
# BRANDS THAT HAVE THE POWER TO CHANGE THE RETAIL WORLD

## TOP PERFORMING EUROPEAN RETAIL BRANDS 2008

Interbrand

Of all the market categories, retail offers the broadest canvas for any brand to show its true colours.

From the understanding of a market that gives birth to a strategy. From the creation of environments, to the engagement of the people that bring the brand to life. To the supply of product that puts the brand into the consumer's hand. Retail really does have it all.

So how do retail brands create their value?

What lessons can we learn from the leaders?

How should retailers create and manage strong brands?

How can retailers change the world in which they operate?

Interbrand

# TOP PERFORMING EUROPEAN RETAIL BRANDS

Interbrand is delighted to unveil the Top Performing European Retail Brands for 2008.

For the last seven years we have published our Best Global Brands report in cooperation with *BusinessWeek*. It ranks the top 100 global brands by their brand value and has become the barometer for successful brand management. Indeed it has actually been ranked as the third most sought-after benchmark report by Fortune 500 CEO's.

We are proud of the success that this report has had in provoking the debate amongst business people about the value of brands to business. We look forward to this study becoming equally influential amongst retail leaders in Europe.

When a business gets it right, the brand becomes a value creation engine. Brand valuation is a great tool for showing a business how to optimise its brand. We use it as a proactive tool. By showing an organisation the earnings attributable to intangibles, assessing the role that the brand plays in purchase decisions and the relative competitive strength of the brand within its markets, the organisation can focus its attention on building the brand's value. Indeed, our experience shows that simply by recognising the brand as an economic asset, like other business assets, it starts to be managed for growth.

Interbrand pioneered the technique of measuring brand as a business asset twenty years ago. In this time we have conducted over 5,000 brand valuations across all industry sectors around the world. We now focus all of this experience and expertise to bring you the Top Performing European Retail Brands.

The Best Global Brands report has spawned a variety of regional tables that highlight the value of brands within particular geographical boundaries, but this is our first study on a specific market sector.

We chose retail because it offers some unique challenges we've been asked to address. Firstly, we understand that the culture of retail is immediate and extremely operationally focused. This creates a tough environment for brand thinking and management to thrive in, but our study shows the impressive performance of the leaders and we wanted to share the lessons of success.

Secondly, compared to other sectors, retail brands tend to operate over the most 'expansive' brand experience for their customers. Retail branding extends from the robust insights that formulate brand strategy, into product assortment, sourcing and selection, format strategy, store design, engagement of people and in many cases the creation and supply of private-label products. Strong retail brands orchestrate a complete shopper journey with the objective of achieving the long term loyalty of their customers.

In many ways, this breadth of brand outputs mirrors our own business which thrives from our left-brain, analytical disciplines through to our right-brain, creatively led outputs to offer a complete brand journey for businesses. Just like retail, our business offers both high drama experiences that are co-joined with hard-nosed value creation programmes.

We work with many of the world's leading retailers from JC Penney in the US, to Carrefour in Europe, and Watsons in Asia. So this has been a useful journey for our teams around the world. We hope you find this report of value and use its findings to serve as a catalyst for debate in your own business.

Jez Frampton
Group Chief Executive
Interbrand

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COMPANIES THAT PLACE HIGH IMPORTANCE ON MANAGING THE ECONOMIC VALUE OF THEIR INTANGIBLE ASSETS, AND PRIMARILY THEIR BRANDS, CONSISTENTLY OUTPERFORM BASIC ECONOMIC MEASURES

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# 1.
# BRAND AS A VALUE GENERATOR

Our expertise in creating and managing global brands provides some valuable context for this study.

One of the things that we have continued to do in the annual Best Global Brands study is to monitor the value of this portfolio as an index, to rank them alongside leading market indicators such as the MSCI World Index and the S&P 500. This comparison shows us, that whilst stock markets inevitably act as a measure of economic confidence, the patterns will essentially mirror each other. The Best Global Brands have always outperformed key benchmark indicators by a considerable margin.

We use this as the first stake in our value debate. We understand that if brands can't show a superior return, they won't get the investment they require. Whilst the Best Global Brands sit outside the remit of this report, we hope this graph acts as an interesting backdrop to the specific findings of this retail study.

In our 2007 Best Global Brands report we saw many of the themes that helped contribute towards the building of brand value. These are equally pertinent to retailers today and include:

Demand Creation: understanding how particular brands are able to reach out and engage with us, when others seem to go unnoticed.

Brand Management: placing your brand at the heart of the organisation, so that it lives throughout the organisation and every activity the company undertakes is recognised as an opportunity to reinforce the brand.

Touch Point Development: understanding the value of every touch point the brand possesses and using these to provide effective, consistent and appropriate messaging that brands the experience.

Planning efficiencies: using the operations and systems of the business to understand where and how to best invest for brand value growth.

