The Brand Finance Top 100 Singapore Brands Report – 2012

On Singapore's Intangible Assets and Brands

Contents

Foreword

When the Brand Finance Annual Report 2012 on "Top 500 Global Brands" was published in March 2012, the businesses were still feeling the effects of the turbulent economic climate. Nevertheless despite this, the brand value of the Global 500 have seen an overall growth in value of 3.3% to US $3,415 billion suggesting that the recovery is slowly underway.

At a regional level, the on-going European sovereign debt crisis continued to affect brand values in Europe which saw a decline in brand value by -7% to US$1,080 billion. This was mirrored in our "Top 500 Financial Brands" ranking where we saw 16 European banks appear in the top 20 'fallers'.

Overall 2011 has been the year of technology brands globally with an impressive increase of 81% in brand value. Apple has been ranked as the World's Most Valuable Brand for the first time and achieved the highest ever valuation calculated by Brand Finance of US$70.6 billion.

The Asian economy seemed to be more self reliant and somewhat insulated from the happenings in the west and has overall managed the global volatility better. Most Asian economies still have some fiscal space to stimulate growth, in the event of a more severe deterioration in the external environment.

During 2011, with increased availability of credit facilities and reasonably cheaper valuations still available, initial public offerings (IPO) and mergers and acquisitions (M&A) activities have continued to pick up. According to Earnest & Young (E&Y) Global IPO report 2012, Asia has been a key driver of the IPO resurgence as the global economy emerged from recession. In 2011, the trend of Asian exchanges leading the world in bringing new companies to market continued in 2011.

We also saw a higher proportion of private enterprises wanting to go public. Nevertheless, the Asian markets could not avoid the uncertainty and volatility that hurt IPO markets elsewhere. Its exchanges completed 610 deals in 2011 raising US$87.billion, a 50% drop by capital raised compared to 2010. Asia however is likely to remain a key driver of IPO resurgence in 2012 as the global economy continues to improve.

According to PricewaterhouseCoopers' (PwC), corporates globally are seeing their valuations rebound, and therefore are re-evaluating their portfolio of business and executing on strategic realignment so that they are top 1 or 2 in their chosen businesses. They have begun to exit businesses which they are not leading the competition and are focused on completing add-ons for those that are.

PwC last updated Asia Pacific M&A Bulletin reported that While the US and Europe struggle to cope with a slow and jobless recovery, the developing economies have powered ahead with high single and even double-digit growth. It is therefore no surprise that M&A activities have shifted in favour of the developing economies.

The Singapore Exchange (SGX) has reported a 25% jump in its initial public offering (IPO) market capitalisation for 2011, compared to 2010. SGX welcomed 23 new IPOs in 2011, raising S$9.6 billion (US$7.6 billion) compared with US$6.1 billion in 2010. Singapore's GDP growth will remain modest against the subdued global backdrop. Economic activity in Singapore is likely to remain restrained in 2012. Growth is likely to slow to 1-3% this year, following the close to 5% growth in 2011.

Sustainability and innovation has become a way of working for organisations, big and small alike, and this is also a key focus area for investment and tax incentives by the Singapore government.

As Singapore thrusts ahead to become a more sophisticated knowledge economy, companies that invest in intangible assets and right talent to manage them well will stand to gain.

For over a decade, Brand Finance has been dedicated to the measurement of brand strength and value. With an independent and global network, our analysis is both objective and well-informed. We hope to deepen management's understanding of brands from a resource perspective that is tied to performance. This has implications for resource allocation, performance tracking and measurement as well as accountability.

This year, we have once again taken the opportunity to highlight the new ISO standard in brand valuation which was formally announced in October 2010 as the world's first consistent and reliable standard in brand valuation. It represents global best practices in brand valuation and marks a huge step forward in this vital area of management concern.

This report serves to provide an opinion on the point-in-time valuation of Singapore's Top 100 brands, illustrate how our methodology, findings and value-based marketing techniques can be used for decision making, and determine the impact of brand equity on business performance.

David Haigh

David Haigh
Chief Executive, Brand Finance plc

Foreword

Brands have long been recognised inside the marketing profession as important intangible assets. Brands can confer considerable advantages, such as building customer loyalty and enabling a price premium for the branded product.

Brands and brand equity affect all stakeholder groups, influencing the perceptions they have of the branded business, their preference or loyalty to that organisation and their behaviour. Consumers and customers buy more, for longer, at higher prices, while suppliers offer better terms of business and finance providers invest at lower cost. These and other stakeholder behaviours affect business value drivers to give higher revenues, lower costs and greater capital value.

Brand managers need to understand how these brand equity attributes impact on the branded business and need to develop marketing strategies to optimise brand switching behaviour.

As such, the valuation of brands is an important function, to provide tangible, financial evidence of their status as assets and an indication of the value generated through the investment in brand equity.

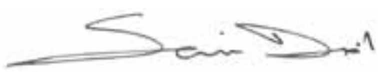
We use quantitative market data, detailed financial information and expert judgement to provide reliable Brand Ratings and Brand Values. Such an analysis needs to be conducted by product, geographic and demographic segment to maximise brand value. While such detailed metrics and financial analysis are beyond the scope of the current point in time brand valuations included in this year's league table however, they are the next natural step in understanding and developing the individual brand equity, their brand value and the brand value drivers.

We have also observed that a number of brand valuation consultancies produce brand value league tables using methods that do not stand up to technical scrutiny or the newly introduced ISO Standards for Brand Valuation. We use methods that are technically advanced, which conform to ISO Standards and are well recognised by our peers, by various technical authorities and by academic institutions.

Brand Finance has been researching intangible assets with an emphasis on brands to help corporations understand brand strength and value. Against the current economic backdrop, our 2012 study aims to examine the performance of Singapore's intangible assets and brands.

This annual report pits the best Singapore brands against one another in the most definitive list of brand values available.

This report provides an opinion regarding the point in time valuations of the most valuable Singapore brands as at 31st December 2011. The sheer scale of these brand values show how important an asset these brands are to their respective owners. As a result, we firmly believe that brand valuation analysis can offer marketers and financiers critical insight into their marketing activities and should be considered as a key part of the decision making process.



Samir Dixit
Managing Director, Brand Finance Singapore

Highlights

1. The enterprise value of corporate Singapore at the end of 2011 was reduced to US$409 billion, down from US$540 billion in December 2010 nearly sliding back to the post recovery level reported in December 2009.

2. Singapore's enterprise value in 2012 is still reasonably strong when compared with 2008 when it had reduced to a mere US$250 billion due to the recession.

3. After being the worst-hit sector in 2008, and having recovered a significant portion of its Enterprise Value (EV) in 2009, banking although in a strong #1 position with an EV of 81 billion lost nearly 50% of the EV in 2011 and was nearly the same level as the 2009 EV of US$84.7 billion.

4. Telecommunications sector had the highest Enterprise Value (EV) to Brand Value (BV) ratio with a combined brand value of over 70% of the EV. This demonstrates the strong brand equity and intangible growth compared to the Singapore average BV to EV ratio of 35%.

5. Telecommunications sector also had the highest disclosed intangibles of US$8.4 billion.

6. Banking, though with the highest contributor of the overall enterprise value and the highest disclosed goodwill had the total intangibles value of only 27% against the EV, way below the national average of 35%.

7. Overall, 5 of the top 10 segments by EV had below average performance (less than 35%) for the intangibles.

8. The top 7 companies by Enterprise Value are all amongst the top 10 companies by Brand Value.

9. The total value of Singapore's 100 largest brands and brand portfolios in 2012 is US$36.28 billion, representing an 11% increase over last year's study as compared to 49% growth in the 2011 study.

10. The Enterprise Value to Brand Value percentage remained at 11%.

11. Overall, only 35% of Singapore listed value is contributed by Intangibles compared to a global average of 49%.

12. Although Singapore Airlines was ranked at number 12 by Enterprise Value, it retained the title of being the Most Valuable Singapore Brand further illustrating the strength of a strong brand and the contribution of intangible value in driving brand and business success.

13. Wilmar and DBS also retained their number 2 and number 3 rankings respectively.

14. Genting Singapore was the new entrant to this year's ranking climbing straight to number 4.

15. This year, there were a total of 27 new entrants in the top 100 brands as compared to 20 brands last year.

16. Of the 27 new entrants in the top 100 brands, 20 brands were previously ranked outside of the top 100. This indicates greater focus on brand building by companies at the lower end and a stronger competitive field going forward.

17. Though not in the top 100 report, there are at least 6 more brands which have gained significant places and are currently ranked from 101 to 106. These brands were previously ranked from 107 to 146. We hope to see them in the top 100 brands by make similar gains in 2013.

Overview

Introduction

Intangible assets have traditionally tipped the scales over tangible assets to create value for companies and the global economy. Brand Finance has been tracking the role of intangible assets since 2001 as part of its annual Global Intangible Finance Tracker (GIFT™) study and found that intangible assets play a significant part in enterprise value generation.

The GIFT™ is a study that tracks the performance of intangible assets on a global level. The GIFT™ is the most extensive study on intangible assets, covering 53 national stock markets, more than 56,000 companies, representing 99% of total global market capitalisation. The analysis goes back over a eleven year period from the end of December 2011.

Currently, 49% of global market value is vested in intangible assets. However, the management paradigm is yet to shift in tandem with large proportion and the importance of intangible assets.

PURPOSE OF STUDY

To this end, Brand Finance has been researching intangible assets with an emphasis on helping corporations understand brand strength and value. Our study aims to examine the performance of Singapore's intangible assets and brands.

For the intangible asset study, the total enterprise value of corporate Singapore is divided into four components shown below.

In last year's GIFT™ 2011 report which represented 99% of total global market capitalisation, intangible assets looked upbeat when the stock markets worldwide showed signs of recovery. They represented over 50% of enterprise value at the end of 2010.

The latest 2012 GIFT™ analysis illustrates that by the end of 2011, the intangibles fell by US$8.3 trillion during 2011. Though still at a very healthy 49% of the total enterprise value, and significantly above the 2008 financial crisis level, the fall was one of the only two declines in value over the past 10 years. The main culprit was the US$11 trillion decline in the value of undisclosed intangible assets including brands.

While the big decline in the 'undisclosed' value illustrates the current volatility in the global markets, it equally points out towards the lack of understanding of intangible assets amongst companies, big and small, reflective through their behaviour of overvaluing the intangibles in boom times and under-value in economic downturns.

The fact that most of the intangible value is not disclosed on company balance sheet further illustrates how poorly understood intangibles still are by investors and management alike – and how out of date accounting practice is.

Such ignorance leads to poor decision making by companies and systematic mis-pricing of stock by investors.

Undisclosed Value

The difference between the market and book value of shareholders' equity, often referred to as the 'premium to book value'

Disclosed Intangible Assets

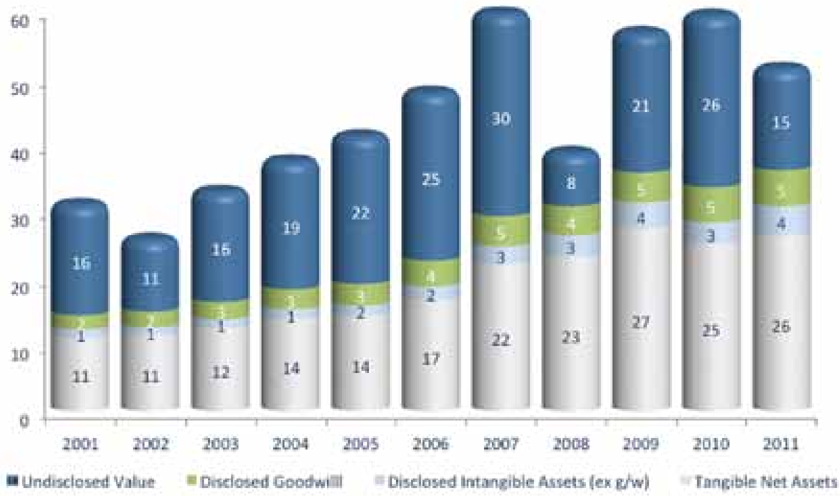
Intangible assets disclosed on balance sheet including trademarks and licenses

Disclosed Goodwill

Goodwill disclosed on balance sheet as a result of acquisitions

Tangible Net Assets

Tangible net assets is added to investments, working capital and other net assets



Singapore's Report Card on Intangible Assets

SINGAPORE		
ENTERPRISE VALUE	$409 billion	100%
TANGIBLE NET ASSETS	$265 billion	65%
DISCLOSED INTANGIBLE ASSETS (exc GOODWILL)	$28 billion	7%
DISLOSED GOODWILL	$14 billion	4%
"UNDISCLOSED VALUE"	$101 billion	25%

Singapore's Intangible Assets fell by US$126 billion in 2011

By the end of 2011, intangible asset value decreased by 15% of enterprise value, or US$126 billion over 2010. While in end 2010, the total intangible value of Singapore companies stood at a high US$270 billion, making up 50% of the enterprise value, by end 2011, the value had declined to US$144 billion. This clearly indicates that Singapore companies neither understand nor acknowledge the importance of intellectual property for growth and expansion.

SPOTLIGHT ON SECTORS

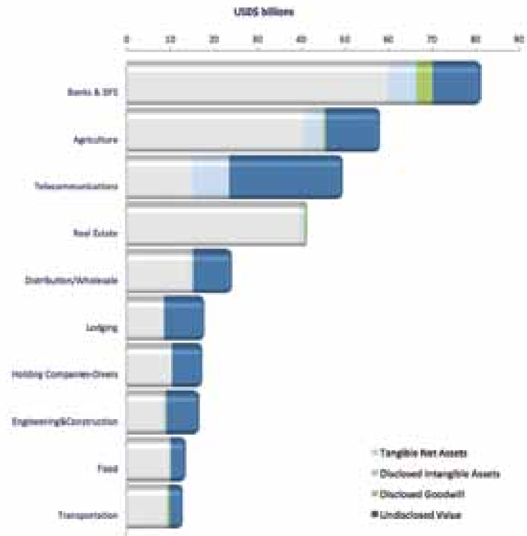
Total Enterprise Value of the Top 10 Sectors in Singapore is worth US$325.20 billion.

The ten largest sectors for Singapore are Banking and DFS, agri-businesses/Commodities, Telecommunications, Real estate, Distribution/Wholesale, Lodging, Holding/Group Companies, Engineering & construction, Food, and Transportation.

These account for 80% of Singapore's total enterprise value that is worth about US$409 billion. This is US$131 billion or 24% less than the 2010 enterprise value of US$540 billion. It is also US$33 billion or 8% less than the pre-recessionary enterprise value in 2007. This indicates the poor growth and management of brands in Singapore.

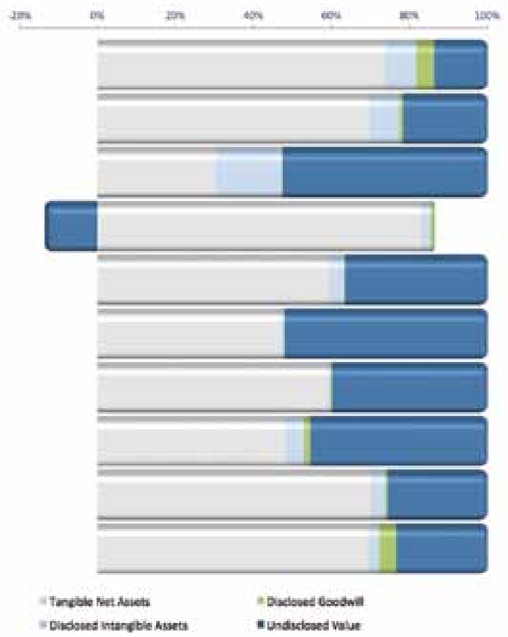
Banking Sector has the Highest Enterprise Value

The baking sector retained their number 1 position for the highest Enterprise Value of US$81 billion, the real estate sector was overtaken by Agri Products/Commodities and Telecom sector with an enterprise value of US$58 billion and US$49 billion respectively. Real Estate sector has the fourth highest enterprise value of US$34.6 billion amongst the top 10.



Telecom Sector has the Highest Intangible Value

The telecom sector gained the number 1 position for the highest Intangible Value of US$34 billion followed by banking sector at number 2 with a total Intangible Value of US$21.32 billion and Commodities sector at number 3 with a total Intangible Value of US$21.32 billion. Real Estate sector was the only sector to have a negative total Intangible value at US$4.86 billion.



Should Singapore Be Concerned with Intangible Asset Value?

Singapore to fully converge to International Financial Reporting Standards by 2012

In a bid to put Singapore on the same footing as other nations and strengthen its role as an international centre of commerce, Singapore will fully adopt international financial reporting standards or IFRS by 2012. As Singapore has been IFRS-ready for some years, this move has two main implications, namely revenue recognition criteria for real estate developers and the recognition of equity for co-operatives. Property developers have been recognising revenue as a project makes progress. Under IFRS, revenue shall be recognised upon completion of a project and handover of keys to buyers.

Having a standardised accounting standard means that the value of disclosed intangible assets is likely to increase in the future. Strong advocates of 'fair value reporting' believe that the changes should go further. Specifically, all of a company's tangible and intangible assets and liabilities should regularly be measured at fair value and reported on the balance sheet, including internally generated intangibles such as brands and patents. This is provided the valuation methods and corporate governance adopted is sufficiently rigorous. This is likely to be less of a concern going forward due to the ISO standards announced for valuation.

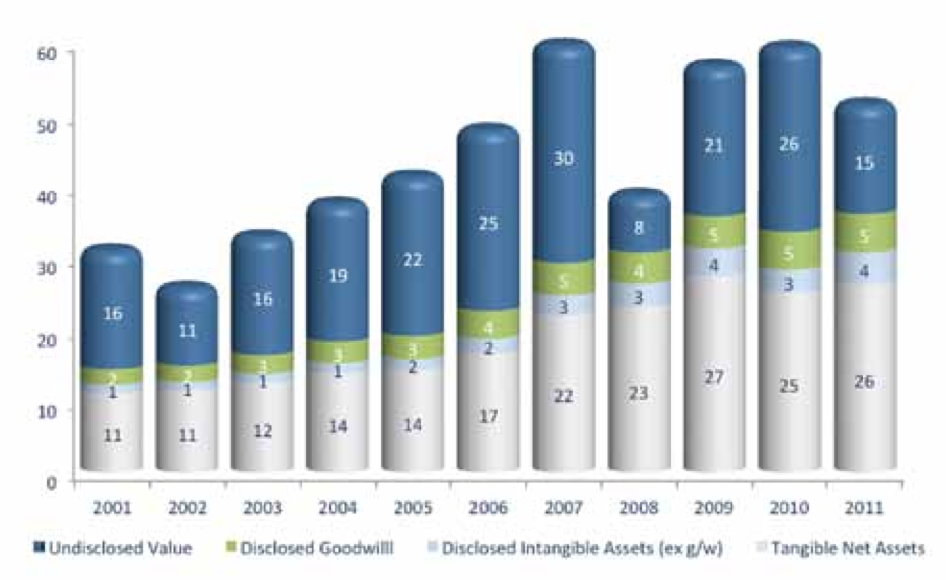
Some go as far as to suggest that 'internally generated goodwill' should be reported on the balance sheet at fair value, meaning that management would effectively be required to report its own estimate of the value of the business at each year end together with supporting assumptions. However, the current international consensus is that internally generated intangible assets generally should not be recognised on the balance sheet. Under IFRS, certain intangible assets should be recognised, but only if they are in the "development" (as opposed to "research") phase. However, there are conditions on, for example, technical feasibility, the intention and ability to complete and use the asset. 'Internally generated goodwill' including internally generated "brands, mastheads, publishing titles, customer lists and items similar in substance", may not be recognised.

Getting A Grip on Intangibles

League Table Update
by Bryn Anderson

Intangible assets make up nearly half the value of quoted companies around the world. Yet intangibles remain poorly understood and managed, as Bryn Anderson explains.

