Brand Finance®

Logistics 25 2018

The annual report on the world's most valuable logistics brands

March 2018

Foreword.

David Haigh
CEO, Brand Finance

What is the purpose of a strong brand: to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be 'to make money'.

Huge investments are made in the design, launch, and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place, it frequently lacks financial rigour and is heavily reliant on qualitative measures, poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Sceptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo, may fail to agree necessary investments. What marketing spend there is, can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication, wasted resources, and a negative impact on the bottom line.

Brand Finance bridges the gap between marketing and finance. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising, and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketing and finance teams. Marketers then have the ability to communicate the significance of what they do, and boards can use the information to chart a course that maximises profits. Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

Brand Finance's research revealed the compelling link between strong brands and stock market performance. It was found that investing in highly-branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.

Acknowledging and managing a company's intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business.

The team and I look forward to continuing the conversation with you.

About Brand Finance.

Brand Finance is the world's leading independent brand valuation and strategy consultancy.

Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:
- Independence
- Technical Credibility
- Transparency
- Expertise.

Brand Finance puts thousands of the world's biggest brands to the test every year, evaluating which are the strongest and most valuable.

For more information, please visit our website:
www.brandfinance.com

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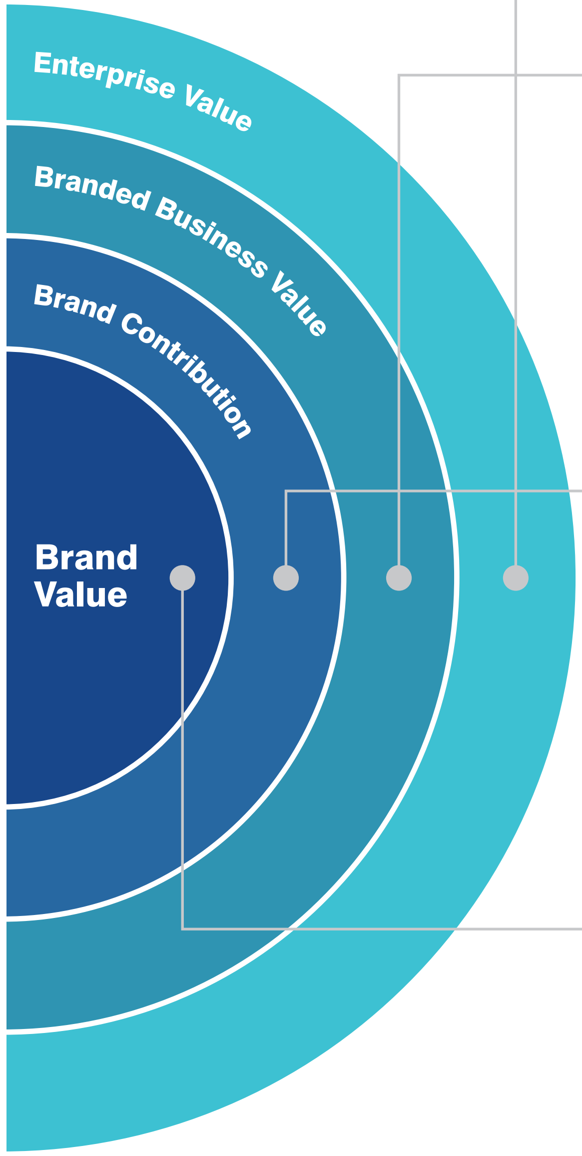
Definitions.



Brand Value

[Le Groupe La Poste]

+ Enterprise Value

The value of the entire enterprise, made up of multiple branded businesses.

Where a company has a purely mono-branded architecture, the 'enterprise value' is the same as 'branded business value'.

[La Poste]

+ Branded Business Value

The value of a single branded business operating under the subject brand.

A brand should be viewed in the context of the business in which it operates. Brand Finance always conducts a branded business valuation as part of any brand valuation. We evaluate the full brand value chain in order to understand the links between marketing investment, brand-tracking data, and stakeholder behaviour.

