

Beyond Advertising:

Communicating Your Brand Value to Wall Street

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Forward

Twenty-five years in financial communications has led me to appreciate how Wall Street views and values the intangible assets that drive business performance. All else being equal, it is these non-financial factors – brand, strategy and execution, management and people – that earn companies a premium in their P/E.

I've taken the view here that brand is an organizing principle that defines a company's intangible assets, an especially critical component of the service industries that dominate our economy. What CEO does not believe that passion for the mission separates her company from the competition. This is brand.

Brand influences the choices people make in a complex world of abundant choice. Beyond advertising, brand building done well builds deep relationships with customers that create a competitive advantage.

Wall Street appreciates brand as a strategic asset that contributes to shareholder value. Investors will pay up for well managed brands that create sustainable competitive advantages, generate demand, reduce costs and expand margins.

However, the burden of proof is on you to correlate the impact of your brand to business performance.

Most public companies are challenged to quantify the value of their brands, constrained by the limitations of GAAP accounting, the expense of third-party research and the general lack of understanding about brand as an asset rather than an expense.

This presentation offers solutions to help you educate all your stakeholders, including investors, about the value of your company's brand.

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Beyond advertising: the invisible advantage

- At least 50% of a company's value is in its intangibles — its invisible advantage.
- Non-financial performance accounts for 35% of institutional investors' valuation
- Brand is a high value driver of corporate performance
- *Source: The Invisible Advantage/Low and Kalafut*

Beyond advertising: brands produce economic value

Assume that a strong brand is one factor that produces returns over the cost of capital and adds to market value over book.

Brand

Excess profit

Cost of capital

Economic return beyond cost of capital

Brand

Book value

Market value

Market value less book value

Beyond advertising: the evolution of business strategy

“Marketing is so basic that it is not just enough to have a strong sales department and to entrust marketing to it. Marketing is not only much broader than selling, it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer’s point of view. Concern and responsibility for marketing must permeate all areas of the enterprise.”

Peter Drucker

“The Practice of Management”

1954

Beyond advertising: brand defines intangible value drivers



Beyond advertising: investors recognize brand value

Relative importance

Pharmaceutical	15%
Retail	18%
Information technology	21%
Automotive	30%
Financial Services	30%
Food and beverage	58%
Luxury goods	70%

Investors value intangibles

Institutional	70%
Sell side	72%
Retail	70%

Brand value is not directly related to the visibility and broad awareness of the product or service. Brands are valued within the context of their markets.

Beyond advertising: brand contribution to shareholder value

○ 71%



○ 51%



○ 68%



Beyond advertising: a brief history of brand equity valuation

ANNUAL REPORT

GLOBAL BRANDS

BusinessWeek/Interbrand rank the companies that best built their images—and made them stick
BY ROBERT BERNER AND DAVID KILEY

ADVERTISERS WHO WANT TO REACH THE Bublitz family of Montgomery, Ohio, have to leap a lot of hurdles. Telemarketing? Forget it—the family of five has Caller ID. The Internet? No way—they long ago installed spam and pop-up ad blockers on their three home computers. Radio? Rudy Bublitz, 47, has non-commercial satellite radio in his car and in the home. Television? Not likely—the family records its favorite shows on TiVo and skips most ads. “The real beauty is that if we choose to shut advertising out, we can,” Rudy says. “We call the shots with advertisers today.”

The Bublitzes and other ad-zapping consumers like them pose an enormous challenge these days to marketers trying to build new brands and nurture old ones. To get a reading on which brands are succeeding—and which aren’t—take a look at the fifth annual *BusinessWeek/Interbrand* ranking of the 100 most valuable global brands. The names that gained the most in value focus ruthlessly on every detail of their brands, honing simple, cohesive identities that are consistent in every product, in every market around the world, and in every contact with consumers. (In the ranking, which is compiled in partnership with brand consultancy Interbrand Corp., a dollar value is calculated for each brand using publicly available

data, projected profits, and variables such as market leadership.)

The best brand builders are also intensely creative in getting their message out. Many of the biggest and most established brands, from Coke to Marlboro, achieved their global heft decades ago by helping to pioneer the 30-second TV commercial. But it’s a different world now. The monolithic TV networks have splintered into scores of cable channels, and mass-market publications have given way to special-interest magazines aimed at smaller groups. Given that fragmentation, it’s not surprising that there’s a new generation of brands, including

Amazon.com, eBay, and Starbucks, that have amassed huge global value with little traditional advertising. They’ve discovered new ways to captivate and intrigue consumers. Now the more mature brands are going to school on the achievements of the upstarts and adapting the new techniques for themselves.

