



BrandFinance® Journal

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*-John Hayes-
Chief marketing officer
of American Express*

**“American
Express has
reinvented
itself several
times”**

**HSBC's Chris
Clark** on the way
to regain the
public's trust

John Murphy on
how branding got
hijacked

Why **Apple's**
blowing a
raspberry at
BlackBerry

Contents



4 American Express: CMO John Hayes



10 Banking: HSBC tops 2012 Brand Finance® Banking 500

3 EDITORIAL

Apple's carefully nurtured 'hippy' image belies its ruthless approach to managing and guarding its intellectual property, says Brand Finance CEO David Haigh.

4 INTERVIEW

Still doing nicely American Express may be 162 years old, but continuous innovation coupled with adherence to its core values keep the brand fresh and relevant, says CMO John Hayes.

10 BANKING

Practising, not preaching Banks can only rebuild trust by changing their behaviour, says Chris Clark, marketing chief of HSBC, which topped this year's BrandFinance® Banking 500.

15 MARKETING DUE DILIGENCE

Preparing for take-off Companies need to maintain, develop and exploit their brands in order to rebuild shareholder value, says Brand Finance chairman Professor Malcolm McDonald.

18 BRAND VALUATION

Founding father John Murphy invented brand valuation nearly 30 years ago, but sometimes wishes he could put the genie back in the bottle he tells Jane Simms.

22 BRANDING

Chinese puzzle The Chinese passion for brands is potentially good news for established brand owners wanting to expand, but they need to exercise caution, warns Rupert Purser.



18 Valuation: John Murphy



22 Chinese brand passion

27 TELECOMS

Growing the pie Apple currently dominates the smart phone market, but writing off BlackBerry would be premature, says Edgar Baum.

31 LEAGUE TABLE UPDATE

Getting a grip on intangibles Intangible assets account for nearly half the value of the world's listed companies, but they are still largely misunderstood.

34 BANKING FORUM

Bank brands: what really matters? At Brand Finance's third annual Banking Forum, representatives from some of the world's most successful banks gave their views.



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“Apple is the classic American corporation, grasping and carefully managing all forms of intellectual property in order to generate super-profits”

BACK IN THE 1970s, in a small suburban garage in Los Altos, California, two college dropouts, Steve Jobs and Steve Wozniak, began to develop their interest in state-of-the-art technology. No one then could have predicted that from such humble beginnings a multinational corporation would emerge, or that Apple Inc would become a rapidly rising star in the American business firmament. There is a sort of symmetry, therefore, that within months of the death of founding CEO Jobs, Apple’s star has never shone more brightly. Indeed, it has just earned the accolade of most valuable global brand in the 2012 BrandFinance® Global 500.

Apple presents itself as the creative leader of its industry, governed by West Coast designers and trendy tech experts who fused their respective passions to create a brand that exploded onto the global stage. From the Apple Mac and iBook, through the iPod and iPhone, to the iPad, Apple’s products have generated legions of devotees across the world, their loyalty to the brand unprecedented in the previously grey technology market.

But while Apple was started by two Californian rebels in the hedonistic 1970s, the business itself has developed and changed over the years almost as much as its products have. The hippy image that it may wish customers to associate with it couldn’t be further from the truth. In reality Apple is the classic American corporation, grasping and carefully managing all forms of intellectual property in order to generate super-profits. Aggressive and highly professional, it is ready to litigate against anyone who stands in its way.

Between January 2008 and May 2010, Apple filed more than 350 cases with the United States Patent and Trademark Office, after taking exception to other organisations’ use of terms such as ‘apple’, ‘safari’ and ‘pod’. Detractors have accused its legal department of being overly vexatious – that is, bringing action solely to harass or subdue an adversary. And you can see why: no one, it seems, from The Beatles to a supermarket, is safe from their legal challenges.

One of the highest profile disputes – between Apple Inc and

Apple Corps, the record label and holding company founded by The Beatles – lasted for 30 years.

It began in 1978 when Apple Corps filed a lawsuit against Apple Computer for trademark infringement. Apple Computer defended itself tirelessly until 2007 when the two parties reached a confidential agreement (reputed to be worth \$500 million) under which Apple ultimately secured all the trademarks related to ‘Apple’. However Apple Inc licenses some of these trademarks back to Apple Corps for its continued use.

Even New York’s ‘Big Apple’ moniker has been attacked by these enthusiastic litigants, who declared the apple design infringed their trademark. Currently Apple and Samsung are engaged in 19 different lawsuits across ten countries over mobile phone patents. Vexatious litigation has become Apple’s own particular brand of urban warfare, helping to secure its position as a US corporate leviathan.

This position has been bolstered further still by Apple’s closer relationship with the business market. To counter scepticism about the relevance to the corporate environment of its highly designed ‘creative’ products, Apple has dedicated entire sections of its website to showcase the use of its products by the likes of Standard Chartered Bank, Hyatt Hotels and GE.

As the *BrandFinance® Journal* goes to press Apple has just won a patent dispute against Motorola in relation to the ‘slide to unlock’ feature on smart phones. I expect that this will be just one of many courtroom decisions soon to affect the technology market and the wider business world. But while Apple’s tactics have their critics, they are impressive, not least in the way they demonstrate how the assiduous management of intangible assets can help a company to exploit its potential.

The importance of patents, trademarks and brands can’t be overestimated: they are critical in driving revenues and establishing corporate reputations. Apple is proud of its genesis in a suburban garage in sunny California, but it should be equally proud of how well it has grown up. ■

Interview

Still doing nicely

John Hayes has spearheaded American Express's marketing efforts around the world for the past 17 years. He tells the *BrandFinance® Journal* how continuous innovation coupled with adherence to the core brand values of trust, service and security help to keep the American Express brand fresh and relevant even after 162 years.

BrandFinance® Journal: American Express was one of the fastest-growing brands on the BrandFinance® Banking 500 league table this year, moving from 13th to seventh place after an increase in brand value of 17 per cent. To what do you attribute the rise?

John Hayes: We do lots of things every day that contribute to the value of the brand, but at the heart of everything we do is our relentless focus on our relationships with our customers, whether merchants or cardholders. Those relationships with our 'members' are underpinned by the three core values that define us as a brand and will never change: trust, service and security. Occasionally we've got that balance wrong.

At the height of the financial crisis in 2008, for example, when we were trying to manage high financial risk while maintaining superior customer service, we stopped listening to our customers. We reduced their buying power in some cases without involving them in the decision, but they made it clear to us that they wanted a voice in that. We realised that they needed opportunities to ask us questions and to state their point of view, and we gave them a forum to do that – which, in itself, they found empowering.

That experience changed the nature of the dialogue between us, because it demonstrated that customers demand to be listened to as well as spoken to. But it also showed us that if you do listen, and act on what you hear, you

can quickly regain the ground you lost and increase the value of your brand through creating positive sentiment.

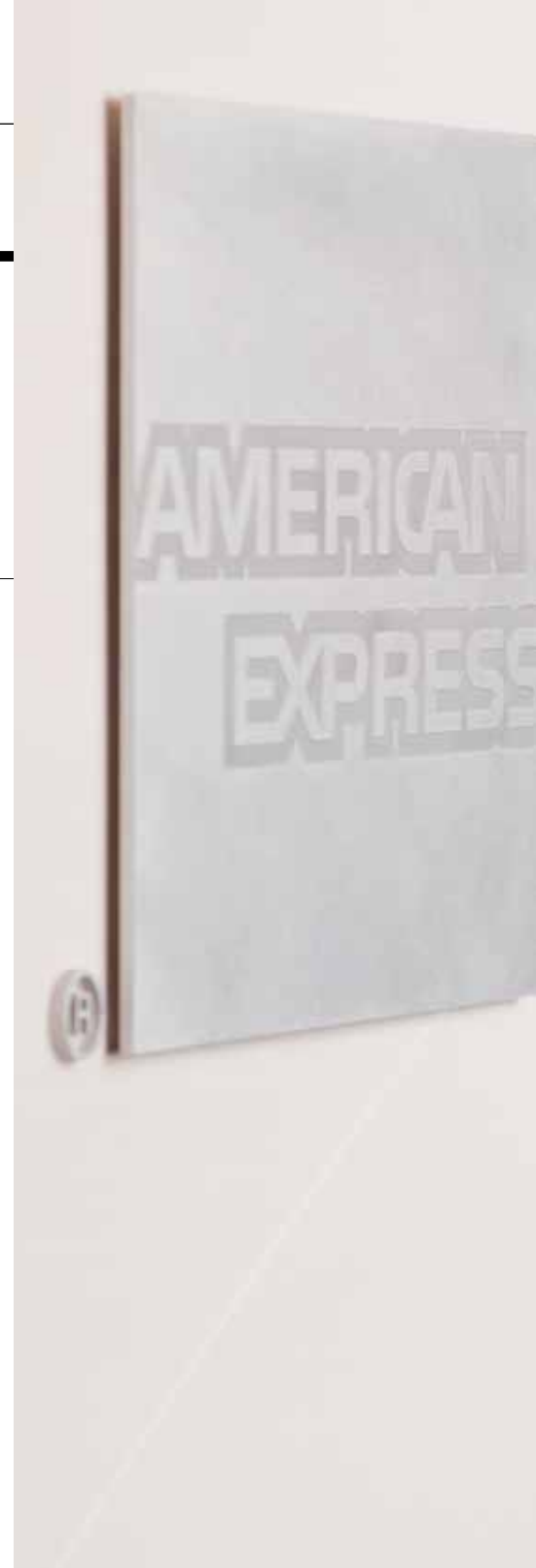
BFJ: To what extent did the banking crisis and subsequent recession in 2008/09 affect American Express?

JH: The downturn had a major impact on the entire financial sector. We aren't a bank, but we were affected by the change in consumer spending habits: we saw a fall in spending levels as consumers started to save more.

But there were significant differences between the way the crisis affected us and the way it affected other finance brands. Our financial and brand performance was far more stable than those of the overall category, for example, and our most recent numbers (see [Figure 1](#) on page 7) show higher growth rates and lower write-off rates than some of the other players. And that stability goes back to the depth of the relationship we have with members. We measure all elements of our brand strength and our relationship with our customers on a continuous basis in order to improve on them, and we enjoyed the same level of member trust throughout the crisis that we had before. Trust is a fundamental measure of the value of our brand.

BFJ: Was the downturn a watershed in your approach to marketing and building customer relationships?


JH: I think it marked a new stage in our evolution, certainly. American Express has reinvented itself several times:



PHOTOGRAPHY **MATT GREENSLADE**

it started out as a freight forwarding business, moved into travel, then financial services – we introduced the first American Express card in 1958. But throughout our history we have focused consistently on service and relationships, and we have always sought to be where our customers and prospects are.

Recently, for example, we have embraced social media – not for the sake of it, or because it's exciting, but because that's where our customers and prospective customers are spending their time.



“We have embraced social media not for the sake of it, or because it’s exciting, but because that’s where our customers and prospective customers are spending their time”

So, in essence, while our fundamental values remain constant, both the way we market ourselves as a brand and the way we build our relationships have fundamentally changed. We have also been launching new products designed to meet the changing needs of a wider customer base.

BFJ: We talk about ‘the empowered consumer’ – but just how much control do consumers have these days?

JH: I call today’s generation of consumers, regardless of age, the ‘I’ll decide, not you’ generation. Marketers

need a different mind-set to deal with that. We don’t need to be an authority on everything, but we need to be able to help consumers make the right decisions. And we have to accept that we really have lost control. With any new product we might care to launch, consumers will review it, talk about it and pretty much position it in the way they want to. They will decide whether or not it has value.

But though we can’t control what consumers say about things, we are still 100 per cent accountable for the outcome. That may not seem fair, but

it is the reality of the world we live in – and actually, it makes it a much more exciting time to be a marketer, because if you come up with a really great product it can ignite the marketplace.

BFJ: How do you cede control without diluting or even destroying your brand?

JH: If you are firmly rooted in who you are as a brand – with AmEx, for example, that’s about relationships based on service, security and trust – that allows you to best understand how, when and to what extent you can give over control. A good example is

Interview

“While our fundamental values remain constant, both the way we market ourselves as a brand and the way we build our relationships have fundamentally changed”

AMERICAN EXPRESS FAST FACTS ↓

American Express was one of the fastest-growing brands on the 2012 BrandFinance® Banking 500 league table, moving from 13th to seventh place after an increase in brand value of

17%

Annual revenue of

\$24.5bn

97.4m

cards in force.

our ‘Unstaged’ programme, which we launched in 2010 as a way of extending our ‘special experiences’ beyond the 800 to 1000 people who can fit into an arena, to a wider global audience.

We partnered with YouTube and Vevo and influential film directors like Spike Lee and David Lynch, to create and stream online concerts by artists such as Alicia Keys and Coldplay. We get up to seven million live streams from any of those shows, and the average engagement is 18 minutes – six times longer than the typical three-minute brand engagement.

BFJ: How has American Express achieved the balance between ‘igniting the marketplace’ and remaining true to its values?

JH: One of the best examples is Small Business Saturday, which we launched in the US in 2010 as a way of supporting local businesses on the holiday Saturday after Thanksgiving. We promoted it via a nationwide radio and television campaign, but created ‘a movement’ through the network effect and momentum of Facebook.

The idea was to help both our sellers and buyers – merchants would build their business and card holders would get value in the form of discounts on their purchase coupled with the ability to benefit the local community. We were able to do that by virtue of our deep relationships with both merchants and card holders (relationships that the initiative helped to deepen further). That is not easily replicable by others.

BFJ: How successful has the Small Business Saturday movement been?

JH: It has been phenomenally successful, winning widespread support from President Obama – who took his daughters to an independent book store a few blocks from the White House – downwards. The governors of five states and the mayors of several major cities support it, as do 130 advocate groups and a range of major corporations. Within two weeks of the initiative being announced in 2010, 1.4 million consumers had joined the movement on Facebook, and there are now several million advocates on social media.

HAYES AT A GLANCE ↓

Current job: Chief marketing officer at American Express. He has overseen marketing at the company for the past 17 years.

Joined American Express: In 1995, as executive vice-president, becoming chief marketing officer in 2003.

Previous jobs: Immediately before he joined American Express, Hayes was president of advertising agency Lowe and Partners. Prior to that he held senior positions at agencies Geer DuBois, Ammirati and Puris, and Saatchi and Saatchi Compton.

Age: 57

Education: BA, Seton Hall University, New Jersey.

Honours: He has been recognised for his contribution to business in the community on numerous occasions, most recently by the Delaney Report as 2010 corporate marketing executive of the year.

Favourite films: ‘It’s a Wonderful Life’, and ‘The Shawshank Redemption’.

Favourite book: 1984. “You have to be optimistic to read it, but it affected me profoundly.”

Favourite pastime: Long-distance cycling – and sometimes racing.

Favourite brands: I can’t single out one. I’m very into brands.

There have been tangible benefits, to merchants, card holders and to American Express. In its first year, 2010, small retailers saw a 28 per cent lift in revenue over the previous year, compared with only nine per cent for all retailers. On November 26th last year an estimated 103 million Americans shopped at independently-owned small businesses – up from a pre-Thanksgiving forecast of 89 million. Card member transactions were up 23 per cent on the same day in 2010. And hundreds of thousands of consumers registered their American Express cards to receive \$25 statement credits when they shopped at a small business on Small Business Saturday.

BFJ: Is this sort of initiative replicable elsewhere?

JH: We are likely to be launching similar programmes in all sorts of different markets to drive commerce, and it is important that we do that. Merchants are the same everywhere – they would all like more business – and our card members have the ability to spend money.

John Hayes



BFJ: In a sense, then, has American Express reinvented itself again for the digital age?

JH: It's true that the connectivity and information boom affords us the chance to realise the power of collective action like never before. With Small Business

Saturday we put a good idea on a simple platform out there, and we turned it over to the community, who made it their own. But we do it in a way that is true to our brand and that builds on and reinforces the relationships we enjoy with our customers.

BFJ: Have you shifted your marketing communications focus and spend accordingly?

JH: There has been a shift of focus, but not a full-scale shift in advertising spend. Different channels do different things – TV, print and newspapers can still be very powerful, and we haven't written them off. But we also recognise the value of experiences, the value of dialogue and the power of the network that social media affords. We don't 'mix it up' for the sake of it – but rather look at what we want to achieve and choose the channel accordingly.

With Small Business Saturday, for example, we wanted to build a movement, and TV commercials on their own can't do that. Facebook allowed us to mobilise people, and we used TV to promote the event and remind people about it. And when we adopt new social media, we learn about it first by listening to how our consumers and merchants are using it.

BFJ: Do you think the accelerating pace of change – including the proliferation of social media channels – has led some marketers to forget the basic marketing principles, not least the primacy of the consumer and the service imperative?

