

BRANDCAPITALFUND



Brands as a Source of Outperformance

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Edwin de Bruijn

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Suggested Agenda

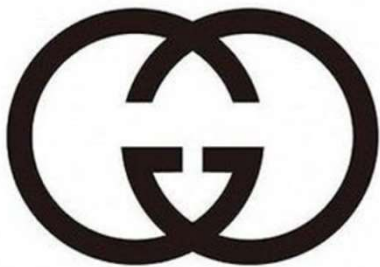
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1. Brand Definition and Brand Management

What is a Brand?

- “The intangible sum of a product’s attributes.” *David Ogilvy*
- “A person’s perception of a product, service, experience, or organization”. *Dictionary of Brand*
- “An associative memory in the brain of the consumer, who connects –or associate– the brand with a set of brand attributes, benefits, impressions or emotions.” *daggetdesign.com*
- “A promise of quality”. *Unilever executive*

GUCCI



TESLA



BOSCH

Brand Management

“The art of marketing is largely the act of brand building. When something is not a brand, it will probably be viewed as a commodity.”

Philip Kotler

“...at which point price becomes the differentiator...and when price is critical, the only winner is the low-cost producer..”

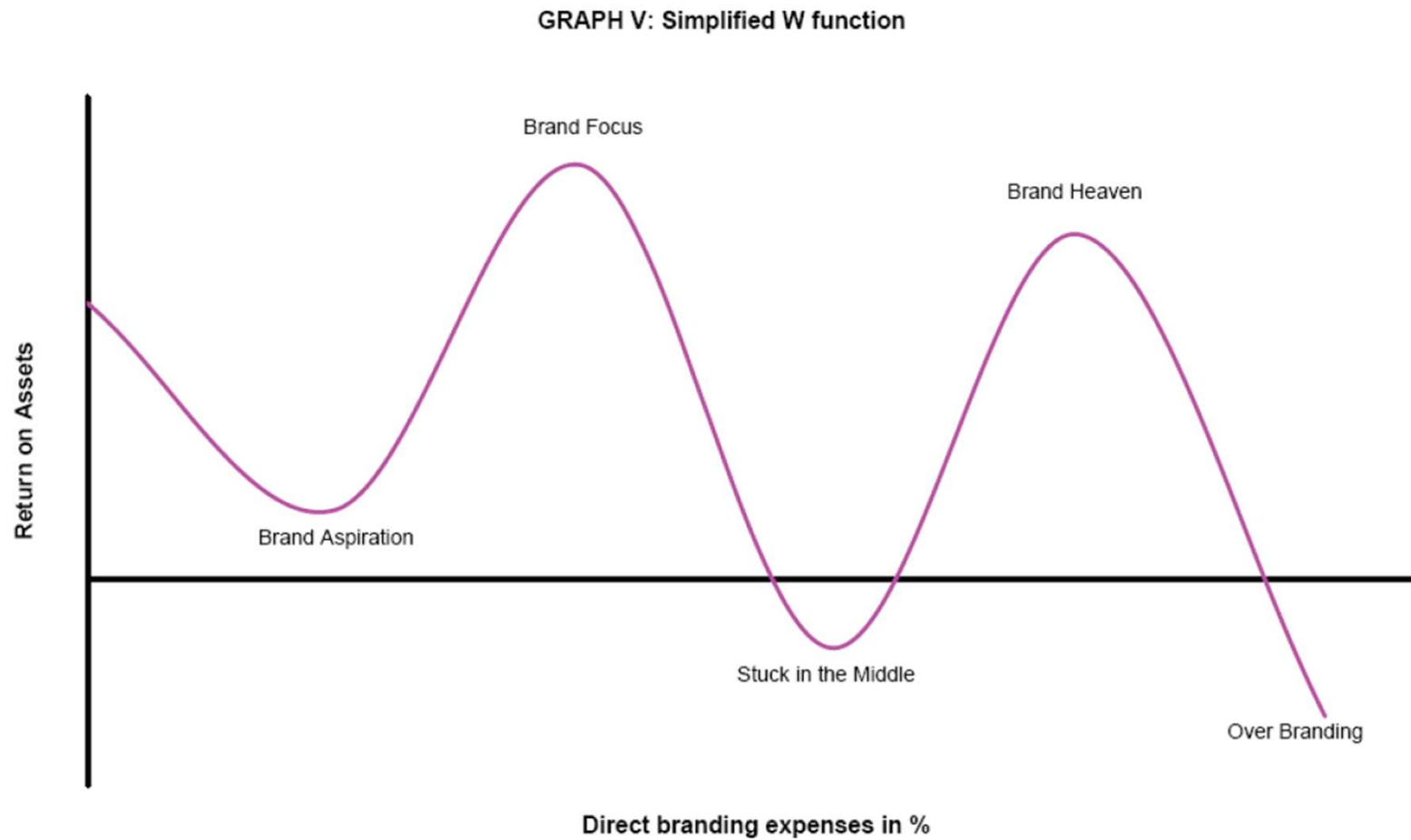


Brand Management

“Most companies and CFOs will tell you that there is an adversarial relationship between finance and marketing. The CFO is viewed as the person who wants to cut the marketing budget, and marketing fails to effectively explain the return on investment for communications.



Brand Management



2. Brand Value

Brand Value

"The monetary premium that results from having customers who are committed to a particular brand and who are willing to pay extra for it"

Can we really separate brand value from market or enterprise value?

- The economic value of a brand is already reflected in operating income.
- Hence, only cash flows matter from an investment point of view.