So how do you build a brand in a world in which consumers are increasingly in control of the media? The brands that rose to the top of our ranking all had widely varied marketing arsenals and were able to unleash different campaigns for different consumers in varied media almost simultaneously. They wove messages over multiple media channels and blurred the lines between ads and entertain-

THE BIG WINNERS

High tech and finance got it right in this year’s ranking. America’s electronic flea market, eBay, has ended up on top, a few rungs above Apple. Samsung repeats from last year, as does HSBC. Joining the megabank is financial powerhouse UBS.

RANK 2005	BRAND	2005 BRAND VALUE (\$BILLIONS)	2004 BRAND VALUE (\$BILLIONS)	PERCENT CHANGE
55	EBAY	\$5.70	\$4.70	+21%
29	HSBC	10.43	8.67	+20
20	SAMSUNG	14.96	12.55	+19
41	APPLE	7.99	6.87	+16
44	UBS	7.57	6.53	+16

Data: Interbrand Corp., Morgan Chase & Co., Citigroup, Morgan Stanley

Beyond advertising: common brand valuation tools

- **Research-based**
Interprets and measures the perceptions that influence purchasing behavior. Provides insights into awareness, preference, purchase, satisfaction and willingness to recommend
- **Financial-based**
Cost-based measures historic costs and estimates replacement costs; comparables are interesting, but there is no 'open marketplace' to trade brands; premium price is selectively useful.

Beyond advertising: economic use brand valuation tool

Pioneered by Interbrand in 1988. Combines brand equity and financial measures.

- Recognizes brand as demand generator that translates into near term revenue: volume, price, frequency. Secures future demand through loyalty, repurchase and positive recommendations.
- Recognizes net present value of future expected earnings by identifying brand's future earnings and discounting to a net present value at a discount rate that reflects the risk of those earnings.

Beyond advertising: creating your brand value story

**Research is not a substitute
for insight and common sense:**

The value of rough answers to the right questions

Beyond advertising: the P/E equation

**Price/earnings ratio =
financial performance + market perception**

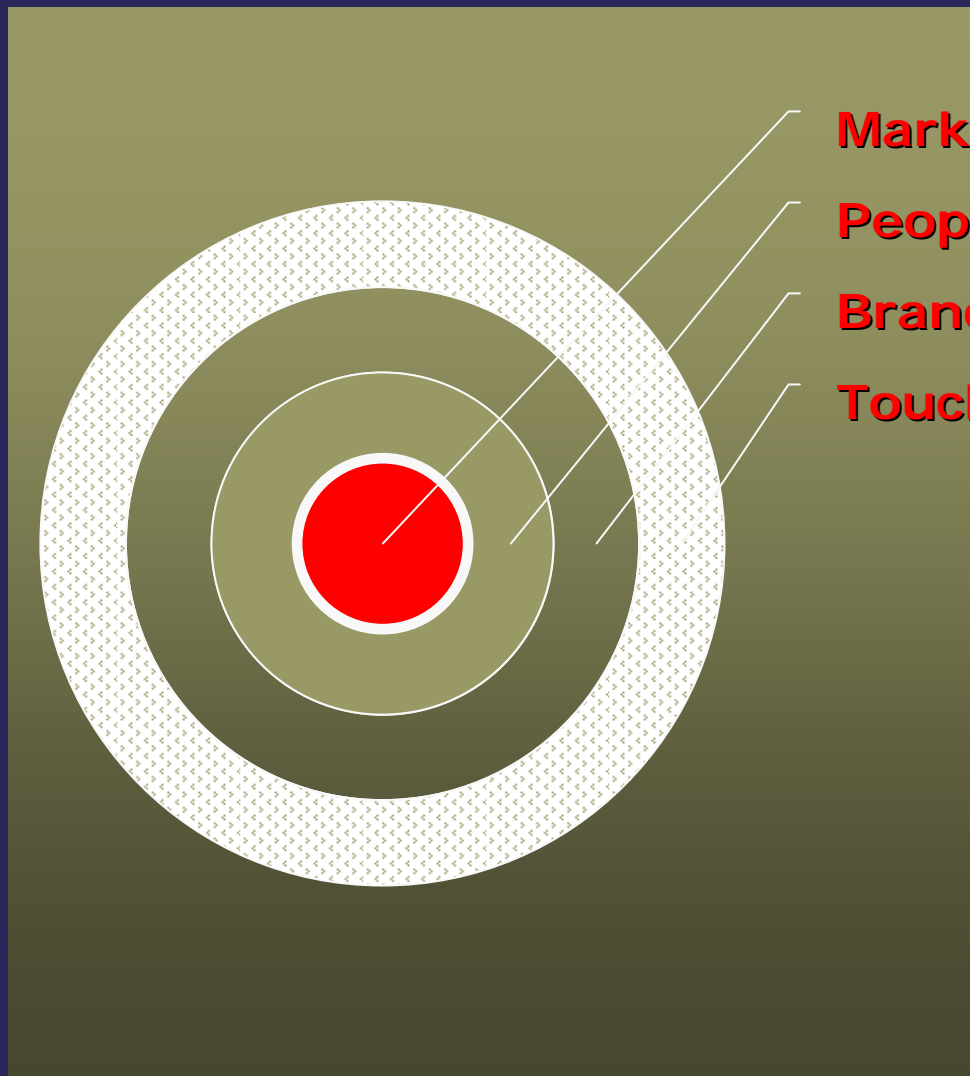
- Understand what kind of investor values brand
- Influence perception; let investors apply value
- Articulate your story in the context of strategy
- Correlate impact to business performance outcomes

