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Brand equity critical in firms' valuation

With the dawn of the Age of Intellectual Capital, during the mid '90s, came the realization that the real wealth in the modern enterprise is located in the intangible assets of that enterprise — as opposed to the "traditional (tangible) assets" such as real estate, plant, equipment, inventory, cash and the like.

To understand these intangible assets, we need only look at the market capitalization of many of today's most successful corporations, or the prices paid well beyond physical assets in mergers and acquisitions.

Consider Microsoft. In 2000, with a market capitalization or more than $423 billion, Microsoft reported revenues of only $23 billion! If we check its balance sheet, and add its stated assets of $52 billion to its annual revenues, we are still left with $348 billion worth of market cap of unspecified value?

GUEST OPINION
Dr. Lindsay Moore

Similarly in 2000, the largest 500 U.S. companies saw their market-to-book value (stock market value to accounting value) increase to 6.3:1. This means that for every $6 of market value, only $1 appeared on the balance sheet as a physical or financial asset.

What accounts for Microsoft's $348 billion? The experts agree it is Microsoft's intangible assets. These days, on average, the intangible assets in many successful organizations are two, three or more times greater than their traditional assets.

These intangible assets have come to be referred to as intellectual capital, and they fall broadly into the following categories:

The Brand: The ongoing identity, conveying the values of the enterprise and its role in the businesses and lives of its customers and consumers.

Intellectual Property and Goodwill: Trademarks, copyrights, patents and licenses - the legally protectable Intellectual Capital of the enterprise.

Active Intelligence: The energy, creativity, knowledge, know-how, trade secrets, information, ability to innovate and to enter markets.

Corporate Culture: The organization's ways of doing business, its rituals, disciplines, policies, practices and the roles represented among its people.

People: Each individual, with his or her unique person, virtues, abilities, talents, habits, relationships and daily contribution.

Experience: The history of the organization, its experiences, events and its "corporate memory."

Intellectual Material: The work product(s) of the organization, the new capital used to create wealth.

If we are looking for a simple index of all these elements of intellectual capital, it is "the brand." The brand has become the distillation, as brand equity, of all the intangible assets and the intellectual capital wealth that the enterprise has created over time.

Considering this, we can see why "the brand" has moved to the center of corporate strategy. Increasingly, it is becoming one of the most valuable assets in the enterprise, and certainly a primary strategic asset as regards competitive strategy and sustainable competitive advantage.

Whether it is "merely" the name of the enterprise, a product, a service, or a "house mark" or "subbrand," we are all operating under an identity, which is the de facto brand or brands of the enterprise.

If this seems like an overstatement, consider the fact that all enterprises, from commodities to consumer packaged goods, possess, often unrecognized and entirely unleveraged, a brand or brands which are accumulating or losing Brand Equity with the wisdom of each organizational act.

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As we realize this hitherto unrecognized role of "the brand," our paradigm shifts, and the brand, which we thought was at best the concern of the vice president of marketing, becomes the concern of the chief executive officer and the entire executive team — those individuals responsible to protect and build Brand Equity through their business initiatives.

Most recently, after the eclipse of the "dot-coms" and their fasci-

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nation with "business models," many in top management realized anew that strategy and planning are essential to business profitability and success, and no less valuable and essential is the brand strategy — as the brand is the central intellectual capital asset.

This is why we need a brand strategy. Because if we do not know what the enterprise stands for; and if we are not driving what it stands for in the minds of the customers, consumers and employees; and if what it stands for isn't a unique, well-articulated and ownable "position"; then we haven't yet really positioned the enterprise, and we haven't found, and aren't leveraging, our brand equities into new wealth, and we lack an orchestrated, sustainable, competitive advantage upon which to build reliable long-term success.

But even if we don't know these things, we can learn them. A strategic thinker wouldn't miss the opportunity to think this one through. There's too much money on the table to ignore. Coca-Cola, the most valuable brand in the world, was worth $72.5 billion in 1999 on revenues of $17.8 billion. While your brand may not be that valuable, the point is that managed brands may be your most valuable corporate asset, and the one you can most leverage.

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