Brand Finance®

The Value of China's Top Brands Triples in Five Years

- **Major study reveals China's 100 most valuable brands**
- **Total brand value of the top 100 has more than tripled in five years to $823bn**
- **Study suggests President Xi's desire for world-renowned Chinese brands is being fulfilled**

Every year, leading valuation and strategy consultancy Brand Finance values the brands of thousands of the world's biggest companies. Brands are first evaluated to determine their power / strength (based on factors such as marketing investment, familiarity, loyalty, staff satisfaction and corporate reputation) and given a corresponding letter grade up to AAA+. Brand strength is used to determine what proportion of a business's revenue is contributed by the brand, which is projected into perpetuity to determine the brand's value. China's 100 most valuable brands are ranked and included in the Brand Finance China 100 2017.

In August 2014, President Xi declared that, "We should have our own flagship products and establish our own world-renowned brands." President Xi presciently saw that the future of China's industry had to lie beyond manufacturing and that focus had to move from the promotion of 'Made in China' to 'Branded in China'. His grasp of the importance of brands is paying dividends. The value of China's 100 most valuable brands has more than trebled in the last five years from US$266 billion in 2012 to US$823 billion today.

ICBC is China's most valuable brand. Its brand value has grown 32% year on year to a total of US$47.8 billion, constituting 20% of its US$239 billion market capitalization (at our valuation date). Its growth has been so strong that it has overtaken Wells Fargo to become the world's most valuable banking brand. It is one of an increasing number of Chinese brands that rank highly in Brand Finance's international league tables, including CSCEC, Moutai and Huawei, which are all the most valuable brands in their respective industries.

Alibaba is China's most valuable tech brand. Its BSI score is 3.3% up from 2016, and its Brand Value has nearly doubled. Valued at over $34.8 billion, the online marketplace continues to thrive at home, but in order to accelerate growth abroad, it is investing in marketing communications including joining McDonald's, Coca-Cola and Visa as a major sponsor of the Olympics Games.

China's brands have a number of common attributes that help to explain these impressive results. The first is scale; China's vast population and the growing prosperity of its citizens create a huge market for its major brands. Relative to other parts of the world, China's economy is growing rapidly, expanding both organically and through a strong demand for foreign acquisitions. M&A activity of Chinese firms abroad has significantly accelerated in the last two years, hitting a record high in 2016 with such notable takeovers as ChemChina's acquisition of Syngenta or Haier Group's of GE's home appliance division.

Cultural factors are just as significant as macroeconomic ones. Chinese consumers have a relationship with their brands that Western brands can only dream of. Information from Brand Finance's Brand Strength Index reveals far higher levels of trust and loyalty for Chinese brands than European or American ones. Patriotism is a further boon. Bureaucracy and other factors can make operating in China challenging for foreign brands, but even taking this into account, Chinese consumers are particularly likely to choose domestic brands at the expense of foreign ones. The success of Huawei and other domestic smartphone manufacturers (to the detriment of Apple) bears this out.

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Note to Editors

You can find more stories about China's most valuable brands in the Brand Finance China 100 report document. Brand values on Brand Finance's website are reported in USD. For conversions to CNY, please hover over the 'I' button and select CNY from the grid that appears.

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About Brand Finance

Brand Finance is the world's leading brand valuation and strategy consultancy, with offices in over 15 countries. We provide clarity to marketers, brand owners and investors by quantifying the financial value of brands. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax and intellectual property, Brand Finance helps clients make the right decisions to maximise brand and business value and bridges the gap between marketing and finance.

Methodology

Definition of Brand

When looking at brands as business assets that can be bought, sold and licensed, a technical definition is required. Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as "a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value."

However, a brand makes a contribution to a company beyond that which can be sold to a third party. 'Brand Contribution' refers to the total economic benefit that a business derives from its brand, from volume and price premiums over generic products to cost savings over less well-branded competitors.

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance. Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

Approach

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

The steps in this process are as follows:

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

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

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

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

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

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

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