A copy of this report can be downloaded at www.interbrand.com

# UNDERSTANDING BRAND VALUE

## How we value retail brands

Criteria for consideration

Retailers come in all sorts of shapes and sizes. Standing back from the total retail market, we have identified three broad models.

1) The Aggregator

These are brands that are primarily providers of manufacturer choice, environment and price to mass consumers. Examples would include Tesco, Carrefour, Auchan and ASDA.

2) Branded Own Label

These are brands that are primarily providers of a private-label proposition, environment and price. Examples would be Zara, Marks & Spencer, Mango and Aldi.

3) Product Brands

These are brands that are primarily providers of a private-label proposition with the majority of their product being distributed through third party retail brands. Examples would include Adidas, Sony, Levi's, Burberry.

Please note that our Top Performing European Retail Brands study focuses on models 1 and 2, it is looking at brands as retailers, first and foremost. These are the brands that become valuable through the successful management and combination of any progressive retailers favourite subjects; finance, environment, and increasingly, brand.

We have excluded luxury brands from this report. Whilst our work with luxury brands in our Best Global Brands study shows that they provide many fascinating insights, we felt that this report should focus on brands that see retail as their core business, rather than a channel.

Luxury brands tend to distribute through numerous stores and this led us to a working definition of retailers that have full control of their shopping environments. This allows us to see the retail brand as the primary magnet that draws shoppers to the store.

## Methodology

The Interbrand method for valuing brands is a proven, straightforward and profound formula that examines brands through the lens of financial strength, importance of driving consumer selection, and the likelihood of ongoing branded revenue. Our method evaluates brands much like any other asset: on the basis of how much they are likely to earn in the future. There are three core components to our proprietary methodology.

### Financial Analysis

Our approach to valuation starts by forecasting the current and future revenue specifically attributable to the brand. The cost of doing business (operating costs, taxes) and intangibles such as patents and management strength are subtracted to assess what portion of those earnings are due to brand.

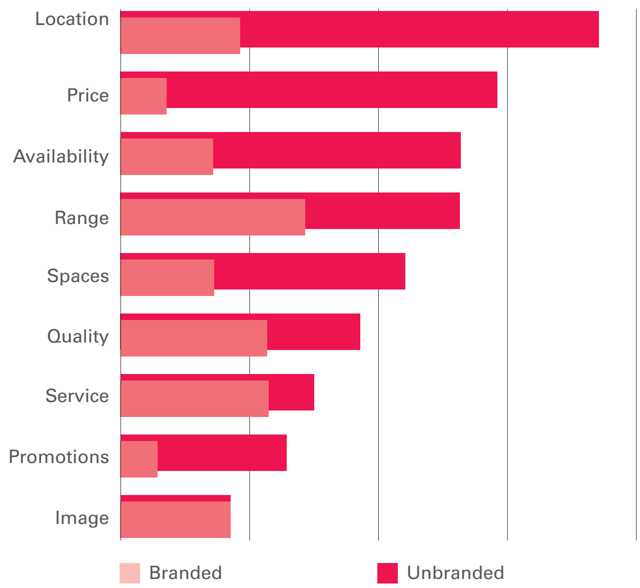
All financial analysis is based on publicly available company information. Interbrand selects from a range of analysts' reports to build a consensus estimate for financial reporting.

### Role of Brand Analysis

A measure of how the brand influences customer demand is applied to the intangible earnings to arrive at the Branded Earnings.

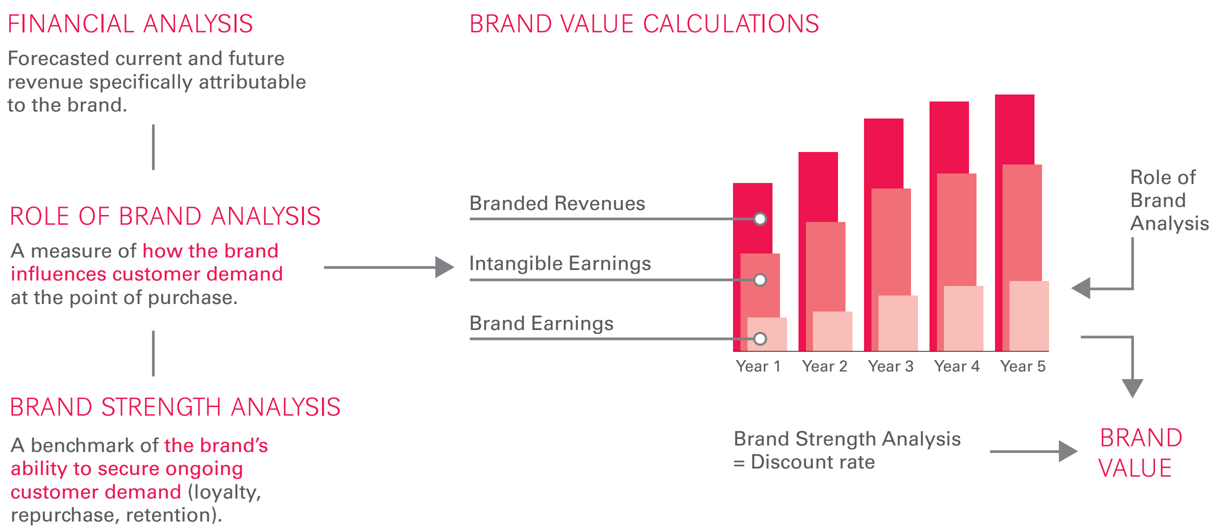
For this study, retail industry benchmark analysis for the role brand plays in driving customer demand, is derived from Interbrand's database of more than 5,000 brand valuations conducted over the course of 20 years. In-house market research is used to establish individual brand scores against our industry benchmarks.