Beyond advertising:

A road map

- Assess
 - Determine critical brand drivers
 - Identify most productive brand touch points
 - Correlate to tangible outcomes
- Create comparables
 - What can you benchmark to peers
- Analyze
 - Monitor and update
- Lead
 - Lead the internal discussion of brand value
- Communicate
 - Consistently, credibly

Beyond advertising: the brand driven business



Market opportunity, strategy

People, product, processes

Brand experience

Touches all stakeholders

Beyond advertising: brand drives business strategy

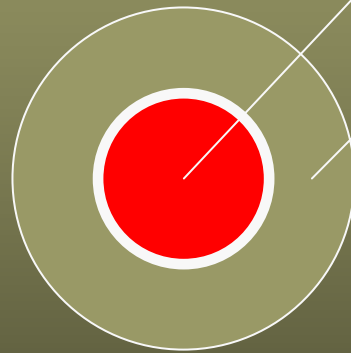


Market opportunity, strategy

- Articulate how market opportunity drives your business strategy. What space do you occupy and how does your brand reflect your market opportunity.
- Articulate your market opportunity relative to the economic opportunity. What kind of margin is available and can your brand expand.

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Beyond advertising: brand aligns the three Ps



Market opportunity, strategy

Product, people, processes

Product

- Innovation
Investments relative to peers
Investments over time
- Price
Relative to quality
Relative to perceived value

Processes

- Sales
Characteristics of sales force
Distribution channels
Availability or scarcity
- Service
How much relative to peers
Expense of providing