FIGURE 1: GLOBAL INTANGIBLE AND TANGIBLE VALUE OVER THE PAST TEN Y`EARS



Intangible assets, including brands, have never been more important. Survey after survey shows that brands and other intangibles typically account for between 30 per cent and 70 per cent of a company's market value, and in certain sectors, such as luxury goods, this figure can be even higher.

New research from Brand Finance, the 2012 BrandFinance® Global Intangible Financial Tracker (GIFT) report[1], shows that in 2011 intangibles across the world accounted for 49 per cent of the value of quoted companies, despite a decline since 2007 as a result of the 2008/2009 financial crisis and associated recession. What's more, 29 per cent of the value of these companies last year was not recorded on their balance sheets.

The balance between tangible to intangible assets has changed dramatically over the past 50 years, as corporate performance has become increasingly driven by the exploitation of ideas, information, expertise and services rather than physical things. Yet despite the rise in intangible value, the fact that most of it is not disclosed on company balance sheets highlights how poorly understood intangibles still are by investors and management alike — and how out of date accounting practice is. Such ignorance leads to poor decision-making by companies and systematic mis-pricing of stock by investors.

Overall, the 2012 GIFT study shows that the value of the top 56,000 companies in the world fell last year by $8.3 trillion, down from $59.6 trillion at the end of 2010 to $51.3 trillion at the end of 2011. The drop in value is larger than the economy of China.

The fall was one of only two declines in value over the past ten years, and the main culprit was the $11 trillion decline in the value of undisclosed intangible assets, including brands. The fall far outweighed smaller gains in tangible assets and disclosed intangible assets. Undisclosed value is just half what it was at its pre-crash high in 2007, though nearly double its immediate post-crash low in 2008.

The big fall in the 'undisclosed' value illustrates the current volatility in the global markets. During periods of economic prosperity, the level of undisclosed value is very high, but when confidence falls the undisclosed value is hit harder than the assets on the balance sheet. This tendency to overvalue in boom times and under-value in economic downturns reflects the lack of understanding of intangible assets.

The importance of — and ignorance about — intangible assets was reinforced in a UK Treasury paper published back in 2007, which pointed out that because intangibles are treated as a direct cost rather than an investment, that could distort measures of productivity in a knowledge intensive economy [2].And given that over one-quarter of the $51.3 trillion of enterprise value concerned in the 2011 GIFT study is concentrated in the largest 100 companies, and around one-half in the largest 400 companies, that's a lot of productivity that is potentially going unrecognised.

Sector split

In terms of industry sectors, Advertising is the most intangible sector globally, with all of its value being intangible. Similarly, Software, Aerospace and Defence, Internet and Biotechnology Companies had very high intangible value. But among the 15 most valuable industries, the sectors with the highest proportion of intangible assets are Computers (87 per cent), Pharmaceuticals (85 per cent) and Media (85 per cent). Conversely the sectors in the top 15 with the highest proportion of tangible value are Electric (80 per cent),

FIGURE 2: GLOBAL INTANGIBLE AND TANGIBLE VALUE BY SECTOR

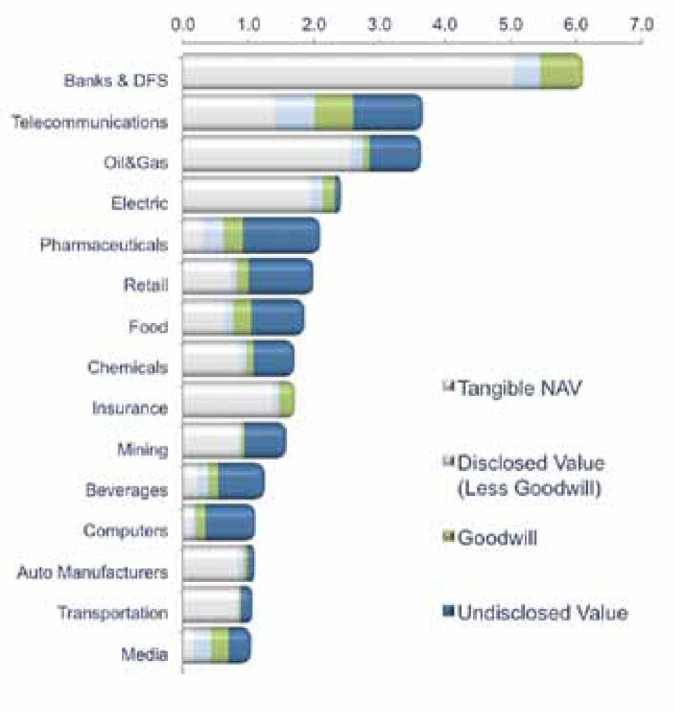
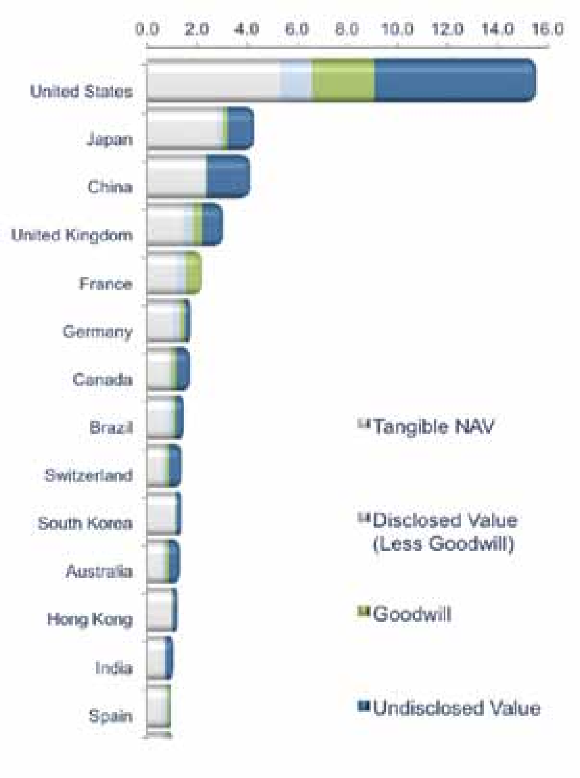


FIGURE 3: INTANGIBLE AND TANGIBLE VALUE BY COUNTRY



Transportation (76 per cent) and Oil and Gas (76 per cent). This picture has remained consistent in GIFT studies for the past ten years, with the percentages changing only marginally.

Around $1.6 trillion — eight per cent — of the $20 trillion increase in total enterprise value since 2001 has come from the banking sector, although the figure would have been twice as high had not $1.8 trillion been wiped out due to the increased credit risk that is unnerving bank investors. In fact, the value of the banking industry has declined by $3.1 trillion since 2006 to its current $5.5 trillion level.

Country split

Of the countries covered in the study, Ireland now has the highest proportion of intangible value, at 75 per cent, down from 76 per cent at the end of 2010. The rise is due to many companies in highly intangible industries relocating their head offices to Ireland to take advantage of attractive tax rates. Of the 15 most valuable countries in the world, the US has the highest proportion of intangible value — 65 per cent — though this is down from 71 per cent in 2007 before the 2008 financial crisis hit market confidence.

Switzerland has the second highest proportion of intangible value, at 55 per cent — down from 69 per cent in 2007. This is largely the result of two of the world's biggest pharmaceuticals companies, Novartis and Roche, being domiciled there.

The three countries with the largest proportion of their value made up of tangible net assets are South Korea (80 per cent), Hong Kong (76 per cent), and Spain (67 per cent). Again, this partly reflects the industry mix in those countries, with an under-representation of the most 'intangible' sectors such as software, media and pharmaceuticals.

The five countries with the highest level of disclosed intangible asset value remain, as they have been for the past six years, European: Italy (19 per cent), Spain (18 per cent), France (17 per cent), Germany (14 per cent) and the UK (13 per cent). This largely reflects the fact that since 2005, IFRS3 has required European companies to separate out in their annual reports different intangible asset classes when they make acquisitions. (See Figure 3 above.)

Categories of intangible assets

There are different definitions of 'intangible asset'. The term is sometimes used loosely, but in accounting rules it is precisely defined. In the most basic terms, it is, as its name suggests, an asset that is not physical in nature. The examples below, grouped into three categories — rights, relationships and intellectual property — would typically fall within the definition.

1/ Rights. Leases, distribution agreements, employment contracts, covenants, financing arrangements, supply contracts, licences, certifications, franchises.

2/ Relationships. Trained and assembled workforce, customer and distribution relationships.

3/ Intellectual property. Patents; copyrights; trademarks; proprietary technology (for example, formulas, recipes, specifications, formulations, training programmes, marketing strategies, artistic techniques, customer lists, demographic studies, product test results); business knowledge — such as suppliers' lead times, cost and pricing data, trade secrets and knowhow.

FIGURE 4: CATEGORIES OF INTANGIBLE ASSET UNDER IFRS 2

Marketing-related intangible assets	Customer-related intangible assets	Contract-based intangible assets	Technology-based intangible assets	Artistic-related intangible assets
Trademarks, tradenames	Customer lists	Licensing, royalty, standstill agreements	Patented technology	Plays, operas and ballets
Service marks, collective marks, certification marks	Order or production backlog	Advertising, construction, management, service or supply contracts	Computer software and mask works	Books, magazines, newspapers and other literary works
Trade dress (unique colour, shape, or package design)	Customer contracts and related customer relationships	Lease agreements	Unpatented technology	Musical works such as compositions, song lyrics and advertising jingles
Newspaper mastheads	Non-contractual customer relationships	Construction permits	Databases	Pictures and photographs
Internet domain names		Franchise agreements	Trade secrets, such as secret formulas, processes, recipes	Video and audiovisual material, including films, music, videos etc
Non-competition agreements		Operating and broadcast rights		
		Use rights such as drilling, water, air, mineral, timber cutting and route authorities		
		Servicing contracts such as mortgage servicing contracts		
		Employment contracts		

But a fourth category, 'undisclosed intangible assets', is usually more valuable than the disclosed intangibles. The category includes 'internally generated goodwill', and it accounts for the difference between the fair market value of a business and the value of its identifiable tangible and intangible assets.

Although not an intangible asset in a strict sense — that is, a controlled 'resource' expected to provide future economic benefits (see below) — this residual value is treated as an intangible asset in a business combination when it is converted into goodwill on the acquiring company's balance sheet. Current accounting practice does not allow for internally generated brands to be disclosed on a balance sheet. Under current IFRS only the value of acquired brands can be recognised, which means many companies can never use the controlled 'resource' of their internallygenerated brands to their full economic benefit. For example, they can't take out a loan against the asset and potentially bolster their balance sheet.

In accounting terms, an asset is defined as a resource that is controlled by the entity in question and which is expected to provide future economic benefits to it. The International Accounting Standards Board's definition of an intangible asset requires it to be non-monetary, without physical substance and 'identifiable'.

In order to be 'identifiable' it must either be separable (capable of being separated from the entity and sold, transferred or licensed) or it must arise from contractual or legal rights (irrespective of whether those rights are themselves 'separable'). Therefore, intangible assets that may be recognised on a balance sheet under IFRS are only a fraction of what are often considered to be 'intangible assets' in a broader sense.

However, the picture has improved since 2001, when IFRS3 in Europe, and FAS141 in the US, started to require companies to break down the value of the intangibles they acquire as a result of a takeover into five different categories — including customer- and marketrelated intangibles — rather than lumping them together under the catch-all term 'goodwill' as they had in the past.

But because only acquired intangibles, and not those internally generated, can be recorded on the balance sheet, this results in a lopsided view of a company's value. What's more, the value of those assets can only stay the same or be revised downwards in each subsequent year, thus failing to reflect the additional value that the new stewardship ought to be creating.

Clearly, therefore, whatever the requirements of accounting standards, companies should regularly measure all their tangible and intangible assets (including internally-generated intangibles such as brands and patents) and liabilities, not just those that have to be reported on the balance sheet. And the higher the proportion of 'undisclosed value' on balance sheets, the more critical that robust valuation becomes.

[1] The BrandFinance® Global Intangible Financial Tracker (GIFT) report is the most extensive research ever compiled on intangible assets. Over the past ten years, GIFT has tracked the performance of more than 56,000 companies quoted in 127 countries.

[2] For more details please refer to: HM Treasury 'Intangible Investment and Britain›s productivity: Treasury Economic Working Paper No. 1', October 2007.

Report Card 2012

Singapore's Top 10 Most Valuable Brands

01
Singapore Airlines
Brand Value: 3,218m
Enterprise Value: 7,014m
Brand Rating: AAA-

02
Wilmar
Brand Value: 3,206m
Enterprise Value: 45,571m
Brand Rating: AA

03
DBS
Brand Value: 2,316m
Enterprise Value: 20,232m
Brand Rating: AA

04
Genting Singapore
Brand Value: 1,848m
Enterprise Value: 15,151m
Brand Rating: A+

05
SingTel
Brand Value: 1,734m
Enterprise Value: 15,172m
Brand Rating: AA

06
UOB
Brand Value: 1,637m
Enterprise Value: 18,235m
Brand Rating: AA-

07
Great Eastern
Brand Value: 1,413m
Enterprise Value: 4,754m
Brand Rating: A

08
Keppel
Brand Value: 1,384m
Enterprise Value: 14,839m
Brand Rating: AA-

09
OCBC Bank
Brand Value: 1,366m
Enterprise Value: 20,645m
Brand Rating: AA

10
Tiger Beer
Brand Value: 1,080m
Enterprise Value: 4,226m
Brand Rating: AAA-

Brand Value
Enterprise Value

Singapore's Report Card on the Top 100 Brands

OVERVIEW OF SINGAPORE'S MOST VALUABLE BRANDS & BRAND PORTFOLIOS

The total value of Singapore's 100 largest brands and brand portfolios is S$36.28 billion. 52% of the brand value is vested in the Top 10 brands with a combined worth is S$19.02 billion. The top 50 brands account for over 92% of the combined brand value in 2012. Though the remaining 50 brands now account for 7.3% of the total brand value of Top 100 brands, this is down by 16.5% in 2011. Unless something is done to continuously improve the brand investment and value growth at the lower end of the market, we will likely see this decline continue in the coming years.

The Top 100 Singapore brands and brand portfolios of S$36.28 billion represent a notional increase of 3.5% increase over last year's study. In tandem with the slow economic recovery, the brand values of most companies has increased marginally or remained flat across industries.

Brand Finance has ranked the brands and brand portfolios of SGX listed companies by their absolute dollar value.

SINGAPORE'S BEST RATED BRANDS

The Brand Rating score represents a summary opinion on a brand based on its strength as measured by Brand Finance's 'Brand Strength Index'. This competitive benchmarking tool provides an understanding of the strength of each brand and is used to determine appropriate royalty and discount rates in the brand valuation process using our proprietary βrandβeta® methodology.

The Brand Rating delivers insight into the underlying equity and performance of each brand. It illustrates how valuations require robust analysis of each brand's performance in order to determine its value. This information is useful for both marketing and finance departments in brand strategy formulation and financial forecasting.

Brand Finance's Brand Ratings are conceptually similar to company credit ratings. Three brands top the Brand Rating list this year. They are Singapore Airlines, SIA Engineering Companies, and Haw Par Corp Limited, all three with brand ratings of 'AAA-' corresponding Brand Strength Scores of 82, 80 and 82 respectively. There was only 1 'AAA-' rated brand in the top 10.

There were only 2 brands (compared to 8 Brands last year) with the next best 'AA+' rating of which only one brand was in the top 20, namely Jardine Cycle & Carriage.

Brand Ratings are important because they are a leading indicator of future performance. Some very large and valuable brands may have deteriorating ratings. This ultimately leads to destruction in brand value, and vice versa.

SINGAPORE'S TOP 10

The ten most valuable brands and brand portfolios of Singapore are worth US$19.2 billion, 15.65 % higher than 2011. They represent 52.91% of the total brand value of the Top 100 Singapore brands. This is an increase from 51.4% in 2011. The brand value average overall is US$0.36 billion which is up from a 2011 average of US$0.29 billion.

01 Singapore Airlines

Includes SilkAir and excludes SIA Engineering

3,218m
Brand Value (USD)

7,014m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Singapore Airlines (SIA) was originally founded in 1947 and from a single plane; it has progressed to become one of the world's leading carriers with a flight network spanning 101 destinations in 43 countries. Since 1972, the Singapore Girl has become a visual trademark and brand for Singapore Airlines and has appeared in advertisements in almost all media forms and promotions across the world. The Singapore Girl is said to engender "Asian values and hospitality", a distinct character that comes from the service crews of Singapore Airlines.

PERFORMANCE OF THE BRAND

The true mark of the Singapore Airlines brand is its ability to remain consistent and relevant, regardless of economic condition, and more importantly stay true to its brand promise and connect with customers. The Singapore airlines brand experience is essentially about a level of privacy, luxury and service and this has been consistently strived to create and maintain. Singapore Air's ability to sustain the top brand ranking all these years is upheld by a high standard that is executed by an impressively trained staff. It is no mystery that the iconic Singapore Girl service experience for passengers aboard the airline is still tops in the open skies. The strong brand equity is also reinforced by its expansion of flight routes, award-winning inflight entertainment system and inflight luxury suites, albeit the ownership of newer airplanes.

02 Wilmar International Limited

Total product brand portfolio

3,206m
Brand Value (USD)

45,571m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Founded in 1991, Wilmar International Limited is headquartered in Singapore. Today, it is Asia's leading agribusiness group and is ranked amongst the largest listed companies by market capitalisation on the Singapore Exchange. Wilmar's business activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar milling and refining, specialty fats, oleochemicals, biodiesel and fertilisers manufacturing and grains processing. It has over 300 manufacturing plants and an extensive distribution network covering China, India, Indonesia and some 50 other countries. The Group is supported by a multinational workforce of more than 90,000 people.

PERFORMANCE OF THE BRAND

At the core of Wilmar's strategy is a resilient integrated agribusiness model that encompasses the entire value chain of the agricultural commodity processing business, from origination and processing to branding, merchandising and distribution of a wide range of agricultural products. Wilmar's portfolio of high quality processed agricultural products is the preferred choice of the food manufacturing industry, as well as the industrial and consumer food catering businesses. Its consumer-packed products occupy a leading share in its targeted markets.

In their endeavor towards achieving brand and business excellence, Wilmar remains a firm advocate of sustainable growth of its brand through environmental stewardship, community development programs such as smallholder scheme and education, and lastly, through corporate philanthropy. These have instigated Wilmar's expanding brand footprint in the agribusiness industry globally.

03

DBS Group Holdings Ltd

Total product brand portfolio

2,316m
Brand Value (USD)

20,232m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Since 1968, DBS has transformed into a successful financial services institution, offering a comprehensive range of innovative products and solutions to meet its clients' needs. With operations in 15 markets, the bank has a regional network spanning more than 200 branches and over 1,100 ATMs across 50 cities. Headquartered and listed in Singapore, DBS is a market leader in Singapore with over four million customers and also has a growing presence in the three key Asian axes of growth, namely, Greater China, Southeast Asia and South Asia. The bank's strong capital position, as well as "AA-" and "Aa1" credit ratings that are among the highest in the Asia-Pacific region, earned it third place on the Brand Finance Top 100 Singapore Brands for two consecutive years in 2011 and 2012.

The bank operates two brands in Singapore – DBS and POSB. POSB is a reputable mass market franchise. DBS also has leading market shares in mortgage loans and credit cards in Singapore.

PERFORMANCE OF THE BRAND

Aimed to be a brand that specialises in providing Asian-centric solutions that are designed to meet the full-spectrum of wealth needs, albeit its already safe and trusted brand in key markets in Singapore and Hong Kong, DBS is steadily expanding its brand to China, Taiwan, Indonesia and India. DBS continues to strengthen their brand through franchise opportunities that focuses on large corporates, mid-caps, SMEs and affluent consumers in these markets.