BRANDED OWN LABEL DRIVERS / ROLE OF BRAND



## Brand Strength Score

This is a benchmark of the brand's ability to secure ongoing customer demand (loyalty, re-purchase and retention) and thus sustain future earnings, translating branded earnings into net present value. This assessment is a structured way of determining the specific risk to the strength of the brand. We compare the brand against common factors of brand strength, such as market position, customer franchise, image and support.



WHILST THE MARRIAGE BETWEEN RETAILERS AND THEIR BRANDS MAY HAVE HAD A ROCKY START, WE CAN SEE THAT GREAT RETAILERS DO CREATE GREAT BRANDS

Interbrand

# 2. THE OPPORTUNITIES FOR RETAIL BRANDS

## AN EVOLUTION OF THE RETAILERS' MINDSET

Interbrand has over thirty years experience in helping organisations understand the power and potential of their brand to create value. We have worked in every market and have always been sensitive to the particular cultures of specific market sectors; none more so than retailing.

Most retailers originally started with a very clear mindset. The businesses were highly focused on operational management and location. The relative success of the business thrived or failed on these two drivers. Turnover was increased through the management of operations, so inevitably the types of people employed by such businesses tended to have a highly analytical approach, thriving on logistical complexity whilst maintaining a pragmatic, 'zero tolerance for bullshit' mindset. No one understood how to sweat assets like a great retailer.

This 'retail attitude' was further exacerbated by industry consolidation. Reducing the number of brands further increased the focus on back-of-house efficiencies. Eventually this put a downward pressure on prices, forcing retailers to promote beyond comfort margins whilst also ensuring availability at an inevitable cost. Consequently, margins eroded and further consolidation took place, feeding the cycle once more and increasing market pressures still further.

To some degree the ensuing retail mindset held these businesses back and a change started to occur. Retailers began to see the necessity of having a strong brand within their businesses to provide price and executional insulation, as well as create demand.

The marriage wasn't easy at first. The classic thinking style of a retailer, and correspondingly what retail organisations appreciated and rewarded, didn't sit comfortably with the comparative simplicity of brands.

Likewise the retailers' desire for an immediate return on investment didn't show a natural patience for the time brands require to spread their influence upon a market. But whilst these two seemingly opposing cultures created tension, their uneasy marriage was necessitated by consumers showing they were becoming ever more selective in how and where they'd shop.

In the old days, providing a car park guaranteed consumer pull. In the new days, faced with a proliferation of retail options, consumers would show a gravitational pull towards one brand, and a total rejection of another, with a frustrating and commercially penalising degree of choosiness.

Something had changed. The consumer world had changed and so the brands people wanted in their lives had also changed.

Channel proliferation and adaptation gave birth to the hypermarket, blurring the lines of channel relevance and forcing consumers to think about choices.

Consumers naturally made a distinction between 'desirable' shopping and 'necessity' shopping. Correspondingly, their approach to brands and the level to which they were prepared to engage with them varied. It was extremely difficult to predict with the degree of certainty that enabled pressurised investments to be placed with confidence. Understanding the role that brands can play across different market sectors becomes a prerequisite for success.

Retailers started to understand that they needed brands. 'Need' based retailers have tried to shift more towards their 'Desire' led market cohabitants, focusing more on their brands, environments and total offer. The growth of out-of-town retail dried up, moving grocery retailers back towards urban centres once more. Quickly the lessons of the 'High Street' apparel brands were transferred across to the grocery brands.

Whilst the marriage between retailers and brands may have begun with a rocky start we can now see that great retailers do create great brands.

There is clear recognition that without the right branded concept there is no business. Brand strategy must therefore live within the business strategy, but should not be seen as the business strategy itself. Whilst owning a retail space may deliver an opportunity for a brand, a true brand lives in the space reserved for the business in the consumers' mind.