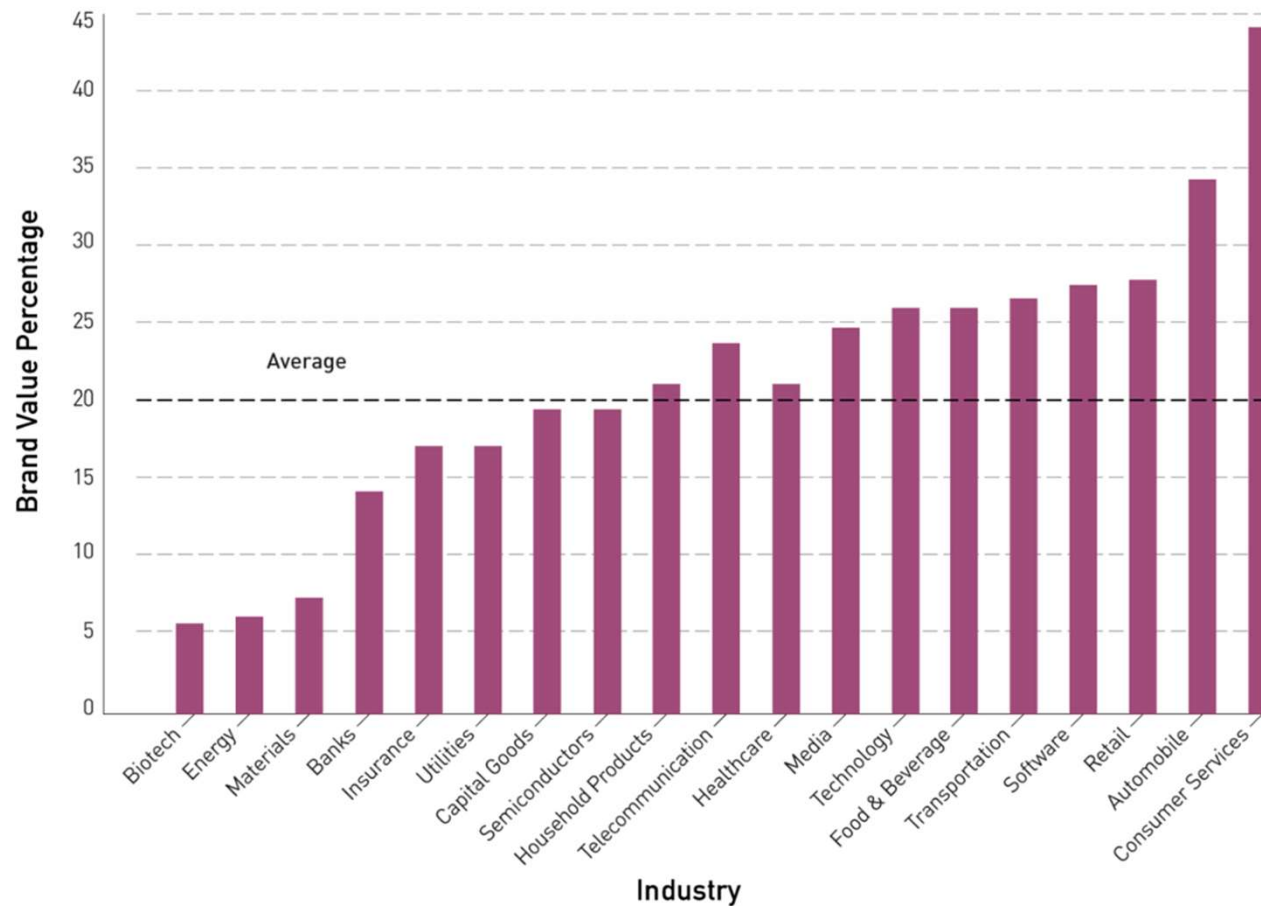
Source: The Manual of Ideas

"If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trade marks, and I would fare better than you."

John Stuart, Chairman of Quaker (ca. 1900)

Brand Value

Brand Value as a Percentage of Market Capitalization by Industry Sector



3. Do Brands Help To Outperform?

Do Brands Help to Outperform? Research Insights

Perspective

Gregor Harter
Alex Koster
Michael Peterson

booz&co.

Managing Brand Value Creation

Brand Thrust: Strategic Brand
An Empirical Reconciliation

Lars

Department of International
Copenhagen

Frederiksberg, October 15, 2009

Advances in Management & Applied Economics, vol. 3, no.6, 2013, 129-141
ISSN: 1792-7544 (print version), 1792-7552(online)
Sciencpress Ltd, 2013

The Impact of Brand Value on Financial Performance

nd Mu Yen Chen¹

nd value and stock performance of
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ocks, Intangible assets, Excess

Taiwan,
2013.

Brands Matter: An Empirical Demonstration of the Creation of Shareholder Value Through Branding

Thomas J. Madden
Frank Fehle
Susan Fournier

“We find that the portfolio of brands identified as strong according to Interbrand’s valuation method displays **statistically and economically significant performance advantages** compared with the overall market.

Madden, T., Fehle, F. and Fournier, S., 2006.

Keywords: shareholder value; brand equity; brand value; portfolio analysis; brand strategy

Corporate attention to branding has increased steadily and significantly since the publication of Aaker’s (1991) seminal work on the power of brands. Although corporate officers now may recognize branding as an important marketing activity, marketing executives still are challenged to substantiate the value of branding in clear financial terms (Doyle 2000; Lehmann 2004). The lack of financial accountability “has undermined marketing’s credibility,