To uplift the customer-centric culture of the DBS brand, a set of distinctive DBS Asian service values was launched. More customer-centric processes and policies have been developed, latest technologies and infrastructure platforms were implemented as DBS seeks to capitalise on the growing Asian markets.

04

Genting Singapore PLC

Excludes Genting Malaysia

1,848m
Brand Value (USD)

15,151m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Listed on the Main Board of the Singapore Exchange Securities Trading Limited, Genting Singapore PLC is an investment holding company managed by the Genting Group. Incorporated in 1984, she has been involved in gaming and integrated resort development in Australia, the Americas, Malaysia, the Philippines and the United Kingdom. Genting Singapore owns Resorts World Sentosa, a S$6.6 billion integrated resort development in Singapore's Sentosa island.

PERFORMANCE OF THE BRAND

Genting Singapore (GENS) is best known for its flagship project Resorts World Sentosa, a S$6.6 billion development in Singapore which opened its doors in January 2010. The GENS brand is largely augmented by the success of Resorts World Sentosa which consists of six hotels, the Resorts World Casino, Universal Studios Singapore® family theme park, MICE facilities that include one of Asia's largest Grand Ballrooms, brand-name boutiques, along with a shopping and dining strip named FestiveWalk.

Despite not being reviewed as the top 100 Brand Finance Brand Rankings previously, its one-stop tourism and lifestyle offerings have not hindered the GENS brand from moving up the brand ladder. With the debut of the Marine Life Park and four new attractions at Universal Studios Singapore in 2012, industry makers are keeping an open eye on GENS, if it is able to hold its fort against strong competitors from within and across the ASEAN regions in integrated resort developments.

05

SingTel

Excludes Optus

1,734m
Brand Value (USD)

15,172m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

SingTel Group is Asia's leading communications group. Singtel provides a wide spectrum of multimedia and infocommunication technology (ICT) solutions, including voice, data and video services over fixed and wireless platforms. Headquartered in Singapore, SingTel has more than 130 years of operating experiences. SingTel is listed on both the Singapore Exchange and the Australian Securities Exchange following their acquisition of Optus in August 2001. To serve the needs of multinational corporations, SingTel has a network of offices in 20 countries and territories throughout Asia Pacific, in Europe and the USA while Optus has a network of offices around Australia.

PERFORMANCE OF THE BRAND

The SingTel brand is strengthened by continuous strategic investments in regional reputable mobile operators such as Telkomsel in Indonesia, Globe Telecom in The Philippines, Advanced Info Service in Thailand, Warid Telecom in Pakistan, PBTL in Bangladesh and Bharti Airtel in India.

With the change in consumer taste and marketing trends towards digital, the SingTel brand strives to be at the forefront of the digital arena with the expansion of its group digital sector and more innovative and cutting edge mix of digital services such as NextGen TV, e-books, e-magazines, music, digital concierge, cloud-based gaming and hyperlocal content. These digital services complements the offerings of the Group Consumer and Information Communication Technology (ICT) business, enabling the SingTel brand to be ranked 5th on the 2012 Brand Finance Top 100 Brands List.

06

UOB

Excludes UOB-Kay Hian

1,637m
Brand Value (USD)

18,235m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Founded in 1935, UOB is now a leading bank in Asia. Besides Far Eastern Bank in Singapore, UOB's major banking subsidiaries in the region are United Overseas Bank (Malaysia), United Overseas Bank (Thai), PT Bank UOB Indonesia and United Overseas Bank (China). Today, the UOB Group has a network of more than 500 offices in 19 countries and territories in Asia Pacific, Western Europe and North America.

UOB provides a wide range of financial services through its global network of branches, offices, subsidiaries and associates: personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, insurance and stockbroking services. UOB also has diversified interests in travel and property management.

PERFORMANCE OF THE BRAND

Ranked 6th on the Brand Finance Top 100 Singapore Brands List, UOB continuous pursuit of creating a premier bank brand name in the Asia Pacific region is sparked of by the opening of flagship Privilege Reserve Suites and a Privilege Banking Centre at the Marina Bay Sands Financial Centre and the introduction of a new Wealth Banking targeted at the rising rich individuals in Singapore. Aligned with rising consumerism in digital marketing, the first mobile banking application with cardless cash withdrawals was also launched in December 2011. UOB was also Best Retail Bank in Singapore and the Best SME Banking Business in The Asian Banker's 10th International Excellence in Retail Financial Services Awards Programme in 2011.

With continuous expansion and commitment to providing quality banking services, good customer service and advocacy in corporate social responsibilities, UOB is continuously on the ball to carve its niche as Asia's safe and premier financial brand.

07

Great Eastern

Total product brand portfolio

1,413m
Brand Value (USD)

4,754m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Great Eastern is the oldest and most established life insurance group in Singapore and Malaysia. With $54 billion in assets and 3.8 million policyholders, it has two successful distribution channels - the tied agency force and banc assurance. The Company also operates in China, Indonesia, Vietnam and Brunei. Great Eastern's asset management subsidiary, Lion Global Investors Limited, is one of the largest private sector asset management companies in Southeast Asia.

The brand has a strong legacy of putting customers first and making life great by providing a range of products such as life insurance, long-term health and accident insurance, annuity business written and cover for risks associated with property and casualty related business.

PERFORMANCE OF THE BRAND

In the continuous pursuit to introduce new schemes to cater to the various customer segments, Great Eastern was the first to launch LifeSecure – a scheme offered to cover disabled children and stay-home mothers. The perpetual implementation of comprehensive new schemes to meet every need of customers gives assurance to its customers, building customers' faith in its brand.

Emerging champion at the 2011 Prestigious Asia Insurance Industry "Life Insurer of the Year" Award was a value-add to its brand. Its branding is also enhanced through its emphasis on corporate social responsibility focus on children, the elderly and women. Instances of its CSR's efforts would be the annual Great Eastern Women 10km Run held in Singapore and the active participation and volunteering of community projects within the region.

08

Keppel

Total brand portfolio

1,384m
Brand Value (USD)

14,839m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

With a global footprint in over 30 countries, Keppel Corporation leverages its international network, resources and talents to grow its key businesses. It aims to be the Provider of Choice for Solutions to the Offshore & Marine Industries, Sustainable Environment and Urban Living, guided by its key business thrusts of Sustaining Growth, Empowering Lives and Nurturing Communities.

The Keppel Group of Companies includes Keppel Offshore & Marine, Keppel Energy, Keppel Integrated Engineering, Keppel Telecommunications & Transportation (Keppel T&T) and Keppel Land, among others.

PERFORMANCE OF THE BRAND

Venturing into the up and coming China market, Keppel aims to build up its brand in the Chinese commercial property market. Already in the works are acquisition of prime commercial sites in Beijing and first and second tiers residential sites. The Group intends to build up its brand image as a premier green developer in China. Aside, Keppel's Offshore and Marine arms are set to challenge itself by designing a first-of-its-kind ice-worthy jackup rig in one of the harshest marine frontiers in the Arctic Seas. If the project is smooth sailing, the brand equity is set to rise.

Keppel has also started building a Group-wide corporate social responsibility framework. Initiatives and programs at corporate governance, environment, people development, safety and community were implemented to meet Keppel's aim of a global corporate citizen. These ensure sustainability of the Keppel brand at offshore marine, infrastructure, property and investments levels and benefits stakeholders.

09 OCBC Bank

OCBC

Total product brand portfolio

1,366m
Brand Value (USD)

20,645m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Established in 1932, OCBC Bank is the longest established Singapore bank from the merger of three local banks. It is the second largest financial services group in Southeast Asia by assets and is among the world's highest rated banks, with a long term credit rating of Aa1. OCBC Bank and its subsidiaries offer a broad array of specialist financial services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services. OCBC Bank's key markets are Singapore, Malaysia, Indonesia and Greater China. Besides, it has a network of 530 branches and representative offices in 15 countries and territories, including 411 branches and offices in Indonesia operated by its subsidiary, Bank OCBC NISP.

PERFORMANCE OF THE BRAND

A disciplined approach towards leading OCBC's transformation into a high-performance bank, using a balanced business scorecard has been adopted by OCBC to focus on improving its performance.

OCBC has capitalised on various opportunities to grow its brand through sustainable measures at customers, communities, employees, environment and at global levels. Second year in running of the OCBC Safe Cycling Campaign in Singapore, the campaign seeks to raise experiential marketing awareness of the OCBC brand. Other measures to grow its customer base and deepen customer experiences are seen from the investment of new front-end account opening system in Singapore, extension of credit card services, providence of personalized service at certain retail outlets, amongst others.

OCBC's ability to deepen its market penetration would create a unique banking experience through its customised branding outreach to its targeted group of customers.

10 Tiger

Tiger Beer

Brand split value from APB

1,080m
Brand Value (USD)

4,226m
Enterprise Value (USD)

HISTORY OF THE COMPANY & BRAND

Launched in 1932 in Singapore, Tiger is Asia Pacific Breweries Limited (APB) flagship beer brand. An award-winning beer, Tiger has accumulated over 40 accolades, awards and distinctions. Today, the Tiger has its footprint across 60 countries and is supported by 30 breweries in 14 countries. Besides, the brand has diversified its product range to Tiger Crystal, Tiger Super Cold and Ice Freeze Tiger.

Currently, Tiger is also executing its international premium brand strategy and has the aspirations to take its brand to another level of success in the China market – the world's largest beer market, and to optimise the Chinese production capacities.

PERFORMANCE OF THE BRAND

Tiger is continuously brewing to improve the quality of its beer. The brand has unintermittedly been participating in world-renowned beer tasting competitions. In 2011, the brand clinched the Gold Award in Monde Selection and BrewNZ Awards and Silver Award in World Beer Championship and Australian International Beer Awards. These awards attest Tiger's quest in improving its brand standing in providing premium quality beer to consumers.

With over 40 accolades under its belt, some of the more notable awards for Tiger beer include a Gold medal at the Brewing Industry International Awards in 1998, the equivalent of "Oscar Awards for the brewing industry"; and a Gold medal in the highly contested European-Style Pilsner category at the World Beer Cup 2004, which has been dubbed "the Olympics of Beer Competitions" by the beer industry.

For three consecutive years from 2004 to 2006, Tiger was named a UK Cool Brand Leader. The recognition reaffirmed Tiger's popularity and was given only to the coolest brands in the UK.

Top 100 Brands

Rank 2012	Rank 2011	Brand	Parent Company	Brand Value 2012 (USD mil)	Brand Rating 2012	Enterprise Value 2012	Brand Value / Enterprise Value (%)	Brand Value 2011 (USD mil)	Brand Rating 2011	Enterprise Value 2011
1	1	Singapore Airlines	SINGAPORE AIRLINES LTD	3,218	AAA-	7,014	46%	3,757	AAA-	12,158
2	2	Wilmar	WILMAR INTERNATIONAL LTD	3,206	AA	45,571	7%	3,101	AA	23,665
3	3	DBS	DBS GROUP HOLDINGS LTD	2,316	AA	20,232	11%	2,041	AA+	25,279
4	n/a	Genting Singapore	GENTING SINGAPORE PLC	1,848	A+	15,151	12%	n/a	n/a	n/a
5	5	SingTel	SINGAPORE TELECOMMUNICATIONS LTD	1,734	AA	15,172	11%	1,357	A+	8,647
6	7	UOB	UNITED OVERSEAS BANK LTD	1,637	AA-	18,235	9%	1,277	AA-	22,055
7	9	Great Eastern	GREAT EASTERN HOLDINGS LTD	1,413	A	4,754	30%	1,150	A+	5,687
8	6	Keppel	KEPPEL CORPORATION LTD	1,384	AA-	14,839	9%	1,350	A+	13,254
9	10	OCBC Bank	OVERSEA-CHINESE BANKING CORPORATION LTD	1,366	AA	20,645	7%	1,032	AA	22,580
10	13	Tiger Beer	ASIA PACIFIC BREWERIES LTD	1,080	AA-	4,226	26%	853	A+	3,822
11	12	F&N	FRASER AND NEAVE LTD	1,063	AA-	6,304	17%	869	AA-	6,720
12	11	Sembcorp	SEMBCORP INDUSTRIES LTD	944	A+	6,059	16%	954	AA-	5,688
13	18	SPH	SINGAPORE PRESS HOLDINGS LTD	895	AA	4,991	18%	557	AA	3,754
14	n/a	HPH Trust	HUTCHISON PORT HOLDINGS TRUST	848	A	11,789	7%	n/a	n/a	n/a
15	15	Jardine Cycle & Carriage	JARDINE CYCLE & CARRIAGE LTD	844	AA+	2,381	35%	684	AA+	1,956
16	20	ComfortDelGro	COMFORTDELGRO CORPORATION LTD	785	A	2,821	28%	499	AA	1,627
17	39	Olam	OLAM INTERNATIONAL LTD	588	AA	9,667	6%	169	AA	7,827
18	17	StarHub	STARHUB LTD	576	A+	4,229	14%	568	A	3,793
19	16	ST Engineering	SINGAPORE TECHNOLOGIES ENGINEERING LTD	561	A	6,687	8%	629	AA-	7,507
20	26	Hong Leong Asia	HONG LEONG ASIA LTD	466	A	1,186	39%	361	A+	1,460
21	28	CDL	CITY DEVELOPMENTS LTD	437	A+	3,771	12%	298	AA	4,517
22	38	M1	M1 LTD	410	A+	2,024	20%	171	A	1,742
23	19	SMRT	SMRT CORPORATION LTD	410	AA-	2,019	20%	519	AA-	2,310
24	24	APL	NEPTUNE ORIENT LINES LTD	374	AA-	3,337	11%	413	AA	4,846
25	22	SIA Engineering	SIA ENGINEERING COMPANY LTD	338	AAA-	2,732	12%	487	AAA-	3,415
26	23	Sembcorp Marine	SEMBCORP MARINE LTD	333	A	5,112	7%	477	AA-	5,163
27	35	SATS	SATS LTD	277	A	1,893	15%	207	AA	2,245
28	47	Millennium Hotels	CITY DEVELOPMENTS LTD	235	A+	2,482	9%	124	AA-	2,287
29	n/a	Global Logistics Properties	GLOBAL LOGISTIC PROPERTIES LTD	214	A	7,296	3%	n/a	n/a	n/a
30	29	CapitaLand	CAPITALAND LTD	212	AA-	4,178	5%	277	AA+	8,499
31	48	SBS Transit	SBS TRANSIT LTD	211	A	479	44%	121	A-	468
32	41	SingPost	SINGAPORE POST LTD	189	A+	1,625	12%	143	A+	1,882
33	34	BRAND'S	CEREBOS PACIFIC LTD	184	AA-	659	28%	209	AA-	629
34	37	Ascott	CAPITALAND LTD	166	AA+	1,019	16%	172	AA+	1,645
35	89	CapitaMalls Asia	CAPITAMALLS ASIA LTD	163	A+	4,949	3%	38	A	6,693
36	n/a	APB	ASIA PACIFIC BREWERIES LTD	159	A+	7,044	2%	n/a	n/a	n/a
37	65	OSIM	OSIM INTERNATIONAL LTD	148	A+	685	22%	85	A+	477
38	49	Cerebos	CEREBOS PACIFIC LTD	141	A+	497	28%	115	AA-	437
39	44	Maybank Kim Eng	KIM ENG HOLDINGS LTD	135	A+	1805^	8%	131	A-	810
40	50	Wing Tai	WING TAI HOLDINGS LTD	135	A	794	17%	112	A+	1,076
41	33	UIC	UNITED INDUSTRIAL CORPORATION LTD	133	A-	3,056	4%	213	A	2,500
42	74	Super	SUPER GROUP LTD	130	A	689	19%	70	A-	471
43	61	Copthorne Hotels	CITY DEVELOPMENTS LTD	126	A	1,411	9%	91	AA-	1,690
44	56	Pan Pacific Hotels	PAN PACIFIC HOTELS GROUP LTD	125	A	1,063	12%	95	A	828
45	110*	Mapletree	MAPLETREE LOGISTICS TRUST MANAGEMENT LTD	123	A+	1,894	6%	24	A	1,753
46	31	SGX	SINGAPORE EXCHANGE LTD	118	AA	5,482	2%	256	AA	7,710
47	79	SingLand	SINGAPORE LAND LTD	112	A	1,932	6%	54	A+	2,243
48	42	UOB-Kay Hian	UOB-KAY HIAN HOLDINGS LTD	109	A-	851	13%	138	A	873
49	40	UOL	UOL GROUP LTD	108	A+	2,575	4%	163	AA-	2,750
50	43	The Straits Times	SINGAPORE PRESS HOLDINGS LTD	101	A	749	13%	131	AA-	816

Rank 2012	Rank 2011	Brand	Parent Company	Brand Value 2012 (USD mil)	Brand Rating 2012	Enterprise Value 2012	Brand Value / Enterprise Value (%)	Brand Value 2011 (USD mil)	Brand Rating 2011	Enterprise Value 2011
51	53	SC Global	SC GLOBAL DEVELOPMENTS LTD	99	A-	355	28%	98	A+	491
52	54	Tiger Airways	TIGER AIRWAYS HOLDINGS LTD	99	A+	764	13%	97	A+	837
53	21	Guocoland	GUOCOLAND LTD	98	A-	1,734	6%	496	A+	1,645
54	62	Petra Foods	PETRA FOODS LTD	98	AA-	297	33%	91	AA-	257
55	51	Banyan Tree	BANYAN TREE HOLDINGS LTD	94	A	742	13%	108	AA-	919
56	n/a	a-reit	ASCENDAS REAL ESTATE INVESTMENT TRUST	92	A	3,515	3%	n/a	n/a	n/a
57	69	Sim Lian	SIM LIAN GROUP LTD	90	A	467	19%	79	A	344
58	60	Cityspring Infra	CITYSPRING INFRASTRUCTURE TRUST	88	A	1,667	5%	92	A-	1,406
59	70	Raffles Medical Group Ltd	RAFFLES MEDICAL GROUP LTD	85	A	953	9%	75	A+	906
60	77	CWT	CWT LTD	82	A+	558	15%	64	A+	279
61	72	Hour Glass	THE HOUR GLASS LTD	80	AA	176	45%	72	AA	150
62	68	GP	GP BATTERIES INTL LTD	73	A-	237	31%	79	A-	300
63	138*	Eu Yan Sang	EU YAN SANG INTERNATIONAL LTD	73	A+	261	28%	5	A-	0
64	59	Wearnes	WBL CORPORATION LTD	69	A	833	8%	92	A	809
65	95	Orchard Parade	ORCHARD PARADE HOLDINGS LTD	67	A-	518	13%	36	A	330
66	87	Biosensors International	BIOSENSORS INTERNATIONAL LTD	67	A	1,336	5%	42	A-	801
67	96	Food Empire	FOOD EMPIRE HOLDINGS LTD	66	AA	154	43%	35	AA	158
68	n/a	Suntec REIT	SUNTEC REAL ESTATE INVESTMENT TRUST	65	A	2,257	3%	n/a	n/a	n/a
69	75	YEO'S	YEO HIAP SENG LTD	63	A-	413	15%	68	A+	527
70	94	BreadTalk	BREADTALK GROUP LTD	61	A	95	65%	36	A+	53
71	63	Hyflux Ltd	HYFLUX LTD	59	AA-	1,050	6%	89	AA+	1,588
72	103*	Kingsmen	KINGSMEN CREATIVE LTD	57	A	85	66%	32	A+	77
73	97	Cortina Holdings	CORTINA HOLDINGS LTD	56	AA	101	55%	34	AA	100
74	67	SWIBER	SWIBER HOLDINGS LTD	49	AA-	932	5%	79	AA-	726
75	83	Her World	SINGAPORE PRESS HOLDINGS LTD	48	A	359	13%	48	A+	392
76	81	Amara	AMARA HOLDINGS LTD	48	A	289	17%	51	AA-	290
77	93	Aspial	ASPIAL CORPORATION LTD	48	AA-	123	39%	36	AA-	79
78	78	Lianhe Zaobao	SINGAPORE PRESS HOLDINGS LTD	47	A	349	13%	57	A+	381
79	91	Hotel Grand Central	HOTEL GRAND CENTRAL LTD	46	A	322	14%	36	A	311
80	76	Metro	METRO HOLDINGS LTD	41	AA-	278	15%	65	AA+	454
81	90	Kingsgate Hotels	CITY DEVELOPMENTS LTD	40	AA-	581	7%	37	AA-	696
82	105*	Creative	CREATIVE TECHNOLOGY LTD	38	AA-	114	33%	31	A	22
83	80	Ho Bee	HO BEE INVESTMENT LTD	37	A-	782	5%	51	A	954
84	84	TT International	TT INTERNATIONAL LTD	35	A-	175	20%	45	A	237
85	104*	Haw Par	HAW PAR CORP LTD	32	AAA-	474	7%	32	AA	645
86	102*	Nuyou	SINGAPORE PRESS HOLDINGS LTD	32	A	240	13%	32	A+	261
87	73	Stamford	STAMFORD LAND CORPORATION LTD	31	A	602	5%	71	A-	619
88	88	Raffles Education	RAFFLES EDUCATION CORPORATION LTD	26	A	464	6%	39	A	657
89	120*	Stamford Tyres	STAMFORD TYRES CORPORATION LTD	24	A-	136	18%	16	A	135
90	113*	Popular Holdings	POPULAR HOLDINGS LTD	24	AA-	41	58%	20	A-	54
91	109*	Wee Hur	WEE HUR HOLDINGS LTD	21	A	118	18%	27	A-	165
92	130*	Soup Restaurant	SOUP RESTAURANT GROUP LTD	20	A-	19	106%	8	AA	19
93	117*	Challenger	CHALLENGER TECHNOLOGIES LTD	19	A+	47	41%	18	A+	35
94	133*	Aztech	AZTECH GROUP LTD	16	A	52	31%	7	A+	99
95	131*	OUE	OVERSEAS UNION ENTERPRISE LTD	15	AA-	2,838	1%	8	A+	2,480
96	125*	Lorenzo International	LORENZO INTERNATIONAL LTD	14	AA-	20	72%	11	AA-	34
97	100	YHI International	YHI INTERNATIONAL LTD	9	A-	190	5%	5	AA-	150
98	52	HTL International	HTL INTERNATIONAL HOLDINGS LTD	5	A-	154	3%	101	AA	272
99	137*	Auric Pacific	AURIC PACIFIC GROUP LTD	5	A	46	11%	5	A	55
100	107*	NSL	NSL LTD	5	A	309	2%	29	A	367

* Retrospective 2011 Values

Where do the Figures Come From?