JH: Being nimble, listening, and understanding the fundamentally important things about your brand are

FIGURE 1: OVERALL AMERICAN EXPRESS PERFORMANCE 2010-2011

(\$ in millions unless otherwise noted)	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Total revenues net of interest expense	\$7,742 (7% growth from Q4 2010)	\$7,571 (9% growth from Q3 2010)	\$7,618 (12% growth from Q2 2010)	\$7,031 (7% growth from Q1 2010)	\$7,244
Billed business (\$ in billions)	\$219.0 (11% growth from Q4 2010)	\$207.7 (16% growth from Q3 2010)	\$207.6 (18% growth from Q3 2010)	\$187.9 (17% growth from Q1 2010)	\$197.7
Total cards in force	97.4 (7% growth from Q4 2010)	95.8 (8% growth from Q3 2010)	94.0 (6% growth from Q3 2010)	92.4 (5% growth from Q1 2010)	91
Avg. basic card-member spending (\$)	\$3,933 (8% growth from Q4 2010)	\$3,739 (12% growth from Q3 2010)	\$3,767 (15% growth from Q3 2010)	\$3,438 (14% growth from Q1 2010)	\$3,629
Card-member loans (\$ in billions)	\$62.6 (3% growth from Q4 2010)	\$58.2 (2% growth from Q3 2010)	\$58.7 (2% growth from Q3 2010)	\$57.8 (growth flat from Q1 2010)	\$60.9
Worldwide travel sales (\$ in billions)	\$5.9 (5% growth from Q4 2010)	\$6.0 (13% growth from Q3 2010)	\$6.6 (17% growth from Q3 2010)	\$6.0 (17% growth from Q1 2010)	\$5.6
Managed lending net write-off rates	2.3%	2.6%	3.1%	3.7%	4.3%

Source: American Express

Interview

AMERICAN EXPRESS FAST FACTS ↓

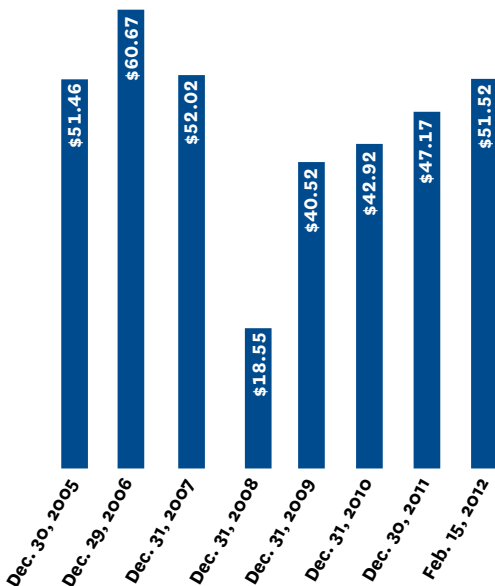
58,300

employees worldwide

\$620bn

in annual purchase volume on American Express cards

FIGURE 2: AMERICAN EXPRESS SHARE PRICE



non-negotiable. If you are comfortable with your DNA you can move in the marketplace, and you do need to experiment – a lot. But you shouldn't mistake motion for action. It is very easy to get caught up in the speed, and rush around doing lots of things, and in so doing forget about the key actions you need to take. Yes, you have to increase your speed to market, but you mustn't lose sight of who you are, your strengths and your purpose.

BFJ: Will the current challenges and opportunities sift the best marketers from the rest?

JH: I believe they will, because there aren't a lot of off-the-shelf solutions to today's marketing and brand challenges. You have to be very curious and inventive if you are to captivate consumers – which is what the best marketers have always been, of course. But it's equally important that you are not distracted by shiny objects and the latest buzz words.

BFJ: Small Business Saturday overlaps into cause-related marketing (CRM). American Express is very active in CRM – indeed, some credit the company with having created it. Do you see CRM as a marketing tool?

JH: There is a tremendous amount of synergy between marketing and 'giving back'. We believe that if you are in a service business, service doesn't end when the transaction ends. Community involvement means something to most consumers, so we see that as a natural extension of our service ethos. Also, we want to make a difference to where our employees and customers live: if we can enhance their lives, that affects both loyalty and brand perceptions – and that is consistent with being a lifestyle brand. However, not only do we look for

opportunities to make a difference in people's lives, but we also give them a voice in that. Our Members Project initiative gives people a say in where we direct our giving – and that, in turn, furthers the relationship with members because it shows we are listening.

In fact, it was our customers' response to the Haiti earthquake two years ago that inspired us to reintroduce our Members Project. We put out a brief communication to say that they could use their card to donate to the relief effort and within eight weeks they had donated \$100 million. These people really care about CRM. But you have to do CRM with sincerity and integrity: you can't just bolt it on because then it is seen as a 'cynical marketing exercise'.

BFJ: How do you ensure that the American Express brand stays relevant in a world where consumers are more cautious about their spending?

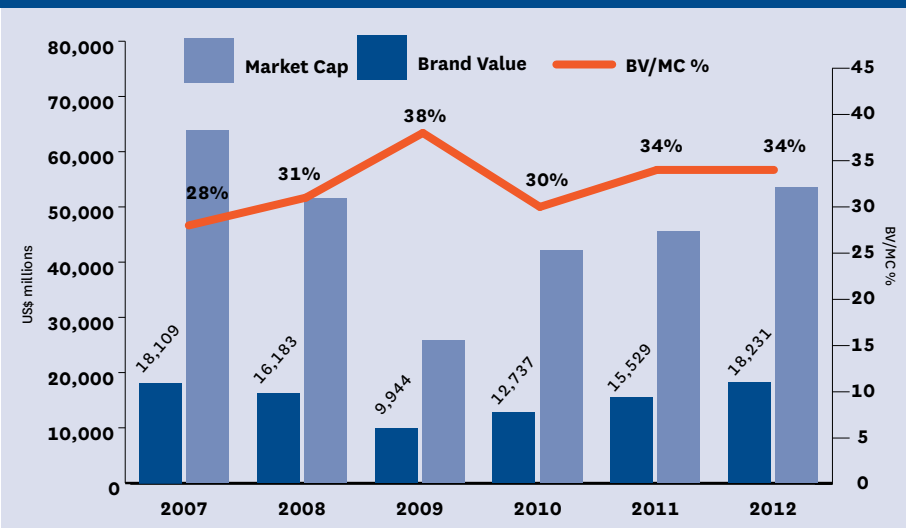
JH: The majority of our business is in charge cards, which people have to pay off, in full, within 30 days, so there is no danger of running up debt as there is on credit cards. Indeed, we have seen a resurgence of interest in our charge cards because they are convenient and they offer a level of service, rewards and security that you don't get with debit cards. Both applications and spend are rising, with much of the growth coming from people in their early twenties. But we have also launched new products, such as reloadable pre-paid cards, which offer utility and service – hence the strapline 'spends like cash, feels like membership'. These will be rolled out into the UK soon.

We are also attracting younger and more technologically-savvy consumers through our new product Serve, which is essentially an online wallet that they can use at any merchant that takes

FIGURE 3: TOP-LINE FINANCIALS

	2011	2010	% change
Billed business (\$bn)	822.2	713.3	+15
Total cards in force (m)	97.4	91.0	+7
Average card-member spending (\$)	14,881	13,259	+12
Annual revenue (\$bn)	29,962	27,582	+9
Earnings per share (\$)	4.09	3.35	+22

FIGURE 4: BRAND VALUE



American Express, whether online or on the high street. Serve is designed for the kind of people who prefer using cash, cheques and debit cards rather than credit cards. So we are moving into new areas to serve different customers' changing needs, and we are harnessing new technologies to do so.

BFJ: Some companies stand accused of trying to win new customers at the expense of existing customers. How does American Express manage this balance?

JH: We want to continue to be a very vital business. You only get to be 162 years old if you are prepared to change and look to the next generation, so we continue to build a franchise with our existing customers but extend it to new customers too. We want to appeal to a broad spectrum of different segments, from premium to mass market, and part of our strategy is to grow our younger segments, something that is now taking hold. But whatever the segment, we deliver the same level of service and trust to them all. We are also expanding geographically, of course: we have just launched Serve in China, and we plan to make our other products available in the different international markets where we operate.

BFJ: How has marketing changed since you took on this role 17 years ago?

JH: Channels, consumers and opportunities have changed dramatically. Just think how quickly

consumers' adoption patterns are accelerating: it took about ten years for the microwave oven to catch on, whereas adoption of the iPad was almost instantaneous. That keeps it very interesting. Marketers need the same skills they have always had, but they have to apply them differently.

One of the most interesting developments is that social media makes it much easier to serve customers at the same time as you market to them. 'Link, Like, Love', which we launched on Facebook last year, is a great example. The application uses a card holder's Facebook interests, including 'likes' and 'check-ins', to offer relevant and convenient discounts to them. And merchants can create offers on Facebook specifically for American Express card holders, and then measure

“Community involvement means something to most consumers, so we see that as a natural extension of our social ethos”

how well that offer performed.

BFJ: What do you think banks need to do to restore their tattered reputations?

JH: The first thing that any organisation – bank, retailer or manufacturer – has to do in challenging times is listen to its customers and demonstrate that it is listening. It then has to build trust, focus on relationships and invest in service. And listening is harder than it sounds. It's as hard as talking, because it also requires you to understand and act on what you have heard. And I've not seen one marketing course on how to listen effectively.

BFJ: What has kept you in the role for so long?

JH: The creative challenge of adapting the brand to a changing world is part of it – and the reason I came here from the world of advertising in the first place was the broader palate that it represented. I got to experiment in new channels. But the fact that marketing had been a mainstay of the business model for 150-odd years was also a big draw.

On the agency side, I was probably the most business-minded person in a creative organisation, and here I am probably the most creative-minded person in a business organisation. American Express's commitment to community service is another reason I love my job so much: I share those values. The brand is growing, the business is growing and we get to make a difference. That's a nice package. ■



Banking

Practising, not preaching

HSBC came top in this year's BrandFinance® Banking 500 league table of the world's most valuable banking brands. Chris Clark, group head of marketing, tells BrandFinance® Journal that the only way banks can rebuild public trust in the sector is by changing the way they act.



“You can't ask for trust; you earn it, based on what you do”

BrandFinance® Journal: What do you think is the biggest challenge facing bank brands over the coming year?

Chris Clark: Rebuilding trust, particularly among customers, is going to be a really big issue in 2012. Banks have to prove their worth again. But the way to do that is not through some sort of charm offensive – either individually or collectively – because in the current climate that would fall on deaf ears. Banks do, of course, have a very important role to play in society and the economy, but the whole system has taken a bashing, and the negative sentiment about banks will only be dispelled by consistent focus on customers. You can't ask for trust; you earn it, based on what you do.

There is a direct correlation between a brand's values and behaviour and the way that brand is perceived, and, at HSBC, we will continue to build our business based on what we do for our customers around the world, and on how we communicate that. We base our brand narrative on things that we genuinely believe are worth talking about.

BFJ: HSBC continued to be run well throughout the crisis, and didn't need a government bailout. Yet consumers seem to characterise all bankers as greedy and exploitative. How does an individual bank counter that?

CC: As far as HSBC is concerned, we just have to continue doing what we do, better. Actions speak louder than words. Our size, international presence and financial stability have given customers confidence in troubled times – UK customers flocked to us at the height of the banking crisis in 2008/2009, for example.

But we are far from complacent, and the crisis was a catalyst for us to take a long hard look at ourselves, from the way we work internally, to the way we serve customers, to the



way we represent the company. The result of that was the strategy that our new CEO Stuart Gulliver unveiled last May – ‘to become the world's leading international bank’.

BFJ: How has that new positioning, which is subtly different from ‘the world's local bank’, affected your marketing strategy?

CC: ‘The world's local bank’ was only ever intended to be a marketing strapline, but it became our strategy, almost by default. It won't disappear from people's heads quickly, because slogans persist, but it is not consistent with our current strategy, because we are actually closing retail operations in countries such as Russia and Poland.



HSBC AT A GLANCE ↓

1865 Inspired by Thomas Sutherland, a Scot working for the Peninsular and Oriental Steam Navigation Company, The Hong Kong and Shanghai Banking Corporation Ltd was established to finance the growing trade between Europe, India and China. From the outset trade finance was a strong feature of the bank's local and international business, and by the end of the century it was the foremost financial institution in Asia.

1920s Hong Kong and Shanghai Banking Corporation widened the scope of its activities in the East, becoming increasingly involved in issuing loans to national governments, especially in China, to finance modernisation and internal infrastructure projects such as railway building. After disruption caused by the First World War, the East became prosperous again, and the bank grew accordingly.

1930s to 1960s At the end of the Second World War the bank played an important role in rebuilding the Hong Kong economy, but closed its offices in mainland China. It reduced its dependence on Hong Kong by diversifying through a series of alliances and acquisitions, including the Mercantile Bank and the British Bank of the Middle East.

1970s This period saw the beginning of the bank's transition from an important regional bank to one of the world's leading financial services organisations. It conceived the strategy of the 'three-legged stool', the legs being Asia Pacific, the US and the UK.

1992 HSBC took over Midland Bank (it had bought Marine Midland Bank in the US a few years earlier) and the headquarters moved from Hong Kong to London. Throughout the rest of the decade it continued to grow through strategic acquisitions in developed and emerging markets, including the US, Argentina and Brazil.

21st century HSBC has renewed its focus on its birthplace, growing its business in China organically and through strategic partnerships.

The new strategy is about being in countries where we have scale and the longer-term economic fundamentals look strong.

Our challenge now is to reposition ourselves by having some new conversations with our customers based on what we do. Our latest advertising campaign, which broke last October and recently rolled out into airports, exemplifies our approach. At its heart is our longevity, global reach and diversified portfolio – things that we know inspire confidence in customers. But the emphasis is on building our brand further by reflecting on the future forces that will shape our world and commerce, many of which are clearly visible today.

Each idea is set up with the words

'In the future....' But, significantly, the creative themes are drawn from the core business lines of our Commercial Banking, Global Banking and Markets and Wealth Management businesses. This marks a departure from our previous communications, which focused on retail banking. We believe that highlighting the fact that, for example, we finance big infrastructure projects in one part of the world and facilitate trade elsewhere, will influence all our customers.

So we are beginning some intelligent conversations with people about who we are. We're not exhorting them to buy a product. It's more subtle than that. We want customers to walk away and say to themselves 'they know what they're

Banking

HSBC FAST FACTS ↓

HSBC is one of the largest banking and financial-services organisations in the world.

It has around

7,500

offices in around 80 countries and territories in Europe, Asia Pacific, the Americas, the Middle East and Africa.

It has nearly

300,000

employees.


According to the BrandFinance® Banking 500 league table, it is the world's most valuable banking brand, worth

\$27.6bn

– the only brand in the table with a AAA rating.

“The HSBC brand carries an inherent promise around the world, and we have to live up to that”

In the future, there will be no markets left waiting to emerge.



By 2050, 19 of the 30 largest economies will be in countries we now call 'emerging.'* HSBC's international network can help you discover new markets wherever they emerge next. There's a new world out there.

There's more on trade at www.hsbc.com/inthefuture

HSBC

Source: HSBC, 2011. *Source: HSBC, 'The world in 2050'

In the future, even the smallest business will be multinational.



Whether you trade in Dollars, Euros or Renminbi, global markets are opening up to everyone. At HSBC we can connect your business to new opportunities on six continents – in more than 90 currencies. There's a new world emerging. Be part of it.

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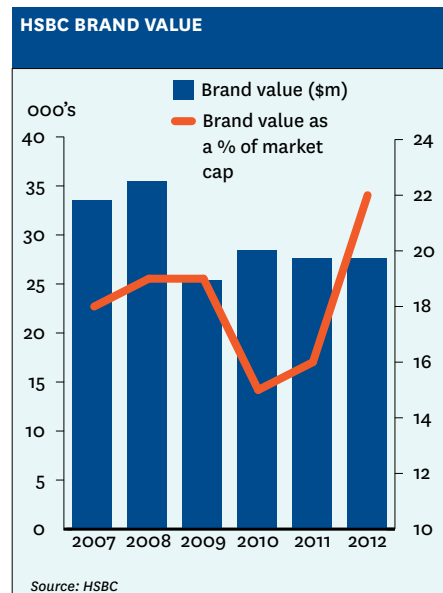
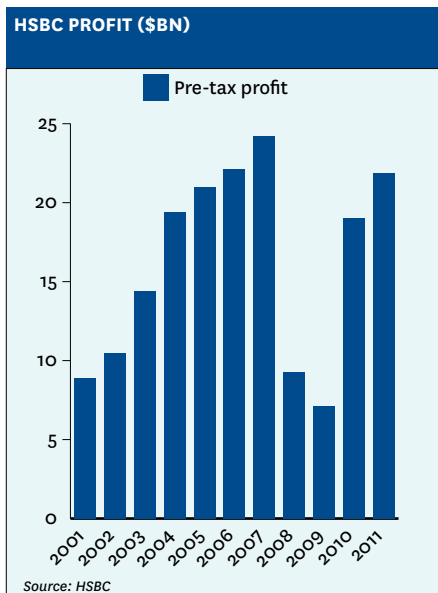
doing; maybe I should think about them for my next business deal or personal investment.'