[La Poste]

+ Brand Contribution

The overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

The brand values contained in our league tables are those of the potentially transferable brand assets only, making 'brand contribution' a wider concept. An assessment of overall 'brand contribution' to a business provides additional insights to help optimise performance.

[La Poste]

+ Brand Value

The value of the trade mark and associated marketing IP within the branded business.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation – ISO 10668. It defines brand as a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos, and designs, intended to identify goods, services or entities, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits.

Brand Strength

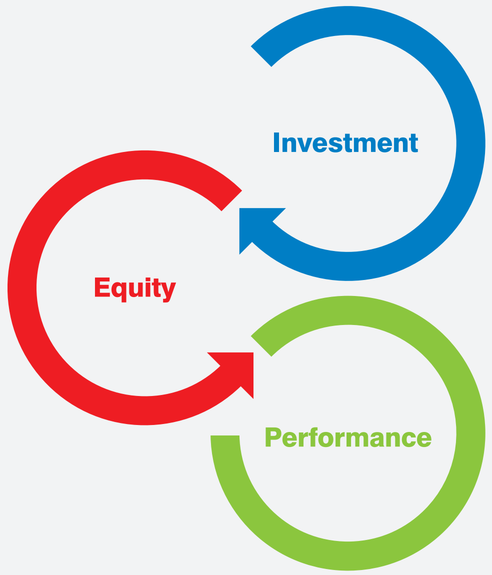
Brand Strength is the efficacy of a brand's performance on intangible measures, relative to its competitors.

In order to determine the strength of a brand, we look at Marketing Investment, Stakeholder Equity, and the impact of those on Business Performance.

Each brand is assigned a Brand Strength Index (BSI) score out of 100, which feeds into the brand value calculation. Based on the score, each brand is assigned a corresponding rating up to AAA+ in a format similar to a credit rating.

Analysing the three brand strength measures helps inform managers of a brand's potential for future success.

Brand Strength Index		
	Marketing Investment	Widely recognised factors deployed by marketers to create brand loyalty and market share.
	Stakeholder Equity	Perceptions of the brand among different stakeholder groups, with customers being the most important.
	Business Performance	Quantitative market and financial measures representing the success of the brand in achieving price and volume premium.



Marketing Investment

- A brand that has high Marketing Investment but low Stakeholder Equity may be on a path to growth. This high investment is likely to lead to future performance in Stakeholder Equity which would in turn lead to better Business Performance in the future.
- However, high Marketing Investment over an extended period with little improvement in Stakeholder Equity would imply that the brand is unable to shape customers' preference.

Stakeholder Equity

- The same is true for Stakeholder Equity. If a company has high Stakeholder Equity, it is likely that Business Performance will improve in the future.
- However, if the brand's poor Business Performance persists, it would suggest that the brand is inefficient compared to its competitors in transferring stakeholder sentiment to a volume or price premium.

Business Performance

- Finally, if a brand has a strong Business Performance but scores poorly on Stakeholder Equity, it would imply that, in the future, the brand's ability to drive value will diminish.
- However, if it is able to sustain these higher outputs, it shows that the brand is particularly efficient at creating value from sentiment compared to its competitors.

Executive Summary.

UPS Delivers on Brand Value

UPS remains the world's most valuable logistics brand, despite 1% year-on-year decrease in brand value to US$22.0 billion.

UPS's profits decreased by 7% as did its forecast revenue growth by 10%. Nevertheless, UPS remains at the top of the table as it continues to lead the way in technological advances. The company recently invested US$3 billion to revamp its network and completed the first phase of the ORION project, a cutting-edge navigation system offering the most up-to-date routes for drivers, generating around US$400 million in savings.

The top six brands collectively had a stagnant year, with aggregate brand value growth of just 0.2% between them, despite increased online retailing and consequent demand for delivery services. In effect, it appears that the big logistics brands are being squeezed on both ends, by both customers and competitors. This is because local delivery brands are providing increased competition, and the large online retailers are able to demand lower prices.