Campaign
by David Haigh

Brands are the single most valuable intangible assets in business today. They drive demand, motivate staff, secure business partners and reassure financial markets. Leading-edge organisations recognise the need to understand brand equity and brand value when making strategic decisions. But brand valuation is being brought into disrepute by the wide discrepancies in value ascribed to the same brands by different valuation consultancies. What's needed to rebuild confidence, says Brand Finance plc CEO David Haigh, is more transparent brand valuation methods and assumptions — and greater independence and objectivity by the valuation firms.

As the world economy enters an increasingly troubled period, financial markets are feeling the impact of continuing economic crises in Europe, political deadlock in America, and fears of a slowdown in Asia.

To measure the impact that the double-dip recession has had on the value of global brands this year, Brand Finance published a report in September that measured the change in brand value of the top 100 brands in the world (as identified in our January 2011 BrandFinance® Global 500 report). Brand Finance used the Royalty Relief method to determine the value of these brands.

Unsurprisingly, brand values fell during 2011, but not as dramatically as might have been expected. Indeed, most of the revalued brands appear to be riding out the recession. The most obvious reason for this resilience is that the top 100 brands are, by definition, the strongest in the world. Brand equity and customer loyalty built up over years serve them well in difficult times as customers seek the reassurance of brands they know and trust.

Nevertheless, there were some interesting changes in both brand value and league table position between January and September. One of the most notable examples was Apple, which jumped from eighth to second place with a rise in brand value of 33 per cent ($10 billion) to $39.3 billion. There are a number of reasons for this, not least bumper revenues from the launch of the iPhone 4 and iPads 1 and 2.

Apple has always been an innovative brand noted for a combination of high quality design, functionality, utility and luxury that has won devoted fans the world over. Apple's brand value has consequently grown year by year. The death of Steve Jobs may reduce its brand value in the near future. So far customers have proved exceptionally loyal, but without its visionary and inspirational founder at the helm many worry about Apple's future prospects in a highly competitive industry.

But while Apple's $10 billion rise in value in the space of nine months is understandable, far more difficult to explain is the considerable difference in value ascribed to the brand by Interbrand and Millward Brown. Interbrand values the Apple brand at $33.5 billion in its October Best Global Brands 2011 league table, but Millward Brown's BrandZ Top 100 in July valued the brand at $153.3 billion. Such large differences in opinion are curious, yet Apple is not the only brand on which the experts disagree (see chart on facing page).

Why is it that Brand Finance values Coca-Cola at $27 billion while Interbrand values it at nearly $72 billion? Why does Interbrand value Google at $55 billion while Millward Brown values it at over $111 billion?

Such wide discrepancies make public scepticism about the published brand values entirely understandable. Mark Ritson, associate professor of marketing at Melbourne Business School, summed up the problem in a recent Marketing Week column. He wrote: "The problem is not whether we should value a brand...but rather where the figure comes from." The problem is compounded, as he pointed out, by the fact that "most journalists working for the popular press don't really understand brand valuation so they treat any and all approaches with equal attention."

The primary reasons for the wide differences in brand value are that different consultancies define 'brand' differently, and use different valuation methodologies and key assumptions.

1/ Asset definition. In accordance with technical valuation practice Brand Finance defines 'brand' in its published league tables as 'Trademarks and associated Intellectual Property (IP)'. Neither Millward Brown nor Interbrand clearly state how they define 'brands' for the purpose of their reports. But in their valuations of Google and Apple, they appear to include a

BRAND	BRAND VAL (Sept 2011)	MARKET CAP (Sept 2011)	BRAND VAL/ MKT CAP (%)
Coca-Cola	27	71.9	73.8
IBM	36	69.9	100.8
Microsoft	39	59.1	78.2
Google	48.3	55.3	111.5
General Electric	29.1	42.8	50.3
McDonald's	24.2	35.6	81
Intel	23.5	35.2	13.9
Apple	39.3	33.5	153.3
Walt Disney	15.2	29	17.3
HP	25	28.5	35.4

much wider bundle of IP in their definition of brand, something that would inevitably lead to higher brand valuations.

2/ Income recognition. Brand Finance reviews the financial statements of the companies it values in forensic detail, and includes in the calculations only income specifically earned by the brand. In the case of Coca-Cola, for example, only 50 per cent of the company's total turnover is represented by the Coca-Cola brand itself. The rest comes from other brands such as Fanta, Sprite and Desani, whose turnover Brand Finance excludes from the calculation. This inevitably leads to a lower valuation than those of Interbrand and Millward Brown, if these two firms are, indeed, including the additional turnover.

3/ Different valuation methods. Brand Finance uses a valuation technique known as Royalty Relief, which is by far the most widely recognised approach to brand valuation among auditors, accountants, lawyers, courts, banks and tax authorities. It considers the market rate companies would pay to license their brand if they did not own it. Such corporate royalty charges are applied to turnover to produce a stream of notional 'brand earnings', which are discounted back to a net present value.

By contrast, Interbrand and Millward Brown determine the proportion of earnings attributable to a brand using a less transparent research 'drivers analysis', which often seems to result in much higher brand values.

4/ Different valuation dates. Brand Finance valuations usually have a value date of 1 January each year although the September update had a 1 July value date. Interbrand and Millward Brown valuations come out at different times of the year. If market conditions have changed significantly between the different valuation dates, this can sometimes account for discrepancies in brand valuations.

However, despite these different approaches, so long as brand valuation calculations are transparent then interested parties can understand how valuation opinions were arrived at, allowing them to challenge them or to draw conclusions about the action required to enhance value. Users of valuation reports need to understand the drivers of brand value so that they can manage their brands more effectively, or, in the case of investors or other interested parties, gain a more meaningful picture of how a particular brand is doing.

Against this background Brand Finance has analysed the total amount of intangible value of the top ten branded companies in the world to provide a sense check between total marketing-related intangible assets and the brand values published by Brand Finance, Interbrand and Millward Brown. (See panel opposite)

The need for transparency

Brand valuations are no different from the valuation of buildings, equipment, pension assets and liabilities, shares, bonds, patents, art, wine and many other assets. If you ask two expert valuers for an asset valuation opinion in any asset class you will inevitably get different answers. Even if they use identical methods and similar assumptions they may come to different conclusions. However, if the calculations are entirely transparent it is possible to form a balanced view on the validity of the valuer's opinion. It also helps to know that the valuer reached their opinion independently and objectively. Why might the valuer's independence be compromised?

There are five professionally recognised threats to independence.

1/ Self-interest — having an interest in the outcome of the brand valuation.

2/ Self-review — both creating the asset and forming a valuation opinion on it.

3/ Advocacy — compromising an arm's length opinion to promote the client's interests.

4/ Familiarity — becoming too familiar with the management of the company under review.

5/ Intimidation — letting commercial or other threats affect the result of the brand valuation.

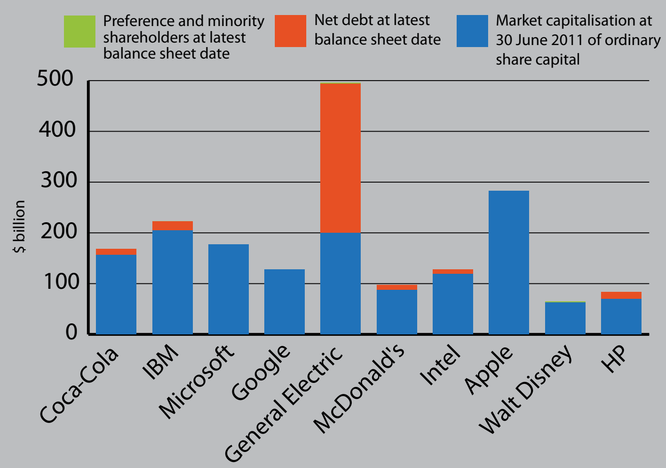
In the 1980s and 1990s such threats led accountancy bodies and regulators to discourage audit firms from providing consulting and valuation services to their audit clients. We believe the same restriction should apply to the valuation of brands by companies whose primary role is to build them.

Unfortunately, Interbrand and Millward Brown are both wholly-owned subsidiaries of marketing services giants (Omnicom and WPP respectively), which make millions of dollars building the very brands their subsidiaries then value. Indeed, Interbrand's strapline is 'Creating and managing brand value'.

There is a strong and growing body of opinion that it is impossible for a consultancy to provide genuinely independent brand valuation opinions on brands that they, or their parent company, built in the first place. To this end Brand Finance plc has launched the Campaign for Independent Brand Valuation, which promotes strict guidelines on the conduct of brand valuers to avoid actual and perceived threats to their independent judgement.

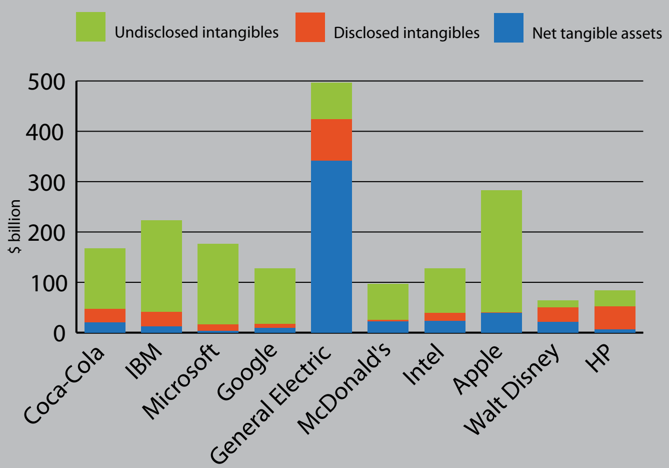
Why are published brand valuation opinions so different?

The following series of charts explains how Brand Finance cross checks the sense of calculated brand values for a selection of top global companies, as produced by Brand Finance, Interbrand and Millward Brown.



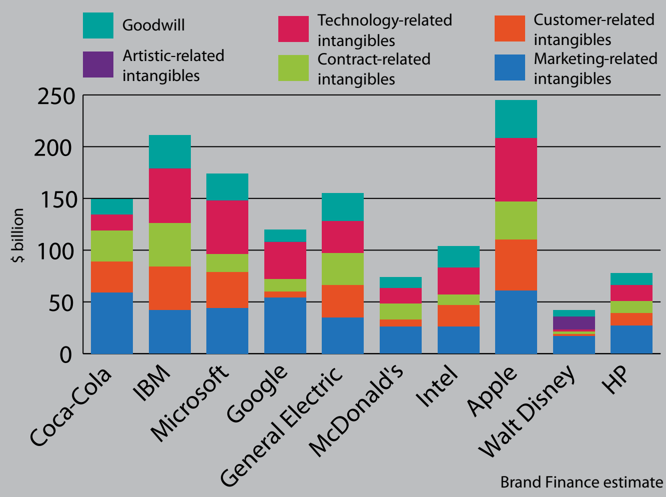
Stage 1: Calculating Enterprise Value

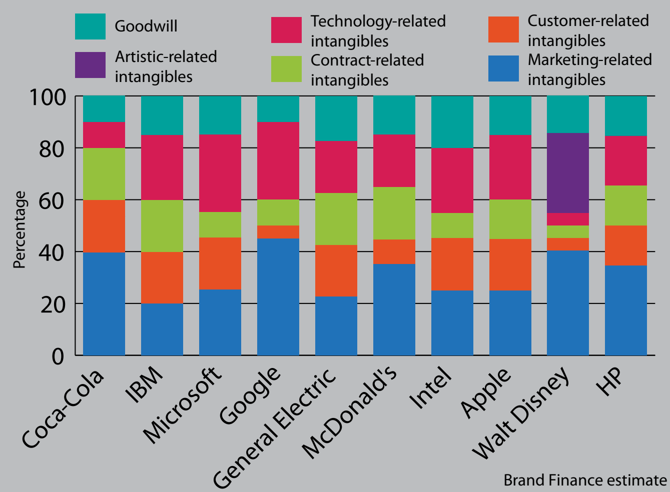
First Brand Finance calculated each company's Enterprise Value by adding market capitalisation on 30 June 2011 to the debt recorded in the balance sheet on that date. The sum of shareholders' equity and debt is generally deemed by corporate financiers to be the 'financing' side of the balance sheet. The sum of these is the Enterprise Value, which is represented by tangible and intangible assets of all kinds.



Stage 2: Allocating Enterprise Value between tangible and intangible assets

Next Brand Finance allocated the Enterprise Value (EV) of each company between asset classes as at 30 June 2011. There are three classes of assets: tangible assets, disclosed intangible assets (those intangible assets appearing in balance sheets following acquisition) and undisclosed intangible assets (the remaining intangible asset value attributed to the company by investors in the marketplace).

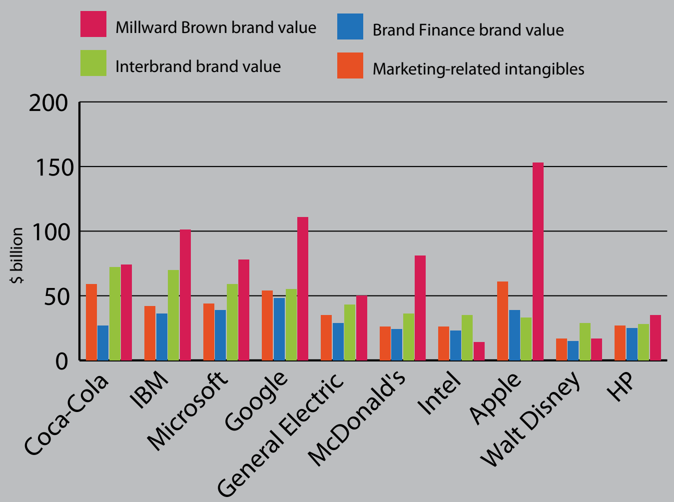




Stage 3: Apportioning intangible assets into key intangible asset classes (absolute values $bn and %)

Brand Finance then apportioned the total intangible value between intangible asset classes defined by the International Financial Reporting Standards 3 (IFRS 3). Brand Finance does this in both absolute values terms and in percentage terms. This is a Brand Finance estimate based on its extensive experience of technical valuations in each sector. In its experience, and based on reported IFRS 3 decisions, it is uncommon for trademarks and associated IP to exceed 30 to 40 per cent of total intangible asset value.

"Threats [to independence] led accountancy bodies and regulators to discourage audit firms from providing consulting and valuation services to their audit clients. We believe the same restriction should apply to the valuation of brands by companies whose primary role is to build them"

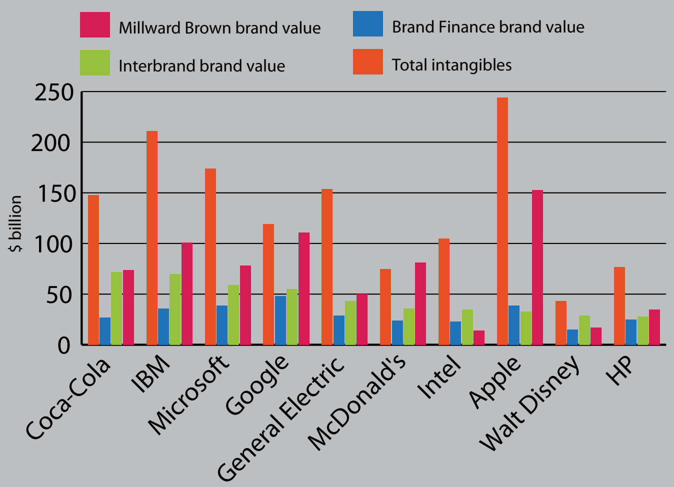


Stage 4: Comparison of brand value with marketing-related intangibles (graph and table)

Finally, Brand Finance compared its estimates of brand value with the total marketing-related intangibles of the company. This graph compares the value of marketing-related intangibles with the brand values published by Brand Finance, Interbrand and Millward Brown in 2011.

In the case of Coca-Cola, total marketing-related intangibles should be significantly higher than the value of the Coca-Cola brand alone because the Coca-Cola Corporation owns many brands (Fanta, Sprite, Desani and so on) in addition to Coke. In every case, brand values should be lower than total marketing-related intangibles, as brand value is just one marketing-related intangible. But with just two exceptions, Apple (Interbrand) and Intel (Millward Brown), our competitors calculated brand values that exceed the value of the total marketing-related intangibles in those companies as calculated by Brand Finance.

	MARKETING RELATED INTANGIBLES (MRI) IN $ bn	BRAND FINANCE BRAND VALUE ($ bn)	BRAND VALUE AS A % OF MRI	INTERBRAND BRAND VALUE ($ bn)	BRAND VALUE AS A % OF MRI	MILLWARD BROWN BRAND VALUE ($ bn)	BRAND VALUE AS A % OF MRI
Coca-Cola	59.4	26.99	45%	71.9	121%	73.8	124%
IBM	42.1	35.98	85%	69.9	166%	100.8	239%
Microsoft	43.5	39.01	90%	59.1	136%	78.2	180%
Google	53.8	48.28	90%	55.3	103%	111.5	207%
General Motors	34.7	29.06	84%	42.8	123%	50.3	145%
McDonald's	26.2	24.21	93%	35.6	136%	81	310%
Intel	26.2	23.49	90%	35.2	134%	13.9	53%
Apple	60.9	39.3	65%	33.5	55%	153.3	252%
Walt Disney	17.3	15.24	88%	29	168%	17.3	100%
HP	27	24.99	93%	28.5	106%	35.4	131%



STAGE 5: Comparison of brand values with total intangible assets (graph and table)

In all cases total intangible asset values exceed the calculated brand values of all three consultancies. This is to be expected given that the brand is only one of many hugely valuable intangibles. However, the discrepancies between the proportion of total intangibles accounted for by brands varies widely between different consultancies.