BFJ: To what extent has your mono-brand strategy helped you?

CC: Having all your different businesses under the same flag can be a good and a bad thing. NatWest customers, for example, may have noticed that NatWest is 'part of the Royal Bank of Scotland Group', but for the large part don't really associate 'their' bank with RBS's well-publicised problems. But for us, any bad news or reputational issues arising from operations in any country

or business line have an impact on our house brand. However, by the same token, all parts of HSBC benefit from the halo effect of things going well in any particular area.

So, overall, the mono-brand strategy acts as a discipline on management to behave in a consistent way wherever we do business. The HSBC brand carries an inherent promise around the world, and we have to live up to that by either matching or exceeding expectations. That sets a high bar, operationally and management-wise. There are other advantages to the mono-brand strategy too, of course – not least the ability



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“Our challenge now is to reposition ourselves by having some new conversations with our customers based on what we do”

it gives us to run global marketing programmes, encapsulated in our airport advertising, which benefit even our smallest businesses.

BFJ: You seem to be using your Asian heritage more overtly in your new campaign too: are you doing that everywhere?

CC: Our international nature generally is clearly playing a strong role in consumers' perceptions of our ability to balance our risk rather than being hooked to just one economy. And because the East in particular is seen as a source of strong and stable growth, we sometimes use our Asian heritage

to good effect in our communications. We want to be seen as being at the crossroads of the new East/West, East/East trade routes, and being able to exploit our heritage is certainly one very powerful way of differentiating ourselves.

But there are other developing markets around the world, and because regions such as Latin America and the Indian sub-continent are also very important to us, we feature those regions in our communications too.

BFJ: Does your strong service ethic derive from your Asian heritage and/or is this something you could make more of in your communications?

CC: Our service culture is not born of national identity: it is – as it should be – universal. Banks should be duty-bound to provide good service to their customers. HSBC may be better than many, but even we need to ensure that our service is constantly improving because banks still don't offer the same levels of customer service as other organisations.

BFJ: So is creating a stronger service ethic one of the challenges banks face?

CC: Yes, but drawing on national culture is not the route to improving service quality. That's not what we're about. For customers, good service is about much more than whether or not they are listened to and someone is

nice to them. The relationship is more complex than that, and it involves banks understanding what customers expect from them and customers understanding what their bank can do for them. Above all, financial services customers value advice and experience – which begs the question as to whether they will entrust their money to some of the non-bank brands that are trying to diversify into financial services.

BFJ: Your message has changed, but what about the media you use to communicate your message?

CC: We pioneered airport advertising and, although others have emulated us, our campaign at the airports is a source of great corporate pride – as well as being an ideal way to communicate our international credentials. But, like all big companies, we are augmenting traditional communications methods with new media. For example, we have started to use Twitter to provide customer service in the UK. We haven't, however, got involved in this summer's Olympics. The cost is prohibitive and it is difficult to quantify the return.

BFJ: Do you monitor the effectiveness of marketing with sufficient rigour?

CC: At HSBC marketing has a clear role and value in the business. However I think we have some way to go before we are fully accountable to the business in

Banking

HSBC

terms of quantifying the return we get on every marketing dollar we spend. We have to be able to do that in order to ensure our long-term growth. My mantra for the marketing function here is: customer centricity, creative passion and business accountability. The three are entirely compatible, and we have to ensure we focus equally on all of them. In terms of customer centricity, keeping current customers satisfied is more important than winning new ones – not least because you need to get the basics right before you can hope to cross-sell new products and services.

BFJ: Does brand valuation help accountability?

CC: Brand valuation plays a particular role for us at the moment. As part of our strategic repositioning last year we worked on our own internal understanding, and realised that gaining a holistic picture of the value of the brand is difficult if you're relying purely on customer surveys. We are now using brand valuation to help us determine our strengths and weaknesses and to help us focus on the areas of biggest potential growth. As such it is becoming a very important part of how we assess ourselves.

BFJ: We recently saw former RBS chief executive Fred Goodwin stripped of his knighthood, and his successor Stephen Hester forced to forgo his bonus. What's your view of the role government is playing in the banks it has saved, and is the media's hard-line stance helpful?

CC: We have to accept the way things are, and remain focused on positioning our business, our strategy and our brand in a way that differentiates us from the others.

“Brand valuation is becoming a very important part of how we assess ourselves”

BFJ: Do most people understand the differences between the various types of banks?

CC: The man in the street won't understand the differences between investment banking and retail banking, but that's to be expected.

BFJ: Does he need educating then?

CC: I don't think any form of communication, other than specific brand communication, will change public perceptions of banks at this point in the cycle. We are living through such torrid economic times globally, and the world's financial systems are being reformed so dramatically, that shouts from the rooftops about the role banks play in society would only make things worse.

However, I do agree that someone needs to start the discussion at some point. But if the public is to understand the positive role banks play in thriving local economies and international trading, then we ourselves, the

HSBC BRAND TIMELINE ↓

1998: Creates single brand name combined with the graphic hexagon logo

2002: Added strapline 'The world's local bank'

2001: 'Local knowledge' campaign

2005: 'Different points of view' campaign

2008: 'Different points of value' campaign

2010: 'World of opportunity' campaign

banks, have to understand that first. We also need to think harder about how to replicate the kind of trusting relationships that existed between the respected local bank manager and their personal and business customers 30 or 40 years ago. Exactly how banks do that may well be down to individual branch managers. These are the sorts of conversations we are having internally at the moment. ■

BRAND FINANCE VERDICT

David Haigh, CEO

In the last issue of the *BrandFinance® Journal* Morten Lundal, group chief commercial officer of Vodafone, argued that while global brands are important in the interconnected mobile telecommunications market, they still need to be adapted to different market conditions and customer preferences.

We also heard from Graham Mackay, chief executive of SAB Miller, who believes that in the beer market at least, global brands are largely irrelevant. The vast bulk of beer sales are of local brands, specifically because of local differences in culture, taste and usage.

So Ted Levitt's long accepted view that global brands are superior to local brands is being widely challenged. Professor John Quelch, previously of Harvard Business School and now Dean of the China Europe International Business School, recently published *All Business is Local: Why Place Matters More than Ever in a Global, Virtual World*. Prevailing academic and practitioner wisdom has changed.

Yet HSBC seems to be swimming against this tidal shift in opinion. In this issue Chris Clark discusses how HSBC is moving away from its long held claim to be 'the world's local bank'. Is banking a sector that lends itself to a global interconnectedness or to local culture and conditions? Banking is certainly a very fragmented, nationally- or regionally- focused industry. HSBC, Santander, Bank of America and others started as strong local players. Can a global brand positioning prevail? Chris's view is that it can, because it can be helpful and relevant to customers. However HSBC has divested under-performing local branch networks and now aspires 'to become the world's leading international bank'. As he explains, subtle changes to the message have helped to strengthen the position of the most valuable brand in the banking firmament.

Marketing due diligence Malcolm McDonald

Preparing for take-off

Companies have got themselves into good shape over the past three years. But as we settle into what could be another challenging year, they need to maintain, develop and exploit their intangible assets – not least their brands – in order to rebuild shareholder value. Professor Malcolm McDonald explains.

THE MOST COMMON financial objective of modern commercial corporations is to create sustainable shareholder value. They can do this only by providing shareholders with a total return, from capital growth and dividend yield, that exceeds their risk-adjusted required rate of return for any particular investment.

In today's highly competitive environment, the major sources of increased shareholder value are intangible marketing assets such as brands, customer relationships and distribution channels. Together these account for what Brand Finance has identified as up to 80 per cent of the company's value – and value that does not appear on the traditional balance sheet.

Clearly, therefore, companies should be rigorously reviewing their marketing strategies in order to determine how to develop, maintain and exploit these intangible assets. Unfortunately, however, although most companies conduct rigorous financial due-diligence analysis

on major acquisitions and strategic investments, marketing strategy has remained largely exempt from this process.

The risk/return relationship

Conducting structured, sequential marketing or brand due-diligence on any proposed marketing strategy will determine how likely that marketing strategy is to increase shareholder value. The amount of shareholder value created depends on the level of risk investors are prepared to tolerate in exchange for their desired reward.

As Figure 1 shows, you get a minimum positive required rate of return where the risk/return line cuts the vertical axis. This minimum required rate of return

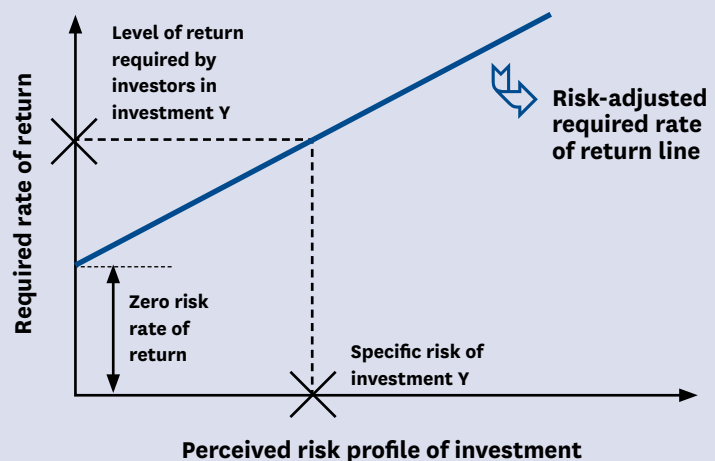
carries no perceived risk, which implies guaranteed future returns. For investors in stable economies this normally means government-guaranteed borrowings (for example, US Treasury bills, UK government gilts, European Central Bank debt). The returns on such investments are currently low, but they are seen as risk free owing to their lack of volatility and investors' certainty about what return they will get and when they will get it.

Logically, therefore, a normal, rational, risk-averse investor will expect a bigger return from a more risky investment. Shareholder value is created only when total returns are greater than the risk-adjusted required rate of return. So a company can grow its profits without creating shareholder value if the associated risks are also increasing.

Marketing due diligence

Because investors are interested in the risk-adjusted rate of return, it is equally (and sometimes even more) important that companies manage risk as well as returns. And a robust marketing strategy reduces

FIGURE 1: RISK-ADJUSTED REQUIRED RATE OF RETURN

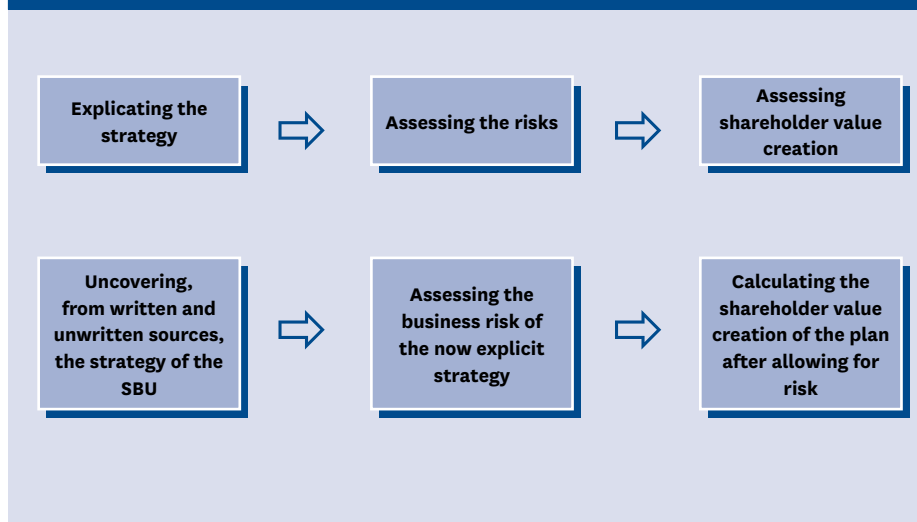


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Marketing due diligence

FIGURE 2: THE OUTLINE PROCESS OF MARKETING DUE DILIGENCE



the risk associated with a promised return.

Marketing/brand due diligence is a sophisticated process not easily reduced to simple mnemonics and acronyms. But it helps to understand each layer of complexity one step at a time.

The first step is to consider marketing due diligence as a three-stage process, as represented in Figure 2. Stage one makes the marketing strategy explicit, which provides the input into stage two. In stage two, the risks associated with the marketing strategy are thoroughly examined. In stage three, risk is evaluated to calculate whether or not the marketing strategy will create shareholder value.

Assessing the risks

In essence, all business plans make three basic assumptions.

- 1/ The market is this big.
- 2/ We're going to take this share of the market.
- 3/ That share will make this much profit.

Each of these assumptions carries a level of risk that it may be wrong, and the combined risk is the business risk.

As simplistic as it appears, this three-part structure of business risk captures all of the hundreds of possible reasons – from fickle customers to aggressive competition to flawed forecasts – why a business plan can fail to deliver what it promised. Thinking of risk assessment in these terms shifts the problem from one of complexity (have we counted all the risks?) to one of rigour (have we accurately assessed each of the three risks?).

Creating financial value

This first step of the marketing due diligence diagnostic process, therefore, should result in an adjusted set of forecast sales revenues, profits and cash flows from the proposed marketing strategy.

The next step is to assess whether these adjusted expected cash flows will enhance shareholder value. You do this by putting them into the context of the capital employed in implementing the marketing strategy and the resulting required rate of return on this capital employed.

The capital employed that you use for this calculation should be the genuine capital that is required in the business in order to implement this marketing strategy. In other words, it should include the value of the relevant intangible assets owned and used by the business and not be limited to the historically based, tangible-asset-oriented balance sheets published by most companies.

FIGURE 3: THE VALUE OF INTANGIBLES

P&G paid £31 billion for Gillette, but bought only £4 billion of tangible assets.	
Gillette brand	£4.0 billion
Duracell brand	£2.5 billion
Oral B	£2.0 billion
Braun	£1.5 billion
Retailer and supplier network	£10.0 billion
Gillette innovative capability	£7.0 billion
TOTAL	£27.0 billion

Source: Brand Finance

The role of successful brands

Until Kraft acquired Cadbury in 2010, one of the most significant acquisitions was that of Gillette by Procter and Gamble in 2005 (see Figure 3). But while the retail and supplier network is shown as being valued at £10 billion, few would dispute the fact that this itself is the result of, not the cause of, successful brands.

The role of brands in growing shareholder value is also illustrated in Figure 4. Based on Shell, the chart shows that brands affect business value by influencing the behaviour of a wide range of stakeholders.

The Shell example raises the question of what constitutes 'a successful brand'. A successful brand is more than a name or symbol on a product, service, person or place. A successful brand creates 'super profits' (another expression for shareholder value added) by providing a superior experience at every touchpoint between a company and its customers, across all channels.

Successful brands

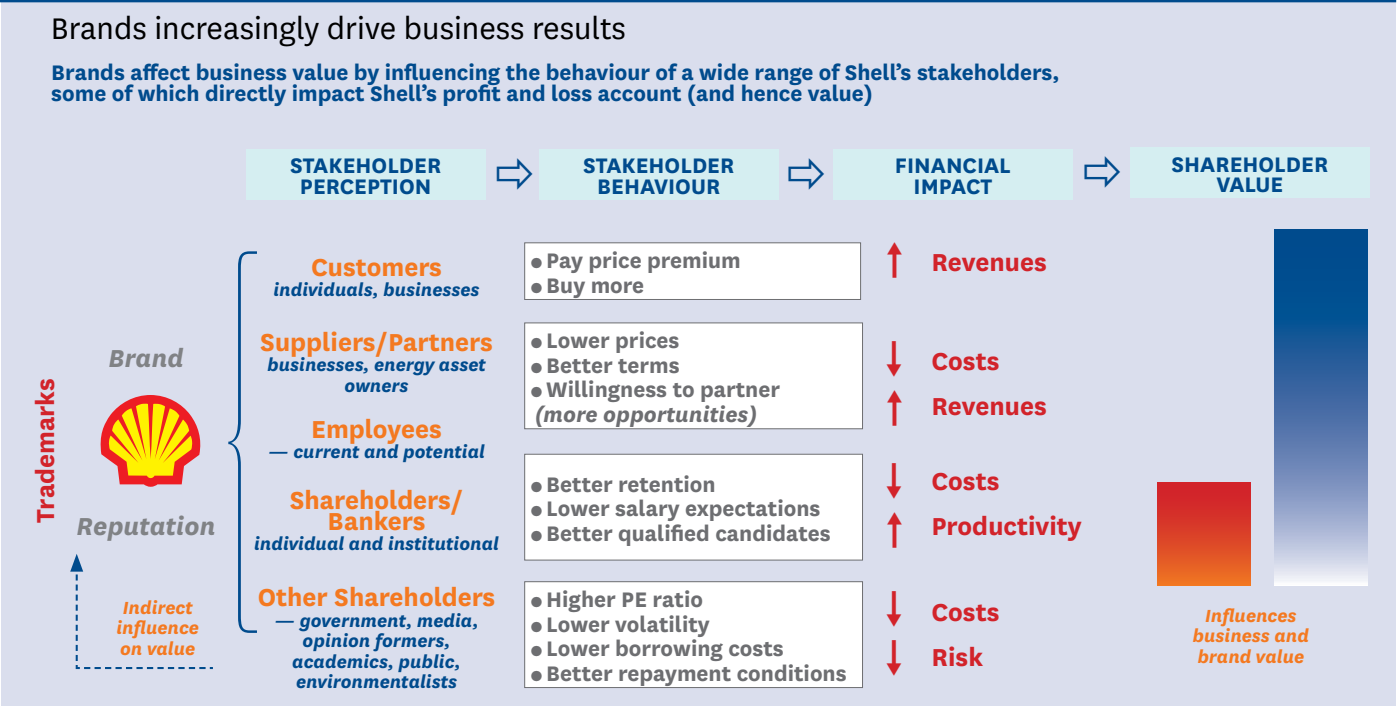
- have a clear customer benefit
- make a promise and keep it
- are simple, clear and honest
- have distinctive logos and design
- are widely available
- build trust
- have a price/quality trade off – win/ win
- help consumers make good decisions
- result in higher margins and volumes, innovation and better quality.