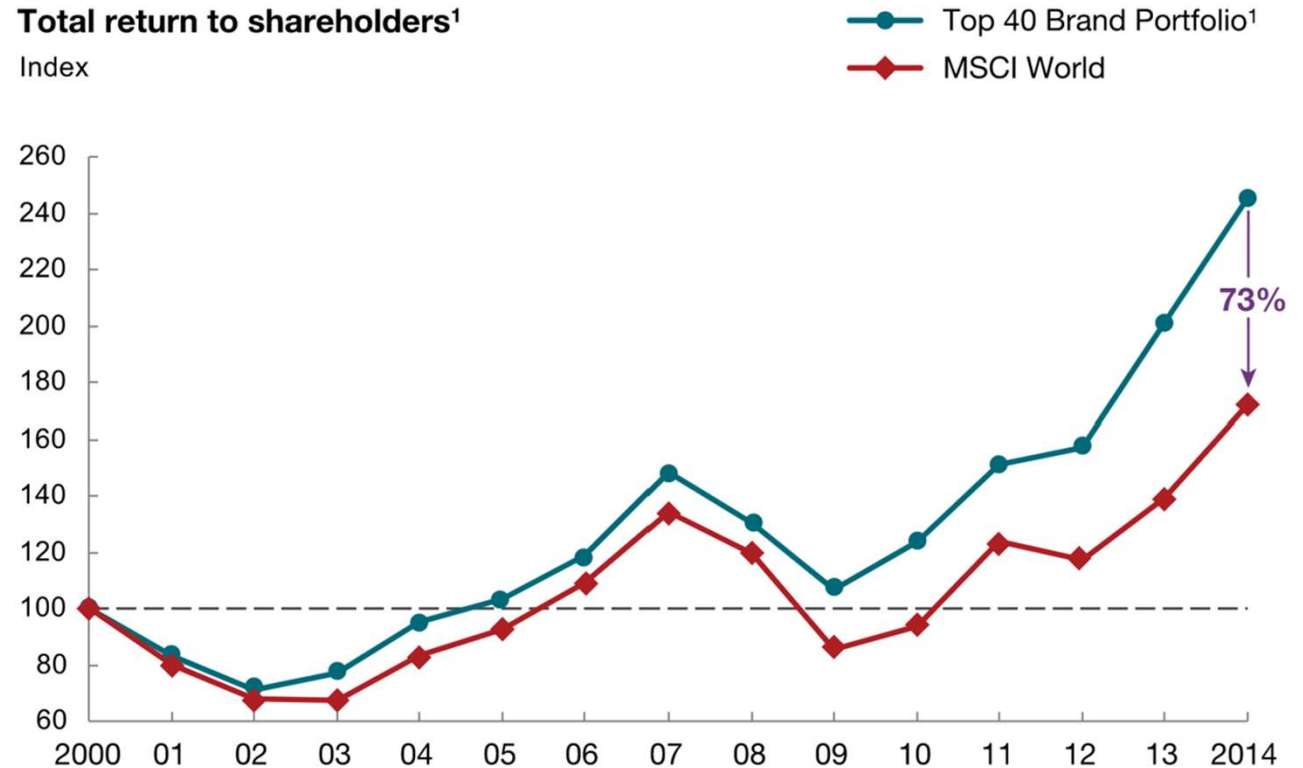
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Do Brands Help to Outperform?

Interbrand reported that a strong corporate brand could add 5% to 7% to a company's stock price in a bull market, and mitigate losses in a down market (Parkhurst 2002).