Brands are crucial signals that help navigate choice. The old days of a promise-based channel (i.e. a chemist) seem no longer relevant when heavy doses of health and beauty are added to an established formula.

So what does drive the value of great retail brands? What lessons can we learn that we can take back to our own businesses?

# M&S

## THE IMPORTANCE OF PRIVATE-LABEL IN CREATING VALUE

Of our 25 Top Performing European Retail Brands, 60% offer private-label products that contribute between 30 – 100% of their revenues and three of our top five brands sell only private-label products.

Private-label was once seen as a contributor, now it is a brand weapon. Indeed the whole notion of 'private-label' is something of a misnomer and risks trivialising the scale of this business. The ability of the retailer to optimise the ideal balance of private-label versus FMCG brands, in comprehensive in-store assortments that meet both shopper needs and profit maximisation within the context of space, is a key contributor to business performance. So private-label is hugely important to a strong and valuable retail brand.

Some time ago private-label was exclusively focused on a value or access proposition. More upscale, quality products were the domain of branded suppliers that were stocked by the retailer. This is one of those classic, perceived 'rules' of a market that has been broken and turned on its head. Private-label of yesterday forced retailers to become product managers.

Private-label of today and tomorrow requires retailers to become portfolio managers. Retailers now offer a full spectrum of private-label products, moving beyond the value segments into the territory of luxury, specialist supply sectors, like 'organic', and beyond. A brand like Carrefour now carries its private-label product across the world, from high end, through to Bio ranges and its access point. It has a private-label clothing brand, Tex, and its private-label product range goes across every FMCG category.

Now private-label is more than just another consumer touch point, it really carries the brand. Perhaps it is the ultimate expression, as the consumer takes it home to wear it or consume it.

These days private-label often leads product formulation and even innovation. In grocery for example, it was the retailers that generally moved first by reducing salt and hydrogenated fats ahead of the traditional manufacturers. This further emphasised the retailers' proximity to consumer trends and abilities to build a relationship with their shoppers.

M&S has been able to declare in its recent advertising that there is food, and then there is M&S food. This reflects a confidence in the quality of the delivery of their private-label products that is matched by customer expectation. They have been able to segment the market between the 'rest' and 'themselves'.

The architecture that retailers adopt within their private-label portfolio can vary across price tiers and levels of brand endorsement. Private-label has strong potential to grow the value of the retailer's own master brand with some retailers literally owning their ranges. Tesco's Finest for example, places Tesco as the dominant force. At the other end of the spectrum No.7 from Boots makes the private-label brand feel more like a consumer packaged good than a retailer's private-label. Carrefour's private-label system has 12,000 product lines with a dedicated graphic system, differentiating their product visual language from their store visual language, whilst creating easy-to-navigate, segmented ranges. There are inherent advantages and disadvantages for all architecture options and the use of a retailer's brand within its private-label portfolio is a strategic decision.

EVERYDAY

ETHIC

PREMIUM

But whichever architecture is adopted, private-label offers a great opportunity for retailers to create value whilst really using their brands to meet specific segment needs.

All of the apparel brands in our retail study only stock their own labels. Most segment their ranges using sub-labels like H&M's BiB, L.O.G.G., Hennes and C&A's Clockhouse, Yessica and Canda.

Increasingly, the apparel brands are enhancing their images by aligning themselves tactically with celebrity designers. This creates great endorsement opportunities for the brand as they are seen as being in 'the circle of friends' of the celebrity. There always seems to be great news value and it will encourage footfall as consumers feel the need to go and see the ranges for themselves. Media reaction can be difficult to manage, but such active endorsement can often be better value than direct use of celebrity models, as the opportunity to grow the celebrity's own franchise can be a useful negotiating position.

H&M has been particularly active in its use of celebrity designers. Madonna, Stella McCartney, Viktor and Rolf, Roberto Cavalli and Kylie have all designed by the brand. Perhaps their most interesting was with Karl Lagerfeld, the iconic Chanel designer who brought all his know how into the creation of a range that was clearly at a different price point to his usual customer base.

## VARYING LEVELS OF ENDORSEMENT

# EXTENDING THE BRAND INTO RELATED ACTIVITIES

Extending the brand has been a huge driver of brand value.

The great strength of most retailers is the sheer number of people they do business with. Whilst retailers largest fixed assets may be their space and supply chain, perhaps their greatest assets are the shoppers themselves.

Whilst shoppers don't appear on a balance sheet, everyone wants them. Everyone fights for more shoppers. But retailers are the brands that have them and get to touch consumers directly.