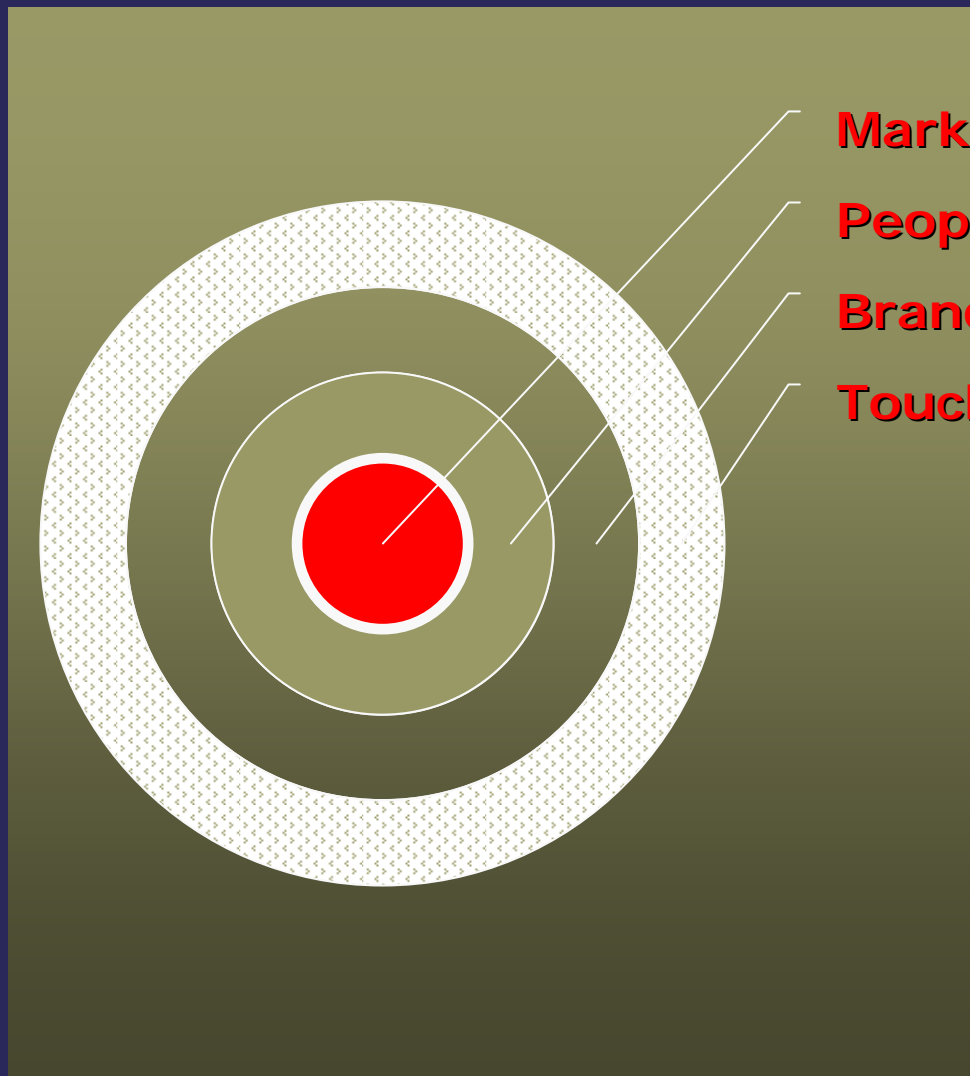
People

- Management
Execution track record
- Talent
Ability to recruit and retain

Beyond advertising: brand defines the experience



Beyond advertising: brand unifies stakeholders



Market opportunity, strategy

People, product, processes

Brand experience

Touches all stakeholders

- How do you live the brand
- How is it delivered/embedded in the company's DNA

Beyond advertising: demonstrate sustainable competitive advantage

How do:

- Product quality, design, innovation
- Customer awareness, preference, loyalty
- Market position, market share
- People
- Strong articulation of brand at all touch points

Impact:

- Current and future demand relative to marketing expense
- Sales and sales growth rates
- Margins
- Cash flow

Beyond advertising: brand impact on business outcomes

Brand audience	Brand impact
Customers	Volume Price premium Secures future demand Creates new earnings Lowers marketing costs
Personnel/staff	Reduces recruiting Enhances retention Generates commitment for greater productivity
Partners	Expands choice of partners Reduces partner recruitment
Investors	Premium P/E Lower cost of capital Enhances reputation

Beyond advertising: case studies

The impact of brand is no more evident today than in commercial banking, where competitive and pricing pressure has eroded the longstanding lender-borrower ties that once bound the small and mid-sized bank with its traditional customer base of business owners.

An effective brand strategy is even more critical to these banks as they look to boost non-interest income by cross-selling fee-based products and services that require longer sales cycles, more technology, expanded service and people trained to deliver.

Delivering a consistent experience at every touch point is branding. The CEOs of these three middle-market commercial banks in Chicago effectively use their investor presentations to illustrate how customer driven brand strategies correlate to business results.

Beyond advertising:

MB Financial (MBFI: Nasdaq)

Integrates brand with business strategy

- “*Betsimpser* Strategy: retail branch expansion program, which is a critical component of the company’s low-cost funding strategy.
- Reflects its customers’ needs for “better, simpler, easier” banking.
- Present the investments made in people, products and services to deliver on the “Betsimpser” brand promise by delivering a consistent banking experience at every touch point.

Beyond advertising:

Taylor Capital Group (TAYC: Nasdaq)

Brand defines the market opportunity

- Draws from a wide range of research, insight to identify: Who is the customer and why does he need us more than the competition? Clients said they wanted a banker who understands their unique business and its needs.
- Cole Taylor Bank's 'specialist' strategy reflects its market position as Chicago's only business bank that specializes in the banking and financial needs of closely held businesses. Its advertising features the Taylor brothers -- third-generation bank and business owners -- to create identity and empathy with customers.
- The company's investor presentations provide the market research and insight that proves out this market opportunity.

Beyond advertising:

PrivateBancorp (PVTB: Nasdaq)

Brand defines its competitive advantage

- Private Bancorp's European-style bank model delivers a high-touch brand experience to its affluent clients and business owners.
- Central to the company's brand promise are its managing directors, a group of responsive and actively involved bankers who develop high-involvement banking relationships.
- In its Wall Street presentations, the company presents a wide range of data measuring managing director productivity that illustrate it can efficiently deliver high-touch service.

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