Nation brands

A game of two halves

IMAGE DREAMSTIME

Against an uncertain economic backdrop, nation brand values are reflecting a growing polarisation between the fortunes of 'developed' and 'developing' markets. With the US losing its AA rating in Brand Finance's Nation Brands index for the first time in ten years, which country might replace it as the new global benchmark? And how does declining nation brand value affect brands? Oliver Schmitz, managing director Brand Finance South Africa, explains.

THE GLOOMY ECONOMIC climate in both the United States and the Eurozone is reflected not just in falling stock markets, but also in brand values of the countries most affected. The impact on the US's brand value in particular has been dramatic. According to Brand Finance, the US's brand value fell by $1.2 trillion, to $11,370 trillion, between April and September this year, a decline of ten per cent and the lowest score the US has achieved since tracking began in 2000. In the space of five months, the US brand lost one-third of the $3.5 trillion value it had gained over the previous five years. Brand Finance downgraded its brand rating from AA to AA- as a consequence.

Brand Finance determines nation brand values through a detailed analysis of economic data, perceptual market research data and infrastructure measures, which combine to produce a score out of 100. 'Brand US' declined across all three measures of brand strength (see box on methodology). Infrastructure scores fell from 77 to 76, economic measures from 74 to 64 and brand equity measures (image abroad, quality of life, customer satisfaction and national culture) from 71 to 61. The declining brand strength figure reflects inflation, higher cost of capital, reduced capital, higher unemployment and a tarnished image abroad. In terms of brand strength, the US has now fallen below Canada, Australia and South Korea.

"Prior to the recession, Brand US communicated strong and desirable values in everything from popular culture and entertainment to food and retailing brands," says Ollie

Schmitz, director of Nation Brand Valuation at Brand Finance. "But the dramatic fall in brand strength of what has long been the global benchmark means that emerging markets across the globe will now look to other nations to take the lead. It's a shift that signals exceptionally testing times for Brand US in years to come."

David Haigh, CEO of Brand Finance, says: "Brand US is under enormous pressure as a decade of crises in business and foreign policy has been compounded by serious economic problems. Low consumer spending, a static property market and the sovereign debt credit downgrade have all taken their toll on its brand value. At the same time, other developed and emerging nation brands are performing better and growing in value. The economic crisis and double-dip recession will accelerate these differences, with further shifts likely in the near future."

As the world's biggest economy, Brand US is still significantly more valuable than the second country in the league table, Germany, which Brand Finance valued at $3.1 trillion in April 2011. Yet its declining value and brand strength have considerable implications for its future prosperity – and, potentially, for that of companies domiciled there.

A drop in a nation's brand value could, in theory, be a good leading indicator for the performance of its companies. For example, a downgrade by one of the credit ratings agencies could lead to lack of investment in business because of the rising cost of capital. The government's depleted coffers (due to the higher costs of servicing its debt) could result in a tighter fiscal policy, leading to lower levels of disposable income for the man or woman in the street, which, combined with the likelihood of rising unemployment because of falling government investment in highways, public buildings and other job-creating schemes, will inevitably result in a drop in consumer demand.

The US vs Canada

It's instructive to look at the differing fortunes of the US and its close neighbour Canada.

The US's problems began at the beginning of the Millennium, when its reputation suffered internationally due to widespread criticism of the tactics used during the post-9/11 'War on Terror'. The funds it poured into the conflicts in both Afghanistan and Iraq to the detriment of the local economy took their toll on the US economic benchmarking in Brand Finance's brand valuations. And although the international banking crisis of 2008 sent shock waves around the world, its effect was felt most sharply in the US, where a domestic sub-prime mortgage crisis precipitated the financial crisis and led to the unprecedented $700 billion bailout of the American financial system.