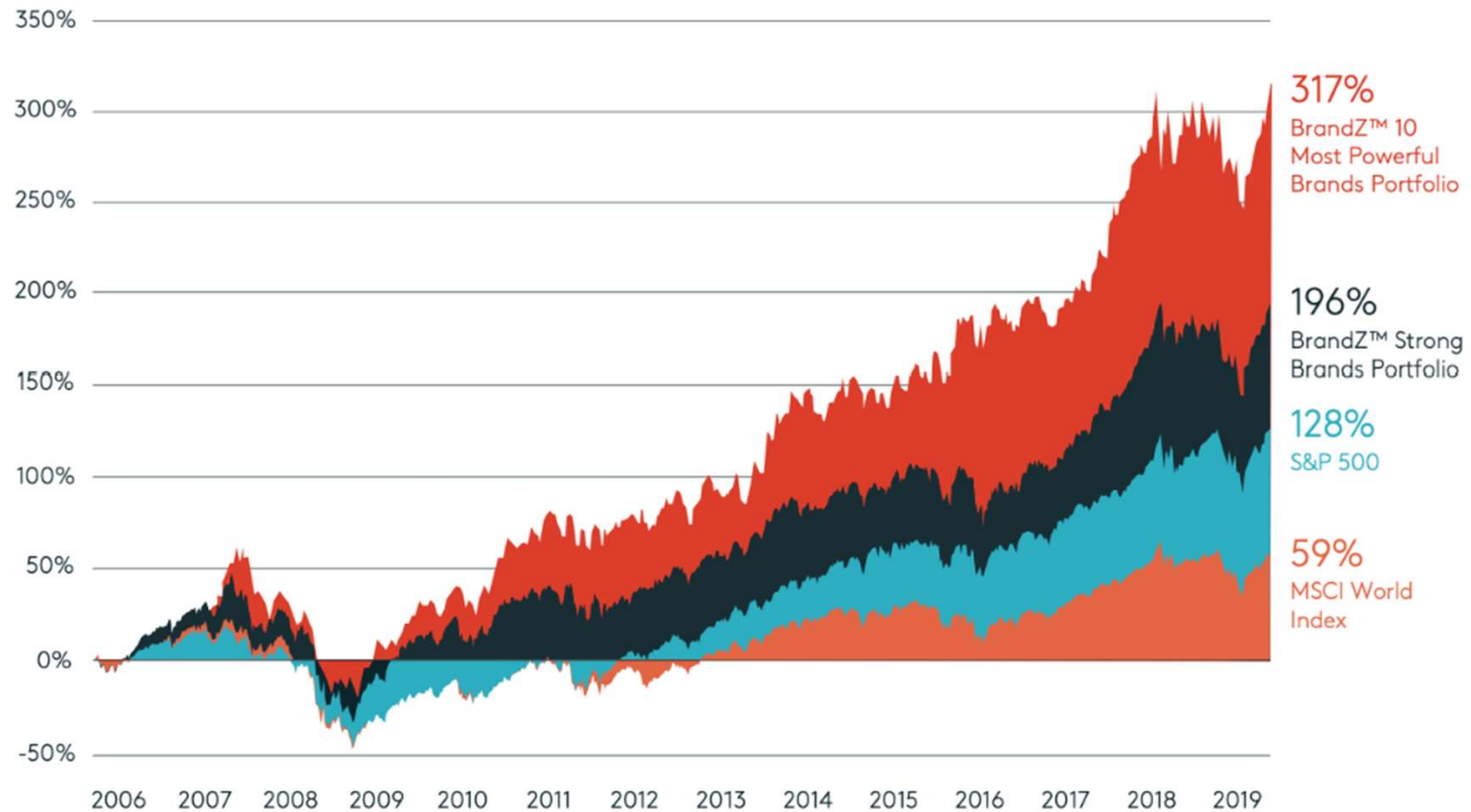
Total return to shareholders¹
Index



¹Portfolio consisting of the 40 top-ranked, listed companies, picked from Interbrand's "Best Global Brands" report, published each summer since 2000. Stocks in local currency, equally weighted and adjusted every July.

Do Brands Help to Outperform?

BrandZ™ Portfolios vs. the S&P and MSCI World Index



Do Brands Help to Outperform?

All 5 quintiles of the Global Brands ESG universe perform better than MSCI World in all four key metrics