There is no doubt that forging a distinct brand helps a business to build resilience. As Amazon prepares to launch 'Shipping with Amazon', having a strong brand can help protect incumbents from this new competition. Powerful brands alone will not be enough to prevent Amazon from gaining a foothold in the industry, however, they will allow breathing room for the existing brands to riposte and limit their loss of market share.

Richard Haigh
Managing Director, Brand Finance

FedEx Posts Steady Growth

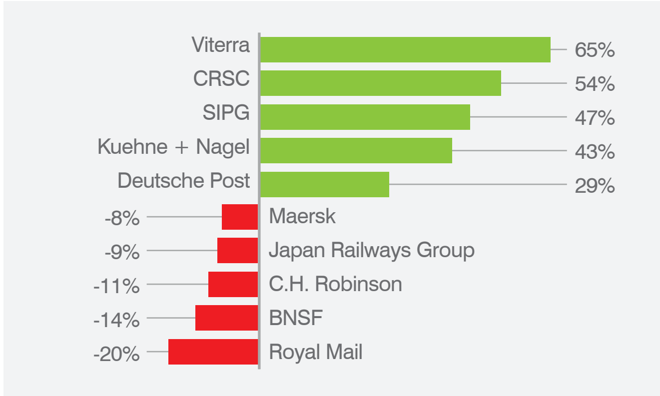
Meanwhile, FedEx (up 6% to US$18.2 billion) retained second place supported by its acquisition of TNT Express. With this purchase, FedEx is taking steps to create a truly global network, and the first phase is complete as TNT Express packages can now be handled by FedEx drivers, and enquiries to one platform can be solved from both. However, the TNT acquisition has also caused problems for FedEx, with cyber-security issues reducing revenue forecasts.

MTR: Brand Strength Going Places

The strongest brand this year is Hong Kong's public transport brand, MTR, increasing its Brand Strength Index (BSI) score to 82.2 with a brand rating of AAA-. MTR operates one of the most efficient rapid transit systems on the planet, with 99.9% of passengers arriving within 5 minutes of the scheduled time. At the same time, MTR has a stated policy of minimising environmental impacts while delivering safe, fast, and reliable public transport services.

Brands from mainland China also fared well, largely driven by their expected business growth and focus on serving their domestic markets. Following fast year-on-year increase in brand value, CRSC (China Railways Signal & Communication Corporation, up 54% to US$1.3 billion) and SIPG (Shanghai International Port, up 47% to US$1.2 billion) entered the league table at 24th and 25th place respectively.