When large seemingly indestructible institutions like Lehman Brothers started declaring bankruptcy, confidence was inevitably shaken. The general public was concerned by the apparent reckless abandon of bankers in their frenzy to get rich quick, and by the impotence of a government incapable of anything other than rescuing the banks as they failed. When

FIGURE 1. US BRAND VALUE AND BRAND STRENGTH 2007 – 2011

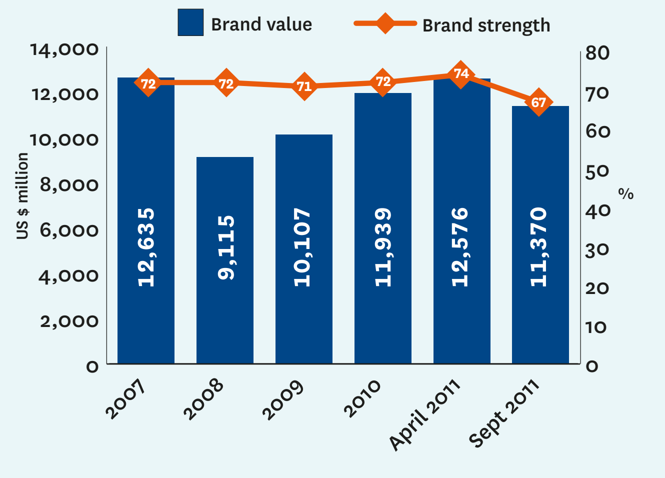


FIGURE 2. US BRAND STRENGTH 2000 – 2011

Nation brand valuation methodology

The BrandFinance Nation Brands index is based on high-level valuation of nation brands using publicly available information. It calculates brand values using the Royalty Relief method, but uses GDP as a proxy for brand revenues. GDP is segmented into three categories: primary (agriculture/forestry/fishing etc), secondary (manufacturing/industry etc) and tertiary (services/financial and insurance, etc).

Brand strength is determined against three macro categories, namely: infrastructure and efficiency, brand equity and economic performance. Each of these categories has a number of sub-categories. Brand equity, for example, comprises image abroad, quality of life, customer satisfaction and national culture. Brand strength is taken into account when conducting valuations.

Nation brands

FIGURE 3. BRAND STRENGTH AND BRAND VALUE US VS CANADA

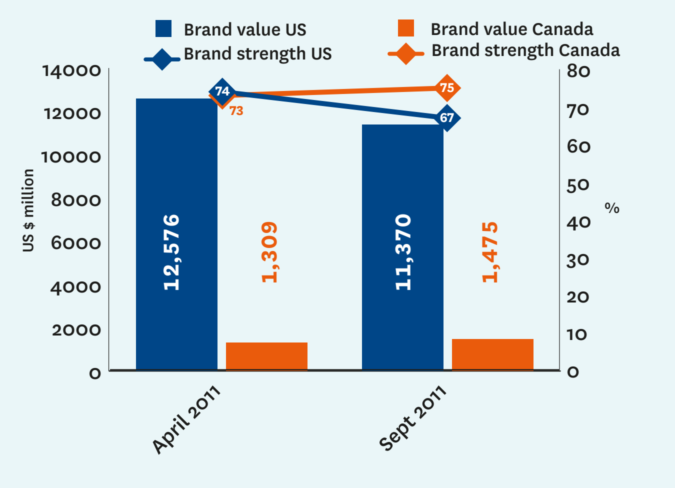
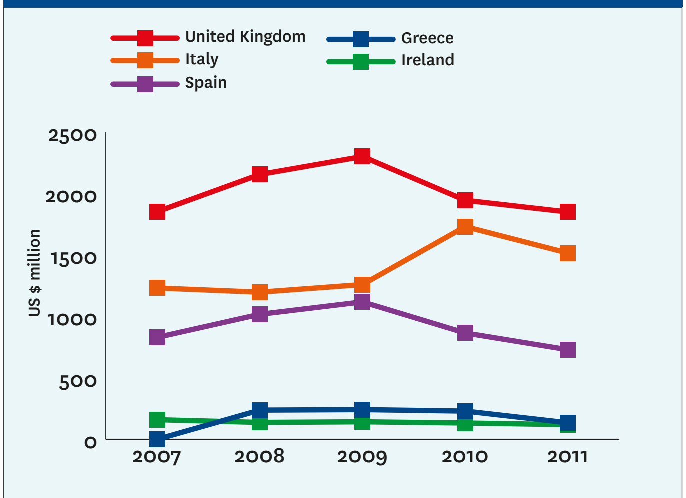


FIGURE 4. CANADA BRAND STRENGTH 2000 – 2011

FIGURE 5. BRAND VALUES OF THE EUROZONE BRANDS 2007 – 2011



Standard and Poor's downgraded the US's credit rating in 2011 it had a major impact on the country's brand strength index. Economically, credit was harder to come by, and, perhaps more damaging, the image of an indomitable America lay in tatters.

