Brand Finance®

British Brand Values Take Brexit Beating

- **Britain's most valuable brands decline by an average of 6%**
- **Devaluation of the pound in the wake of Brexit is the primary cause**
- **Sudden loss of value exposes iconic brands to foreign takeovers**
- **Shell, Britain's most valuable brand, has weathered the trend and is up 16%**
- **Lynx is Britain's fastest growing brand after ditching 'The Lynx Effect' branding**

Every year, leading valuation and strategy consultancy Brand Finance values the brands of thousands of the world's biggest companies. Britain's 150 most valuable brands are featured in the 2017 Brand Finance UK 150.

British brands have suffered some dramatic falls in their dollar-denominated values this year. Of the 140 of the brands with data for both 2016 and 2017, 88 have declined in value. On average, the UK's top brands lost 6% of their value last year. There are a number of reasons behind this, but the common factor is the devaluation of sterling in the wake of the Brexit vote.

This significant loss of brand value should concern British policy-makers, brand owners, workers and consumers. Senior politicians have vowed to protect our brand 'crown jewels' and Theresa May has promised tougher government scrutiny of brand acquisitions. However, the UK is currently one of the most attractive places to buy brands; it is one of the world centres of the marketing and advertising industry and so, a hub of brand creation; there is relatively little regulatory scrutiny of takeovers; and workforce restructuring is relatively straightforward, particularly compared to European markets.

In this context, the sudden devaluation of British brands leaves them vulnerable to takeovers from international buyers. Unilever and Burberry both recently defended bids from the US (from Kraft-Heinz and Coach respectively), while ITV is reported to have been the subject of repeated offers. Associated British Foods was unable to bring the Weetabix brand home after a stronger bid from America's Post Holdings while world renowned chip-maker ARM was acquired by Japan's SoftBank. This spate of acquisitions and the prospect of more raises serious questions about the potential impact on investment and employment.

David Haigh, CEO of Brand Finance, said: *"While the impact of Brexit on the broader economy has not lived up to the doomsday scenarios, British brands are clearly vulnerable to takeover by foreign firms. At one level, this is testament to Britain's strength at developing and managing desirable brand assets. However, more should be done to ensure Britain gets its fair share of the spoils for its quality brands. Tighter regulation is one solution, but another is for management and shareholders to be fully aware of both the saleable value of their brands and the value that those brands contribute to the overall business. This way, hasty sales for less than fair value, that endanger British jobs, might be avoided."*

Though British brands have suffered in terms of their dollar value, looking at sterling-denominated figures shows that the majority continue to perform well. Changing the currency almost reverses the decline in fact; 85 of the brands are increasing in value in GBP terms.

Most valuable brand

Shell is Britain's most valuable brand, with a brand value of £28.3 billion, up 35%. Oil prices saw a fairly steady increase across 2016 as supply became slightly more constrained, helping to improve revenues. After a drop at the beginning of the year, Brent Crude nearly doubled in value from early January to the end of December. Its asset disposal program following the completion of its merger with BG has helped to consolidate and strengthen Shell's brand, which has been upgraded from AA+ to AAA- thanks to a Brand Strength Index score of 82. Shell's longstanding partnership with Ferrari continues to deliver returns, with a demonstrable price premium attributable to the association with the world's most powerful auto brand. Shell invests heavily in campaigns that position it as an innovative provider of the clean energy solutions of the future. As part of its 'Make the Future' initiative, Shell enlisted the help of six popstars from around the world for its 'Best Day of My Life' video, which became one of the most viral ads of 2016.

Telecoms

Second-placed Vodafone had a more difficult year; even when measured in sterling its brand value declined (by 9%). Fellow telecoms brand BT fell even further, dropping 28% to £8.8 billion, following its accounting scandal and the ongoing Openreach saga.

Banking

HSBC, in third place, is also down, though by just 1%. HSBC is going through a period of consolidation. At the domestic level, over a quarter of its UK branches have been closed in the last two years as digitisation and online banking become more prevalent. Internationally, HSBC's Brazilian business was sold to Bradesco. The $5.2 billion sale represented a $1.7 billion loss which hit HSBC's profitability in 2016. Stuart Gulliver will persevere with the cost savings however, having achieved economies of $2.8 billion this year. HSBC's marketing communications have shifted to reflect its more focused approach. The 'World's Local Bank' message, conveyed to such great effect by outgoing Marketing Director Chris Clark for so many years has been replaced with campaigns that now focus more on HSBC's role in facilitating personal and business ambitions.

Banks are of course at particular risk from Brexit. Theresa May's apparent tough negotiating line may mean that passporting rights are at risk. Stuart Gulliver has indicated that over 1,000 jobs are likely to be moved to Europe once Brexit takes effect in 2019. Barclays appears to have been hit harder, with a jump in its applied discount rate reflecting its exposure to the uncertainties of the operating environment for UK financial services, leading to a brand value drop of 7% to £10 billion.

Retail/Apparel

The apparel sector has been marked by a stark online/offline divide. The continued scandals surrounding Sports Direct have contributed to a 5% brand value loss. With Mike Ashley facing a Select Committee and heavy media scrutiny over the working conditions at its Shirebrook warehouse as well as its alleged attempted surveillance of MPs, Sports Direct's brand dropped in value to £1.16 billion. In contrast, ASOS has staged a revival after a series of unfortunate events including a major warehouse fire. ASOS is benefitting from its international expansion and the exponential growth of ecommerce. The retailer's brand rose by 29% over the past year to £710 million.

Airlines

Three airlines made the UK 150 this year, led by British Airways with a brand value of £2.9 billion. However, the longer term shift towards low cost airlines combined with weakened consumer spending power in long-haul locations is evident. British Airways and Virgin Atlantic are both down, by 7% and 15% respectively. In contrast, easyJet is up by 60% to £1.34 billion. As consumer budgets for holidays remain tight and people look closer to home for their breaks, easyJet's brand could add further value, though even on short haul flights, the weakened pound threatens a reduction in foreign travel.

Fastest growing brand

Lynx is Britain's fastest growing brand, up 91% to £2.1 billion. Unilever decided to ditch the increasingly anachronistic 'Lynx Effect' campaign that was seen to be out of touch with the modern male. It has performed an almost complete reversal of its previous identity, with a series of new campaigns designed to portray a "radical and progressive view on masculinity". Despite initial cynicism from marketing pundits, the approach appears to be paying off.

ENDS

Media Contacts

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

Konrad Jagodzinski, Senior Communications Manager
T: +44 (0)2073899400 M: +44 (0)7508304782 k.jagodzinski@brandfinance.com

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

Note to Editors

Brand values are reported in USD. For values in GBP, hover over the 'i' button and select the currency.

About Brand Finance

Brand Finance is the world's leading brand valuation and strategy consultancy, with offices in over 25 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.