Leading retailers are catching up with their category captains and other FMCG partners in terms of shopper knowledge and sophistication. They are realising that true long-term growth and differentiation will come by converting shoppers into flag-waving, passionate loyalists, that will step over order qualifiers like price and convenience to shop their preferred brand. They are using advanced shopper research techniques to understand how customers are navigating the store and making decisions for both planned occasions and on impulse. These insights are helping retailers orchestrate shopper behaviour in-store – delighting customers while growing categories, transforming the store from static rows of gondola runs into a highly efficient, brand relevant selling machine.

Increased shopper knowledge and in-store marketing sophistication builds the business in critical ways. Firstly, it increases the buying power retailers have with manufacturers which improves margins and keeps suppliers on their toes. Secondly, it solidifies the brand as a mainstay in the customer regime which increases penetration in key categories and visit frequency. Improved total store shopper orchestration grows the market basket by leveraging destination shopping occasions for additional items. And lastly, it forms stronger bonds with the highest potential customers which allows the retailer to extend relationships into new categories and services.

Retailers with strong brands move from being passive hosts into active customer owners and facilitators. And the business benefits of hosting engaged and captive shoppers in brand extension are huge. Brands have understood the relationship and role that they have with their consumers. In recognising this role, they have been able to consider other markets where their values, their way of doing business and serving their customers, may be relevant and attractive.

Strong brands become transferable. They can move across markets, extending their propositions into new service areas.

Extending the brand relationship and transferring these loyalists into new markets will always bear dividends, so long as the brand can ensure that it does so in a manner that is complementary to its original business proposition.

Extending the brand will generally play to the retailer's inclination to hit a price point in order to sell more. Indeed the whole concept of WIGIG [When It's Gone, It's Gone] enables retailers to regard their product ranges as a moveable feast that must be in tune with their customers' needs and aspirations.

Often the original brands in the market, that the retailers have extended into, are left wrong-footed.

Take financial services. Most grocery retailers have seen the opportunity to extend themselves into this category and the opportunity is obvious in its appeal. The retailer has been providing groceries to the family unit for some time. Typically, it will be known for its fair value. It will logically be a trusted brand that benefits from regular dealing with the household. It has a relationship with its customers. Conversely, the financial services provider may typically lack a relationship with the family decision makers. It may provide services that are necessary, but could even be resented or have negative interest. Apologies to all financial services companies, but whilst people appreciate the requirements of your services, not many people look forward to buying such products with a degree of excitement. The financial services brand may therefore feel cold, where the retailer feels warm. The financial services brand may feel dull, where the retailer feels vibrant and the financial services provider may feel poor value, where the retailer is continually able to provide value to the family.

Small wonder therefore that retailers have seen the opportunity to plunder the markets where their new competitors may have inferior and less proximate relationships with their customers. From financial services, to electricals, travel and photography, retailers have pushed their brands from one market to the next, using their asset of footfall to try and extend their franchise. IKEA has extended its offer from furniture, to also supplying heat-and-eat meals in its US stores, whilst Auchan has become the first retailer to become a Mobile Virtual Network Operator (MVNO).

It all shows the value and potential of strong retail brands. The days when a hypermarket would have a large grocery offer and other independent offers sitting around its fringe seem to be increasingly numbered. These days the hypermarket envelopes the totality of the retail experience and its own brand dominates throughout.

The role of brand typically may be less in retail markets where consumer choices are less conspicuous. So logically, food that we simply have to consume will have a lower role of brand than say apparel, that may require more discerning selection and makes a more overt statement about us as individuals. Some food ‘moments’ will be highly discerning; when we entertain or at special occasions. But it is generally true that in these days of greater economic affluence we care more, and exercise greater choice about what is on our outside, i.e. how we look, as opposed to what’s on our inside, i.e. what we literally consume. Therefore the role of branding will be greater for an apparel retailer than a grocery retailer.

The apparel brands have also recognised that their brands enable them to extend into new markets and likewise, they consider markets where their style and aesthetic appreciation comes into play. Typically, they will enter home furnishings, cosmetics and accessory segments where the brand territory offers easy and profitable access.

It will always be important to understand how far a brand can stretch before its centre of gravity has actually shifted. Looking beyond the retail category, consider the masters of brand stretch, Virgin. Having grown out of a music retailing business, it is now almost impossible to define the brand by a market sector. It forces us to describe the brand itself which is great testimony to its success.

But this has been no easy task and Virgin’s route to success is not easy to emulate. They show us that extending the franchise of a brand is a great driver of brand value. Tesco famously has the ambition to be as strong in non-food as it is in food and this feels broadly true of all the brands that are looking to extend beyond their perceived core offering. Brands must not enter markets without the right levels of due diligence. The potential to erode brand value by not being as strong in a new market as in recognised markets, is equal to the ability to grow value. Brands must never stretch too far, but the potential for value growth by extension is huge and leading retailers are showing the way.

