Brand Finance®

Healthy Eating Leads to Slimmer Valuations of Fast Food Brands

- **Brand values of the biggest fast food brands falling due to healthy eating & fast casual trends**
- **McDonald's is down 9%, Subway 1%, Taco Bell 10%, Domino's 16%, Pizza Hut 22% and KFC 27%**
- **Papa Johns and Tim Horton buck the trend, growing strongly**
- **Health scandals see US$442 million wiped off Chipotle's brand value**

Every year, leading valuation and strategy consultancy Brand Finance values the brands of thousands of the world's biggest companies. The world's 25 most valuable fast food brands are included in the Brand Finance Restaurants 25.

The brand values of McDonald's, KFC, Subway, Taco Bell, Pizza Hut and Domino's have all fallen due to heavy competition in an increasingly fragmented market as well as healthier challenger brands offering greater choice for consumers.

Panera Bread, regularly lauded as the healthiest fast food chain, is a beneficiary of this trend for slightly healthier, fast-casual options. Panera's communications and advertising (developed with lead agency, Anomaly, since 2015) draw heavily upon this theme, stressing the importance of 'clean', natural food as the foundation of a full and healthy life. The brand is going from strength to strength, with its Brand Index Score increasing from 71 in 2025 to 76 in 2016 and 80 this year. Brand value is up 32% to US$1.9 billion.

The same cannot be said for follow fast-casual pioneer Chipotle Mexican Grill. Its brand value is down 13% to US$2.9 billion. Though consumer trends are in its favour and the brand had been growing rapidly, reputational issues have dogged Chipotle over the last 18 months. In late 2015, dozens of customers were taken ill in several separate incidents due to outbreaks of Salmonella, E Coli and Norovirus.

Though firm steps have now been taken to address hygiene standards, sales for 2016 were down 13% on the year before and profits were down over 75%. Some tentative signs of recovery are just starting to emerge however, suggesting that Chipotle has been able to develop a sufficiently strong brand to weather the crisis long term.

Bucking the healthy eating trend is Papa John's, this year's fastest growing restaurant brand. The firm continues to expand and is rapidly approaching a total of 5,000 locations. Franchisee fees are relatively high, including an ad royalty of 8%, though with brand value growth of 52% and a 5-point increase in its Brand Strength Index score, CEO and founder John Schnatter will feel confident in justifying the royalties.

Papa John's product and advertising are fairly traditional, Papa Johns has pioneered digital technology. It was the first pizza chain to offer online ordering, back in 2002, its first mover advantage netting it additional market share. This year, it is trialing 'Papa Priority' which will enable customers to move their orders to the front of the queue for a $3 fee. Though there is every chance that this will prove popular with some customers and generate extra revenue, there is a significant risk this will alienate others, undermining Papa's everyman image, weakening the brand. Papa John's should ensure that it has done its brand due diligence in addition to examining the short-term financial case before proceeding.

Tim Horton's is another strong performer, with a 45% increase in brand value. The coffee chain offering may be considered run-of-the-mill to some, but its surge indicates that there is an under-exploited appetite for reasonably priced rather than premium coffee.

Its merger with Burger King has benefitted both brands (Burger King's brand value is up 11%) as well as shareholders; the brand's combined market capitalization is US$4 billion higher now than at the time of the merger. The deal provides opportunities for improved distribution and cost saving. Tim Horton's devotees may be concerned at the loss of a Canadian icon but the strength and unique identities of both brands would make the disappearance of either almost unthinkable.

ENDS

Note to Editors

Brand values are reported in USD. For precise conversions into local currency values, please confirm rates with the Brand Finance team. More information about the methodology, as well as definitions of key terms are available in the Brand Finance Restaurants 25 2017 report document.

Media Contacts

Robert Haigh, Marketing & Communications Director
T: +44 (0)2073899400 M: +44 (0)7762211167 r.haigh@brandfinance.com

Joslyn Pannu, Communications Manager
T: +44 (0)2073899400 M: +44 (0)7885666236 j.pannu@brandfinance.com

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.