Price Earnings Ratio



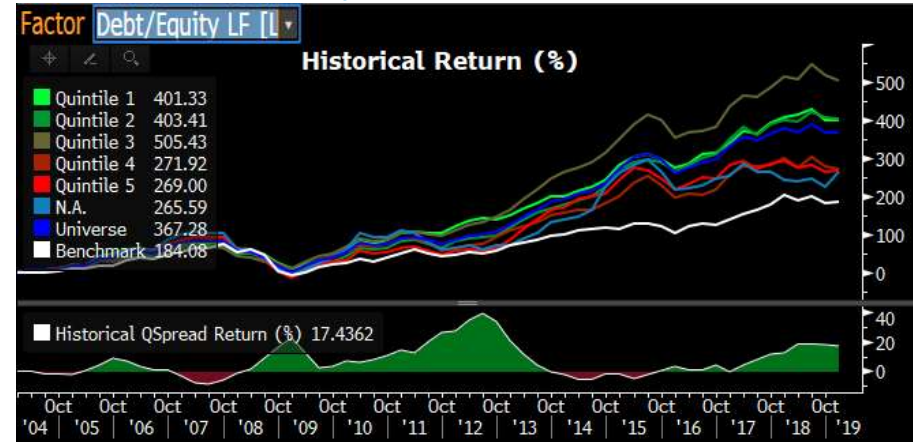
Price to Book Ratio



Return on Equity



Total Debt to Total Equity

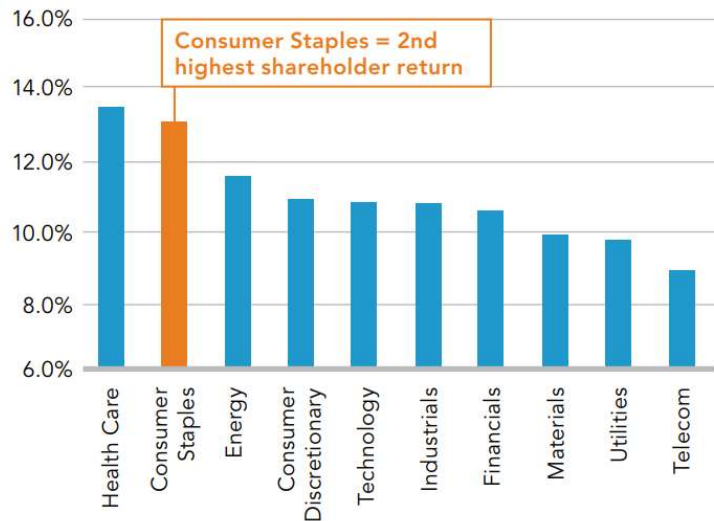


4. Brand Alpha Or Alternative Beta?

Brand Alpha Or Alternative Beta?

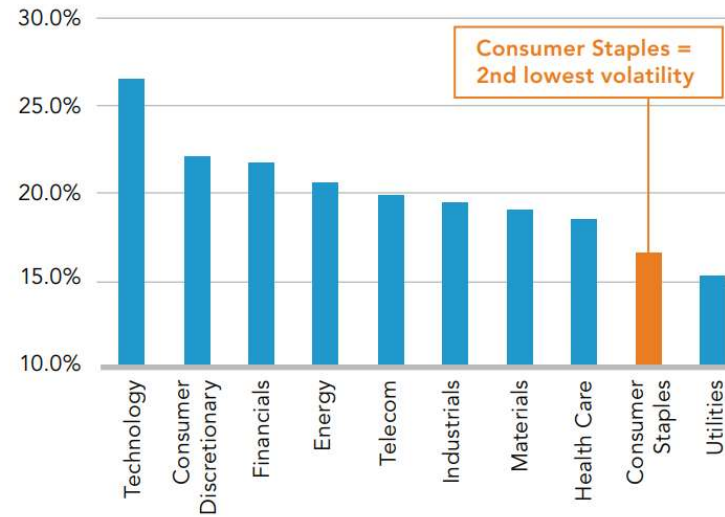
In the long run, consumer staples have outperformed many of their more glamorous peers and its defensive nature has made staples the second-least volatile sector over time

Annualized Total Return by Sector (1962–2015)



Source: Haver Analytics, Fidelity Investments, as of June 30, 2015. Past performance is no guarantee of future results. Sectors are defined by the Global Industry Classification Standard (GICS) and are based off the top 3,000 U.S. stocks by market capitalization.

Standard Deviation of Annual Total Returns (1962–2015)



Source: Haver Analytics, Fidelity Investments, as of June 30, 2015. Past performance is no guarantee of future results. Sectors are defined by the Global Industry Classification Standard (GICS) and are based off the top 3,000 U.S. stocks by market capitalization.

Brand Alpha Or Alternative Beta?

CUMULATIVE INDEX PERFORMANCE - GROSS RETURNS (USD) (DEC 2004 – DEC 2019)