By contrast, unsuccessful brands exhibit the following characteristics:

- success led to smugness
- superior margins became the primary purpose
- cut corners/reduced costs
- economical with the truth (may be 'low fat', for instance, but no mention of high sugar content)
- add some gold to the packaging (illusion of quality)
- make decision-making harder
- became the new commodities.

Though growing numbers of organisations recognise the need to differentiate their brands, many totally

FIGURE 4: BASED ON SHELL, THE CHART SHOWS THAT BRANDS AFFECT BUSINESS VALUE BY INFLUENCING THE BEHAVIOUR OF A WIDE RANGE OF STAKEHOLDERS.



Source: Shell Brands International

misunderstand the concept. Great brands do not differentiate for the sake of it. They differentiate around core category benefits, they make the brand famous and distinctive and they make it easy to buy through distribution and penetration.

Brand Finance understands that everything an organisation does and stands for – from research and development through to after-sales service – converges on the proposition that is projected to the customer, and that all of this is represented by the product or corporate brand name. No wonder that more and more organisations are asking us to help them value brands in order to drive greater shareholder value.

Most boards still focus on reporting the financial performance of a business, which makes marketing/brand due diligence critically important to internal audit functions, particularly those in large, multi-business corporations. Owing to the geographic spread and complexity of these large firms, their boards need to be assured of the consistency, accuracy and relevance of the information they receive – particularly for the purpose of critical, strategic investment decisions where the financial justification is based on forecasts of future expected outcomes.

This is also a way for CEOs to hold their marketing directors to account for ensuring that their marketing strategies really do deliver shareholder value.

At a fundamental level, marketing due diligence is very simple. You can never eliminate business risk entirely, but it is possible to reduce it to a practical minimum. The residual risk is identified, located and, most importantly, understood – and this requires an approach that is far from simplistic, relying as it does on the results of many years' research into why businesses succeed and fail.

As with the information gleaned from the black boxes of crashed aircraft, the research allows us to both group the reasons for failure and suggest ways to avoid it. In that sense, marketing/brand due diligence is analogous to pre-flight checks, and carries similar implications for reliability and safety.

Once marketing/brand due diligence becomes a routine process for assessing the strategic decisions of company directors, the flaws it detects and the challenges it highlights may become fewer and more routine. But until then, the process is likely to prove revelatory for many boards. ■

“Marketing/brand due diligence is analogous to pre-flight checks, and carries similar implications for reliability and safety”

Brand valuation

Founding father

When John Murphy invented brand valuation nearly 30 years ago, it sparked an explosion of interest in the concept of 'branding'. And, as he tells Jane Simms, he sometimes wishes he could put the genie back in the bottle.

THE UBIQUITY OF the terms 'brand' and 'branding' and the plethora of multifarious branding 'consultants' makes it hard to credit that less than 30 years ago the word 'brand' was largely unheard of outside narrow advertising circles. The man who let the genie out of the bottle was Interbrand founder John Murphy, widely credited as the granddaddy of brand valuation, and a formative influence on Brand Finance CEO David Haigh, who worked for him at Interbrand before leaving in 1996 to found Brand Finance.

Back in the 1980s, Murphy decided, as he puts it, "that brands were very important." He had set up Interbrand as a brand naming consultancy, but realised that the brands he was working with were both immensely powerful and seriously underrated and unexploited by their managements and by investors. He expounded his belief in the 1985 book *Branding: A key marketing tool*.

He recalls: "The word 'brand' was not

much used or even known then, and the publishers told me to come up with a snappy new name for what I wanted to write about – the whole process of managing and developing brands – so I coined the term 'branding'. It took even our own people a while to get used to that."

The book generated "a ripple of interest," he says. "*The Economist* reviewed it. They were complimentary, but cautious. It was 'interesting', they thought, but said it 'wouldn't catch on'. It did catch on, but it took about three years to do so."

The catalyst for the sudden explosion of interest in branding, and, more specifically, brand valuation, was the takeover bid in 1988 by the Australian company Goodman Fielder Wattie for Ranks Hovis McDougall (RHM). In its first-ever valuation exercise, Interbrand valued RHM's brands, allowing the company to demonstrate that it was worth more than what Goodman Fielder Wattie was offering. The bid failed, and suddenly the world – and, more specifically, the City and finance directors – woke up to the latent value in brands.

Around the same time, Interbrand valued the brands that Grand Metropolitan (which later became Diageo) had acquired when it took over Pillsbury. "There was a big globule of nebulous value – 'acquired goodwill' – on the balance sheet, but being a branded goods business GrandMet wanted to understand it and what each of the brand



Murphy (above) is now putting into practice what he preached, at St Peter's Brewery in Suffolk

assets they had acquired was really worth in order that they could extract maximum value from them," explains Murphy. "We did a brand valuation on the day the deal was done. We were able to demonstrate, for example, that Häagen-Dazs and Green Giant were far more valuable than Pillsbury had thought. But while the valuation underlined – not least to shareholders – what a good deal GrandMet had done, it was the process of evaluation that gave management the information they needed to manage those brands to full advantage in the future."



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John Murphy



← MURPHY: THE ESSENTIAL FACTS

→ **Born 1944** in Essex.

→ **Gained a** 2:1 in Geography at Manchester University, followed by a Masters of Technology in Business Administration at Brunel University.

→ **Joined the** corporate world with roles in corporate planning and marketing at Leesona and Dunlop.

→ **In 1974** set up Interbrand, a brand-name creation company, coming up with brand names including British Telecom, Hobnob, Homebase, Zeneca and Prozac.

→ **By 1992** Interbrand had offices in over a dozen countries, 200 staff and clear international leadership in the growing branding business.

→ **In December** 1993, two months before his 50th birthday, Murphy sold the business to Omnicom, the large New-York-based marketing services group. He stayed on until 1996.

→ **He then** began putting into practice as a brand owner what he had preached as a consultant. He led the buyout of Plymouth Gin from Allied-Domecq, and by the time he sold it to Absolut, now part of Pernod-Ricard, six years later, had increased his investment 30-fold. He also set up his own brewery, St Peter's Brewery Group plc, in a 13th century moated manor house in Suffolk. The award-winning St Peter's Ales are exported around the world.

→ **Murphy has** written numerous articles and books – including the seminal *Brand Valuation – Establishing a true and fair view* in 1989 – and has lectured at venues worldwide.

→ **He holds** an honorary doctorate in Social Sciences from Brunel.

These high-profile exercises alerted competitors to the commercial opportunity in brand valuation. “We had people crawling all over our methodology, and within weeks the

“Once branding escaped, it was like a virus – everyone got it”

top accountancy firms had set up their own valuation departments – and some of the stuff some of them were doing was beyond belief. Their approach was a bit like someone trying to assess an oil painting by measuring it. They understood nothing about the assets they were attempting to value.

So rather than try to keep our methodology secret, we decided to make it explicit in an attempt to encourage standardisation, and we published the first issue of *Brand Valuation* to that end. The result was

that most valuers converged around the Interbrand methodology, but they tried to undercut us by cutting corners and so on.”

And even now, 25 years on, Murphy points out that the lack of regulation means that “anyone can set up as a brand valuer.” Yes, there are the International Valuation Standards Council (IVSC) and International Organisation for Standardisation (ISO) standards, but not all valuers or methodologies comply.

Before he left Interbrand 17 years

Brand valuation

ago he was fighting to get some sort of standardisation or accreditation, but, he recalls, “it was like trying to herd cats. People were coming out of business school and thinking they knew it all. Everyone was hawking their own thing – and they still are. It’s open hunting, so everyone who wants to make a name for themselves comes up with some bullshit about brands. Even much so-called academic literature is absolute drivel. But no-one can control it, and without regulation clients have to rely largely on the notion of ‘caveat emptor’.”

Murphy fears that this lack of regulation – notwithstanding the IVSC and ISO standards – is in danger of undermining the value of brand valuation.

He explains: “Some of what you see has gone too far, it really is daft” – and he’s not just talking about valuation methodologies. “One of the problems with people rushing into brand valuation is that lots of them don’t even know what a brand is. Over the past 15 years the whole thing has become lunatic, with everything from the Royal Family to New Zealand becoming brands. The concept of brands, branding and brand valuation has disappeared into the realms of fairyland.”

But he is far less concerned about the discrepancies between brand values in the annual league tables from the top three brand valuation companies – Brand Finance, Interbrand, and Millward Brown – despite the ritual annual ruckus played out in the marketing press.

“The league tables are really a bit of fun and a way to generate new business,” he says, adding that the impetus for doing them in the first place came from clients.

“We didn’t start off doing brand valuations. I prepared a book in 1990 containing brand strength scores and league tables for ‘the world’s most important brands’ – but we made it very clear that these were only our views, not cast in stone. However, we had lots of pressure from companies asking us to tell them what their brands were worth, what they could be worth, and so on. The league tables grew out of that.”

He believes that some companies do perhaps accord too much worth



Murphy’s investment in Plymouth Gin (above) increased 30-fold in the six years he owned it.

Right: St Peter’s Hall, part of St Peter’s Brewery.



to league tables, “but the sensible ones don’t treat them as gospel.” And he refutes entirely the charge that such league tables amount to cynical marketing exercises by the consultancies. “Brands often are companies’ most important assets – and investors and others are interested in knowing what they might be worth and whether the company is doing a good job of managing them. So brand valuation is a matter of public interest.”

Nevertheless, whatever the methodology employed, brand valuation will always be subjective and highly dependent on context, he believes. This doesn’t matter, he says, provided the methodologies employed are explicit, clear and transparent.

And while some people argue that the focus on ‘the number’ is misleading and that a range of numbers would be more meaningful, Murphy believes that clearly communicated methodologies mean that distilling a valuation down to

“It is difficult not to feel upset sometimes at some of the things that go on in the name of ‘branding’”

a single number is perfectly reasonable – provided everyone understands the pre-eminence of the ‘evaluation’ process over the actual ‘valuation’.

“It is the diagnostic that’s important – what lies behind the number,” he says.

One of the earliest brand valuations he did was for a company that had noticed a rise in a hostile stakeholding and was advised by its merchant bank to have its brands valued as a potential defence. The bid never materialised,

John Murphy



ST PETER'S BREWERY

unlock far greater value by managing the brands better. It was a revelation to the chairman, and they fundamentally changed their marketing as a result.”

Branding, the concept that Murphy reinvigorated, has been good to him. The years he spent honing the disciplines of brand development, management and valuation have repaid handsomely – not least when he became a brand owner himself. His investment in Plymouth Gin increased 30-fold in the six years he owned it before selling it to Pernod-Ricard – simply because, he says, “the brand had more potential than the then owners could exploit.”

And he has used sound branding principles to make St Peter's Brewery, which he founded after leaving Interbrand, highly successful both on the domestic front and in export markets.

So it sounds, as he admits, “a bit dog-in-the-mangerish” to express sadness that branding, which he saw as such a force for good, “has been hijacked.” He explains: “Once branding escaped, it was like a virus – everyone got it. But it

is difficult not to feel upset sometimes at some of the things that go on in the name of ‘branding’.”

So what is his view on the perceived conflict of interest that exists within the big integrated communications agencies that develop and manage brands for clients as well as value them? He spent three years at Interbrand after marketing services group Omnicom bought it, but, he insists: “The takeover had no effect at all on the way we went about our business. Omnicom is very hands-off and operates very much as a holding company, and while I was there we were utterly independent.”

But he admits that there “may be” a conflict of interest – albeit a much less serious one than still exists in auditing firms despite the fact that they bristle with Chinese Walls and other segregation and compliance structures. “The audit world is still fundamentally corrupt,” he avers. “Audit firms should do pure audit work – and brand valuation consultancies should probably do pure brand valuation.” ■

but the company asked Interbrand to present the work it had done to its senior finance and marketing teams, who, the chairman believed, “were making a huge cock-up of managing their brands.”

Murphy explains: “They had some brands that they loved to death and threw money at, and other really important valuable solid brands that they had given to junior marketers to look after because they considered them ‘unflash’. But they lacked any decent brand financials – they knew how much profit each factory was producing, but nothing about the brands coming through those factories. We got them to do p and ls for their brands, which demonstrated to them that the brands they loved were duffers and the unloved brands were cash cows. They were fascinated by the numbers, and we had to explain to them that they needed instead to focus on why these valuations were arising and how they could

ANALYST'S VERDICT

David Haigh, CEO, Brand Finance

John Murphy, an inveterate contrarian and iconoclast, single-handedly launched the global branding industry. In 1974 he took on the marketing profession to get branding recognised as a new discipline. In 1988 he took on the financial profession to get brand valuation on the corporate agenda. He is a creative, lateral thinker and a straight talker who loathes pomposity, regularly debunking myths with a wicked sense of humour.

Back in the 1970s, he and his wife, a doctor, invented a medical condition – ‘Cello Scrotum’ – to hoodwink the medical profession. Their joke went undetected for 35 years – it was referenced several times in medical journals – before they owned up to the hoax.

He loves telling the story – as he does the one about inventing brand valuation over a weekend before he and his fellow Interbrand directors pitched their branded bid defence to RHM. I have no doubt, though, that John thought about brand valuation for longer than one rainy Sunday afternoon. He was the first to recognise that brands are valuable assets and laid out a clear approach to valuing them.

Since then the brand valuation profession has moved on, acquiring new techniques, global standards, institutional accreditation, best practice and codes of conduct along the way. It will soon be formally regulated, in recognition that brands are not only hugely valuable intangible assets, but also, arguably, the most valuable intangible asset class of all. John should take most of the credit for this. He's taken a back seat now, but his views are no less pertinent or incisive than they ever were.

Branding

Chinese puzzle

The Chinese passion for brands sounds like good news for branded goods businesses wanting to expand in the region. But despite the abundant opportunities, it's a path that companies need to tread with care. Rupert Purser explains.

CHINA HAS COME a long way in a short time. During the Cultural Revolution general consumer choice was almost non-existent; products of state-owned factories were the only mainstream goods available. But since the Communist Party redefined the country's economic and social system in 1978 as 'socialism with Chinese characteristics' or 'market socialism' choice has exploded, and Chinese consumers in the 21st century live in a heavily branded marketplace.

Ten minutes in a Chinese shopping mall or train station, where advertisements for everything from Japanese watches and French clothing to British cars adorn the walls, is enough to demonstrate how firmly commercial branding has taken hold. Major brands including Johnson and Johnson and China Mobile sponsored the 2008 Beijing Olympics.

Nevertheless, China has traditionally been seen more as a threat than as an opportunity for strongly-branded international companies. Beijing may have two official Prada stores but it also has a hundred streets where you can pick up a 'Prada' bag for a handful of RMB (Renminbi, the Chinese currency).

Despite the protestations of the men selling these "authentic, good quality bags," it is unlikely that Milan is seeing any return from the vast majority of 'Prada' bags sold in China.

'Inconsistent' is the most charitable definition of the Chinese government's position on piracy and fake goods: it has made very little attempt to stamp out China's huge fake goods industry. The recent discovery of several fake Apple Stores in Kunming, the capital and largest city of Yunnan Province in south-west China, indicates the scale of the problem. Employees themselves genuinely believed they were working for Apple.