By contrast, Canada's brand value rose between April and September 2011 from $1.31 trillion to $1.47 trillion (up 13 per cent), improving its Brand Finance rating from AA to AA+ in the process (and allowing it to pip Brand US in the brand equity stakes).

Despite Canada's support for the War on Terror, the country survived relatively unscathed. It deployed fewer than 3,000 troops compared to the US's 90,000, encouraging the popular perception that Canada was a reluctant ally rather than a fierce supporter of the war. But other factors also helped it close the brand strength gap with the US, not least its position as the world's eighth largest exporter of oil and its rising population.

Later, when the financial crisis bit, Canada's strict lending rules helped its banking system weather the storm, with Royal Bank of Canada being voted the tenth safest bank in the world by *Global Finance* magazine in 2010. The hit to the value of Canada's brands during 2008/9 was softer, and the subsequent brand value growth in the following years was faster, than that of US brands.

Since the initial crisis in 2008, Canada's responsible banking policies have continued to boost the country's reputation as a dependable financial centre. Its stable banking system, ranked the world's soundest by the IMF, is largely responsible for its record brand strength rating of AA+ in September this year. Unsurprisingly, five of the top 15 Canadian brands identified in the BrandFinance Global 500 study this year are banks. Even so, the combined value of the top ten Canadian brands, although it reached $47.3 billion, is still $1 billion less than the value of the world's most valuable brand, Google ($48.3 billion).

There was bad news for Canada's most international brand, with BlackBerry maker Research in Motion losing 25 per cent of its value over the period, relegating it from fifth to tenth place. The prolonged services blackout that affected millions of users in October can only propel it further down the rankings. BlackBerry's decline comes as the other handset providers are encroaching on its traditional business-to-business territory, affecting its handset sales.

BlackBerry has also failed to capture the hearts and minds of consumers around the world in the way that rival Apple has. While Apple's iPad has enjoyed spectacular success, the BlackBerry Playbook tablet device has struggled since it was launched in April and disappointed investors by failing to meet initial targets.

"There is no disputing the consistent strong performance of brands in Canada this year, but when it comes to managing global brands, Canada appears to be weaker," says Haigh. "There is a stark contrast between the 25 per cent fall in value of BlackBerry and the 33 per cent rise in value of Apple over the same eight-month period. Apple is recognised for its flow

Global economy

of innovative products, whereas BlackBerry appears to have taken its foot off the accelerator. As ambitious brands that are prospering within Canada look beyond their national borders, it remains to be seen if Canadian brands can become truly global leaders."

Eurozone

Brand values of countries in the troubled Eurozone are, not surprisingly, falling. Nation brand values are responding to the pervasive problem of huge public debt and over-budgeting, which, to date, only Ireland seems to have tackled effectively – but even here the results have yet to feed through into the valuation. There is, as yet, no obvious correlation between nation brand values and company brand values, but because, as we outlined above, nation brand value could be a leading indicator for company performance, European companies have no room for complacency.

The BRIC countries

In broad terms the developing economies story is very different from the developed economies one – with the nation brand values of China, India, Brazil and Russia continuing on their steadily upwards trajectory – despite the brand strength index telling a slightly different story.

China's dip in brand strength in 2008 was caused by a drop in infrastructure and brand equity - perhaps surprising given that this was in the run-up to the Beijing Olympics. But the fanfare surrounding the games didn't mask human rights stories or simmering ethnic tension in Tibet, and news stories coming out of China about fake products (including poisonous milk and pharmaceuticals) and associated health complications raised questions about the country's respect for international law. Mattel had to recall millions of children's toys manufactured in Chinese factories with poor safety standards. And copyright scandals, including entire fake Apple stores, could lead to more questions about the government's policy on respecting intellectual property rights.

