

What does the dollar value of a brand contribute to equity analysts' overall valuation of a company? Little if at all, we learned, and then circumstances mean everything.

Corporate Brand and

Brand value as a number, say Wall Street analysts, has little relevance. It can change at any time. Brand value and valuation are dependent on marketplace dynamics and management. Yet, generally speaking, strong brands signify strong companies. While there have been instances where “image” overtook reality (e.g., Enron, Adelphia, the dot-coms) and caused stock prices to soar only to plummet once sanity returned, they were the exception not the rule.

company,” says Carol Warner, head of the Merrill Lynch branded consumer products analysts, “they’re more likely to look at it.” But consumers don’t necessarily connect a product brand with the parent brand. Procter & Gamble, she notes, has worked to enhance the corporate brand among investors and consumers “to its advantage.” But Newell, another company she follows, had little corporate brand recognition, especially outside the U.S., yet had a strong portfolio of product brands including Levolor and Calphalon. When it acquired Rubbermaid and decided to become Newell Rubbermaid, the new name “helped a lot just in terms of public recognition.”

Valuing a brand in financial terms has been employed to help understand an acquired or divested brand. But the validity of this practice varies from category to category and situation to situation. Moreover, investors need to understand the value of a company not just at a point in time but projected forward.

Can brand value predict a company’s future performance? Perhaps, but not using financial valuation over time, which trails a company’s performance and the market’s response. Far from forecasting, this method spots a trend after the fact. Beth Cotner, head of the consumer team at Putnam Investments and of Putnam’s large-cap growth portfolios, notes that a growing brand may hold clues to its future. Success in one geography or segment may be repeatable: “A similar market share may apply elsewhere,” she says. And brands can have dormant value. Warner cites Avon: “Several years ago it was a has-been brand with a brand-perception issue, but now Andrea Jung, Avon’s chairman and CEO, is growing the business and the brand. It’s a clear indication of what you can do with an established brand, even one that’s fallen. But you still must judge it in terms of results.” As a counter she cites Rubbermaid, which had a high numerical valuation “but the business wasn’t doing well. That’s



“We don’t start with the brand to assess growth potential. We ask about the strategy behind the brand.”

— Beth Cotner, Putnam Investments

We spoke with two leading analysts and inquired about the role brand valuation plays in their evaluation of a company. The answer: None. Nor do rankings of brand value have much validity, except in retrospect to indicate change over time. Brand value may be important in determining whether an acquirer paid appropriately or how a spin-off may perform or be valued. But, by and large, analysts look for investments based on other factors, including:

- A strategy that is understood and valued
- A strong, dynamic business model
- A stable industry not likely to be commoditized
- Active growth and market development plans

That being said, they do believe companies that are better known and understood have a leg up in investors’ perceptions. Both analysts think corporate brand has value for investors “in general,” particularly for brand recognition. “If investors have heard of a



“With a strong brand, chances are a business is gaining share. But assigning a specific dollar value to the brand is hard to do and not that meaningful.”

— Carol Warner, Merrill Lynch

Wall Street

why it's tough to attach a dollar value to a brand – you've got to take into account all the factors that affect performance.”

Thinking about brand can help rationalize a merger or acquisition. Warner notes that spin-offs tend to be more successful if the brand is well-known. “You don't want the first question to be, ‘What do they do?’ When Ralston-Purina spun off Energizer, people had heard of Energizer, which helped.”

In acquisitions, companies often happily pay more for a well-known brand. Creating a brand can be risky and expensive. To expand its computer and consulting business, Hewlett-Packard chose to buy

there's not much of a difference in batteries and they'll buy whatever brand or no-name brand has the best deal. Batteries are now a commodity business that happens to be branded. I can't put a dollar amount on it, but clearly a battery brand is not worth what it was three or four years ago.”

Does a company's visual identity contribute to brand value? According to Warner: “In general, brand consistency is critical. If you are consistently recognizable, that's a huge leg up. And if visual identity hasn't been leveraged, that's unfortunate. Since brand is the first thing people see, you want it to be high quality. If it is low quality or cheesy or not understandable, you'll lose your audience before they

Can brand measured as a dollar value predict future performance? Far from forecasting what will happen, this method spots a trend *after* the fact.

the highly regarded brand Compaq rather than start from scratch. Another example is Procter & Gamble's acquisition of Clairol, says Warner. “Procter & Gamble paid a significant amount for Clairol because Clairol was a well-known name in hair color.” She continues, “Let's face it, there are a lot of brands and the world doesn't necessarily need more.” Buying the right brand, of course, is only part of the story. “We watch the brand integration process closely,” says Warner. “With P&G and Clairol, we're keeping an eye on what they'll do with their other hair-care brands as a result.”

Are strong brands safe? One big risk is market forces that push product brands toward commodities. Warner cites batteries: “Several years ago consumers bought either Energizer or Duracell. Those companies raised prices every year and spent a lot on advertising. Nowadays consumers have figured out

even try your product or your service.” Cotner notes one area where brand now has more significance than it did previously: the Internet. “If you're buying something online, a brand has more value than not-a-brand. At Sears, when you're looking at a washer, you might be comfortable buying private-label because Sears is selling it. But on the Internet, brand is probably more important. In sum, equating brand value with a company's future financial prospects is risky at best. Investors who did so with dot-coms relearned the meaning of “bubble.” Yet strong brands have great value, which can only be safeguarded with diligent brand management. Now that the world is once again skeptical of hype and hollow figures, we must realize that the only real understanding of brand is not on a spreadsheet but in the hold a brand has on its most desirable audiences.