Entire factories in Shenzhen are devoted to producing rip-off 'Louis Vuitton', 'Burberry' and 'Nokia' products. The Asia Business Council estimates the contribution of the counterfeit goods sector in China to be as high as eight per cent of GDP. And while many of these goods are exported, there is a strong demand within China for products that consumers know to be falsely branded.

The reason for the strong appetite for brands – even fake brands – is that in the highly capitalist and increasingly status-conscious society of modern-day China, consumers see them as a way of demonstrating wealth and conferring prestige. According to market research company TNS, 60 per cent of the Chinese consumers that it polled said that they use luxury goods to demonstrate social status, and 65 per cent described people who own luxury goods as 'successful'.



Can international companies profit from the Chinese passion for branded products if their brands are going to be copied by low-cost Chinese producers?

The flight to authenticity

China will always have a market for \$10 fakes. But there is a growing recognition among the Chinese middle class that branded products can't denote social status when everyone owns the same knock-off goods. A fake Gucci bag counts for nothing if everyone has one. So wealthier Chinese consumers are now differentiating themselves by seeking out authentic brands.

The rise of websites and retail outlets





CHINA FAST FACTS ↓

The GDP of China grew

9.2%

last year
to reach around \$7trn, according to the
National Bureau of Statistics.

→ In 2010 China became the world's largest
exporter, with exports in 2011 estimated to be

\$1.9trn

China's population was

1.34bn

in 2010, according to the National Census.

“Many Chinese consumers seek out foreign branded products wherever possible – especially those manufactured outside China”

selling second-hand branded handbags, jewellery and designer clothing, such as the Japanese chain Brand Off in Hong Kong and Shanghai, and Milan Station in Hong Kong, are evidence of this trend. Chinese tourists queuing outside luxury goods stores in Paris and Rome for branded products, copies of which they could buy at home for one-hundredth the price, are another sign of this flight to authenticity.

This shift presents a real opportunity for branded goods manufacturers, particularly those with expensive brands. The Chinese middle class, already a driving force in the world economy, is burgeoning, and Western

companies able to build strong brand equity among this important demographic will reap dividends.

Foreign brands in China

But the Chinese predilection for Western brands, which they perceive to be of superior quality to their Chinese equivalents, applies to everyday items as much as it does to luxury goods. Chinese businessmen favour Italian suits and French cologne, but demand is also high for French milk and British vegetables.

For many wealthy Chinese, ‘Made in China’ still carries associations with variable health, safety and quality control standards – a concern that a recent series of safety scandals has done nothing to allay. The one that made the biggest splash in the Western press was the contamination of milk with melamine in 2008, which poisoned 300,000 babies, killing eight of them. In 2011, the authorities discovered that a lot of pork in Hunan province was contaminated with the illegal steroid clenbuterol. Outside the food industry Chinese producers of rabies vaccines, toys, lead paint and condoms have been rocked by allegations that faulty products posed a threat to consumers.

Such scandals have led many Chinese consumers to seek out foreign branded products wherever possible – especially those manufactured outside China. It seems ironic that that they are growing wealthier on the back of surging exports of products that they refuse to buy themselves. But this openness to Western goods is a golden opportunity for Western companies.

We at Brand Finance’s Hong Kong office believe that the automotive and personal banking sectors afford the strongest growth potential for international brands in China. Both sectors have strong Chinese brands,

Branding

yet both also appeal to the wealthy Chinese consumers who prefer foreign goods and services. The government is unlikely to allow Western banks to challenge the position of the Chinese 'Big Four' banks, but more niche private wealth management and personal banking services could find it relatively easy to expand in China. Companies that can position their brands as being trusted and respected in a sector in which foreign expertise or quality is valued are well placed to capture a slice of the Chinese consumer market.

But while Chinese consumers may be more open to Western products than their counterparts in Japan or Korea, they are also more political. And because foreign brands in China trade heavily on the reputation of their country of origin, they are strongly affected by swings in Chinese popular opinion. So, for example, the Chinese boycotted Citroën and Carrefour after pro-Tibetan protests in Paris during the 2008 Olympic torch relay through the city. Some reports estimate that sales of French cars in China fell by 25 per cent during the Olympics, and there were mass protests outside Carrefour supermarkets.

It seems that Chinese consumers are as aware of foreign politics as they are of foreign brands – but these boycotts also underline the vulnerability of foreign brands in China to forces outside their control. Even more significantly, the boycotts demonstrate that Chinese consumers don't passively accept Western brands, but are active participants in a process that is changing how branding works worldwide.

Chinese acquisition of foreign brands

Perhaps the most visible manifestation of China's impact on global brands is the increasing number of Western brands being snapped up by Chinese companies. Attempted Chinese takeovers of US oil firm Unocal in 1995 and US digital electronics manufacturer 3Com two years later failed in the face of Western political opposition to Chinese control of 'strategic industries'. But the number of foreign acquisitions

BRANDFINANCE® TOP 10 CHINESE BRANDS					
RANK 2012	RANK 2011	BRAND		INDUSTRY GROUP	DOMICILE
1	1	China Mobile		Telecoms	HONG KONG
2	3	China Construction Bank		Banks	CHINA
3	2	ICBC		Banks	CHINA
4	4	Bank of China		Banks	CHINA
5	7	PetroChina		Oil and Gas	CHINA
6	5	Agricultural Bank of China		Banks	CHINA
7	6	China Life		Insurance	CHINA
8	9	Sinopec		Oil and Gas	CHINA
9	10	China Unicom		Telecoms	HONG KONG
10	8	China Telecom		Telecoms	CHINA

Source: Brand Finance

“While Chinese consumers may be more open to Western products than their counterparts in Japan or Korea, they are also more political”

by Chinese firms is accelerating. Buyers have easy access to credit from domestic banks, and there is a growing array of troubled Western companies looking for big-spending foreign saviours. Western brands pass into Chinese hands on an increasingly frequent basis.

One of the highest-profile Chinese takeovers was that of Volvo Cars by Zhejiang Geely Holding Group in 2010. There were similarities with Lenovo's 2005 acquisition of IBM's ThinkPad line of personal computers. Geely Automobile and Volvo Cars will continue to operate as separate brands,

	BRAND VALUE (\$m) 2012	BRAND RATING 2012	BRAND VALUE (\$m) 2011	BRAND RATING 2011
	17,919	AA	19,317	AA
	15,464	AA	17,092	AA
	15,164	AA+	17,194	AA
	12,857	AA-	13,257	AA+
	10,491	AA	8,031	AA
	9,929	A+	9,283	A+
	8,600	AA	9,212	AA-
	8,127	A-	7,135	BBB
	7,944	A+	6,315	A+
	7,357	AA-	7,261	AA-

in China and abroad, much as Volvo used to operate within the Ford family of brands. The two car brands won't be officially merged, but we believe that the acquisition will enhance the Geely brand in China because of the halo effect that the international and well-designed Volvo brand will have on the traditionally quite downmarket Geely. Volvo, meanwhile, will benefit from wider distribution.

The desire of Zhejiang Geely Holding Group to use a traditionally Swedish brand to sell cars in China shows the important role that brands play



The Kent and Curwen brand commands a price premium in China

“Chinese companies actively seek international brands, not only to increase their presence abroad, but also to improve their market position at home”

in Chinese acquisitions of overseas companies. Chinese companies actively seek international brands, not only to increase their presence abroad, but also to improve their market position at home. The trend is most pronounced in the fashion industry, where several Chinese companies have bought near-extinct foreign brands to sell only within China.

Hong Kong-based Trinity Limited bought the ailing British menswear brand Kent and Curwen in 2008, and now runs over 80 Kent and Curwen stores in mainland China, all of them trading on the company's British heritage and 1920s aesthetic. The company has just one store in Britain. Another Hong Kong investor has followed the same model with British trench-coat maker Aquascutum, which is now sold across China decades after losing market share in its home market.

While Chinese acquisitions abroad are often portrayed as attempts by Chinese companies to gain control of natural resources or advanced technology, many are in fact motivated by a desire to capture Western brand names – to

enhance the buyers' domestic standing as much as to boost exports. The Kent and Curwen brand commands a price premium in China – despite its Hong Kong ownership.

The future of Chinese brands

The next strategic branding challenge facing Chinese firms will be to build indigenous brands that can compete globally. Despite the much-vaunted 'rise of China' only a small percentage of Americans or Europeans can name a single Chinese brand. Technology company Lenovo, beer maker Tsingtao and appliance maker Haier are the most frequently cited, but none are well-known outside China. By contrast, the comparatively tiny South Korea has a host of well-known brands, including Samsung, Hyundai and Kia, while the mobile phone manufacturer HTC, from Mandarin-speaking Taiwan, is an increasingly well-known name. China overtook Japan last year to become the world's second-largest economy, but where is the Chinese equivalent of Toyota or Sony?

The simple answer is: wait and see. →

Branding

China

Japan's Datsun (now Nissan) and South Korea's Hyundai both started out selling weakly-branded cars that sold on price, but both are now established global brands featuring on the BrandFinance Global 500 list of the world's most powerful brands. As China moves up the value chain and produces more complex and high-quality goods its companies too will begin to build global brands. Taiwan's HTC, which also started off as a low-cost manufacturer, has now established itself as a leading producer of top-level Android smart phones.

Perhaps the Chinese company best placed to make this transition is information communications technology (ICT) firm Huawei. The Shenzhen-based giant is the world's second largest ICT company and operates in 140 countries, and while it still sells largely on price, it represents the next generation of global Chinese firms. Its name can be translated as either 'Magnificent Ability' or 'China is Able', and it is the first privately-owned Chinese business to make a big impression on the world market. If Huawei and other Chinese companies that are producing increasingly sophisticated and high-quality goods manage their brands skilfully there is no reason why they should not follow their Japanese predecessors in making them globally respected.

It may be some time before indigenous Chinese brands build up strong brand equity abroad, but they are starting to establish leading positions in their domestic market. A few Chinese brands are already chipping away at the perception of Western superiority, one example being the recently launched

CHINA'S BRAND VALUE		
	2011	2010
Brand value (\$bn)	3,001	2,137
Change in brand value	+40%	+30%
Infrastructure and efficiency rating	A-	BBB
Brand equity rating	A	A
Economics rating	AA	AA+
Total brand rating	A+	A+
Position on Nation Brand League table	3	4

BrandFinance® Nation Brands 100, November 2011

Shang Xia. Though owned by French fashion house Hermès, the Shanghai-based boutique promises "a unique encounter with the heritage of Chinese design and craftsmanship." Describing itself as "for art of living", the brand follows in the footsteps of Shanghai Tang, a Hong Kong-based chain of department stores that markets itself as "the first and leading luxury lifestyle brand emerging from China," and is now owned by the Swiss luxury group Richemont. The rise of luxury firms

that are enthusiastically Chinese in their branding – if not in their ownership – indicates the growing, if incipient, demand for distinctively Chinese branding.

So clearly, while there is a window of opportunity for Western companies to capitalise on the Chinese appetite for foreign brands, they should not assume that 'European' will always denote quality to the growing numbers of increasingly patriotic and increasingly wealthy Chinese consumers. ■



PROJECTED GROWTH OF POPULATION IN CHINA (BILLION)		
	United Nations (estimate 2010)	US Census Bureau (estimate 2010)
2020	1.38	1.38
2030	1.39	1.39
2040	1.36	1.35
2050	1.29	1.30

“It may be some time before indigenous Chinese brands build up strong brand equity abroad, but they are starting to establish leading positions in their domestic market”

Telecoms

Apple and BlackBerry

Growing the pie

The shifting fortunes of Apple and BlackBerry make interesting viewing. They've taken different approaches to growing their markets, and Apple, identified in the 2012 BrandFinance® Global 500 as the world's most valuable brand, is currently dominant. But writing off BlackBerry is premature, as Edgar Baum explains.



BEING FIRST TO market does not guarantee a monopoly, nor is an original idea or revolutionary concept a passport to market domination. Neither on their own can create sustainable revenues and profits – as the respective fortunes of Research in Motion (RIM) and Apple exemplify. The BrandFinance® Telecoms 500 highlights some of the challenges both brands face this year (see Figure 1).

Apple's original Mac computer, which it launched in 1984, was a superior product in the personal computing environment. However it failed to capture the mass market. The company was obsessed with controlling design and content – witness

its refusal to license manufacturing out to third parties such as IBM. By contrast, RIM's BlackBerry established the smart phone segment in the late 1990s and revolutionised the business world. The product remained successful and dominant for a decade or so – until it was overtaken by Apple's iPhone and other Android-based phones in 2011.

When Apple burst onto the scene in 2007, RIM had a near monopoly on the smart phone segment because it did some things – email, calendar-synchronisation, instant messaging and phone calls – really well. Consumers wanted a BlackBerry because it was trendy, expensive and exclusive. BlackBerry had a very strong brand reputation and first-to-market expertise that served it well for years. But when Apple launched an integrated device, RIM didn't respond.

What Apple did, in essence, was produce one highly differentiated product in a marketplace characterised by a plethora of devices that were largely

indistinguishable from each other. There was a range of different BlackBerry models, all of them basically the same product, but carrying different model numbers. This created the illusion of choice, but no real choice at all, which confused consumers. Apple, meanwhile, had created a whole new segment – 'the mobile convergent device' – which has become the new benchmark by which all devices are judged.

The divergence in strategies between Apple and BlackBerry accounts for their differing fortunes. RIM has persisted in producing multiple hardware models to provide choice in the marketplace, while Apple recognised that what consumers actually wanted was not choice, but integration, and the iPhone has, since its launch, fulfilled the dreams of convergence that began in the 1990s. Indeed, the very word iPhone is a misnomer. The iPhone is a toy, camera, music player, GPS device, web browser, calendar and so on – as well as a phone.



FIGURE 1: BRAND VALUES OF APPLE AND BLACKBERRY

	Rank 2012	Rank 2011	Brand Value 2012 (\$m)	Brand Value 2011 (\$m)	% change	Ranking 2012	Ranking 2011	Enterprise Value 2012 (\$m)	Enterprise Value 2011 (\$m)	% change	BV/EV 2012 (%)	BV/EV 2011 (%)
Apple	1	8	70,605	29,543	+139%	AAA+	AAA	350,257	244,382	+43%	20	12
BlackBerry	336	233	3,293	4,362	-25%	AA-	AAA-	9,239	19,898	-54%	35	22

Source: 2012 BrandFinance® Global 500

Telecoms

“Apple stole such a convincing march on BlackBerry because it listened to the marketplace and delivered a product that exceeded not just consumers’ expectations, but their imaginations too”

Apple and BlackBerry today

Five years after the launch of the iPhone the fortunes of the two companies shift on an almost daily basis. RIM’s share price is down 75 per cent from its peak in 2010 while Apple, in both August 2011 and January 2012, enjoyed the status of the world’s most valuable company (See Figure 3.)

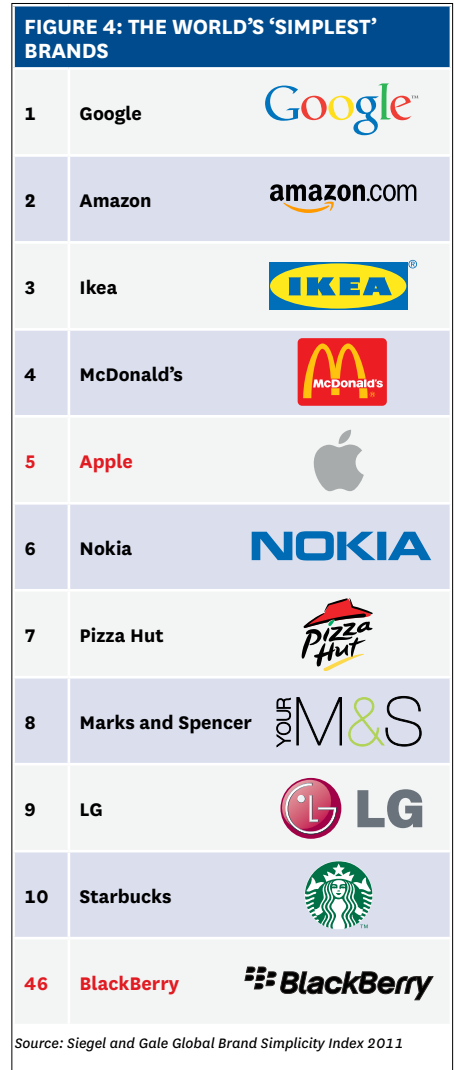
RIM has had to provide steep discounts due to high inventory levels from slow sales of its new tablet computer, the PlayBook, which launched in April last year. By contrast, Apple’s iPad 2 and the iOS 5 software update are still at least one generation of production ahead of most of the competition.