	TOTAL INTANGIBLES	BRAND FINANCE BRAND VALUE ($ bn)	BRAND VALUE AS A % OF TOTAL INTANGIBLES	INTERBRAND BRAND VALUE ($ bn)	BRAND VALUE AS A % OF TOTAL INTANGIBLES	MILLWARD BROWN BRAND VALUE ($ bn)	BRAND VALUE AS A % OF TOTAL INTANGIBLES
Coca-Cola	148.4	26.99	18%	71.9	48%	73.8	50%
IBM	210.6	35.98	17%	69.9	33%	100.8	48%
Microsoft	174.0	39.01	22%	59.1	34%	78.2	45%
Google	119.5	48.28	40%	55.3	46%	111.5	93%
General Motors	154.2	29.06	19%	42.8	28%	50.3	33%
McDonald's	74.8	24.21	32%	35.6	48%	81.0	108%
Intel	105.0	23.49	22%	35.2	34%	13.9	13%
Apple	243.7	39.30	16%	33.5	14%	153.3	63%
Walt Disney	43.1	15.24	35%	29.0	67%	17.3	40%
HP	77.1	24.99	32%	28.5	37%	35.4	46%

Background on Intangible Asset Value

Definition of Intangible Assets

There are different definitions of 'intangible assets'. According to Singapore Financial Reporting Standard (FRS) 38 'Intangible Asset', an intangible asset is 'an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes'. According to FRS 38 the definition of an intangible asset requires it to be:

A) Non-monetary
B) Without physical substance
C) 'Identifiable'

In order to be 'identifiable' it must either be separable (capable of being separated from the entity and sold, transferred or licensed) or it must arise from contractual or legal rights (irrespective of whether those rights are themselves 'separable').

Intangible assets can be broadly grouped into three categories:

(1) Rights: leases; distribution agreements; employment contracts' covenants' financing arrangements; supply contracts; licenses; certifications; franchises.

(2) Relationships: trained and assembled workforce; customer and distribution relationships.

(3) Intellectual Property: trademarks; patents; copyrights' proprietary technology (e.g. formulas; recipes; specifications; formulations; training programs; marketing strategies; artistic techniques; customer lists; demographic studies; product test results; business knowledge – processes; lead times; cost and pricing data; trade secrets and know-how).

In addition, there is what is sometimes termed 'Unidentified Intangible Assets', including 'internally generated goodwill' (or 'going concern value'). It is important to recognise the distinction between internally-generated and acquired intangible assets.

Current accounting standards only allow acquired intangible assets to be recognised on the balance sheet. However, this is provided that they meet the above-mentioned criteria i.e. internally generated intangibles of a company cannot be explicitly stated on its balance sheet.

This results in what is sometimes described as 'internally generated goodwill'. This is the difference between the fair market value of a business and the value of its identifiable net assets. Although this residual value is not strictly an intangible asset in a strict sense (i.e. a controlled "resource" expected to provide future benefits), it is treated as an intangible asset in a business combination when converted into goodwill on the acquiring company's balance sheet.

Intangible assets that may be recognised on a balance sheet under FRS 38 are typically only a fraction of the total intangible asset value of a business, with the remaining value continuing to be classified as 'goodwill'. Brands, if acquired, can be identified under these rules and added to the balance sheet. This results in an unusual situation where internally-generated brands of the acquiree may be recognised on the acquirer's balance sheet but the acquirer's own internally-generated brands may not. For this reason, Brand Finance thinks there is a strong case for the inclusion of internally-generated brands on the balance sheet. Brands fulfil the definition of intangible assets above, in that they are controlled by management, provide future economic benefits and are identifiable and therefore can be sold, transferred or licensed as appropriate. We are increasingly seeing companies taking advantage of this transferability by moving brands (including trademarks and other associated intellectual property, such as design rights and other marketing collateral) to special purpose vehicles, such as brand holding companies, for the purpose of raising finance and tax planning.

Value Characteristics of Intangible Assets

Valuation of intangible assets requires an understanding of their characteristics and the role that they play in the entire value chain. The following attributes of intangible assets have important value implications:

- **Absence of efficient trading markets:** Unlike tangible assets, the absence of efficient trading markets for intangible assets makes the market approach to valuation by using transaction price not possible.
- **Lack of a linear relationship between investment and returns:** This limits the use of the cost approach to valuation, except for easily replicable assets.
- **Poor non-financial metrics to measure the quality of intangible asset:** Nevertheless, useful valuation insights can be gained from sources such as market research, intellectual property audits and business plans.
- **Value is derived from interactions with other assets (both tangible and intangible):** This results in a complex value chain, and thus calls for the need of value maps to explore the interactions between them.
- **Specific bundle of rights (legal and otherwise):** There are rights associated with the existence of any intangible asset.
- **The need for convenient identification:** For valuation purposes, the intangible assets must be readily identifiable and capable of being separated from the other assets employed in the business. It is sometimes necessary to group complementary intangibles for valuation purposes.
- **The need for a detailed and precise definition of the asset:** This is particularly important where this consists of a bundle of rights. The components should be broken down in terms of specific trademarks, copyright, design rights, formulations, patents, and trade secrets.

FRS 103: Allocating the Cost of a Business Combination

In Singapore, the Financial Reporting Standard (FRS) 103 'Business Combination' is consistent with IFRS 3 in all material aspects. At the date of acquisition, an acquirer must measure the cost of the business combination by recognising the acquiree's identifiable assets (tangible and intangible), liabilities and contingent liabilities at their fair value. Any difference between the total of the net assets acquired and the cost of acquisition is treated as goodwill (or negative goodwill).

The classifications of intangible assets under FRS 103 include:

- Artistic-related intangible assets
- Marketing-relating intangible assets
- Technology-based intangible assets
- Customer-related intangible assets
- Contract-based intangible assets

Goodwill: After initial recognition of goodwill, FRS 103 requires that goodwill be recorded at cost less accumulated impairment charges. Whereas previously goodwill was amortised over its useful economic life, it is now subject to impairment testing at least once a year. Amortisation is no longer permitted.

Negative Goodwill: Negative goodwill arises where the purchase price is less than the fair value of the net assets acquired. It must be recognised immediately as a profit in the profit and loss account. However, before concluding that "negative goodwill" has arisen, FRS 103 requires that an acquirer should "reassess" the identification and measurement of the acquired identifiable assets and liabilities.

FRS 36: Impairment of Intangible Assets and Goodwill

Previously an impairment test was only required if a 'triggering event' indicated that impairment might have occurred. Under the revised rules, FRS 36 'Impairment of Assets' also requires an annual impairment test is required for certain assets, namely:

- Goodwill acquired in a business combination
- Intangible assets with an indefinite useful economic life (e.g. strong brands) and intangible assets not yet available for use. The recoverable amount of these assets must be measured annually (regardless of the existence or otherwise of an indicator of impairment) and at any other time when an indicator of impairment exists. Brands are one major class of intangible assets that are often considered to have indefinite useful economic lives. Where acquired brands are recognised on the balance sheet post acquisition it is important to establish a robust and supportable valuation model using best practice valuation techniques that can be consistently applied at each annual impairment review. There is also new disclosure requirements, the principal one being the disclosure of the key assumptions used in the calculation. Increased disclosure is required where a reasonably possible change in a key assumption would result in actual impairment.

Impact on Management and Investors

Management

Perhaps the most important impact of new reporting standards has been on management accountability. Greater transparency, rigorous impairment testing and additional disclosure will mean more scrutiny both internally and externally. The requirement of the acquiring company having to explain at least a part of what was previously considered as "goodwill" should help analysts to analyse deals more closely and gauge whether management have paid a sensible price. The new standards will also have a significant impact on the way companies plan their acquisitions. When considering an acquisition, to assess the impact on the consolidated group balance sheet and profit and loss post-acquisition, a detailed analysis of all the target company's potential assets and liabilities is recommended.

Companies need to pay close attention to the likely classification and useful economic lives of the identifiable intangible assets in the target company's business. This will have a direct impact on the future earnings of the acquiring group. In addition to amortisation charges for intangible assets with finite useful economic lives, impairment tests on assets with indefinite useful economic lives may lead to one-off charges. This is particularly so if the acquired business falls short of expectations post-acquisition. The requirement for separate balance sheet recognition of intangible assets, together with impairment testing of those assets and also goodwill, is expected to result in an increase in the involvement of independent specialist valuers in valuations and appropriate disclosure.

Investors

The requirement for companies to attempt to identify what intangible assets they are acquiring as part of a corporate transaction may provide evidence as to whether a group has overpaid in a deal. Subsequent impairment tests may also shed light on whether the price paid was a respectable one for the acquiring company's shareholders. Regular impairment testing is likely to result in a greater volatility in financial results. Significant one-off impairment charges may indicate that a company has overpaid for an acquisition and have the potential to damage the credibility of management in the eyes of the investment community. Analysts and investors are often skeptical about disclosed intangible assets. In the case of brand (and other intangible asset) valuation, where a high degree of subjectivity can exist, it is important to demonstrate that best practices have been applied and that the impairment review process is robust.

Tax and Intangible Assets

Other than M&A, strategic planning and ROI analysis, the rise in the importance of marketing intangibles can often mean that there is a strong business case for setting up a central intellectual property (IP) holding company (IPCo). Locating and managing an IPCo from one central location, potentially in a low tax jurisdiction, makes a compelling commercial case, particularly where a group is active in a number of different territories.

The size and authority of the IPCo are variable and dependent on the requirements of the group in question. The benefits include greater IP protection and consistency and improved resource allocation. It is important that genuine commercial drivers for the establishment of IPCo can be demonstrated.

Examples of established IPCo's by global companies include:

- BATMark (in UK, US, Switzerland & Netherlands)
- Shell Brand International AG (Switzerland)
- Société des Produits Nestlé (Switzerland)
- Philip Morris Products SA (Switzerland)
- Marvel Characters, Inc (USA)

Commercial benefits of central IPCo's include:

- Better resource allocation
- Higher return on brand investment
- Tax savings under certain circumstances
- Clarity of the strength, value and ownership of the IP will ensure that full value is gained from third party agreements
- Internal royalties result in greater visibility of the true economic performance of operating companies improved earnings streams from external licenses
- More effective and efficient IP protection will reduce the risk of infringement or loss of a trademark in key categories and jurisdictions
- Internal licenses should be used to clarify the rights and responsibilities of the IPCo and operating units. The adoption of consistent and coherent brand strategy, marketing investment and brand control improves brand performance.

This can have the following results:

- Accumulation of profits in a low tax jurisdiction
- Tax deductions in high tax jurisdictions
- Tax deductions for the amortisation of intangibles in IPCo
- Depending on double tax treaties, the elimination or reduction of withholding taxes on income flows resulting from the exploitation of the IP.

The Singapore government has several IP friendly tax policies for IP rights holders to establish Singapore as an attractive country to manage their IP. There are a variety of IP tax incentives, deduction, benefits and grants to encourage the creation, ownership, protection and exploitation of IP in Singapore. For instance:

- Unilateral tax credit scheme is available for royalty income received in Singapore
- Single tax deduction for patent costs
- Patent application fund (PAF) Plus, Initiatives in New Technology (INTECH) and several IP grants
- Automatic written down allowance for five years for the capital expenditure incurred by a Singapore company in acquiring any intellectual property rights for use in that trade or business.
- Reported in Singapore's 2010 Budget, the Productivity and Innovation Credit will provide significant tax deductions from 2011 onwards for investments in a broad range of activities along the innovation value chain. These activities include R&D, registrations of IP rights, acquisition of IP rights, and investment in Design.

There is also government assistance programmes that help companies develop and manage their brands better. Some of these schemes include:

- Brandpact, a multi-agency programme that seeks to increase companies' awareness of brand development through training, brand assessment, and incentives.
- Design Engage, a programme that seeks to build up the design capabilities of Singapore companies.
- Scope IP, a diagnostic programme that aims to audit the pool of intangible assets available in a company and whether sufficient measures are adopted to protect, develop and exploit the intangible assets for the company's benefit

More information is available from www.sedb.gov.sg, www.ipos.gov.sg and www.iras.gov.sg.

Preparing for Take-Off

Marketing Due Dilligence
by Malcolm McDonald

Companies have got themselves into good shape over the past three years. But as we settle into what could be another challenging year, they need to maintain, develop and exploit their intangible assets — not least their brands — in order to rebuild shareholder value. Professor Malcolm McDonald explains.

The most common financial objective of modern commercial corporations is to create sustainable shareholder value. They can do this only by providing shareholders with a total return, from capital growth and dividend yield, that exceeds their risk-adjusted required rate of return for any particular investment.

In today's highly competitive environment, the major sources of increased shareholder value are intangible marketing assets such as brands, customer relationships and distribution channels. Together these account for what Brand Finance has identified as up to 80 per cent of the company's value — and value that does not appear on the traditional balance sheet.

Clearly, therefore, companies should be rigorously reviewing their marketing strategies in order to determine how to develop, maintain and exploit these intangible assets. Unfortunately, however, although most companies conduct rigorous financial due-diligence analysis on major acquisitions and strategic investments, marketing strategy has remained largely exempt from this process.

The risk/return relationship
Conducting structured, sequential marketing or brand due-diligence on any proposed marketing strategy will determine how likely that marketing strategy is to increase shareholder value. The amount of shareholder value created depends on the level of risk investors are prepared to tolerate in exchange for their desired reward.

As Figure 1 shows, you get a minimum positive required rate of return where the risk/return line cuts the vertical axis. This minimum required rate of return carries no perceived risk, which implies guaranteed future returns. For investors in stable economies this normally means government-guaranteed borrowings (for example, US Treasury bills, UK government gilts, European Central Bank debt). The returns on such investments are currently low, but they are seen as risk free owing to their lack of volatility and investors' certainty about what return they will get and when they will get it.

Logically, therefore, a normal, rational, risk-averse investor will expect a bigger return from a more risky investment. Shareholder value is created only when total returns are greater than the riskadjusted required rate of return. So a company can grow its profits without creating shareholder value if the associated risks are also increasing.

FIGURE 1: RISK-ADJUSTED REQUIRED RATE OF RETURN

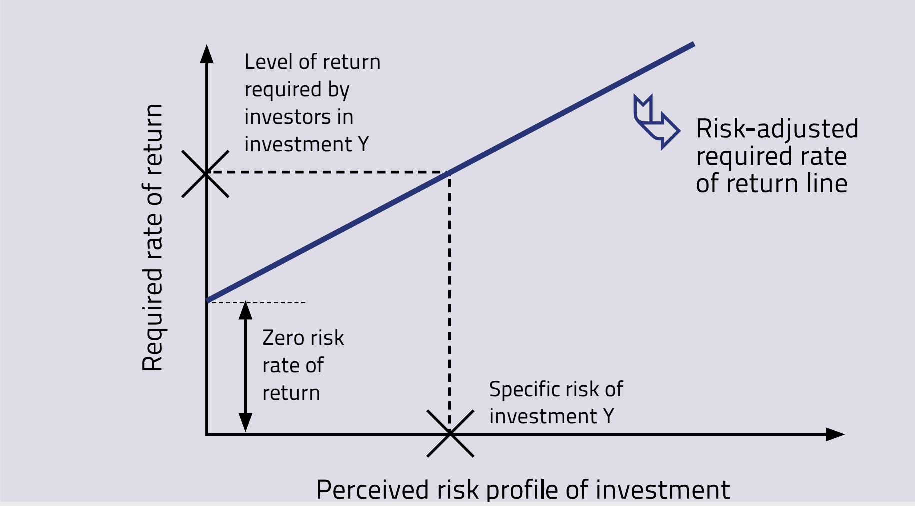
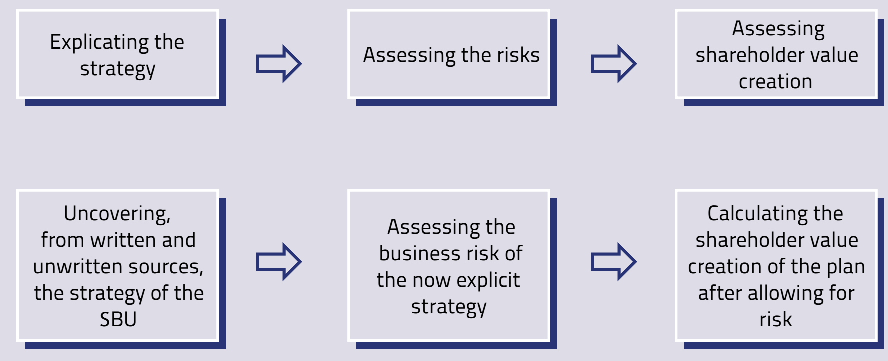


FIGURE 2: THE OUTLINE PROCESS OF MARKETING DUE DILIGENCE



Marketing due diligence

Because investors are interested in the risk-adjusted rate of return, it is equally (and sometimes even more) important that companies manage risk as well as returns. And a robust marketing strategy reduces the risk associated with a promised return.

Marketing/brand due diligence is a sophisticated process not easily reduced to simple mnemonics and acronyms. But it helps to understand each layer of complexity one step at a time.

The first step is to consider marketing due diligence as a three-stage process, as represented in Figure 2. Stage one makes the marketing strategy explicit, which provides the input into stage two. In stage two, the risks associated with the marketing strategy are thoroughly examined. In stage three, risk is evaluated to calculate whether or not the marketing strategy will create shareholder value.

Assessing the risks

In essence, all business plans make three basic assumptions.

1/ The market is this big.
2/ We're going to take this share of the market.
3/ That share will make this much profit.

Each of these assumptions carries a level of risk that it may be wrong, and the combined risk is the business risk.

As simplistic as it appears, this three-part structure of business risk captures all of the hundreds of possible reasons — from fickle customers to aggressive competition to flawed forecasts — why a business plan can fail to deliver what it promised. Thinking of risk assessment in these terms shifts the problem from one of complexity (have we counted all the risks?) to one of rigour (have we accurately assessed each of the three risks?).

Creating financial value

This first step of the marketing due diligence diagnostic process, therefore, should result in an adjusted set of forecast sales revenues, profits and cash flows from the proposed marketing strategy.

The next step is to assess whether these adjusted expected cash flows will enhance shareholder value. You do this by putting them into the context of the capital employed in implementing the marketing strategy and the resulting required rate of return on this capital employed.

The capital employed that you use for this calculation should be the genuine capital that is required in the business in order to implement this marketing strategy. In other words, it should include the value of the relevant intangible assets owned and used by the business and not be limited to the historically based, tangible-asset-oriented balance sheets published by most companies.

The role of successful brands

Until Kraft acquired Cadbury in 2010, one of the most significant acquisitions was that of Gillette by Procter and Gamble in 2005 (see Figure 3). But while the retail and supplier network is shown as being valued at £10 billion, few would dispute the fact that this itself is the result of, not the cause of, successful brands.