The Brazilian economy has continued to experience swift growth as the country has both expanded its industrial production and profited from a protracted commodities boom. This steady growth is reflected in the country's brand equity score and the increase in its brand strength between 2007 and 2009. Indeed, the overall good economic health and future growth potential of the Brazilian economy accounts for the healthy rise in brand strength for the country between 2007 and 2011.

India should be rivalling China's brand value growth but has been dogged by scandals in recent years. Corruption and lack of reform have put some foreign investors off India. Anna Hazare's 2011 protests in Delhi focused national attention on the pressing problem of corruption in the country. The telecommunications bribery scandal in 2008 alone was estimated to have cost the country $40 billion: ministers sold the licences at a fraction of their real value. Some commentators have been disappointed with the inability of the current government, led by respected economist

FIGURE 6. BRAND VALUES OF THE BRIC COUNTRIES 2007 – 2011

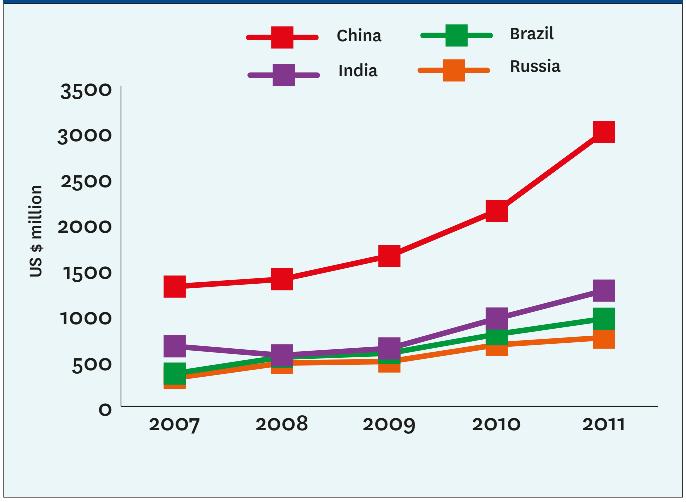


FIGURE 7. BRAND STRENGTH OF THE BRIC COUNTRIES 2007 – 2011

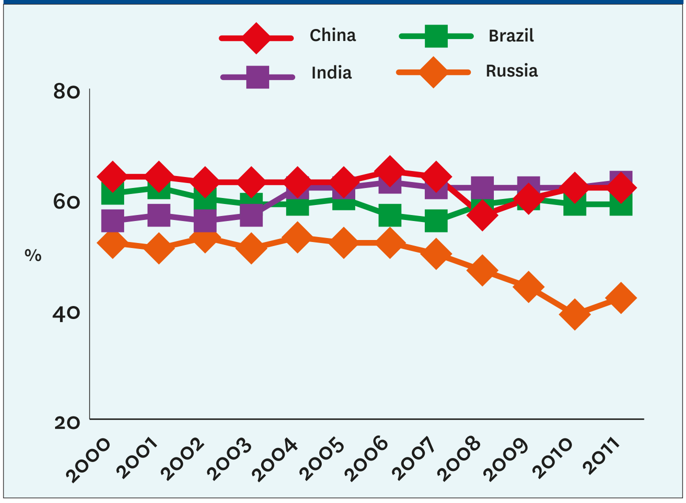
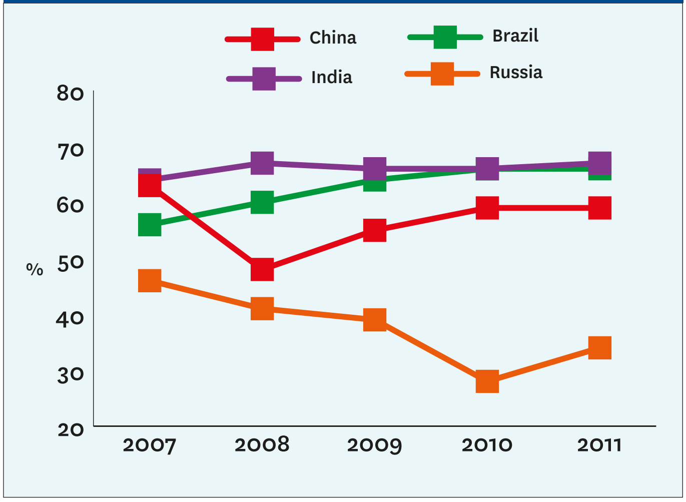
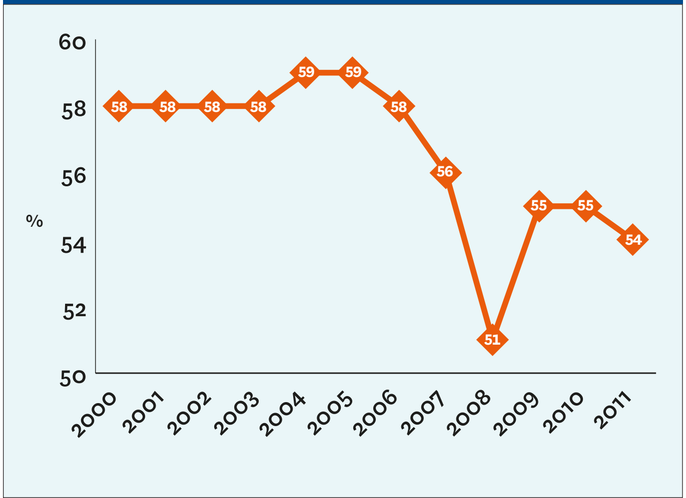


FIGURE 8. BRAND EQUITY RATING OF THE BRIC COUNTRIES 2007 – 2011



Nation brands

FIGURE 9. SOUTH AFRICA BRAND STRENGTH



"Two things are key to Africa's continuing growth and future success: dynamic African businesses and brands, and an enabling political environment that will be a catalyst for Africa's independence agenda and economic emancipation"

Manmohan Singh, to tackle these systemic problems. In China, by contrast, the Chinese Communist Party government's highly centralised leadership has – at a high human and environmental cost – allowed China to enjoy rates of economic growth that are higher than India's.

