Talking Sense

LIPPINCOTT MERCER
Design & Brand Strategy Consulting

Brand's Impact on Shareholder Value

In any economic environment, few would question the importance of building and managing a strong brand. Companies are looking at ways that brands can contribute to value growth—shifting customer demand, protecting price premiums, extending to new markets, and attracting talent and capital. Given the value of all these strategies, brands can represent a significant impact on capital market expectations of future growth.

Lippincott Mercer has completed research for several clients, analyzing publicly available information on measures of financial and non-financial performance. We have found that about one-third of current shareholder value is impacted by the brand. Put another way, pure financial performance—both historical performance and expectations of future financial performance—explains only about two-thirds of shareholder value. The remainder is largely explained by performance on perceptions of innovation, corporate reputation, familiarity, community and culture. These non-financial measures have direct impacts on both the current valuation and the financial drivers (e.g., perceptions in corporate reputation drive perceptions of future financial performance).

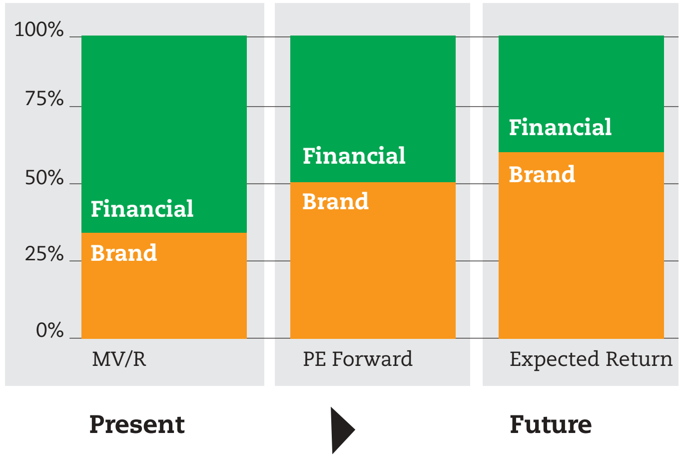
More importantly, when we examine differences in individual drivers, we see much greater variability in the measures of non-financial performance. As an example, consider the technology industry, which has suffered from sub par financial performance over the past several years. However, the distribution of performance across companies is relatively narrow, particularly when compared to non-financial measures. The spread of the distribution—defined as the difference between the highest and lowest scores—is between three and five times greater for non-financial measures than for financial ones. This suggests that there is greater opportunity for differentiation in improving non-financial performance.

Leading on non-financial performance can also have a positive impact on market value. When we look across multiple industries at the leading companies on non-financial performance, we find that companies with higher ratings have grown their market values faster than competitors. Particularly during the 2001-2002 period, these leading companies experienced slower declines in market values, suggesting that a strong brand can not only help a company drive higher growth in up markets, but also provide valuable protection in down markets.

In summary, a strong brand can have a significant impact in driving shareholder value. It is a critical asset to providing long-term differentiation, thereby reducing the risk and/or volatility associated with future growth expectations.

Contributed by Michael D'Esopo, a partner at Lippincott Mercer

Percentage Impact on Shareholder Value



Brand's Link to Shareholder Value

Brands have enormous impact on capital market expectations of future growth and therefore need to be measured and managed

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