Apple’s phones remain unique in terms of the range of different applications that consumers can download for them, yet RIM continues to sell multiple physical models that provide neither economies of scale nor accessibility for app developers. RIM has still not grasped the point that

consumers want digital content and ease of use, not choice of models and price points. Apple also continues to score over RIM in terms of product design. The iPhone and iPad are simple and intuitive for consumers to use, while representing a developer-friendly platform for delivering third-party content. Just how far ahead of RIM Apple is is highlighted by its fifth-place ranking in the December 2011 Siegel and Gale Global Brand Simplicity Index, a worldwide consumer study on of the ease of use of consumer devices around the world. BlackBerry came in at number 46 (see Figure 4).

Interestingly, Siegel and Gale also found that ‘simpler’ brands are more successful. In their report they write: “A portfolio made from the publicly traded ten global simplest brands outperforms and is less volatile than the major indices [including the S&P, Dow, FTSE and DAX].” They describe Apple as “a symbol of elegant simplicity” that allows the company to charge a premium “and have customers wear the expense as a badge of honour.”

One of the key findings from the study was that social apps are easier to use on the iPhone/iPad than on a BlackBerry/PlayBook – significant given that the average consumer spends more time reading or sharing online content on



Facebook and other social media sites than they do actually talking on their phone or sending emails.

The telecoms summary in the Siegel and Gale report highlighted BlackBerry, under the sub-heading ‘Blackberry Fail’. It concluded: “Of the telecom brands, BlackBerry was seen as least simple in four out of the six regions of the world we surveyed, where it was repeatedly called out for being too difficult to use with too many features.”

Millennial Media’s Top 20 Mobile Phones list (see Figure 8 on page 30) shows one phone from Apple and five from RIM. Imagine the economies of scale, ease of development and ability to differentiate from the competition that Apple enjoys, compared with RIM. Simplicity wins.

Apple stole such a convincing march on BlackBerry because it listened to the

FIGURE 2: HANDSET BRAND VALUE

	Handset Brand Value 2012 (US\$m)	Handset Brand Value 2011 (\$USm)
Apple	27,412	6,929
BlackBerry	3,009	3,589

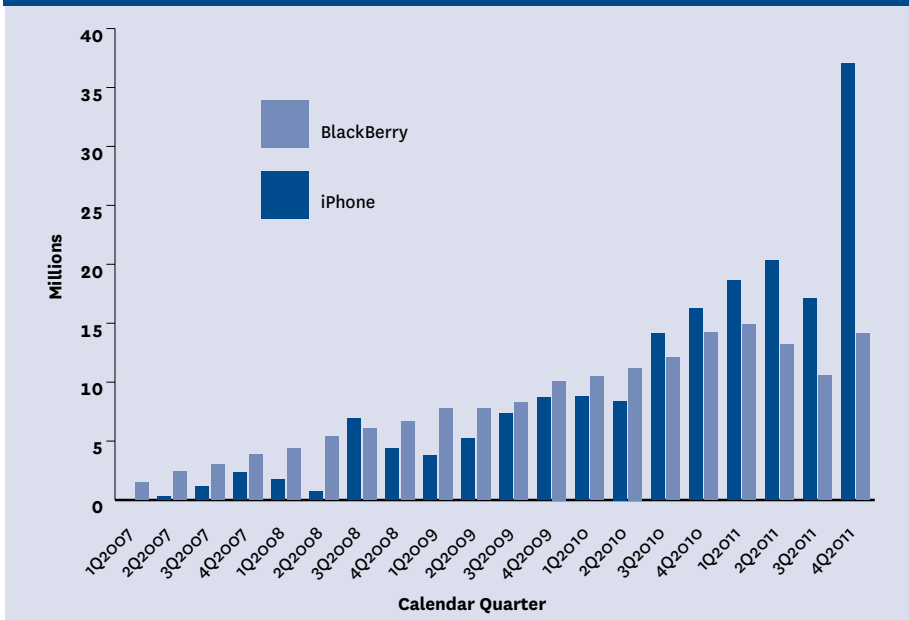
Source: 2012 BrandFinance® Telecoms 50

FIGURE 3: APPLE AND BLACKBERRY SHARE PRICE FEB 2010 TO FEB 2012



Apple and BlackBerry

FIGURE 5: IPHONE VS BLACKBERRY SHIPMENTS 2007 – 2011



marketplace and delivered a product that exceeded not just consumers' expectations, but their imaginations too. And it has continued to delight, consistently meeting or exceeding expectations, letting a loyal fan base create the hype for every new development. Apple has only ever communicated what its forthcoming products can do once it is ready to release them; its strategy is 'one model at a time'.

RIM, on the other hand, has engaged in a barrage of updates that are rarely on schedule and 'supported' by advertising that often fails to communicate the key point of difference between the latest and previous models.

In 2012 apps will continue to be a leading differentiator of smartphones. Manufacturers must surely reduce the number of models they release in the face of clear evidence that users are motivated by content, not choice of hardware. The smart phone will continue to incorporate functions of other services and devices, including things like mobile wallets, mobile banking, 3D photos and video, and integrated cloud computing.

RIM: challenges and opportunities

RIM continues to battle with the lacklustre response to its PlayBook and significant delays with its OS10 operating system.

eBay recently admitted that it has dozens of software engineers developing and updating apps for Apple and Android platforms, but very few for RIM. Why? Ease of development and market demand. RIM's software platform has never had a reputation for ease of development, and OS10 looks as though it will suffer a similar fate, primarily because the platform is still not finished for use by external developers. Furthermore, the BlackBerry's profile in the consumer marketplace is fading, as most consumers opt for iPhones or Android-based phones for personal use, reserving their BlackBerry, if they have one, for business.

And the recent announcement that the launch of the new touchscreen BlackBerrys (BB10) will be delayed until the end of this year is a further blow. The BB10 is seen as crucial to updating the brand, and the year-long delay will result in a whole year's worth of customers likely

“Apple's biggest challenge in 2012 is to continue to exceed expectations”

to opt for alternative phones as their three-year agreements come up for renewal. As a result RIM will lose those customers for at least two years and possibly for ever unless they can reinvent the BlackBerry as a must-have item.

RIM is debt-free and has \$1.5 billion in cash in its reserves. Apple, on the other hand, has approximately \$97 billion in cash – around 98 per cent more than RIM. For it to regain its position in the smart phone market and make any impact on the tablet market, RIM will need to create something that is sufficiently revolutionary to allow it to leapfrog its competitors in terms of both user-friendliness and experience.

RIM's strength lies in its proprietary network, which is still leading edge in terms of both speed and security, given it has the leading data compression technology in the marketplace.

According to October 2011 figures, it also has 70 million customers – just over half Apple's 128 million. RIM's recent announcement that it will be supporting iPhones and Android-based phones on its network also gives the company a potentially long-term revenue stream in the infrastructure sector of the telecom industry – a sector that Google and Apple don't compete in at the moment.

RIM's opportunity lies in creating a smart phone and operating system platform that leapfrogs Apple and Google and sets a new standard against which the industry is measured. If it can't do this it may need to look at becoming a niche player, especially as the new BB10 phones are reputed not to be supported by the company's proprietary secure network – a business decision that still confuses many in the marketplace.

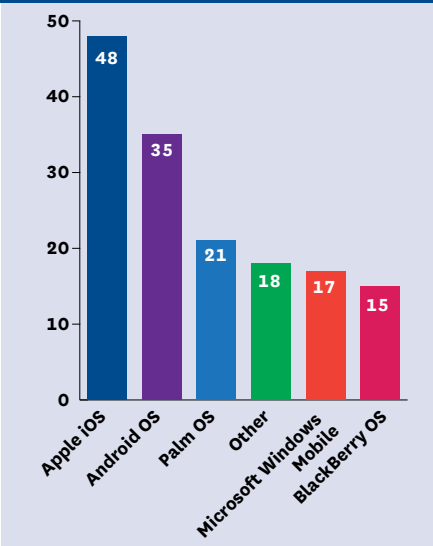
Apple: challenges and opportunities

Apple's biggest challenge in 2012 is to continue to exceed expectations. Consumers have become accustomed to being wowed by smart features and strong design, just as analysts are routinely blown away by Apple's financial results. In that sense, the iPhone 4S disappointed, because it was evolutionary rather than revolutionary – though it remains in high demand and generates plenty of cash.

Telecoms

Apple and BlackBerry

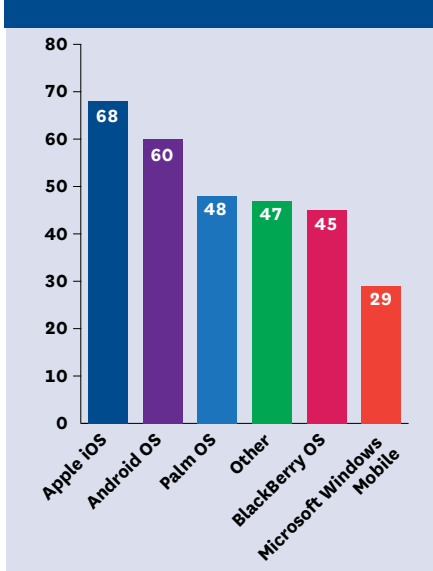
FIGURE 6: AVERAGE NUMBER OF APPS ON THE PHONE BY OPERATING SYSTEM: 30 DAYS' DOWNLOADS NOVEMBER 2011



Source: The Nielsen Company

Apple's leadership is inextricably linked with Apple's continuing ability to exceed expectations. The late Steve Jobs could be relied on to 'wow' consumers and analysts; whether his successor Tim Cook can continue the legacy remains to be seen. The early evidence is that he can. Unit sales of the iPhone 4S in the fourth

FIGURE 7: PERCENTAGE OF APP USERS WHO USE APPS MULTIPLE TIMES A DAY



Source: The Nielsen Company

quarter of 2011 were up 21 per cent on the previous quarter, which sounds good – until you compare it with iPad sales, which were up 166 per cent in volume sales over the same period.

By having standard, single-model designs for its iPhone and iPad, Apple has provided an unparalleled uniformity

and platform reliability. This has allowed the app developers and other associated content providers to actually promote Apple's products to the point where the iPad has become the 'pad' standard in the way that A4 paper, QWERTY keyboards and certain book sizes have become standard. The iPad's screen size is likely to become the accepted standard for electronic publishing given how quickly it has been embraced by the magazines, newspapers, websites and so on who are all developing content specifically for use on an iPad.

But Apple has to continue to prove that it can develop a market-leading product and service that can compete against a 'free' operating system from Android and the Microsoft Windows-integrated software from Windows Mobile, which is supposed to make using Microsoft computers and mobile devices seamless. Furthermore, app developers don't have to pay a royalty to Google for apps they develop on Android platforms, whereas Apple takes a 30 per cent cut of app sales. As long as Apple continues to be the market leader, the 30 per cent fee will be seen as the 'cost of doing business' with it.

A further challenge Apple faces is that smart phones and tablets are becoming commoditised, with numerous players in the marketplace. The only way to protect brand strength and price therefore is through providing exclusive content and proprietary features (typically protected by patents or manufacturing expertise).

Apple has successfully protected its brand strength and price so far by having a single product in its phone and tablet segment and negotiating substantial volume and discount guarantees from suppliers. An example of the way it protects its technological leadership is its acquisition of Anobit, a leading global flash-memory-card company, in January 2012. Anobit gives Apple market leadership in hardware too, complementing its leadership in design.

With questions over whether BlackBerry will remain profitable, and whether Apple will protect its customer base and continue to grow through innovation and brand loyalty, 2012 will be a critical – but very interesting – year for both brands. ■

FIGURE 8: TOP 20 SMART PHONES IN THE US – ESTIMATED MARKET SHARES

Rank	Brand	Nov-11	Type	OS
1	Apple iPhone	13.54%	Smart phone	IOS
2	BlackBerry Curve	5.87%	Smart phone	BlackBerry OS
3	Motorola Droid X	5.27%	Smart phone	Android
4	HTC Evo	3.18%	Smart phone	Android
5	LG Optimus	3.08%	Smart phone	Android
6	BlackBerry Bold	3.03%	Smart phone	BlackBerry OS
7	HTC Desire	2.99%	Smart phone	Android
8	BlackBerry Torch	2.77%	Smart phone	BlackBerry OS
9	Samsung Nexus S	2.48%	Smart phone	Android
10	Samsung Vibrant Galaxy S	2.36%	Smart phone	Android
11	Samsung Galaxy S	1.66%	Smart phone	Android
12	HTC Droid Incredible	1.53%	Smart phone	Android
13	BlackBerry Pearl	1.25%	Smart phone	BlackBerry OS
14	ZTE Score	1.16%	Smart phone	Android
15	Motorola Droid	1.06%	Smart phone	Android
16	Samsung Fascinate	1.03%	Smart phone	Android
17	HUAWEI Ascend	1.02%	Smart phone	Android
18	HUAWEI Ideos	0.87%	Smart phone	Android
19	HTC MyTouch 4G Glacier	0.84%	Smart phone	Android
20	BlackBerry Bold Touch	0.82%	Smart phone	BlackBerry OS

Source: Millennial Media

League table update

GIFT

Getting a grip on intangibles

Intangible assets make up nearly half the value of quoted companies around the world. Yet intangibles remain poorly understood and managed, as Bryn Anderson explains.

INTANGIBLE ASSETS, INCLUDING brands, have never been more important. Survey after survey shows that brands and other intangibles typically account for between 30 per cent and 70 per cent of a company's market value, and in certain sectors, such as luxury goods, this figure can be even higher.

New research from Brand Finance, the 2012 BrandFinance® Global Intangible Financial Tracker (GIFT) report¹, shows that in 2011 intangibles across the world accounted for 49 per cent of the value of quoted companies, despite a decline since 2007 as a result of the 2008/2009 financial crisis and associated recession. What's more, 29 per cent of the value of these companies last year was not recorded on their balance sheets.

The balance between tangible to intangible assets has changed dramatically over the past 50 years, as corporate performance has become increasingly driven by the exploitation of ideas, information, expertise and services rather than physical things. Yet despite the rise in intangible value,

the fact that most of it is not disclosed on company balance sheets highlights how poorly understood intangibles still are by investors and management alike – and how out of date accounting practice is. Such ignorance leads to poor decision-making by companies and systematic mis-pricing of stock by investors.

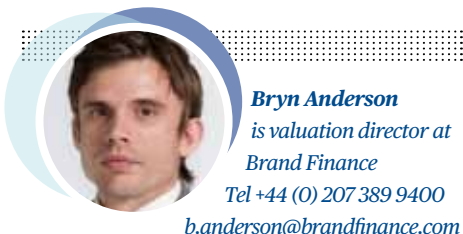
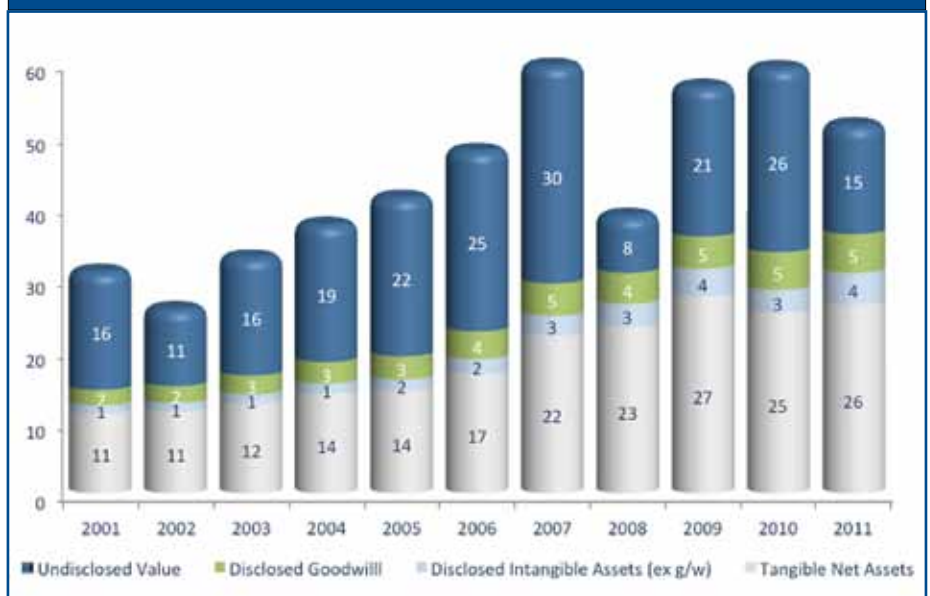
Overall, the 2012 GIFT study shows that the value of the top 56,000 companies in the world fell last year by \$8.3 trillion, down from \$59.6 trillion at the end of 2010 to \$51.3 trillion at the end of 2011. The drop in value is larger than the economy of China.