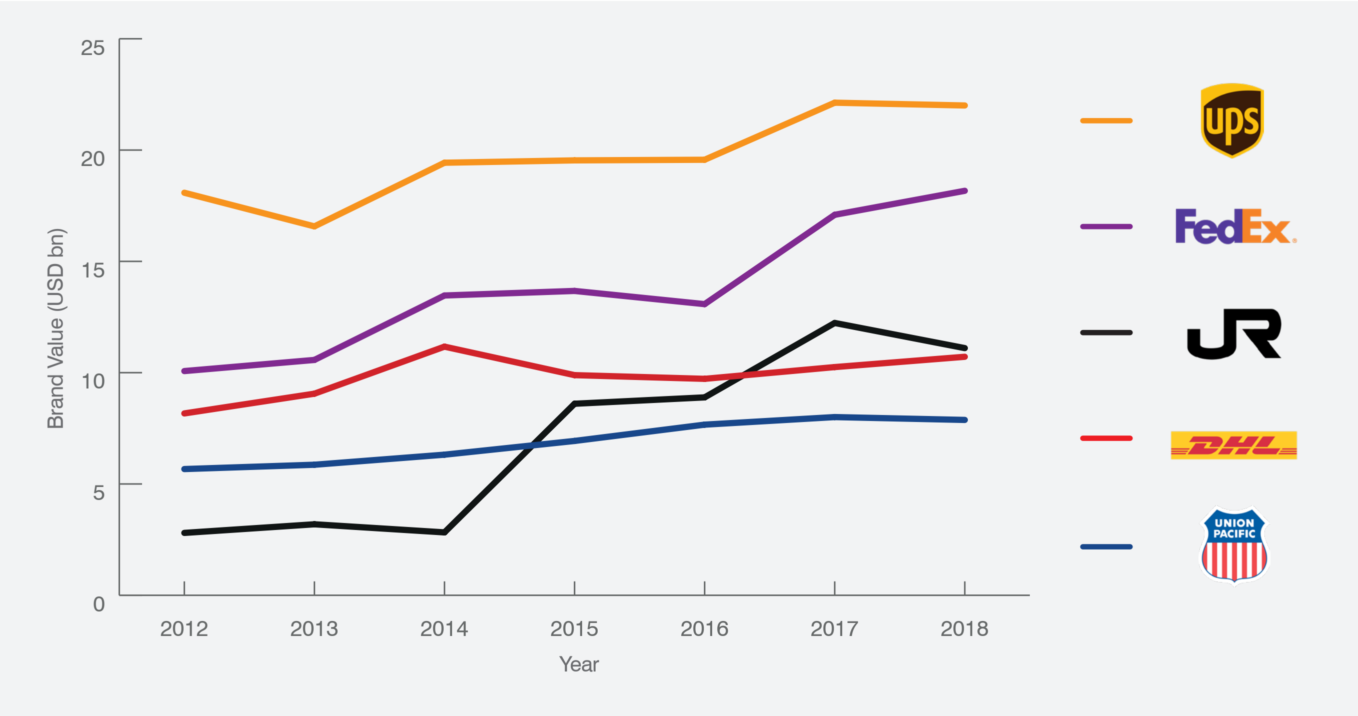
Brand Value Change 2017-2018 (%)



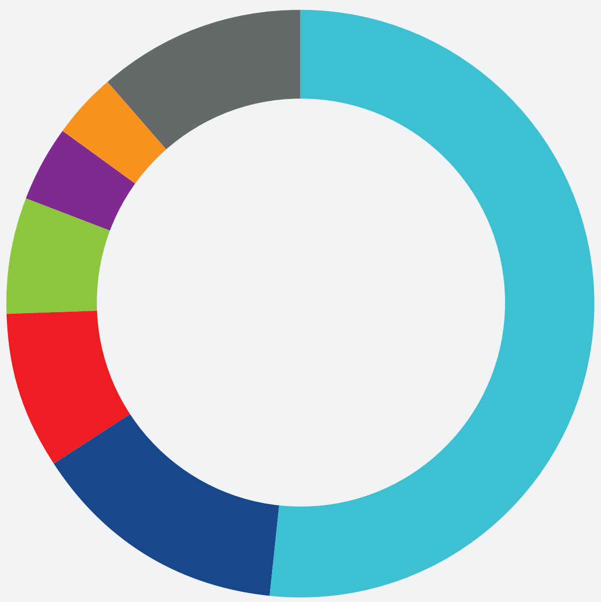
Top 10 Most Valuable Brands

1	Rank 2018: **1** 2017: **1** BV 2018: **$22,003m** BV 2017: **$22,128m** Brand Rating: **AAA-**	→	-1%
2	Rank 2018: **2** 2017: **2** BV 2018: **$18,170m** BV 2017: **$17,092m** Brand Rating: **AA+**	→	+6%
3	Rank 2018: **3** 2017: **3** BV 2018: **$11,103m** BV 2017: **$12,233m** Brand Rating: **AA-**	→	-9%
4	Rank 2018: **4** 2017: **4** BV 2018: **$10,714m** BV 2017: **$10,251m** Brand Rating: **AA**	→	+5%
5	Rank 2018: **5** 2017: **5** BV 2018: **$7,877m** BV 2017: **$8,005m** Brand Rating: **AA+**	→	-2%
6	Rank 2018: **6** 2017: **6** BV 2018: **$4,882m** BV 2017: **$4,898m** Brand Rating: **A+**	→	0%
7	Rank 2018: **7** 2017: **8** BV 2018: **$4,845m** BV 2017: **$4,023m** Brand Rating: **AA**	↑	+20%
8	Rank 2018: **8** 2017: **10** BV 2018: **$4,412m** BV 2017: **$3,818m** Brand Rating: **AA**	↑	+16%
9	Rank 2018: **9** 2017: **13** BV 2018: **$4,253m** BV 2017: **$3,299m** Brand Rating: **AA**	↑	+29%
10	Rank 2018: **10** 2017: **9** BV 2018: **$4,008m** BV 2017: **$3,849m** Brand Rating: **AAA-**	↓	+4%