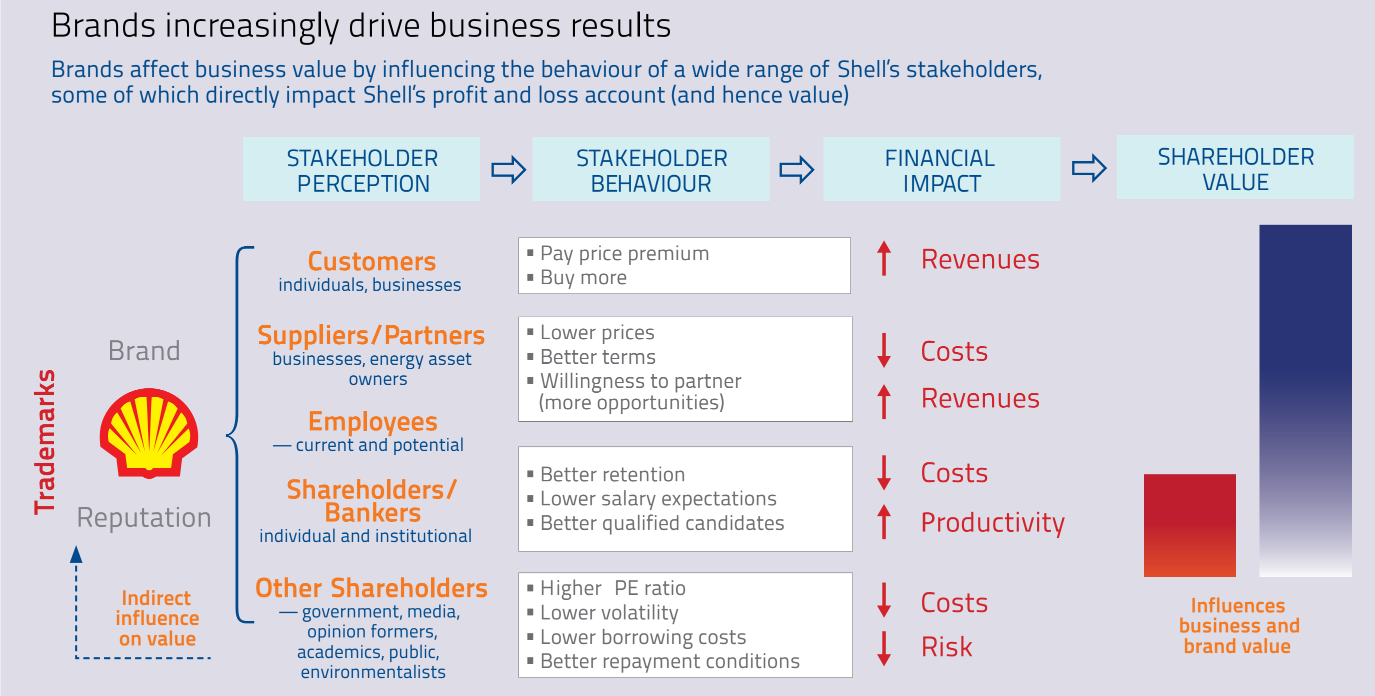
FIGURE 3: THE VALUE OF INTANGIBLES

P&G paid £31 billion for Gillette, but bought only £4 billion of tangible assets.	
Gillette brand	£4.0 billion
Duracell brand	£2.5 billion
Oral B	£2.0 billion
Braun	£1.5 billion
Retailer and supplier network	£10.0 billion
Gillette innovative capability	£7.0 billion
TOTAL	£27.0 billion

The role of brands in growing shareholder value is also illustrated in Figure 4. Based on Shell, the chart shows that brands affect business value by influencing the behaviour of a wide range of stakeholders.

The Shell example raises the question of what constitutes 'a successful brand'. A successful brand is more than a name or symbol on a product, service, person or place. A successful brand creates 'super profits' (another expression for shareholder value added) by providing a superior experience at every touchpoint between a company and its customers, across all channels.

FIGURE 4: BASED ON SHELL, THE CHART SHOWS THAT BRANDS AFFECT BUSINESS VALUE BY INFLUENCING THE BEHAVIOUR OF A WIDE RANGE OF STAKEHOLDERS.



Source: Shell Brands International

Successful brands

- have a clear customer benefit
- make a promise and keep it
- are simple, clear and honest
- have distinctive logos and design
- are widely available
- build trust
- have a price/quality trade off — win/win help consumers make good decisions
- result in higher margins and volumes, innovation and better quality.

By contrast, unsuccessful brands exhibit the following characteristics:

- success led to smugness
- superior margins became the primary purpose
- cut corners/reduced costs
- economical with the truth (may be 'low fat', for instance, but no mention of high sugar content)
- add some gold to the packaging (illusion of quality)
- make decision-making harder
- became the new commodities.

Though growing numbers of organisations recognise the need to differentiate their brands, many totally misunderstand the concept. Great brands do not differentiate for the sake of it. They differentiate around core category benefits, they make the brand famous and distinctive and they make it easy to buy through distribution and penetration.

Brand Finance understands that everything an organisation does and stands for — from research and development through to after-sales service — converges on the proposition that is projected to the customer, and that all of this is represented by the product or corporate brand name. No wonder that more and more organisations are asking us to help them value brands in order to drive greater shareholder value.

Most boards still focus on reporting the financial performance of a business, which makes marketing/brand due diligence critically important to internal audit functions, particularly those in large, multi-business corporations. Owing to the geographic spread and complexity of these large firms, their boards need to be assured of the consistency, accuracy and relevance of the information they receive — particularly for the purpose of critical, strategic investment decisions where the financial justification is based on forecasts of future expected outcomes.

This is also a way for CEOs to hold their marketing directors to account for ensuring that their marketing strategies really do deliver shareholder value.

At a fundamental level, marketing due diligence is very simple. You can never eliminate business risk entirely, but it is possible to reduce it to a practical minimum. The residual risk is identified, located and, most importantly, understood — and this requires an approach that is far from simplistic, relying as it does on the results of many years' research into why businesses succeed and fail.

As with the information gleaned from the black boxes of crashed aircraft, the research allows us to both group the reasons for failure and suggest ways to avoid it. In that sense, marketing/brand due diligence is analogous to pre-flight checks, and carries similar implications for reliability and safety.

Once marketing/brand due diligence becomes a routine process for assessing the strategic decisions of company directors, the flaws it detects and the challenges it highlights may become fewer and more routine. But until then, the process is likely to prove revelatory for many boards.

A Bonanza from the Singapore Budget 2012

As more Singapore companies emerge with significant competitive strengths and expand into international markets, the Singapore Government has further recognised the need to support their growth and establish significant presence in high-growth markets amidst the intensifying competition from foreign companies both in Asia and around the world.

The recent Budget 2012 continues to reflect this sentiment as the Government reveals several measures to assist the expansion of high-potential SMEs. We have highlighted some of these measures below.

Global expansion assistance for SMEs
Cost is a major deterrence against mergers and acquisitions activity for SME companies who traditionally practice frugality. Singapore's Ministry of Finance has acknowledged this and announces strategic initiatives from time to time to assist with M&A related costs.

SME Cash Grant [$320 million]
Recognising that many companies have seen significant cost pressures in the last year, the Government will provide companies with a one-off cash grant, pegged at 5% of their revenues in YA2012, capped at a payout of $5,000. To qualify, the companies must have made CPF contributions to at least one employee. The scheme will cost around $320 million in FY2012 Tax Incentive Schemes for IP Acquisition and Patent Registration.

The Government will continue to provide tax incentives for businesses in all sectors to invest in upgrading their operations and creating new brand value. Currently, companies that incur qualifying costs to acquire IP and develop new patents can qualify for 100% deduction or allowance. Of worthy note, a 'Productivity and Innovation Credit' (PIC) will provide significant tax deductions for SME investments in a number of activities such as the registration of intellectual property (inclusive of patents, trademarks, and designs) and the acquisition of intellectual property, amongst others. This Credit scheme will be available until 2015 and allow SMES to deduct 400% of their expenditures on each of these activities from their taxable income, subject to a cap of enhanced tax deductions at $400,000 of expenditures for each activity.

- Currently, businesses can combine the annual expenditure cap for each category for YA2011 and YA2012. This is further extended such that businesses can combine the annual expenditure cap for YA2013 to YA2015. This means that businesses can claim 400% tax deduction on up to $800,000 expenditure per category for YA2011 and YA2012 combined; and up to $1,200,000 expenditure per category for YA2013 to YA2015 combined.
- PIC benefits can now be claimed for expenditure on R&D done abroad, in addition to spending on R&D done in Singapore.

Enterprise Development Fund
The Government had commit $850 million in the 2011 budget as part of the Enterprise Development Fund (EDF) over the next five years, to be administered by SPRING Singapore and IE Singapore. This was a substantial increase of about 45% from the previous five-year tranche. One of the priorities of the EDF is to help high-growth enterprises in their overseas expansion.

Foreign Tax Credit Pooling
To support businesses that are globalising and earning a larger share of their income overseas, the Government had announced foreign tax credit pooling to facilitate remittance of foreign income to businesses' Singapore bases. Such pooling will give businesses greater flexibility in the use of their foreign tax credits, reduce their tax payable, as well as simplify tax compliance. This measure is effective for YA2012.

Merger and Acquisition Scheme
In this volatile world, political risk insurance will reassure some entrepreneurs and introducing a 200% tax allowance on the transaction costs of mergers and acquisitions will help some companies take on the challenges of growing through non-organic means. The Government is supporting companies who are prepared to take risks on the journey to success.

A project finance company (PFC) will be established by a consortium of financial institutions led by Temasek Holdings to plug gaps in financing for larger, long-tenure cross-border projects. The Government will guarantee the debt instruments issued by the PFC. At steady state, the PFC is expected to provide about $400 million of financing every year, in turn catalysing about $2-$3 billion of projects annually.

The Merger and Acquisition ("M&A") Scheme provides for M&A allowance and stamp duty relief on qualifying M&A completed from 1 April 2010 to 31 March 2015. The maximum amount of M&A allowance claimable is $5 million (5% of purchase consideration of up to S$100 million) for all qualifying M&A executed per YA. There is no tax relief for the M&A transaction costs incurred.

The M&A allowance is granted over five years on a straight line basis and cannot be deferred.

The M&A Scheme will be enhanced to grant a 200% tax allowance on the transaction costs incurred for qualifying M&A, subject to an expenditure cap of $100,000 per YA. The allowance will be written down in one year.

The Role of Brands in Driving Enterprise Value

Brands create value by shifting both the demand and supply curves. On the demand side they influence consumer behaviour leading to greater trial, improved frequency of use, increased loyalty and a willingness to pay a price premium. On the supply side, strong brands can attract better talent, influence terms of trade, and even reduce the cost of capital.

An understanding of brand value is essential to various decision-makers in various ways:

- Brand managers need to understand how brands influence consumer perceptions and behavior in order to develop strategies that optimise market performance and brand value.
- Finance managers are faced with impairment risks as well as transfer pricing considerations that require an understanding of intangible asset values. They also play a role in protecting brand value by maintaining adequate levels of brand investment in bad and good times.
- Deal makers increasingly need to gauge the investment value and value potential of brands in assessing the merits of a transaction.

Chinese Puzzle

Branding
by Rupert Purser

The Chinese passion for brands sounds like good news for branded goods businesses wanting to expand in the region. But despite the abundant opportunities, it's a path that companies need to tread with care. Rupert Purser explains.

China has come a long way in A short time. During the Cultural Revolution general consumer choice was almost non-existent; products of state-owned factories were the only mainstream goods available. But since the Communist Party redefined the country's economic and social system in 1978 as 'socialism with Chinese characteristics' or 'market socialism' choice has exploded, and Chinese consumers in the 21st century live in a heavily branded marketplace.

Ten minutes in a Chinese shopping mall or train station, where advertisements for everything from Japanese watches and French clothing to British cars adorn the walls, is enough to demonstrate how firmly commercial branding has taken hold. Major brands including Johnson and Johnson and China Mobile sponsored the 2008 Beijing Olympics.

Nevertheless, China has traditionally been seen more as a threat than as an opportunity for strongly-branded international companies. Beijing may have two official Prada stores but it also has a hundred streets where you can

"Many Chinese consumers seek out foreign branded products wherever possible — especially those manufactured outside China"

pick up a 'Prada' bag for a handful of RMB (Renminbi, the Chinese currency). Despite the protestations of the men selling these "authentic, good quality bags," it is unlikely that Milan is seeing any return from the vast majority of 'Prada' bags sold in China.

'Inconsistent' is the most charitable definition of the Chinese government's position on piracy and fake goods: it has made very little attempt to stamp out China's huge fake goods industry. The recent discovery of several fake Apple Stores in Kunming, the capital and largest city of Yunnan Province in south-west China, indicates the scale of the problem. Employees themselves genuinely believed they were working for Apple.

Entire factories in Shenzhen are devoted to producing rip-off 'Louis Vuitton', 'Burberry' and 'Nokia' products. The Asia Business Council estimates the contribution of the counterfeit goods sector in China to be as high as eight per cent of GDP. And while many of these goods are exported, there is a strong demand within China for products that consumers know to be falsely branded.

The reason for the strong appetite for brands — even fake brands — is that in the highly capitalist and increasingly status-conscious society of modernday China, consumers see them as a way of demonstrating wealth and conferring prestige. According to market research company TNS, 60 per cent of the Chinese consumers that it polled said that they use luxury goods to demonstrate social status, and 65 per cent described people who own luxury goods as 'successful'.

Can international companies profit from the Chinese passion for branded products if their brands are going to be copied by low-cost Chinese producers?

The flight to authenticity

China will always have a market for $10 fakes. But there is a growing recognition among the Chinese middle class that branded products can't denote social status when everyone owns the same knock-off goods. A fake Gucci bag counts for nothing if everyone has one. So wealthier Chinese consumers are now differentiating themselves by seeking out authentic brands.

The rise of websites and retail outlets selling second-hand branded handbags, jewellery and designer clothing, such as the Japanese chain Brand Off in Hong Kong and Shanghai, and Milan Station in Hong Kong, are evidence of this trend. Chinese tourists queuing outside luxury goods stores in Paris and Rome for branded products, copies of which they could buy at home for one-hundredth the price, are another sign of this flight to authenticity.

This shift presents a real opportunity for branded goods manufacturers, particularly those with expensive brands. The Chinese middle class, already a driving force in the world economy, is burgeoning, and Western companies able to build strong brand equity among this important demographic will reap dividends.

Foreign brands in China

But the Chinese predilection for Western brands, which they perceive to be of superior quality to their Chinese equivalents, applies to everyday items as much as it does to luxury goods. Chinese businessmen favour Italian suits and French cologne, but demand is also high for French milk and British vegetables.

For many wealthy Chinese, 'Made in China' still carries associations with variable health, safety and quality control standards — a concern that a recent series of safety scandals has done nothing to allay. The one that made the biggest splash in the Western press was the contamination of milk with melamine in 2008, which poisoned 300,000 babies, killing eight of them. In 2011, the authorities discovered that a lot of pork in Hunan province was contaminated with the illegal steroid clenbuterol. Outside the food industry Chinese producers of rabies vaccines, toys, lead paint and condoms have been rocked by allegations that faulty products posed a threat to consumers.

Such scandals have led many Chinese consumers to seek out foreign branded products wherever possible — especially those manufactured outside China. It seems ironic that that they are growing wealthier on the back of surging exports of products that they refuse to buy themselves. But this openness to Western goods is a golden opportunity for Western companies.

CHINA FAST FACTS

The GDP of China grew

9.2%

last year to reach around $7trn, according to the National Bureau of Statistics.

In 2010 China became the world's largest exporter, with exports in 2011 estimated to be

1.9trn

China's population was

1.34bn

in 2010, according to the National Census.

We at Brand Finance's Hong Kong office believe that the automotive and personal banking sectors afford the strongest growth potential for international brands in China. Both sectors have strong Chinese brands, yet both also appeal to the wealthy Chinese consumers who prefer foreign goods and services. The government is unlikely to allow Western banks to challenge the position of the Chinese 'Big Four' banks, but more niche private wealth management and personal banking services could find it relatively easy to expand in China. Companies that can position their brands as being trusted and respected in a sector in which foreign expertise or quality is valued are well placed to capture a slice of the Chinese consumer market.

But while Chinese consumers may be more open to Western products than their counterparts in Japan or Korea, they are also more political. And because foreign brands in China trade heavily on the reputation of their country of origin, they are strongly affected by swings in Chinese popular opinion. So, for example, the Chinese boycotted Citroën and Carrefour after pro-Tibetan protests in Paris during the 2008 Olympic torch relay through the city. Some reports estimate that sales of French cars in China fell by 25 per cent during the Olympics, and there were mass protests outside Carrefour hypermarkets.

It seems that Chinese consumers are as aware of foreign politics as they are of foreign brands — but these boycotts also underline the vulnerability of foreign brands in China to forces outside their control. Even more significantly, the boycotts demonstrate that Chinese consumers don't passively accept Western brands, but are active participants in a process that is changing how branding works worldwide.

Chinese acquisition of foreign brands
Perhaps the most visible manifestation of China's impact on global brands is the increasing number of Western brands being snapped up by Chinese companies. Attempted Chinese takeovers of US oil firm Unocal in 1995 and US digital electronics manufacturer 3Com two years later failed in the face of Western political opposition to Chinese control of 'strategic industries'. But the number of foreign acquisitions by Chinese firms is accelerating. Buyers have easy access to credit from domestic banks, and there is a growing array of troubled Western companies looking for big-spending foreign saviours. Western brands pass into Chinese hands on an increasingly frequent basis.

"While Chinese consumers may be more open to Western products than their counterparts in Japan or Korea, they are also more political"

One of the highest-profile Chinese takeovers was that of Volvo Cars by Zhejiang Geely Holding Group in 2010. There were similarities with Lenovo's 2005 acquisition of IBM's ThinkPad line of personal computers. Geely Automobile and Volvo Cars will continue to operate as separate brands, in China and abroad, much as Volvo used to operate within the Ford family of brands. The two car brands won't be

BRANDFINANCE® TOP 10 CHINESE BRANDS

Rank 2012	Rank 2011	Brand	Industry Group	Domicile	Brand Value ($m) 2012	Brand Rating 2012	Brand Value ($m) 2011	Brand Rating 2011
1	1	China Mobile	Telecoms	Hong Kong	17,919	AA	19,317	AA
2	3	China Construction Bank	Banks	China	15,464	AA	17,092	AA
3	2	ICBC	Banks	China	15,164	AA+	17,194	AA
4	4	Bank of China	Banks	China	12,857	AA-	13,257	AA+
5	7	PetroChina	Oil and Gas	China	10,491	AA	8,031	AA
6	5	Agricultural Bank of China	Banks	China	9,929	A+	9,283	A+
7	6	China Life	Insurance	China	8,600	AA	9,212	AA-
8	9	Sinopec	Oil and Gas	China	8,127	A-	7,135	BBB
9	10	China Unicorn	Telecoms	Hong Kong	7,944	A+	6,315	A+
10	8	China Telecom	Telecoms	China	7,357	AA-	7,261	AA-

Source: Brand Finance

officially merged, but we believe that the acquisition will enhance the Geely brand in China because of the halo effect that the international and well designed Volvo brand will have on the traditionally quite downmarket Geely. Volvo, meanwhile, will benefit from wider distribution.

The desire of Zhejiang Geely Holding Group to use a traditionally Swedish brand to sell cars in China shows the important role that brands play in Chinese acquisitions of overseas companies. Chinese companies actively seek international brands, not only to increase their presence abroad, but also to improve their market position at home. The trend is most pronounced in the fashion industry, where several Chinese companies have bought near extinct foreign brands to sell only within China.

Hong Kong-based Trinity Limited bought the ailing British menswear brand Kent and Curwen in 2008, and now runs over 80 Kent and Curwen stores in mainland China, all of them trading on the company's British heritage and 1920s aesthetic. The company has just one store in Britain. Another Hong Kong investor has followed the same model with British trench-coat maker Aquascutum, which is now sold across China decades after losing market share in its home market. While Chinese acquisitions abroad are often portrayed as attempts by Chinese companies to gain control of natural resources or advanced technology, many are in fact motivated by a desire to capture Western brand names — to enhance the buyers' domestic standing as much as to boost exports. The Kent and Curwen brand commands a price premium in China — despite its Hong Kong ownership.