The fall was one of only two declines in value over the past ten years, and the main culprit was the \$11 trillion decline in the value of undisclosed intangible assets, including brands. The fall far outweighed smaller gains in tangible assets and disclosed intangible assets. Undisclosed value is just half what it was at its pre-crash high in 2007, though nearly double its immediate post-crash low in 2008.

The big fall in the 'undisclosed' value illustrates the current volatility in the global markets. During periods of economic prosperity, the level of undisclosed value is very high, but when confidence falls the undisclosed value is hit harder than the assets on the balance sheet. This tendency to over-value in boom times and under-value in economic downturns reflects the lack of understanding of intangible assets.

The importance of – and ignorance about – intangible assets was reinforced in a UK Treasury paper published back in 2007, which pointed out that because intangibles are treated as a direct cost rather than an investment, that could distort measures of productivity in a knowledge intensive economy.² And given that over one-quarter of the \$51.3 trillion of enterprise value concerned in the 2011 GIFT study is concentrated in the largest 100 companies, and around one-half in the largest 400 companies, that's a lot of productivity that is potentially going unrecognised.

FIGURE 1: GLOBAL INTANGIBLE AND TANGIBLE VALUE OVER THE PAST TEN YEARS



League table update

FIGURE 2: GLOBAL INTANGIBLE AND TANGIBLE VALUE BY SECTOR

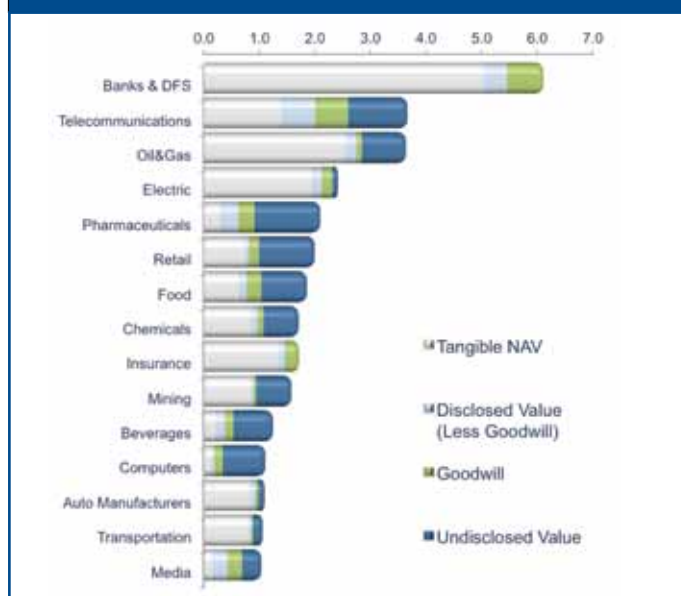
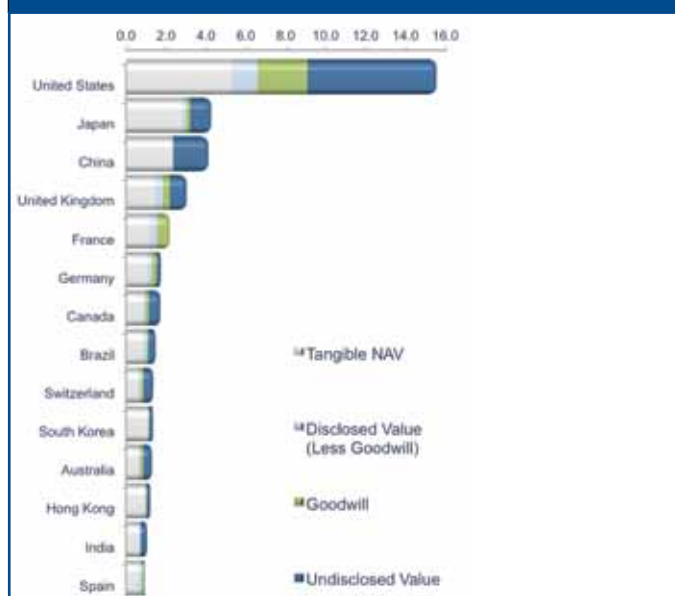


FIGURE 3: INTANGIBLE AND TANGIBLE VALUE BY COUNTRY



Sector split

In terms of industry sectors, Advertising is the most intangible sector globally, with all of its value being intangible. Similarly, Software, Aerospace and Defence, Internet and Biotechnology Companies had very high intangible value. But among the 15 most valuable industries, the sectors with the highest proportion of intangible assets are Computers (87 per cent), Pharmaceuticals (85 per cent) and Media (85 per cent). Conversely the sectors in the top 15 with the highest proportion of tangible value are Electric (80 per cent), Transportation (76 per cent) and Oil and Gas (76 per cent). This picture has remained consistent in GIFT studies for the past ten years, with the percentages changing only marginally.

Around \$1.6 trillion – eight per cent – of the \$20 trillion increase in total enterprise value since 2001 has come from the banking sector, although the figure would have been twice as high had not \$1.8 trillion been wiped out due to the increased credit risk that is unnerving bank investors. In fact, the value of the banking industry has declined by \$3.1 trillion since 2006 to its current \$5.5 trillion level.

Country split

Of the countries covered in the study, Ireland now has the highest proportion

of intangible value, at 75 per cent, down from 76 per cent at the end of 2010. The rise is due to many companies in highly intangible industries relocating their head offices to Ireland to take advantage of attractive tax rates. Of the 15 most valuable countries in the world, the US has the highest proportion of intangible value – 65 per cent – though this is down from 71 per cent in 2007 before the 2008 financial crisis hit market confidence.

Switzerland has the second highest proportion of intangible value, at 55 per cent – down from 69 per cent in 2007. This is largely the result of two of the world's biggest pharmaceuticals companies, Novartis and Roche, being domiciled there.

The three countries with the largest proportion of their value made up of tangible net assets are South Korea (80 per cent), Hong Kong (76 per cent), and Spain (67 per cent). Again, this partly reflects the industry mix in those countries, with an under-representation of the most 'intangible' sectors such as software, media and pharmaceuticals.

The five countries with the highest level of disclosed intangible asset value remain, as they have been for the past six years, European: Italy (19 per cent), Spain (18 per cent), France (17 per cent), Germany (14 per cent) and the UK (13 per cent). This largely reflects the fact that since 2005, IFRS3 has required

European companies to separate out in their annual reports different intangible asset classes when they make acquisitions. (See box opposite.)

Categories of intangible assets

There are different definitions of 'intangible asset'. The term is sometimes used loosely, but in accounting rules it is precisely defined. In the most basic terms, it is, as its name suggests, an asset that is not physical in nature. The examples below, grouped into three categories – rights, relationships and intellectual property – would typically fall within the definition.

1/ Rights. Leases, distribution agreements, employment contracts, covenants, financing arrangements, supply contracts, licences, certifications, franchises.

2/ Relationships. Trained and assembled workforce, customer and distribution relationships.

3/ Intellectual property. Patents; copyrights; trademarks; proprietary technology (for example, formulas, recipes, specifications, formulations, training programmes, marketing strategies, artistic techniques, customer lists, demographic studies, product test results); business knowledge – such as suppliers' lead times, cost and pricing data, trade secrets and knowhow.

But a fourth category, 'undisclosed

intangible assets, is usually more valuable than the disclosed intangibles. The category includes ‘internally generated goodwill’, and it accounts for the difference between the fair market value of a business and the value of its identifiable tangible and intangible assets.

Although not an intangible asset in a strict sense – that is, a controlled ‘resource’ expected to provide future economic benefits (see below) – this residual value is treated as an intangible asset in a business combination when it is converted into goodwill on the acquiring company’s balance sheet. Current accounting practice does not allow for internally generated brands to be disclosed on a balance sheet. Under current IFRS only the value of acquired brands can be recognised, which means many companies can never use the controlled ‘resource’ of their internally-generated brands to their full economic benefit. For example, they can’t take out a loan against the asset and potentially bolster their balance sheet.

In accounting terms, an **asset** is defined as **a resource that is controlled by the entity in question**

and which is expected to provide future economic benefits to it. The International Accounting Standards Board’s definition of an intangible asset requires it to be **non-monetary, without physical substance and ‘identifiable’.**

In order to be ‘identifiable’ it must either be **separable** (capable of being separated from the entity and sold, transferred or licensed) or it must **arise from contractual or legal rights** (irrespective of whether those rights are themselves ‘separable’). Therefore, intangible assets that may be recognised on a balance sheet under IFRS are only a fraction of what are often considered to be ‘intangible assets’ in a broader sense.

However, the picture has improved since 2001, when IFRS3 in Europe, and FAS141 in the US, started to require companies to break down the value of the intangibles they acquire as a result of a takeover into five different categories – including customer- and market-related intangibles – rather than lumping them together under the catch-all term ‘goodwill’ as they had in the past.

But because only acquired intangibles,

and not those internally generated, can be recorded on the balance sheet, this results in a lopsided view of a company’s value. What’s more, the value of those assets can only stay the same or be revised downwards in each subsequent year, thus failing to reflect the additional value that the new stewardship ought to be creating.

Clearly, therefore, whatever the requirements of accounting standards, companies should regularly measure all their tangible and intangible assets (including internally-generated intangibles such as brands and patents) and liabilities, not just those that have to be reported on the balance sheet. And the higher the proportion of ‘undisclosed value’ on balance sheets, the more critical that robust valuation becomes. ■

¹ The BrandFinance® Global Intangible Financial Tracker (GIFT) report is the most extensive research ever compiled on intangible assets. Over the past ten years, GIFT has tracked the performance of more than 56,000 companies quoted in 127 countries.

² For more details please refer to: HM Treasury ‘Intangible Investment and Britain’s productivity: Treasury Economic Working Paper No. 1’, October 2007.

FIGURE 4: CATEGORIES OF INTANGIBLE ASSET UNDER IFRS 3

Marketing-related intangible assets	Customer-related intangible assets	Contract-based intangible assets	Technology-based intangible assets	Artistic-related intangible assets
Trademarks, tradenames	Customer lists	Licensing, royalty, standstill agreements	Patented technology	Plays, operas and ballets
Service marks, collective marks, certification marks	Order or production backlog	Advertising, construction, management, service or supply contracts	Computer software and mask works	Books, magazines, newspapers and other literary works
Trade dress (unique colour, shape, or package design)	Customer contracts and related customer relationships	Lease agreements	Unpatented technology	Musical works such as compositions, song lyrics and advertising jingles
Newspaper mastheads	Non-contractual customer relationships	Construction permits	Databases	Pictures and photographs
Internet domain names		Franchise agreements	Trade secrets, such as secret formulas, processes, recipes	Video and audiovisual material, including films, music, videos etc
Non-competition agreements		Operating and broadcast rights		
		Use rights such as drilling, water, air, mineral, timber cutting and route authorities		
		Servicing contracts such as mortgage servicing contracts		
		Employment contracts		

Banking forum

Bank brands: what really matters?



In February Brand Finance launched its 2012 Banking 500 global league table at its third annual Banking Forum, held in conjunction with *The Banker*, BBC World News and Uffindell. The forum focused on the importance of country of origin, innovation and customer service, and speakers included the marketing heads of some of the world’s most successful banks. We feature some of the highlights below.

“The UK, in third position, is punching above its weight: its 25 banking brands are worth some \$68 billion, helped by the strong performance of HSBC”



BRIAN CAPLEN, editor of *The Banker*, described banking in 2011 as “a game of two halves.” There was growth and development in some parts of the world, and stagnation elsewhere, but as he explained, the split was more complicated than that between developing and developed markets.

For example, while the value of US bank brands fell, Canadian bank brands rose in value. Likewise, despite growth in many

developing economies, the brand values of Chinese banks declined in 2011. “Clearly,” he noted, “‘origin’ is only part of the story: innovation and customer service are also important.”

In terms of individual banks, HSBC was back in pole position, up from third last year. Its performance was underpinned by its strong position in emerging markets and the continuing success of its international airport campaign. (See interview with Chris Clark, group head of marketing at HSBC, on page 10.)

The top ten is dominated by US and European banks, with just one Chinese brand putting in an appearance in tenth place. “So despite the major growth of bank brands in emerging markets since the first Banking 500 was produced in 2006, international banks still have unparalleled brand reach,” said Caplen.

Canadian banks performed particularly well last year, with five of the top ten brand-value winners being Canadian. Canadian banks emerged well from the 2008/2009 crisis, largely because they were well prepared. Another four of the brand-value winners are American – though these are credit card companies, which didn’t suffer the same battering as the banks.

By contrast, the biggest brand-value losers were big European and US banks. Just one emerging market featured in the biggest losers list: Brazil came in at ninth place – evidently, suggested Caplen, because Brazilian brands had got ahead of themselves in terms of brand recognition during the preceding years.

In total brand value terms, however, US brands continue to lead the table by a very large margin: the 88 US brands in the league table are worth a collective \$206 billion – almost three times the value of either Chinese or UK bank brands. Nevertheless, the UK, in third position, is punching above its weight: its 25 banking brands are worth some \$68 billion, helped by the strong performance of HSBC. →

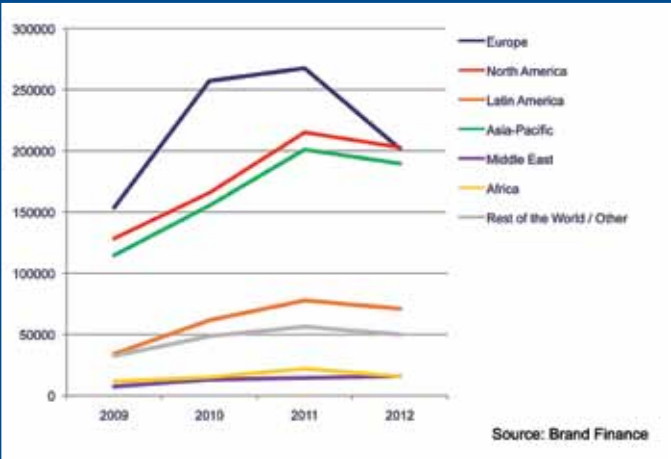
TOP 10 MOST VALUABLE GLOBAL BANKS 2012

		Figures in US\$ billion					
Rank 2012	Rank 2011	Brand	Brand Value 2012	Brand Value 2011	Market Cap 2012	Market Cap 2011	
1	3	HSBC	27.6	27.6	122.7	171.1	
2	2	WALMART	23.2	28.9	133.4	136	
3	1	Bank of America	22.9	34	50.5	133.5	
4	4	Wells Fargo	19.9	26.1	59.5	100.2	
5	5	CHASE	18.9	19.1	67	80.0	
6	9	citi	18.639	17.1	63.1	105.3	
7	13	ING	18.231	15.5	53.4	45.5	
8	12	BNP PARIBAS	16.809	16.0	42.3	64.8	
9	8	Business	15.692	18.0	55.3	69.6	
10	10	WALMART	15.464	17	174.9	205.5	

Source: Brand Finance



TOTAL BRAND VALUE BY REGION



TOP 25 COUNTRIES BY BRAND VALUE

Rank 2012	Country	Total Brand Value	Banks on the table
1	USA	205.96	88
2	China	79.56	24
3	UK	67.97	25
4	Canada	37.07	13
5	Brazil	36.67	5
6	France	33.77	14
7	Spain	31.78	12
8	Japan	28.91	40
9	Germany	25.89	16
10	Australia	22.79	19

Source: Brand Finance

TOP 10 BRAND VALUE WINNERS

Rank 2012	Rank 2011	Brand	Country	Increase in Brand Value	Brand Value 2012	Brand Value 2011	Brand Rating 2012	Brand Rating 2011
7	13	Bank of America	USA	+2.7	18.23	15.53	AAA-	AA
21	31	TD	Canada	+1.89	8.5	6.6	AA-	AA-
31	44	Scotiabank	Canada	+1.5	5.72	4.12	AA	AA-
20	28	Bank of Montreal	Canada	+1.55	8.65	7.07	AA+	AA+
33	47	Bank of Toronto	Canada	+1.56	5.36	3.8	AA-	A+
6	9	Citi	USA	+1.51	18.64	17.13	AA+	AA
36	50	Capital One	USA	+1.36	4.95	3.58	AA	AA-
40	55	Wells Fargo	USA	+1.28	4.56	3.28	AA-	A+
35	45	Bank of New York Mellon	USA	+1.25	5.18	3.93	AA+	AA+
23	27	Bank of Queensland	Australia	+0.98	8.32	7.34	AA-	A+