# INTERNATIONAL EXPANSION IS MORE SUCCESSFUL WHEN BRAND IS A KEY BUSINESS DRIVER

It is often difficult for retailers to expand beyond their home countries and this is one of the key reasons why this study is confined to a geographic region. Few retailers seem to be able to create success everywhere, and the fact that there are only four or five brands (within the study) that could possibly be described as global bears testament to this fact.

Supply chains, which are often the key driver of the brand's operational achievements, become increasingly difficult to manage effectively as the brand expands beyond its home territories. Working in partnership with local operators is a desirable solution that can avoid huge infrastructure investment. But as they are often aggregators of products, this is increasingly difficult to achieve in a commercially effective manner the more 'foreign' a market is to the brand. The appetite for accepting an erosion in margin as the price for international expansion will never be digestible to the retailing psyche. Many have tried but ultimately have pulled out.

These days, with the breakdown of traditional borders we can see that brands are a great passport into ever-expanding empires. Many retailers cite cultural nuance as the most difficult thing to manage, and yet Zara, H&M, and Mango prove that in the most fickle world of fashion, you can get it right.

Given the relative ease of their logistics (there are no shelf life issues beyond the life-cycle of fashion) and the improvement in international supply chains, the non-grocery brands lead the way.

Mango operates in 89 countries, Zara in 68 and H&M in 28. Their attraction as differentiated fashion brands benefits from the global transience of media, making their appeal universally strong.

Correspondingly, grocery brands seem to find international expansion more difficult and typically expand through partnerships, acquisitions or even creating new brands for new markets. Carrefour now generates 50% of its income outside France. Whilst Tesco operates in 11 different markets, not always using the Tesco brand, but still generating nearly 80% of revenues from the UK.

However, there will always be a pressure on retailers to grow beyond their home markets. Inevitably they have defined geographies which they can often end up almost over-dominating. They find themselves on the cross examination of potential government/consumer backlash if their perceived thirst for share of wallet seems unquenchable. International expansion will therefore often provide new pastures, even if challenges are evident.

# VARIETY OF STORE FORMATS

The way retailers think of their store formats has been completely revolutionised. Traditionally, they would have a specific concept that they knew worked and they would replicate it faithfully where opportunities arose.

This has now changed. The opportunities for space adopt a multitude of formats. The modern retail brand needs to be able to adapt with the required flexibility, bringing the brand to life within the environments that opportunities present. Catchment areas will be evaluated for their potential across a matrix, combining frequency of visit, dwell time and basket size. Planning rules, as well as demographics, create the need for an in-built flexibility. It would not make sense to have the same store in a town of 200,000 people as a town of 1 million people. New store concepts are required that enable the retailer to pursue opportunity with the appropriate resource and infrastructure.

Formats need to be tuned accordingly for brand relevance and financial performance. The relevance of the brand proposition can vary widely by format. So retailers need to understand these variables and match them to the demands of the format. The old assortment in a new box won't necessarily work. Space isn't just about applying design, but also optimising every metre of selling capacity for financial return, as well as brand relevance.

Within this context, stores are recognising the need to use their environments to act as direct experiences of their brands. Indeed, format can provide opportunities to broaden appeal. Tesco Express provides access to higher income groups that may be resistant to entering a Tesco.

Retailers used to think in terms of location size and footfall. Now they think of space in terms of brand experience, as well as maximising financial performance.

Sephora pioneered a concept that simply did not exist. Before Sephora, perfumes and cosmetics were essentially bought over-the-counter. The idea of a specialist environment becoming the 'supermarket' of luxury perfumes and cosmetics seemed a non-starter. Tremendous care was taken in the creation of the environment, yet it still obeys the fundamental principles of merchandising. Store designs are only in black and white – the two most objective colours. Black denotes perfumes and white denotes cosmetics. Products are navigated in a simple alphabetical manner, meaning that they are easy to find, leave more dwell time available in the store and therefore maximise the purchase value of each visit.

In a very different way, FNAC based their store design on a cultural experience. Despite this high-brow positioning, it is no more expensive than its competitors. The brand simply delivers a brand-led environment. FNAC conveys a clever attitude that makes it the only brand within its competitive set that customers are proud to purchase from.

Brand experience should also be considered in the context of how we shop. Tesco's new Fresh & Easy store formats in the US have no check-outs at all. Every transaction is self-managed. It may have been difficult for the Tesco brand to have created acceptability around such an impactful innovation in its home market. But everywhere, from airline check-ins to online banking, we can see our increasing self reliance on technology and the opportunity for resulting margin creation.

The challenges of space will always be open to innovative, rule-changing solutions. Apple's new store on Fifth Avenue in New York has no shop front. Typifying Apple's creative approach, it is effectively a cube that invites you downstairs to a subterranean store where the brand comes to life.

The importance of a compelling online offer within these store formats shouldn't be underestimated. This is a vital channel to market that will continue to grow in its influence. Way back in 2006, UK retail online expenditure grew almost 13 times faster than the overall retail sector.