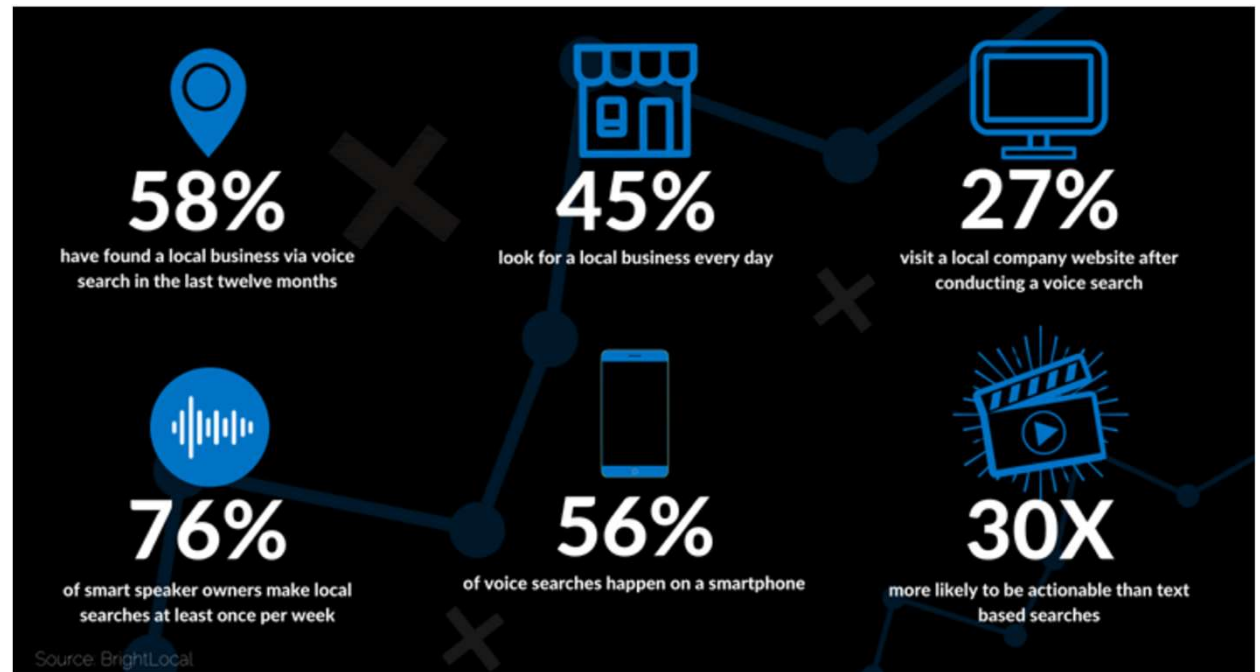
INDEX PERFORMANCE — GROSS RETURNS (%) (DEC 31, 2019)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			Since Jun 30, 1994
					3 Yr	5 Yr	10 Yr	
MSCI World Quality	3.66	11.51	36.70	36.70	18.01	12.49	12.73	11.40
MSCI World	3.03	8.68	28.40	28.40	13.20	9.36	10.08	7.82

5. The Death of Brands?

The Death of Brands?

Branded consumer product companies recognize this risk, with the CFO of Unilever telling the Wall Street Journal, "Of all the disruptions that are taking place in all the things technology is bringing into our space, voice [search] is among the most disruptive. When it comes to voice search you go first position or you go home because beyond the first or second place there is no future."



The Death of Brands?

“Alexa, please buy me some batteries,” they’ll say, “We don’t have any Duracell, but you should probably buy Amazon batteries because of the following reasons.” That insertion between the consumer and their desired purchase is a big risk.

Tom Russo



If Amazon lists an item #1, most consumers will trust that it is of high quality and a good value. That’s why the #1 result for “batteries” on Amazon is not Duracell or Energizer, but a pack of AmazonBasics batteries that sell for less than half the price of the comparable Energizer batteries listed further down the page. For any consumer who might question if Amazon was just pushing their own product rather than the best option, the 18,975 ratings with an average score of 4.5 stars out of 5 will put their mind at ease.

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The Death of Brands?

2018

2018 rank	Change vs. 2017	Brand name	Manufacturer	CRP (m)	CRP growth %	Penetration %	Consumer choice
1	0		The Coca-Cola Company	5965	-1	41.9	12.3
2	0		Colgate-Palmolive	3872	-1	60.5	5.5
3	0		Nestlé	2698	7	31.2	7.5
4	0		Unilever	2297	-3	26.3	7.5
5	0		PepsiCo	2247	5	29.6	6.6
6	0		PepsiCo	2001	-2	22.7	7.6
7	0		Nestlé	1958	-3	22.7	7.5
8	3		Unilever	1833	3	37.1	4.3
9	1		Unilever	1821	2	23.5	6.7

2030?