Brand Value Over Time



Brand Value by Country



Colour	Country	Brand Value (USD bn)	% of total
	United States	64.8	52%
	Germany	17.8	14%
	Japan	11.1	9%
	Canada	7.8	6%
	France	5.1	4%
	Italy	4.8	4%
	Others	14.0	11%
	Total	**125.4**	**100%**

Executive Summary.

Mail Services Push the Envelope

Poste Italiane (up 20% to US$4.8 billion) and Deutsche Post (up 29% to US$4.3 billion) have both recorded significant brand value growth. Poste Italiane revamped its structure, and today, almost 90% of its revenue comes from insurance or financial services. With increased revenue and favourable forecasts, the company is positioned well for the future. Similarly, Deutsche Post has grown to include more parcel services in conjunction with DHL, which is part of the same corporation.

By contrast, Royal Mail (down 20% to US$2.2 billion) continues to struggle as it experienced the largest drop in brand value in the sector. Along with a decline in letter delivery, the company is facing fierce competition from global parcel delivery services, such as UPS. French mail service, La Poste (down 6% to US$3.7 billion), faced similar challenges.

Top 5 Strongest Brands

MTR — BSI Score **82.2**

UPS — BSI Score **80.0**

DB — BSI Score **79.6**

CSX — BSI Score **79.6**

Royal Mail — BSI Score **79.1**

Top 25 most valuable logistics brands

Rank 2018	Rank 2017	**Brand name**	Country	**Brand value (USD m) 2018**	**% change**	Brand value (USD m) 2017	**Brand rating 2018**	Brand rating 2017
1	1	**UPS**	United States	**22,003**	-1%	22,128	AAA-	AAA-
2	2	**FedEx**	United States	**18,170**	+6%	17,092	AA+	AA+
3	3	**Japan Railways Group**	Japan	**11,103**	-9%	12,233	AA-	AA-
4	4	**DHL**	Germany	**10,714**	+5%	10,251	AA	AA
5	5	**Union Pacific**	United States	**7,877**	-2%	8,005	AA+	AA+
6	6	**Mclane**	United States	**4,882**	0%	4,898	A+	AA-
7	8	**Poste Italiane**	Italy	**4,845**	+20%	4,023	AA	AA
8	10	**Canadian National Railway**	Canada	**4,412**	+16%	3,818	AA	AA
9	13	**Deutsche Post**	Germany	**4,253**	+29%	3,299	AA	AA
10	9	**CSX**	United States	**4,008**	+4%	3,849	AAA-	AA+
11	8	**La Poste**	France					
12	11	**BNSF**	United States					
13	12	**Maersk**	Denmark					
14	15	**Norfolk**	United States					
15	14	**DB**	Germany					
16	20	**Kuehne + Nagel**	Switzerland					
17	16	**Royal Mail**	United Kingdom					
18	19	**MTR**	China (Hong Kong)					
19	19	**CP**	Canada					
20	21	**DSV**	Denmark					
21	24	**Viterra**	Canada					
22	18	**C.H. Robinson**	United States					
23	New	**Bolloré**	France					
24	New	**CRSC**	China					
25	New	**SIPG**	China					

Methodology.

Brand Finance calculates the values of the brands in its league tables using the Royalty Relief approach – a brand valuation method compliant with the industry standards set in ISO 10668.