Retail brands have some advantages over virtual brands in the on-line domain. After all, they have the possibility of being experienced in both the real and virtual worlds. Transference from Bricks to Clicks may be easier than Clicks to Bricks. However, trail blazing, virtual brands such as Dell are now beginning to enter the traditional brick environments allowing 'Alpha Male' retailers to enjoy yet another battle!

# CORPORATE CITIZENSHIP

Increasingly, we are seeing that consumers across all markets want to feel good about the brands they select.

At first it was easy for marketers to marginalise corporate citizenship as a fad that they could choose to opt in or out of. But interestingly, when brands are seeking the opportunity to show their differences in terms of what they say and do, corporate citizenship presents great opportunities.

In Branding 101, we understand that brands need to offer reasons to choose. They need to convey their differences to make themselves more attractive to consumers. This inference of a value over and above a competitor drives the brand's own value and increases the intangible value of the organisation. The economic case for brands is not in question, but the ability of brands to create reasons to be chosen over and above their competitors and to drive economic value is a perennial challenge.

Rational points of difference are increasingly hard to come by. Whilst they may be something of a 'holy grail', innovations are copied, leading brands become benchmarks that every other brand mimics and new standards quickly become the market's yardstick.

However, emotional points of difference are much harder to copy. They can drive greater distinctiveness across brands because they create the brand's personality. They define the attitude and personality of the brand, therefore governing how the brand does business and how the brand goes to market.

The whole notion of brand personality should be extremely difficult to emulate if the personality is founded on a robust platform. Body Shop famously pioneered ethical sourcing and whilst other brands may have caught up to some degree, Body Shop is still the perceived owner of this powerful space.

Corporate citizenship is a great opportunity for brands to show their personalities in action. The opportunities presented are diverse; H&M leads Fashion against Aids, IKEA has received awards for its CSR and is ranked on the '100 Best Companies for Working Mothers', M&S has its Plan A 'eco plan', Edeka sponsors a sensible nutrition programme for kindergarten kids. Discouraging bag policies are increasingly common place, recycling points abundant and Fair Trade products are omnipresent.

In this world of complex purchase decisions the fact that we want to feel good about what we consume should not be ignored. These days, consumers are expecting more and more from their brands. This is a challenge that marketers mustn’t shy away from or avoid. They should embrace it full on. Whilst the world of CSR programmes is becoming increasingly crowded, every brand with a defined personality needs opportunities to demonstrate it. These days the customer touch points grow beyond the functional marketing collateral that simply needs to be produced and start to filter into broader domains that allow the brand to truly come to life.

But attitude alone isn’t enough. It is the action that counts. Any use of rhetoric that isn’t followed through with action will give rise to a harming cynicism that risks denigrating the value of the brand.

So brands must actively participate in the debates that their customers care about. It is easy to challenge such action as irrelevant to the core purpose of the business, but how could actively participating in, the protection of the very world that consumers live in be seen as being irrelevant? How could a brand with personality, avoid having a perspective to the huge social challenges of the world?

These days brands cannot choose to opt in or out of such debates. It is fundamentally the right thing to do from a theoretical, human and practical perspective.

Strong brands lead such debates and recognise their potential to further engender trust with their customers.

WHEN THE VALUE OF A BRAND IS RECOGNISED BY ITS OWNER, THE BRAND STRATEGY BECOMES A SELF-FULFILLING PROPHECY

Interbrand

# 3.
# TOP PERFORMING EUROPEAN RETAIL BRANDS

## 2008 RANKING

3. Top Reforming European Retail Brands

| 2008 Rank | Brand | Country of origin | Sector | 2008 Brand Value (Million Euros) |
|---|---|---|---|---|
| 1 | H&M | Sweden | Apparel | 10,366 |
| 2 | Carrefour | France | General Retailer | 6,620 |
| 3 | Ikea | Sweden | Home and Furnishings | 6,516 |
| 4 | Tesco | UK | General Retailer | 5,617 |
| 5 | M&S | UK | General Retailer | 5,100 |
| 6 | Zara | Spain | Apparel | 4,112 |
| 7 | Aldi | Germany | General Retailer | 2,675 |
| 8 | Boots | UK | Health and Beauty | 2,003 |
| 9 | El Corte Inglés | Spain | General Retailer | 1,930 |
| 10 | Auchan | France | General Retailer | 1,860 |
| 11 | ASDA | UK | General Retailer | 1,224 |
| 12 | MediaMarkt | Germany | Consumer Electronics | 1,094 |
| 13 | Lidl | Germany | General Retailer | 910 |
| 14 | Edeka | Germany | General Retailer | 905 |
| 15 | C&A | Netherlands | Apparel | 882 |

