow	Low

Illustrative Rate of Decay



This presents an opportunity to generate huge amounts of money, usually left on the table by companies after a rebrand. Many businesses simply store their brands in their trademark schedules waiting while they wither and die, surprising since there are many opportunities to use them: sell them through the burgeoning industry of trademark exchanges – like LIPEX; continue to manage their use in adjacent categories; or licence them to third parties.

Provided that the use is governed by strict, audited non-competitive rules and the proposition is strong many brands can find new life in other ways. One need only look to Dunhill to see how a brand scaled back in one category can be hugely successful in another, in Dunhill's case Tobacco to Luxury Apparel.

Even if it is eventually decided the risk of ruining the success of the rebrand is too high, a new use for the old brand should always be a consideration during planning since the potential money involved may influence the initial decision.

What next?

Decisions to transition a brand can be complicated, political and expensive. Creating robust, monetary assessments of the potential approaches – or indeed whether a brand should be transitioned at all – can make group decisions easier as well as improve overall outcomes.

In order to have this quality of analysis, the steps to follow are:

1. Internal Review: Create a cross-organisational understanding of the purpose for any brand change through workshops, seminars or questionnaires.

2. External Review: Develop an understanding of trends among similar brands and the success of those cases.

3. High-level Valuation Analysis: Create high-level brand valuation models to identify to what extent a change is likely to drive value by simply altering brand strength – to create a burning platform for change.

4. Consider the Detailed Financial Arguments: Develop an understanding of the potential impact on value through direct effects on acquisition, churn, upgrade and

5. Create Structured Scenario Analyses: Compare the effects of time, design, investment and other factors to restrict your options to a very short shortlist of potential options to choose.

6. Plan and Track the Execution: Create a plan to deliver the highest impact for the best quality and lowest cost through changes to brand touchpoints, plan media investment and set up a tracking system.

7. Use or Lose Your Old Brand: Decide whether it is appropriate to sell, use or licence your old brand.

Increasingly, many of the best brands are considering and testing all brand-based decisions against the prism of shareholder value and return on investment. This is good news and the techniques used can be simple as long as the assumptions are clear and the financial arguments intelligible.

Elevating the discussion above cost to an understanding of how changes impact customers and demand then weighing everything up to understand overall shareholder value can be done by all brands. It should. Bringing brands and marketing to the boardroom is good news for everyone.

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 +

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

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.

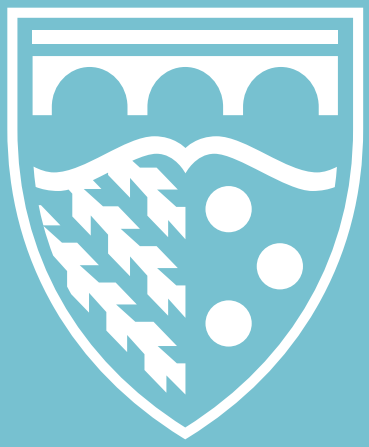
TAX

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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