This involves estimating the likely future revenues that are attributable to a brand by calculating a royalty rate that would be charged for its use, to arrive at a 'brand value' understood as a net economic benefit that a licensor would achieve by licensing the brand in the open market.

The steps in this process are as follows:

1. Calculate brand strength using a balanced scorecard of metrics assessing Marketing Investment, Stakeholder Equity, and Business Performance. Brand strength is expressed as a Brand Strength Index (BSI) score on a scale of 0 to 100.
2. Determine royalty range for each industry, reflecting the importance of brand to purchasing decisions. In luxury, the maximum percentage is high, in extractive industry, where goods are often commoditised, it is lower. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database.
3. Calculate royalty rate. The BSI score is applied to the royalty range to arrive at a royalty rate. For example, if the royalty range in a sector is 0-5% and a brand has a BSI 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 by estimating a proportion of parent company revenues attributable to a brand.
5. Determine forecast 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.

Brand Strength Index (BSI)
Brand strength expressed as a BSI score out of 100.

Brand Royalty Rate
BSI score applied to an appropriate sector royalty range.

Brand Revenues
Royalty rate applied to forecast revenues to derive brand value.

Brand Value
Post-tax brand revenues discounted to a net present value (NPV) which equals the brand value.

Disclaimer
Brand Finance has produced this study with an independent and unbiased analysis. The values derived and opinions produced in this study are based only on publicly available information and certain assumptions that Brand Finance used where such data was deficient or unclear. Brand Finance accepts no responsibility and will not be liable in the event that the publicly available information relied upon is subsequently found to be inaccurate. The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government or organisation.

Understand Your Brand's Value.

A Brand Value Report provides a complete breakdown of the assumptions, data sources, and calculations used to arrive at your brand's value.

Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

What is a Brand Value Report?

Brand Valuation Summary
+ Internal understanding of brand
+ Brand value tracking
+ Competitor benchmarking
+ Historical brand value

Brand Strength Index
+ Brand strength tracking
+ Brand strength analysis
+ Management KPIs
+ Competitor benchmarking

Royalty Rates
+ Transfer pricing
+ Licensing/franchising negotiation
+ International licensing
+ Competitor benchmarking

Cost of Capital
+ Independent view of cost of capital for internal valuations and project appraisal exercises

Customer Research
+ Utilities
+ Insurance
+ Banks
+ Telecoms

For more information regarding our Brand Value Reports, please contact:

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What are the benefits of a Brand Value Report?

Insight
Provide insight as to how the brand is performing vs. key competitors on underlying measures and drivers of brand value and brand strength.

Strategy
Understand where brand value is being generated by region and channel in order to identify areas of opportunity that warrant further investigation.

Benchmarking
Track year-on-year changes to brand value and set long-term objectives against which high-level brand performance can be benchmarked.

Education
Provide a platform of understanding which the company can use to educate employees on the importance of the brand.

Communication
Communicate your brand's success to shareholders, customers, and other strategically selected audiences.

Understanding
Understand and appreciate the value of your brand as an asset of the business.

Consulting Services.

1. Valuation: What are my intangible assets worth?

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

+ Branded Business Valuation
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Contribution

2. Analytics: How can I improve marketing effectiveness?

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.

Market Research Analytics +
Return on Marketing Investment +
Brand Audits +
Brand Scorecard Tracking +

4. Transactions: Is it a good deal? Can I leverage my intangible assets?

Transaction services help buyers, sellers, and owners of branded businesses get a better deal by leveraging the value of their intangibles.

+ M&A Due Diligence
+ Franchising & Licensing
+ Tax & Transfer Pricing
+ Expert Witness

3. Strategy: How can I increase the value of my branded business?

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

Brand Governance +
Brand Architecture & Portfolio Management +
Brand Transition +
Brand Positioning & Extension +

MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand-based decisions and strategies.

FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing, and brand ownership arrangements.

LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

Communications Services.

We offer a variety of services to help communicate your brand's success.

Example digital endorsement stamp for use on your website as well as in investor relations and advertising, to recognise your brand's performance.

Contact us.

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