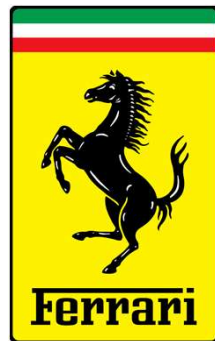
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6. Brands and Stock Picking

Brands and Stock Picking

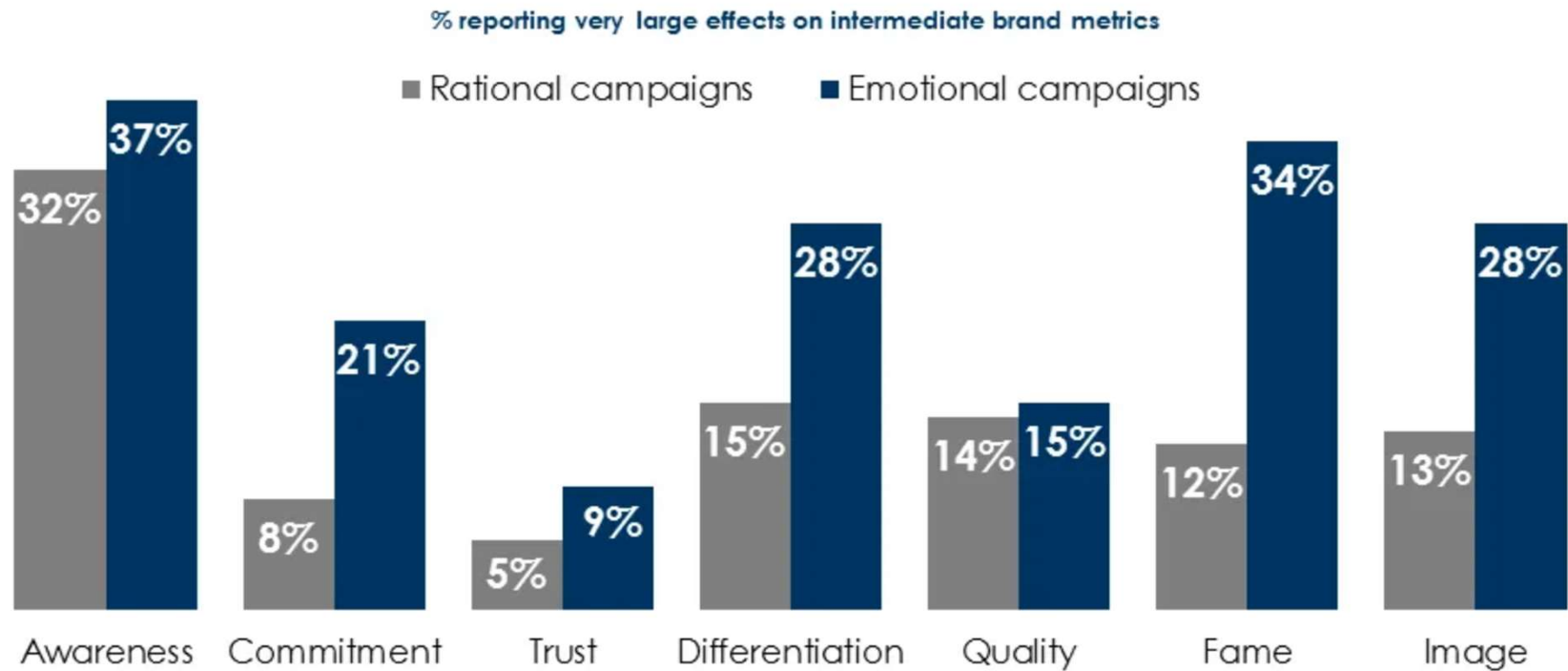
While many of the well known consumer brands derive their value by reducing search costs, there is another value proposition that some brands offer. An “identity brand” communicates something about the owner of the product to themselves or the rest of the world.

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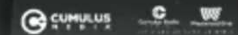


Brands and Stock Picking

Emotional campaigns build brands more strongly



Source: The Long and the Short of It: Balancing Short and Long-Term Marketing Strategies; Les Binet, Head of Effectiveness, adam&eve DDB & Peter Field, Marketing Consultant



Brands and Stock Picking

2001



2019



Brands and Stock Picking

GICS Sectors: 3-Year-rolling intra-sector stock correlations (%)