Another factor counting against India is the renewed threat of terrorism. Terrorism reared its ugly head again in 2006 in the form of co-ordinated bombings and shootings in Mumbai. Islamic extremism is causing problems for the government and damaging the country's reputation among the international community.

South Africa

South Africa has a low, but stable, nation brand value ranking (it came in at 34 in both 2010 and 2011 in the BrandFinance Nation Brand index) but its brand strength performance is more buoyant.

What's more, South Africa is Africa's top nation brand, with a brand value of $150bn this year, up 12 per cent on 2010. South Africa's rise owes much to its successful hosting of the 2010 Fifa World Cup, which improved perceptions of the country at home and abroad.

One of the most important factors driving perceptions of South Africa as a nation brand capable of holding its own on a world stage, is its infrastructure. It set up some impressive facilities in order to host the World Cup, and it will continue to benefit from these. The World Cup itself did wonders for the country's image, showcasing as it did just what South Africa is capable of delivering.

These positive perceptions are also driving tourism. South Africa has become one of the fastest growing tourism destinations in the world. Respondents to a recent survey by TripAdvisor.com voted Cape Town as the number one tourist destination on the planet. Many people expected the downturn in tourism that usually follows the hosting of a world event. But due to the successful '20 Experiences in 10 Days' tourism campaign launching in key international markets immediately as the World Cup ended, tourism in South Africa has continued to flourish.

But it's not just tourism that's benefiting from South Africa's glowing brand – the entire private sector is scoring too. The top three most recognised corporate brands in Africa are South African. The mobile network operator MTN is number one, while leading banks Standard Bank and Absa are second and third respectively.