Source: Brand Finance

TOP 10 BRAND VALUE LOSERS

Rank 2012	Rank 2011	Brand	Country	Loss of Brand Value	Brand Value 2012	Brand Value 2011	Brand Rating 2012	Brand Rating 2011
3	1	Bank of America	USA	-11.17	22.91	34.08	AA+	AAA-
4	4	Scotiabank	Canada	-6.16	19.97	26.15	AAA-	AAA
2	2	Wells Fargo	USA	-5.72	23.23	28.94	AA+	AA+
22	15	Credit Suisse	Switzerland	-5.11	8.37	13.5	AA+	AAA-
19	16	Capital One	USA	-4.07	9.33	13.41	AA+	AAA-
30	21	UBS	Switzerland	-3.97	5.94	9.92	AA	AA
12	8	Barclays	UK	-3.81	13.55	17.36	AA+	AA
27	20	BBVA	Spain	-3.53	7.2	10.72	AA-	AA
13	11	Itau	Brazil	-3.48	13.17	16.68	AA	AA
38	24	Bank of Queensland	Australia	-3.42	4.73	8.15	A+	AA-

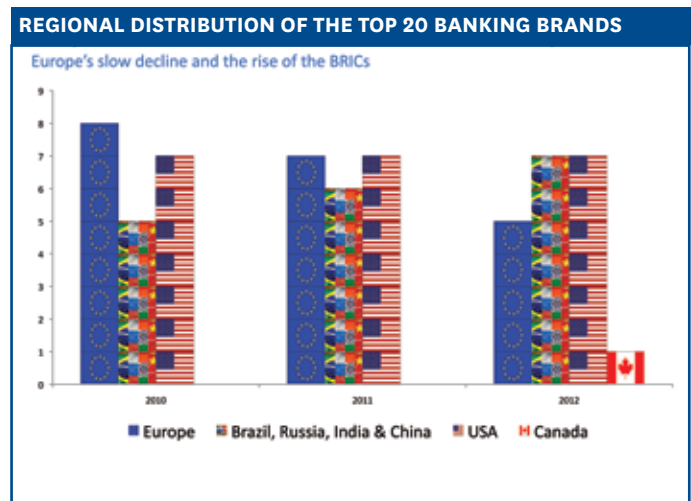
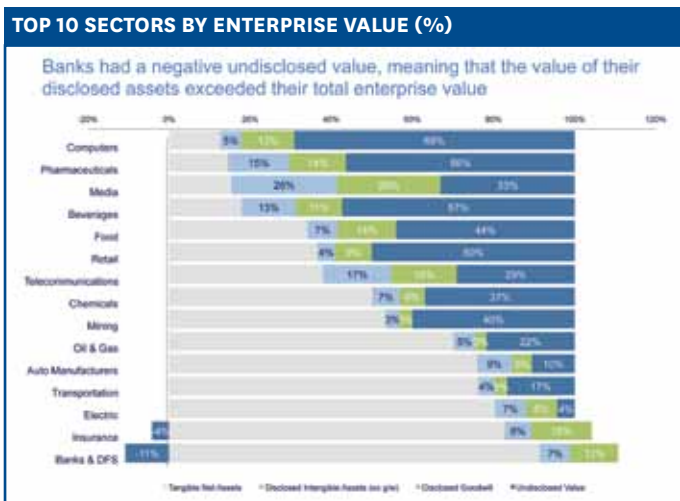
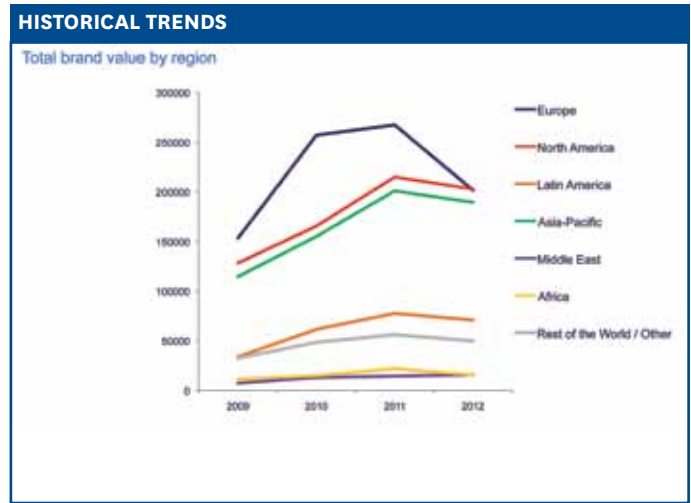
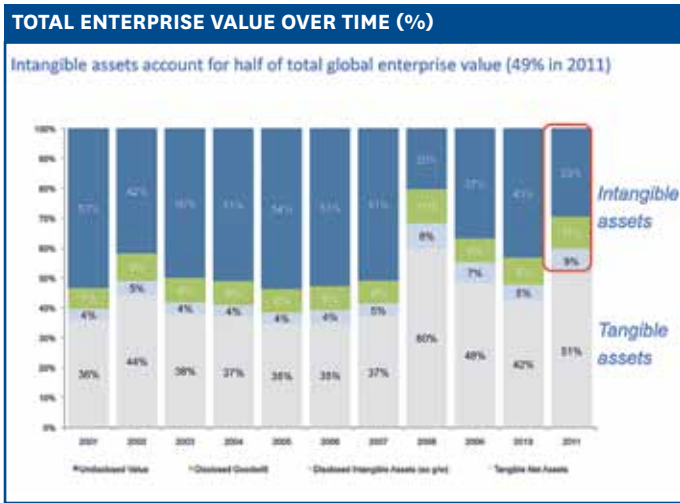
Source: Brand Finance

“Emerging markets are beginning to challenge the cosy dominance of a few global firms in London and New York”



DAVID HAIGH, CEO of Brand Finance, explained that intangible assets accounted for just under half (49 per cent) of total global enterprise value of banks in 2011, down from 65 per cent before the crash, due to the collapse in confidence in the financial services industry. Indeed, the →

Banking forum



parlous state of banking’s reputation is highlighted in the fact that they had negative undisclosed value last year – in other words, the value of banks’ disclosed assets was higher than their total enterprise value. By contrast, at the other end of the scale, the undisclosed value in the computers market was 69 per cent. As Haigh pointed out, “given the size and importance to the world economy of the banking industry, this intangible-value deficit is a major problem.”

In this market, it is an achievement even to remain static, so the banks that grew their brand value are to be applauded, said Haigh. These included HSBC (up from third to first place), Citi (up from ninth to sixth place), American Express (up from 13th to seventh place) and BNP Paribas (up from 12th to eighth place). Bank of America, by contrast, fell from first to third position, its performance affected by its strong exposure to a weak economy and by a less robust business model than, for example, American Express. (See interview with John Hayes, chief marketing officer at American Express, on page 4.)

“US brands still represent the lion’s share of value in the industry – but how long can that dominance last?” asked Haigh, who pointed out that the global distribution of bank brand value has changed dramatically since the financial crisis

of 2008/9. And while 2011 was a difficult year for banking brands generally, Europe fared the worst, with European banking brands losing 25 per cent of their value. Asian and Latin American brands, meanwhile, are growing fast.

“Emerging markets are beginning to challenge the cosy dominance of a few global firms in London and New York,” said Haigh, pointing out that the Banking 500 shows that seven of the top 20 banking brands are from emerging markets, compared to just five from Europe.

“How long will it be before the Bank of China, for example, becomes a truly global player? Until very recently the idea that HTC or Tata would have been industry leaders in manufacturing would have been unthinkable.”

But even the current asymmetry, with positive sentiment towards banks in Asia and the Islamic world, as well as in Canada, poses a real threat to western economies, he said, pointing to the crucial importance of banks to the recovery of the UK economy. Banks produce 10.5 per cent of our total national income, 11.2 per cent of government receipts, the financial sector makes up 31.9 per cent of gross value added in the UK and foreign banks employ 160,000 people in this country.

He ascribed many of the problems besetting the industry to poor supervision, regulation and political control. Nevertheless, banks clearly need to raise their game – as the marketing representatives of the excellent banks who spoke at the forum agreed. Exhorting society to trust them again just won't wash, said the speakers. Banks have to regain trust through the way they behave.

“We have to improve the quality of our service because, at the end of the day, we are in the service business”



CLAIRE FULDA, group head of advertising, branding and brand innovation at **BNP Paribas**, one of the most successful brands in this year's league table, talked about the challenge of managing a brand in turbulent times.

Fulda explained that the challenges for the BNP Paribas brand are to fulfil its promise of being 'the bank for a changing world' by helping its customers and clients deal with change. In so doing it will itself become an important catalyst for change in the banking sector. But, she said, it won't be easy, given the declining image of banks generally to the point where they seem to be held responsible for all society's ills.

But BNP Paribas is making headway. It has done so by capitalising on its strengths (including its strong risk policy) and providing evidence of its commitments (client focus and care, responsible behaviour), which have combined to add value to the brand. "In a heavily criticised industry, we are ethical, social and responsible, and amid the European debt crisis, we were seen as solid, which helped us to maintain the confidence of the market," said Fulda.

One way it has sought to rebuild confidence among retail



BNP PARIBAS AT A GLANCE

- **A series** of acquisitions caused the bank to grow from 77,400 employees in 1999 to 200,000 employees globally today.
- **In 1999** BNP and Paribas merged and built a new brand culture (embodied in a new logo) based on their combined strength.
- **The green** square in the logo embodies hope, enthusiasm and dynamism; the birds becoming stars represent the bank's European origins; and the signature, embodied in the words 'BNP Paribas: The bank for a changing world', represents its global ambitions.
- **The brand** architecture, using the mother brand and sub-brands in different ways in different countries, reflects the global awareness of the bank and its close local relationships.
- **Its international** retail banking network is active in four domestic markets (France, Belgium, Italy and Luxembourg), and it has an integrated presence in the Mediterranean Basin countries, in Turkey, in Eastern Europe and in the western US.
- **It has** 22 million retail banking customers, 200,000 corporate clients, it operates in 52 countries, and 77 per cent of its revenues derive from outside France.
- **It also** has a major business-to-business presence (corporate and investment banking, and investment solutions).
- **The brand** philosophy is 'celebrate, encourage and accompany'.
- **Its two** principal brand goals are to increase awareness in global markets, and to be seen as a local bank within domestic markets.
- **It uses** internal communications to communicate externally: employees are encouraged to take pride in the bank because they are responsible for its external image.

clients is its new 'Parlons vrai' ('Let's talk frankly') positioning. Real customers and real bankers are the centrepiece of the advertising campaign, which addresses genuine customer concerns and questions.

"We use the campaign for internal purposes too: the sales force and advisers trained for months to prepare for the campaign, which represents a big change in the way we provide services and in the nature of our relationship with our clients," said Fulda. "We have to improve the quality of our service because, at the end of the day, we are in the service business." →

Banking forum



“Much current bank advertising is not doing an awful lot. Banks should advertise only if they have something worthwhile to say. You can only build trust if you build relevance”



IAN EWART is head of products, services and marketing at **Coutts**. The bank is 320 years old, owned by Royal Bank of Scotland, continuously profitable, but nevertheless rethinking how it can best exploit its origins and improve its service and innovation.

Ewart explained: “Brands are a promise, and what gets measured gets done, so when you think about brand value you think about how to generate it, fund it, invest in it and so on. That’s how you build a brand like Apple: the iPhone doesn’t necessarily work in all places at all times, but people give it the benefit of the doubt because Apple is a great brand. Similarly, you can buy most of what John Lewis sells elsewhere but you go to them because of their quality, service, delivery promise and so on.”

Such brands don’t ask for trust, Ewart pointed out; they earn it because they are unerringly relevant. In the same way, banks should divert much of the money they spend on promoting their own ‘trustworthiness’ into ensuring they are relevant. “Then, if they do something wrong and put up their hands and admit it, people will forgive them.”

He described most bank brands as ‘unattached’ – that is, they lack emotional connection. “They may as well be bulk chemicals,” he said. “But if people can get passionate about electronic goods, we ought to be able to get that passion in banking. But the way to do it is to get away from the transactional/commodity feel towards lifestyle and relevance.”

Ewart said that the main reasons clients cite for selecting a wealth manager are, in order, quality of client service, image and reputation, and quality of investment advice. Similarly, the primary reasons clients leave are poor service, poor investment advice and poor investment performance. But while such things are “common knowledge, maybe common sense, they are not common practice in banks,” said Ewart.

“Even car parks can get these things right – witness NCP which has introduced better lighting, bigger bays, CCTV, someone on hand to help change tyres and so on. If car parks can innovate to that extent, surely banks can find ways to improve their customer experience? And the place to start is to look at what you do, what clients want, and focus on the gaps between the two. It’s not rocket science.”

The next step is to ‘organise for success’, in the way that brands like Disney and Singapore Airlines do, he continued. “That means understanding unmet client needs, designing better client experiences, delivering on those experiences, and driving client behaviour. People talk about great experiences: get to that point and clients will be your best advocates. And if your customers work with you they must like you a bit, so you have to find out how you can help them better.”

Service and innovation are critical for restoring banks’ reputations, concluded Ewart, who warned against invoking too much of the past – “or your heritage could become your baggage.” Much current bank advertising “is not doing an awful lot,” he said, advising banks to advertise only if they have “something worthwhile to say....You can only build trust if you build relevance.”

“Continuous innovation has led to significant improvements in brand perception and image, particularly among the critical 18-24-year-old demographic”

HAKAN BINBAŞGİL is CEO of **Akbank**, one of the most successful banks in Turkey. He explained that the economic climate is beneficial: Turkey’s economy is growing at eight per cent after a V-shaped recovery in 2011, prosperity is rising, the financial sector is strong and Turkey’s geography



AKBANK



Akbank's most recent communications phase ('Sizin için' - 'For You') focuses on customer service.

is advantageous. The country's population is 73 million, half if it under 29, and it has the largest workforce in the EU, at 45 million. People are also well connected: around 65 per cent of households have home internet, 82 per cent have mobile phones, they fly a lot and regularly buy new cars.

"Turkish banks are having to constantly adapt themselves to this dynamic environment, which is generating lots of energy, innovation and new product ideas," said Binbaşgil. "It is both challenging and exciting."

Akbank is the most valuable of the three Turkish banks that feature in Brand Finance's top 100 global banking brands. It is also one of the most valuable brands in Turkey, based on its strong technology and distribution, sound balance sheet and capital structure, and strong people and brand – these latter two being, said Binbaşgil, "probably most important."

Origins, innovation and customer service all matter, said Binbaşgil, but added that in Turkey a bank's most important attribute is trustworthiness – which has been a pillar of Akbank's success since it was founded in 1948. Nevertheless, by 2006, when competition was intensifying and the likes of HSBC were entering Turkey, trustworthiness was no longer enough, and Akbank began to harness what he calls "the innovative power of Turkey."

He explains: "This was the beginning of a new era in Akbank.

We embarked on a big restructuring programme – we called it 'New Horizons' – designed to make us much more customer focused, more able to measure value added, more efficient at credit and risk management and more operationally efficient. And it was all underpinned by HR management, IT infrastructure and corporate identity and communications. We started to communicate more with customers, and we redesigned our retail branches accordingly, introducing completely new formats for corporate customers, commercial customers, private banking customers and youth customers."

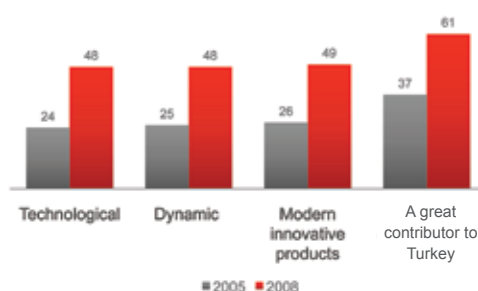
Management made assiduous use of internal communications, from top management down to individual tellers, to help effect the change, and the transformation programme was so successful that it became the subject of a Harvard case study. Every aspect of the bank's business improved and Akbank quickly took leading positions in Turkey in areas from loans, through deposits, to total assets.

Its holistic approach to change created the best-liked and most-remembered advertising campaign in Turkey – '11,000 hearts beat for Turkey' – which served to energise the bank's employees as well as marketing Akbank externally. The momentum was maintained by means of a plethora of new products and ideas. One was 'mobile lending', which promised customers a firm answer within 20 seconds of a loan request: the service received 700,000 phone calls in the first week it launched. It also launched the first (in Turkey) self-service 'loan machine' and 'consumer loan shops' and pioneered the specialist 'Big Red House' mortgage branches.

Akbank uses social media very effectively – it has over one million Facebook fans, making it one of the 30 most popular sites globally. And it uses retail partners including Ikea and Carrefour to improve its distribution.

All this innovation has led to significant improvements in brand perception and image, particularly among the critical 18-24-year-old demographic. ■

Akbank's brand perception and image attributes improved dramatically



Source: Akbank

At Brand Finance we focus on measuring companies' intangible value and on helping them to grow it.

Our services complement and support each other, resulting in robust valuations underpinned by an in-depth understanding of revenue drivers and licensing practice.

Valuation | Analytics | Strategy | Transactions

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