The future of Chinese brands

The next strategic branding challenge facing Chinese firms will be to build indigenous brands that can compete globally. Despite the much-vaunted 'rise of China' only a small percentage of Americans or Europeans can name a single Chinese brand. Technology company Lenovo, beer maker Tsingtao and appliance maker Haier are the most frequently cited, but none are wellknown outside China. By contrast, the comparatively tiny South Korea has a host of well-known brands, including Samsung, Hyundai and Kia, while the mobile phone manufacturer HTC, from Mandarin-speaking Taiwan, is an increasingly well-known name. China overtook Japan last year to become the world's second-largest economy, but where is the Chinese equivalent of Toyota or Sony?

The simple answer is: wait and see. Japan's Datsun (now Nissan) and South Korea's Hyundai both started out selling weakly-branded cars that sold on price, but both are now established global brands featuring on the BrandFinance Global 500 list of the world's most powerful brands. As China moves up the value chain and produces more complex and high-quality goods its companies too will begin to build global brands. Taiwan's HTC, which also started off as a low-cost manufacturer, has now established itself as a leading producer of top-level Android smart phones.

Perhaps the Chinese company best placed to make this transition is information communications technology (ICT) firm Huawei. The Shenzhen-based giant is the world's second largest ICT company and operates in 140 countries, and while it still sells largely on price, it represents the next generation of global Chinese firms. Its name can be translated as either 'Magnificent Ability' or 'China is Able', and it is the first privately owned Chinese business to make a big impression on the world market. If Huawei and other Chinese companies that are producing increasingly sophisticated and high-quality goods

PROJECTED GROWTH OF POPULATION IN CHINA (BILLION)

	United Nations (estimate 2010)	US Census Bureau (estimate 2010)
2020	1.38	1.38
2030	1.39	1.39
2040	1.36	1.35
2050	1.29	1.30

"Chinese companies actively seek international brands, not only to increase their presence abroad, but also to improve their market position at home"

The Kent and Curwen brand commands a price premium in China

manage their brands skilfully there is no reason why they should not follow their Japanese predecessors in making them globally respected.

It may be some time before indigenous Chinese brands build up strong brand equity abroad, but they are starting to establish leading positions in their domestic market. A few Chinese brands are already chipping away at the perception of Western superiority, one example being the recently launched Shang Xia. Though owned by French fashion house Hermès, the Shanghai based boutique promises "a unique encounter with the heritage of Chinese design and craftsmanship." Describing itself as "for art of living", the brand follows in the footsteps of Shanghai Tang, a Hong Kong-based chain of department stores that markets itself as "the first and leading luxury lifestyle brand emerging from China," and is now owned by the Swiss luxury group Richemont. The rise of luxury firms that are enthusiastically Chinese in their branding — if not in their ownership — indicates the growing, if incipient, demand for distinctively Chinese branding.

So clearly, while there is a window of opportunity for Western companies to capitalise on the Chinese appetite for foreign brands, they should not assume that 'European' will always denote quality to the growing numbers of increasingly patriotic and increasingly wealthy Chinese consumers.

"It may be some time before indigenous Chinese brands build up strong brand equity abroad, but they are starting to establish leading positions in their domestic market"

CHINA'S BRAND VALUE

	2011	2010
Brand value ($bn)	3,001	2,137
Change in brand value	+40%	+30%
Infrastructure and efficiency rating	A-	BBB
Brand equity rating	A	A
Economics rating	AA	AA+
Total brand rating	A+	A+
Position on Nation Brand League table	3	4

BrandFinance® Nation Brands 100, November 2011

Methodology

New International Standard on Brand Valuation

David Haigh, CEO, Brand Finance plc

In 2007, the International Organization for Standardization ('ISO'), a worldwide federation of national standard setting bodies, set up a task force to draft an International Standard ('IS') on monetary brand valuation.

After 3 years of discussion and deliberation ISO10668 – Monetary Brand Valuation – will be released in early 2010. This sets out the principles which should be adopted when valuing any brand.

The new IS applies to brand valuations commissioned for all purposes, including:

- Accounting and financial reporting
- Insolvency and liquidation
- Tax planning and compliance
- Litigation support and dispute resolution
- Corporate finance and fundraising
- Licensing and joint venture negotiation
- Internal management information and reporting
- Strategic planning and brand management

The last of these applications includes:

- Brand and marketing budget determination
- Brand portfolio review
- Brand architecture analysis
- Brand extension planning

Under IS 10668 the brand valuer must declare the purpose of the valuation as this affects the premise or basis of value, the valuation assumptions used and the ultimate valuation opinion, all of which need to be transparent to a user of the final brand valuation report.

Required work streams in an ISO compliant brand valuation?
IS 10668 is a 'meta standard' which succinctly specifies the principles to be followed and the types of work to be conducted in any brand valuation. It is a summary of existing best practice and intentionally avoids detailed methodological work steps and requirements.

As such IS 10668 applies to all proprietary and non-proprietary brand valuation approaches and methodologies that have been developed over the years, so long as they follow the fundamental principles specified in the meta standard.

IS 10668 specifies that when conducting a brand valuation the brand valuer must conduct 3 types of analysis before passing an opinion on the brand's value.

These are Legal, Behavioural and Financial analysis. All three types of analysis are required to arrive at a thorough brand valuation opinion. This requirement applies to valuations of existing brands, new brands and extended brands.

Module 1 - Legal Analysis
The first requirement is to define what is meant by 'brand' and which intangible assets should be included in the brand valuation opinion.

IS 10668 begins by defining Trademarks in conventional terms but it also refers to other Intangible Assets ('IA') including Intellectual Property Rights ('IPR') which are often included in broader definitions of 'brand'.

International Financial Reporting Standard ('IFRS') specifies how all acquired assets should be defined, valued and accounted for post-acquisition. It refers to five specific IA types which can be separated from residual Goodwill arising on acquisition.

These are: technological, customer, contractual, artistic and marketing related IA.

IS 10668 mirrors this classification by defining brands as marketing related IA, including trademarks and other associated IPR. This refers inter alia to design rights, domain names, copyrights and other marketing related IA and IPR which may be included in a broader definition of 'brand'.

The brand valuer must precisely determine the bundle of IA and IPR included in the definition of 'brand' subject to valuation. He may include names, terms, signs, symbols, logos, designs, domains or other related IPR intended to identify goods and services and which create distinctive images and associations in the minds of stakeholders, generating economic benefits for the branded business.

The brand valuer is required to assess the legal protection afforded to the brand by identifying each of the legal rights that protect it, the legal owner of each relevant legal right and the legal parameters influencing negatively or positively the value of the brand.

It is vital that the brand valuation includes an assessment of the legal protection afforded to the brand in each geographical jurisdiction and product or service registration category. These legal rights vary between legal systems and need to be carefully considered when forming the brand valuation opinion. For example, the legal rights protecting brands exist at a national (UK), supra-national (EU) and global (WIPO) level and have different characteristics.

Extensive due diligence and risk analysis is required in the Legal analysis module of an IS 10668 compliant brand valuation. It should be noted that the Legal analysis must be segmented by type of IPR, territory and business category.

The brand valuation opinion may be affected positively or negatively by the distinctiveness, scope of use or registration (territory and business category), extent of use, notoriety of the brand, risk of cancellation, priority, dilution and the ability of the brand owner to enforce such legal rights.

Module 2 - Behavioural Analysis
The second requirement when valuing brands under IS 10668 is a thorough behavioural analysis. The brand valuer must understand and form an opinion on likely stakeholder behaviour in each of the geographical, product and customer segments in which the subject brand operates.

To do this, it is necessary to understand:

- Market size and trends – determined by conducting a critical review of predicted trends in distribution channels, customer demographics, market volumes, values and margins
- Contribution of brand to the purchase decision – determining the monetary brand contribution in the geographical, product and customer segments under review
- Attitude of all stakeholder groups to the brand – to assess the long term demand for the brand, any risks to the branded business and the appropriate cost of capital
- All economic benefits conferred on the branded business by the brand – to assess the sustainability of future revenues and profits

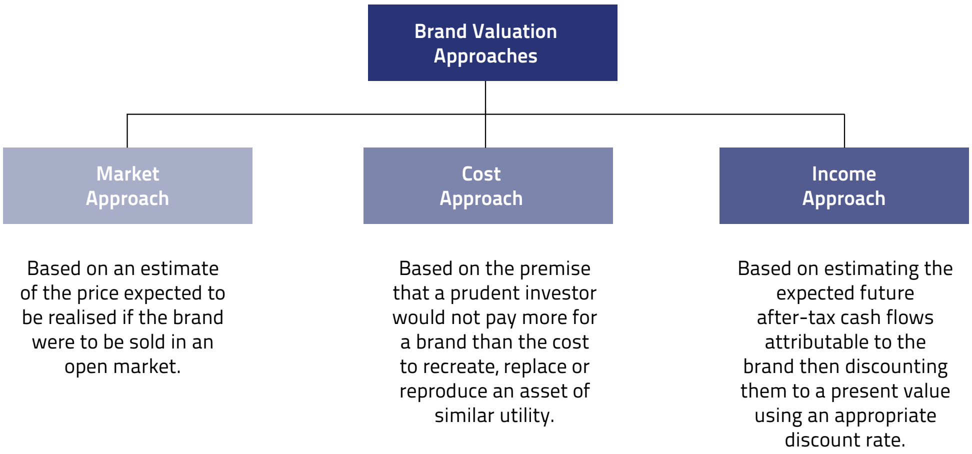
The brand valuer needs to research brand value drivers, including an evaluation of relevant stakeholders' perceptions of the brand in comparison with competitor brands. Measures commonly used to understand brand strength include awareness, perceptual attributes, knowledge, attitude and loyalty. The brand valuer needs to assess the brand's strength in order to estimate future sales volumes, revenues and risks.

Module 3 - Financial Analysis
The third requirement when valuing brands under IS 10668 is a thorough financial analysis.

IS 10668 specifies three alternative brand valuation approaches – the Market, Cost and Income Approaches. The purpose of the brand valuation, the premise or basis of value and the characteristics of the subject brand dictate which primary approach should be used to calculate its value.

- **Market approach**

The market approach measures value by reference to what other purchasers in the market have paid for similar assets to those



being valued. The application of a market approach results in an estimate of the price expected to be realised if the brand were to be sold in the open market. Data on the price paid for comparable brands is collected and adjustments are made to compensate for differences between those brands and the brand under review.

As brands are unique and it is often hard to find relevant comparables this is not a widely used approach.

- **Cost approach**

The cost approach measures value by reference to the cost invested in creating, replacing or reproducing the brand. This approach is based on the premise that a prudent investor would not pay more for a brand than the cost to recreate, replace or reproduce an asset of similar utility.

As the value of brands seldom equates to the costs invested creating them (or hypothetically replacing or reproducing them), this is not a widely used approach.

- **Income approach**

The income approach measures value by reference to the economic benefits expected to be received over the remaining useful economic life of the brand. This involves estimating the expected future, after-tax cash flows attributable to the brand then discounting them to a present value using an appropriate discount rate.

As the value of brands stems from their ability to generate higher profits for either their existing or potential new owners, this is the most widely accepted and utilised brand valuation approach.

When conducting a brand valuation using the income approach, various methods are suggested by IS 10668 to determine future cash flows.

- **Royalty Relief method**

This is the most widely used method used to determine brand cash flows. This method assumes that the brand is not owned by the branded business but is licensed in from a third party. The value is deemed to be the present value of the royalty payments saved by virtue of owning the brand.

The royalty rate applied in the valuation is determined after an in-depth analysis of available data from licensing arrangements for comparable brands and an appropriate split of brand earnings between licensor and licensee, using behavioural and business analysis.

The Royalty Relief method is widely used because it is grounded in commercial reality and can be benchmarked against real world transactions.

Price Premium and Volume Premium methods

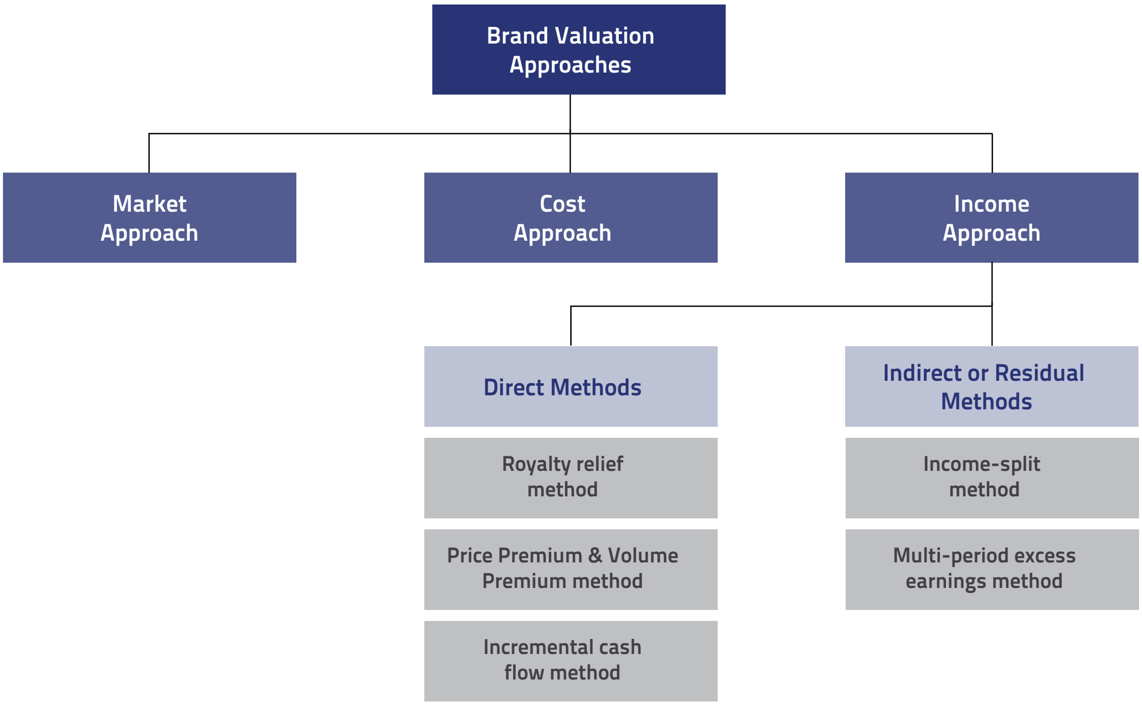
The Price Premium method estimates the value of a brand by reference to the price premium it commands over unbranded, weakly branded or generic products or services. In practice it is often difficult to identify unbranded comparators. To identify the full impact on demand created by a brand the Price Premium method is typically used in conjunction with the Volume Premium method.

The Volume Premium method estimates the value of a brand by reference to the volume premium that it generates. Additional cash flows generated through a volume premium are determined by reference to an analysis of relative market shares. The additional cash flow generated by an above average brand is deemed to be the cash flow related to its 'excess' market share. In determining relevant volume premiums, the valuer has to consider other factors which may explain a dominant market share, such as legislation which establishes a monopoly position for one brand.

Taken together, the Price Premium and Volume Premium methods provide a useful insight into the value a brand adds to revenue drivers in the business model. Other methods go further to explain the value impact of brands on revenue and cost drivers.

- **Income-split method**

The income-split method starts with net operating profits and deducts a charge for total tangible capital employed in the branded business, to arrive at 'economic profits' attributable to total intangible capital employed. Behavioural analysis is then used to identify the percentage contribution of brand to these intangible economic profits. The same analysis can be used to



determine the percentage contribution of other intangible assets such as patents or technology. The value of the brand is deemed to be the present value of the percentage of future intangible economic profits attributable to the brand.

- **Multi-period excess earnings method**

The multi-period excess earnings method is similar to the income-split method. However, in this case the brand valuer first values each tangible and intangible asset employed in the branded business (other than the brand). He uses a variety of valuation approaches and methods depending on what is considered most appropriate to each specific asset.

Having arrived at the value of all other tangible and intangible assets employed in the branded business, a charge is then made against earnings for each of these assets, leaving residual earnings attributable to the brand alone. The brand value is deemed to be the present value of all such residual earnings over the remaining useful economic life of the brand.

- **Incremental cash flow method**

The incremental cash flow method identifies all cash flows generated by the brand in a business, by comparison with comparable businesses with no such brand. Cash flows are generated through both increased revenues and reduced costs.

This is a more detailed and complex approach which tends not to be used in technical brand valuations but is extremely useful for strategic, commercial purposes such as when Virgin negotiates a new brand license with a new licensee. The incremental value added to the licensee's business form's the starting point for the negotiation.

- **Discount rate determination**

Under the income approach, risks that are not already reflected in future cash flows must be considered in the discount rate.

The discount rate used for discounting future expected cash flows attributable to a brand is usually derived from the Weighted Average Cost of Capital ('WACC') of the business.

How should international brands approach the valuation of existing marks?

IS 10668 was developed to provide a consistent framework for the valuation of local, national and international brands both large and small. The primary concern was to create an approach to brand valuation which was transparent, reconcilable and repeatable. In the wake of the standard's launch, it is expected that many businesses will either value their brands for the first time or revalue them compliant with the standard.

How should companies approach the question of brand diversification versus entrenchment?

Common commercial applications of brand valuation are brand portfolio and brand architecture reviews. The first considers whether the right number of brands and sub-brands are in the portfolio. The second considers whether individual brands are too fragmented and extended.

A good example of both applications at work can be found in Unilever's 'Path to Growth' strategy. In 2000, Niall Fitzgerald announced a plan to increase Unilever's annual revenue growth rate to 5-6% with margins of 16%.

To achieve this, Unilever's 1600 brands were to be valued, reviewed and rationalised down to 400 power brands. The a priori assumption was that many smaller, local brands were sub-optimal and offered slower growth prospects than the global brands. Within 2 years, 1200 under-performing local and regional brands were sold or starved of investment to feed the growth of the 400 global power brands.

In many respects the Unilever policy made sense.
For example, Dove has been turned into a global power brand with diversification into many product lines and market segments, rapid volume growth, and revenues and profits measured in billions of dollars.

However, the strategy sacrificed many new or developing brands in countries like India because they could not be turned into global brands quickly. Local brand owners enthusiastically bought the divested brands or exploited the gap created by starving local Unilever brands of investment.

In this case, internal brand valuation teams were used to evaluate and prioritise the brand portfolio. Unilever is a leading edge company which follows best practices represented by IS 10668. Rationalisation and extension was supported by Legal Analysis to establish the strength and extendibility of its brands. Extensive Behavioural Analysis was applied throughout its portfolio and Financial Analysis was conducted by a cadre of internal marketing finance analysts.

If any mistakes were made, it merely demonstrates that brand valuations are a mechanism for decision making which are driven by data, analysis and assumptions that may prove to be incorrect. The IS standard insists that sensitivity analysis showing a range of values, based on different assumptions, should be included in an opinion, not just a single value.

A brand valuation is an opinion at a point in time. Brand valuation models need to be updated and reviewed on a regular basis, and management decisions need to change in the light of changing conclusions flowing from them.

Brand valuation is a technique to support management, which is why it is vital that the technique should be consistent, transparent and reproducible as required by IS 10668.

How do you value an existing brand, then extend the analysis to measure the positive and negative impact of additional trademarks/brand extensions to the existing business/marks?

Dove is a good example of a Unilever brand which was prioritised in the Path to Growth strategy. It has been extended into many product categories and each extension was rigorously valued.

The Dove brand was launched in the US in 1955, as a cleansing soap bar with moisturising properties, which had been developed to treat burn victims during the Korean war. In 1957, the basic Dove soap bar formula was refined and developed into the "Original Dove Beauty bar". It was launched as a beauty soap, clinically proven to be milder on dry and sensitive skins. In 1979, an independent clinical dermatological study proved Dove "Beauty bar" was milder than 17 leading bar soaps. The phrase "cleansing cream" was replaced with "moisturizer cream" in its marketing materials.

Dove was launched in the UK in the 1990s. In 2001, Dove made its first foray into antiperspirant deodorant lines. Hair care products followed in 2003. Dove was launched in the soap category but has always been positioned without referring to it as "soap". It is always referred to as a "beauty bar" with 25% cleansing cream. Positioning the brand this way has allowed it to extend into antiperspirants, deodorants, body washes, beauty bars, lotions, moisturizers, hair care and facial care products globally. It is now a global brand with a variety of sub-brand ranges (Original, Go Fresh, Intensive Care, Supreme, Summer Care).