And the halo effect will stretch across other African countries. This is important, because the image of Africa does not reflect the growth and entrepreneurial spirit that has allowed the country to outpace developed economies by growing at five per cent in a tough global economic climate. Two things are key to Africa's continuing growth and future success: dynamic African businesses and brands, and an enabling political environment that will be a catalyst for Africa's independence agenda and economic emancipation.

But African brands are largely unexploited assets. MTN, the 199th most valuable brand in the world, according to Brand

Global economy

Finance, is the only African brand in Brand Finance's Top 500 rankings. It has grown substantially since it was established in South Africa 17 years ago, and now operates in 21 countries in Africa and the Middle East, and its services connect over 120 million people.

Our research shows that 66 per cent of brand value on the continent is generated by international brands and only 34 per cent by African brands. There are a number of reasons for this. One is the different perceptions of quality between African and international brands, and one way of addressing this discrepancy is for African brands to push their local agenda – something that international brands, ironically, do far better. Coca-Cola, which, according to Brand Finance's inaugural Brand Africa 100 report, is the second most admired brand in Africa, exemplifies this approach, investing as it does economically, socially and environmentally in the communities where it operates. In similar fashion African brands need to make people aware of their economic investment, development and the associated employment they create.

MOST VALUABLE NATION BRANDS IN AFRICA – 2011 (US$ billion)			
African Rank	Brand	Brand Value 2011	Brand Rating
1	South Africa	150	A-
2	Egypt	79	BBB
3	Nigeria	56	B
4	Morocco	40	A-
5	Algeria	39	BB
6	Angola	24	CC
7	Tunisia	19	A-
8	Ghana	13	A-
9	Kenya	13	BBB
10	Libya	13	B

Governments have work to do too, because perceptions of African brands are also influenced by trust. Civil wars, local unrest and corruption do nothing to help the cause of African brands. Even South Africa, which boasts the strongest economy in Africa, faces many problems, among them concerns over high crime rates, HIV/AIDS, poverty and unemployment, which continue to hamper economic development on the country.

Yet the strength of Africa's nation brand, which, according to the BrandFinance Nation Brand index, is 47 per cent (compared with 63 per cent for Europe, 72 per cent for North America, 56 per cent for South America, 60 per cent for Asia and 68 for Australasia), suggests that corporate brands are not leveraging the full effect of what can be achieved in Africa.

If brands could better exploit the nation's brand strength, that, in turn, could help to drive the value of the African nation brand, which currently generates just one per cent of global nation brand value. This figure compares to 35 per cent apiece by Europe and North America, 22 per cent by Asia, four per cent for South America and three per cent for Australasia. And a higher nation brand value would help the cause of corporate brands. It's a virtuous circle.

Perhaps another reason African brands are not exploiting their full potential is that African people don't value brands as highly as their international counterparts do. But as products and services become more commoditised, it is brand that becomes the differentiator, and brands that get that message now will steal a competitive march on their rivals. ■

MOST VALUABLE BRANDS IN AFRICA – 2011 (US$ million)					
African Rank	Brand	Industry Group	Domicile	Brand Value 2011	Brand Rating
1	MTN	Telecoms Services	South Africa	4,503	AAA-
2	Standard Bank	Banks	South Africa	2,257	AA+
3	Absa	Banks	South Africa	1,803	AA-
4	N.N.P.C	Oil & Gas	Nigeria	1,514	AA
5	First National Bank	Banks	South Africa	1,463	AA
6	Nedbank Group	Banks	South Africa	1,268	AA-
7	Investec	Diversified Finan Serv	South Africa	1,225	AA-
8	SABMiller	Beverages	South Africa	1,218	AAA-
9	Eskom	Utilities	South Africa	1,018	AA
10	Shoprite	Retail	South Africa	984	AA

Valuation I Analytics I Strategy I Transactions

Brand Finance plc, the world's leading independent brand valuation and strategy consultancy, has a global footprint with over 15 offices worldwide.

For more information, please contact us on:

T: +44 (0) 207 389 9400
F: +44 (0) 207 389 9401
E: enquiries@brandfinance.com

www.brandfinance.com

If you are interested in attending our global forums, please visit:

www.brandfinanceforum.com