To become a global brand, Dove needed wide appeal, across cultural, racial and age boundaries. In 2004, it therefore launched the Campaign for Real Beauty, which highlighted the brand's commitment to broadening definitions of beauty. Dove launched the Self Esteem Fund in 2005, which acts as an agent of change to educate and inspire young girls on a wider definition of beauty. It aims to boost the self-confidence of young girls and women, enabling them to reach their full potential in life. In 2007, Dove also launched Pro*Age, a range of skin care, deodorant and hair care specifically designed for mature skin.

Dove's apparently effortless success makes brand extension look easy. But the Unilever marketing team could have stumbled at many points. They needed a clear and universally appealing brand proposition…simple, natural, caring, feminine, healthy, inclusive, multi-cultural, unpretentious, good value. They then needed a strong and memorable brand name that could be registered and defended in all likely product categories and geographical jurisdictions. They needed defensible sub-brand names. They needed a logo (a simply drawn dove), trade dress (predominantly white packaging), compelling copyright (advertising and collateral) and they needed a compelling trade sales force and campaign.

Having gone global in many SKUs, a valid question now hangs over the Dove brand. Has it reached the limits of its capacity to extend? There is a danger that if Dove is extended any further into fragrance, personal care or household products, its brand equity with consumers will become diluted and confused. Its brand value may decline.

If brands diversify, what challenges does this create for trademark counsel?

Brand valuations following the IS 10668 standard help to alert management to all manners of opportunities and threats. They consider the Legal ability of the brand to win protection in new categories, the financial attractiveness of extending into any new categories, the risks posed by new extensions and above all the Behavioural response of consumers to further brand extension.

Conclusion

A robust brand valuation can help avoid the fate which befell the Pierre Cardin brand, which was extended and diluted to such an extent that over extension is now referred to as 'Cardinisation'. The role of trademark counsel in this process is vital.

- Firstly, to keep up with marketing management keen to extend and extend
- Secondly, to advise whether and how brands and sub-brands can be registered
- Thirdly, providing advice on the cost efficiency of ever extending trademark protection; some global brands find that they have tens of thousands of trademarks which require huge financial and management support. Trademark counsel working within the brand valuation team help to answer the question of whether this is a value enhancing strategy

ISO10668 will help integrate Trademark Counsel into a multi-disciplinary brand management team. Trademark Counsel will no longer be working in their own technical silo.

In my view, ISO10668 is a major breakthrough which will help further professionalise the business of brand management.

Explanation of the Methodology

BrandFinance® uses a discounted cash flow (DCF) technique to discount estimated future royalties, at an appropriate discount rate, to arrive at a net present value (NPV) of the trademark and associated intellectual property: the brand value. The steps in this process are:

1. Obtain brand-specific financial and revenue data. This quantitative data is obtained from Bloomberg, company data sources such as websites and annual reports, investment analyst and industry expert reports, and other publicly available data sources.

2. Determine Market Related Revenue Forecast.
Three forecast periods were used:

- Estimated financial results for 2010 using Institutional Brokers Estimate System (IBES) consensus forecast
- A five-year forecast period (2011-2015), based on three data sources (IBES, historic growth and GDP growth)
- Perpetuity growth, based on a combination of growth expectations (GDP and IBES)

3. Establish the notional royalty rate for each brand portfolio.
Steps in determining the notional Royalty Rate are:

- **Establish a royalty rate range for each sector.** Royalty rate ranges were set for each industry by reference to a review of comparable licensing agreements and industry norms. A review of publicly available licensing agreement indicates the royalty rates set between third parties in arm's length commercial transactions.
- **Compare royalty rates with operating margins in the sector.** Fundamental profitability in each sector influences the determination of royalty rate ranges. This must be taken into account when determining the royalty rate ranges. A 'Rule of Thumb' exists within the licensing industry ('Rule of 25'), which states that, on average, a licensee should expect to pay between 25% and 40% of its expected profits for access to the licensed intellectual property.

  For example, if profit margin is 20%, an appropriate royalty rate should fall between 25% x 20% = 5% and 40% x 20% = 8%. The rule is based on heuristic evidence of a relationship between market royalty rates and margins earned in licensee businesses. Royalty rates may be higher or lower than 25% of profits, depending upon a variety of quantitative and qualitative factors that can and do affect commercial negotiations. When determining royalty rate ranges, the '25% rule' is a useful indicator of what an appropriate royalty rate range might be in each sector.
- **Establish the appropriate royalty rate within the range for each brand portfolio** by calculating brand strength – on a scale of 0 to 100 – according to a number of attributes such as emotional connection, functional performance, and profitability, among others. This is calculated by reference to 'ßrandßeta®' analysis (see Brand Ratings below).

4. Calculate the discount rate specific to each brand, taking account of its size, geographical presence, reputation, gearing and brand rating (see below). The discount rate is calculated using the Weighted Average Cost of Capital (WACC). This takes into account debt costs, equity costs and the debt to equity ratio as well as the brand rating which gives a discount or premium based on the strength of the brand. The principle being that a strong brand should command a lower discount rate in the valuation calculation than a weak one.

5. Discount future royalty stream (explicit forecast and perpetuity periods) to a net present value. The result is the brand value for inclusion in our table. Where enterprise values can be calculated by reference to public market information, the brand value is expressed as a percentage of Enterprise Value (EV).

Brand Ratings

These are calculated using Brand Finance's ßrandßeta® analysis, which benchmarks the strength, risk and future potential of a brand relative to its competitors on a scale ranging from AAA to D. It is conceptually similar to a credit rating.

A Brand Rating:

- Quantifies the strength and performance of the brand being valued
- Provides an indication of the risk attached to future earnings of the brand

The data used to calculate the ratings comes from various sources including Bloomberg, annual reports and Brand Finance research.

Brand Rating Definitions

RATING	DEFINITION
AAA	Extremely Strong
AA	Very Strong
A	Strong
BBB-B	Average
CCC-C	Weak
DDD-D	Failing

The ratings from AA to CCC can be altered by including a plus (+) or minus (-) sign to show their more detailed positioning in comparison with the general rating group.

Valuation Date

All brand values in the report are for the end of the year, 31st December 2011.

Glossary

Brand
Trademarks and trademark licenses together with associated goodwill.

ßrandßeta®
Brand Finance's proprietary method for determining the strength, risk and future potential of a brand relative to its competitor set.

Branded Business
The whole business trading under a particular brand or portfolio of brands, the associated goodwill and all the intangible elements at work within the business.

Brand Rating
A summary opinion, similar to a credit rating, on a brand based on its strength as measured by Brand Finance's 'Brand Strength Index'.

Brand Value
The net present value of the estimated future cash flows attributable to the brand (see Methodology section for more detail).

Discounted Cash Flow (DCF)
A method of evaluating an asset value by estimating future cash flows and taking into consideration the time value of money and risk attributed to the future cash flows.

Discount Rate
The interest rate used in discounting future cash flows.

Enterprise Value
The combined market value of the equity and debt of a business less cash and cash equivalents.

Fair Market Value (FMV)
The price at which a business or assets would change hands between a willing buyer and a willing seller, neither of whom are under compulsion to buy or sell and both having reasonable knowledge of all relevant facts at the time.

Holding Company
A company controlling management and operations in another company or group of other companies.

Intangible Asset
An identifiable non-monetary asset without physical substance.

Net Present Value (NPV)
The present value of an asset's net cash flows (minus any initial investment).

Tangible Value
The fair market value of the monetary and physical assets of a business.

Weighted Average Cost of Capital (WACC)
An average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debts, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure.

About Brand Finance

Brand Finance is the world's leading independent brand and intangible asset valuation firm. We advise organisations across a wide range of sectors on how to maximise shareholder value through effective management of their intangible assets. Headquartered in London, Brand Finance was founded in 1996 and now has offices in eighteen countries. The Singapore subsidiary was established in 2001.

Our services complement and support each other, resulting in an in-depth understanding of intangible assets from financial, consumer and commercial perspectives:

Valuation:

We are an international leader in the field of intangible asset valuation and transfer pricing.

- purchase price allocations and impairment reviews
- financial reporting
- transfer pricing
- litigation

Analytics:

We help companies quantify the return on marketing investment and track brand performance.

- brand investment dashboards
- return on marketing investment
- marketing mix modelling
- benchmarking

Strategy:

We use value-based management and marketing tools to enable management to allocate resources to activities that create the most value.

- scenario modelling and valuation
- brand architecture
- resource allocation and budget setting
- portfolio evaluation and strategy

Transactions:

We help clients extract value from their intellectual property through transactions.

- intellectual property and brand due diligence
- intellectual property structuring
- licensing
- joint venture, mergers, acquisitions, investment and divestment decisions

Brand Finance has worked with many of the world's leading brand owners and branded enterprises. We also advise private equity companies, investment banks, intellectual property lawyers, and tax authorities.

Contact Details

Brand Finance is the leading independent intangible asset valuation and strategy firm, helping companies to manage their brands more intelligently for improved business results.

If you have further enquiries relating to this report or would like our assistance in articulating the study findings for your corporate communications, please contact:

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The brand valuations for Singapore's Top 100 brands follow IVSC guidance but will only comply with ISO 10668 Monetary Brand Valuation Standard when accompanied by detailed Legal and Behavioral Analysis.

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Note

Keeping A Good Name

Brand Governance
by David Hensley

A company's brand and reputation are invaluable assets and need to be guarded carefully, particularly in a volatile business climate. Boards must go beyond lip service and establish robust governance processes for their corporate brands, says Brand Finance managing director David Hensley

"Our brand has little impact on our numbers; it's our distribution channels that make the difference." Senior executive in an insurance company 2011

"We leave it for the experts in our marketing team and our advertising agency to manage our brand." Senior banker 2011

These views are no longer as common as they were a few years ago — or at least the first one isn't. Most CEOs and CFOs would be able to at least pay lip service to the idea that the brand is one of their most valuable assets. Given the publicity that annual brand-value league tables have enjoyed in various business publications over recent years, that's not surprising. Brand Finance's most recent Global 100 brand league table was picked up in 749 different publications around the world in the first week after it was launched.

But the second quote remains true for many organisations. Brand management is typically a function that sits in marketing, or marketing communications, or, less frequently, public affairs.

We believe that the corporate brand is too important to be delegated down the organisation. The corporate brand reputation doesn't help to attract just customers, but employees, business partners and investors too. It affects all parts of the business.

Similarly, the brand's reputation is the product of more than just marketing communications. Actions by any part of the business can help to grow — or destroy — corporate brand reputation. In an age where reputation is increasingly influenced by recommendations and revelations in social media, every action or comment by an employee, whether in the call centre or the pub, can potentially increase or destroy brand value. If all of these actions and communications are co-ordinated you can build a strong, coherent brand reputation they aren't, then your brand image will be fragmented, inconsistent and at risk.

Brand equity is the set of perceptions that sit in people's minds about the brand, perceptions that affect their attitudes and behaviours. Whether someone chooses to buy your product or service rather than a competitor's, or to invest in your shares, or to come and work for you, is in part determined by their concept of your corporate brand. Is your company seen as a reliable, or innovative, or friendly, or low-cost sort of organisation?

The corporate brand may be worth millions, if not billions, of pounds, Euros or dollars. Brand value typically amounts to between 10 per cent and 30 per cent of market capitalisation, but can be more for extremely strong brands. (See Chart 1 overleaf). The brand asset is a trademark, which must be protected and has real value — it could be licensed out or sold. This value can today be calculated by reliable methods. Brand valuation may have been a mixture of art and imagination two or three decades ago, but now it is a matter of science and accounting, enshrined in international valuation standards: there is even an ISO standard, ISO 10668, just for brand valuation methodology. Indeed such financial valuation is now required for the accounting of acquisitions. In future we

Brand Equity

In our brand valuations, brand equity is one of the elements of brand strength. We measure brand equity by analysing a combination of factors, including the following.

- **Function** – people's perceptions of how good the branded products and services are.
- **Emotion** – how people feel about the brand. We gauge this from research into the image attributes of the brand versus its competitors, assessing these against driver analysis of the attributes most strongly associated with purchase in the category.
- **Conduct** – how well the organisation is seen to be behaving on, for example, environmental, social and governance factors.
- **Loyalty** – how loyal customers are and the net promoter scores.

We analyse each of these factors by reviewing the most comparable market research available to score the brand relative to its peers and competitors. Our brand strength index then combines these with measures of the perceived corporate brand security/risk, and measures of the impact of the brand such as margins and forecast revenue growth.

foresee shareholders demanding to see the brand value published as part of the accounts, and movements in its value explained.

The brand has value because of its impact on the three drivers of corporate value — revenues, costs and risk.

Brand impact on revenues
A strong brand affects revenues.

1/ It increases people's propensity to purchase the products and services associated with it — either because it stands for superior or more reliable quality and so simplifies their rational decision-making, or because they feel some personal emotional attachment to it.

2/ It increases people's willingness to pay a premium for these products and services. They see the brand as a proxy for quality, and assume associated products and services will therefore be functionally superior. Some also believe they derive some personal 'selfexpressive' value from their association with the brand — they feel other people will see them as better or smarter or part of a specific group.

3/ It increases people's readiness to try and to buy new products and services. As such it facilitates successful innovation and growth. Innovation is a safer bet for strong brands like Apple, which can expect to get far greater day one and quarter one sales for an innovative new product, than it is for a company with an unknown or untrusted brand.

Brand impact on costs
A strong brand can reduce costs, relative to the competition.

1/ It increases loyalty, reducing customer churn and, in turn, the cost of acquiring new customers.

2/ It makes it easier to get into distribution channels: you have to pay less of a premium to win a store listing.

3/ It can also reduce staff costs. The kudos of working for a strong brand means such brands often have to pay less than their weaker competitors to attract good people.

CHART 1: BRAND VALUE AS A PERCENTAGE OF MARKET CAPITALISATION ($US)

BRAND	BRAND VAL (Sept 2011)	MARKET CAP (Sept 2011)	BRAND VAL/ MKT CAP (%)
Google	48,278	166,075	29%
Apple	39,301	353,518	11%
Microsoft	39,005	208,535	19%
IBM	35,981	208,843	17%
Wal-Mart	34,997	178,880	20%
Vodafone	30,740	131,784	23%
General Electric	29,060	161,337	18%
Toyota	28,800	120,148	24%
AT&T	28,354	169,010	17%
HSBC	27,100	138,767	20%

So a strong brand can save costs in operations and HR as well as in marketing and sales.

Brand impact on risk
A strong brand, loved by its customers, also reduces risk and increases the security of future income streams. Strong brands, such as Apple or Accenture, can more easily survive a product failure (iPhone4 reception problems) or a brand endorsement that loses favour (Tiger Woods) than a weaker brand. Weaker brands experiencing such problems are less quickly forgiven: reputational damage can be more severe and harder to overcome, as some people will see the problem as indicative of the character of the brand, rather than — as is the case with stronger brands — an uncharacteristic mistake.

Research by Jennifer Aaker and colleagues[1] has shown that the level of forgiveness also depends on what sort of image the brand has. People are more likely to forgive transgressions such as service failure by a brand that is youthful and fun than they are those by a brand that has built its reputation on its professional processes.

So a strong, trusted brand is less susceptible to reputational risk, and should therefore expect to have a more secure future cashflow and a lower beta than weaker brands.

But even strong brands are not immune to reputation crises. Toyota, which had spent many years establishing 'quality, durability and reliability' as its core brand attributes, suffered enormously when reports filled the news across the globe that its cars were capable of unintended acceleration and failing to slow down when the drivers were trying to brake. Toyota implemented a major vehicle recall to make a mechanical modification to the accelerator pedal, and a software update to the braking system.

Over time, having diligently followed up every claim of braking failure or unintended acceleration, they found there was not a single case in the USA that could be proved to be down to the failure of the car's electronic throttle control system.

The Brand Governance Process

How should organisations manage their corporate brand and reputation? There is no one right way. HSBC, Apple and Google are all extremely successful in managing their brands, but their processes are as individual as their cultures.

However, there are some basic principles for good brand governance, and these serve as a useful checklist that CEOs, CFOs and non-executive directors can use to ask how well the brand is being managed in their organisations.

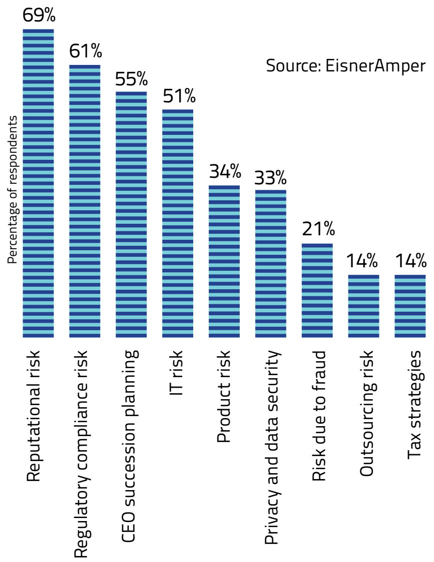
Know the brand's value and what drives it. Understand this at a detailed level, including what factors drive the brand value and how that varies across different customer segments, different geographies and different products and services. Establish a monitoring and reporting system so that the board has regular – say quarterly – updates on how the brand value is growing – or not. It is also useful to show leading indicators, such as social media tracking and net promoter scores, as these will be indicative of future brand value movements.

Ensure that this knowledge is being applied to corporate strategy. It should inform decisions on where to invest in growing the brand, where to milk the brand to maximise the return on this important asset, and where to divest or bring in a partner because the brand does not provide a strong enough platform to build the business on.

Incentivise senior executives and the board to grow the value of the brand. Include brand value growth and relative brand value performance in performance objectives or as a vesting criterion in a long-term incentive plan.

CHART 2: PERCEIVED RISK

Aside from financial risk, which of the following areas of risk management are most important to your boards?



Various other factors were discovered, such as the habit of some American drivers to replace their floor mats each year, placing new ones on top of the old, until the pile of carpet could catch the accelerator pedal, but these were hardly Toyota's fault. Its reputation as a producer of high quality cars is restored, but it will never recover the sales it lost when the issue was front-page news.

A recent study by EisnerAmper[2] into the attitudes of boards of directors to risk showed that boards rank reputational risk second only to financial risk: 69 per cent of them identified reputational risk as their primary concern (after financial risk).

However, most boards that we talk to still don't have integrated measures to track their corporate reputations and brand value on anything more than an annual basis. In today's economically pressurised times, with public scrutiny at higher levels than ever, it is surprising that the corporate governance of brand value is not a greater priority for activist investors.

True, there are some leading global organisations that pay great attention to their brand. HSBC, the world's most valuable banking brand, according to the September 2011 BrandFinance Global 100 league table, is a prime example: the bank even includes brand equity as an element in its senior executives' long-term incentive plan.

But there are many others that don't. Indeed, a European insurance company told me recently that it wanted to use its brand value ranking — but purely for public affairs purposes, not as part of its management process.

If brand management and governance is so important and straightforward, why don't all companies do it? There are three typical reasons.

1/ It is judged 'too difficult'. Companies aren't aware that brand value can be measured objectively and by internationally recognised standards that will stand up in a court of law.

2/ Many think it is 'unimportant'. They may not appreciate that brands are often more important in business-to-business than consumer markets.

3/ They think they already do it. But most actually only monitor brand value in public affairs for publicity rather than management reasons, and don't see the brand as an essential part of good corporate governance.

But if they don't have an explicit brand value governance process, what will they say to the investors when the next reputational crisis hits their share price?

[1]Aaker, Fourie and Brasel, "When Good Brands Turn Bad", Centre for Responsible Business, UC Berkeley, 2008

[2]EisnerAmper Second Annual Board of Directors Survey, "Concerns about Risks Confronting Boards", May 2011.