| 2008 Rank | Brand | Country of origin | Sector | 2008 Brand Value (Million Euros) |
|---|---|---|---|---|
| 16 | Sephora | France | Health and Beauty | 767 |
| 17 | The Body Shop | UK | Health and Beauty | 727 |
| 18 | Argos | UK | Home and Furnishings | 726 |
| 19 | Mango | Spain | Apparel | 702 |
| 20 | Sainsbury's | UK | General Retailer | 512 |
| 21 | Kaufland | Germany | General Retailer | 418 |
| 22 | Mercadona | Spain | General Retailer | 398 |
| 23 | FNAC | France | Consumer Electronics and Books | 379 |
| 24 | Rewe | Germany | General Retailer | 303 |
| 25 | Carphone Warehouse | UK | Telecoms | 282 |

THE EXPERIENCES THAT RETAIL BRANDS CREATE HAVE NEVER BEEN MORE IMPORTANT IN TURNING STORES INTO DESTINATIONS

Interbrand

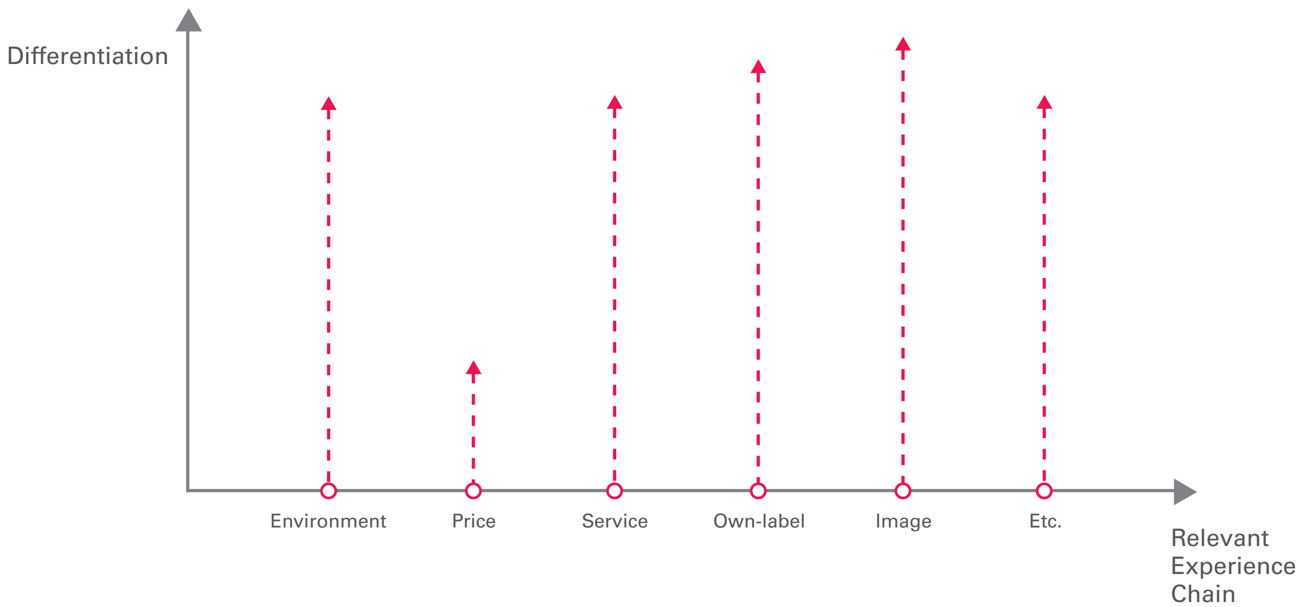
# 4. CONCLUSIONS

Whilst there may have once been an undeniable tension between brand and retail, those days simply no longer exist for the retailer that wants to successfully maximise its brand and business value.

The experiences that retail brands create have never been more important in turning their stores into destinations in their own right. Consumers are increasingly pre-determining where they will shop. Whilst some impulse may affect the journey, in an increasingly time pressured environment, it is vital that your brand is on their shopping list.

One of the key pieces of advice we would give any retailer is to have a clear strategy that they can bring to life through experience. The brand positioning must be based upon informed market knowledge that provides the intelligence and insights to make the strategy robust.

Once the strategy is defined, it needs to come to life across all the brand touch points (see chart below). Any retail brand is multi-faceted so the opportunities for the brand to be evident should be rich and varied. Plan out your customers' journeys; consider the touch points your brand has through your people, your place / environment and your processes. Understand the relative value of these touch points and capitalise on the opportunities your brand has in the most distinctive manner. This gets your brand noticed. It provides evidence of your brand to prospective consumers in tangible ways. It also provides insights that should inform your operations, environments as well as your brand. And crucially, it will build value for your business.



# EXPLAINING THE BUSINESS CASE FOR BRAND IS A PASSPORT FOR SUCCESS

Interbrand

# 5.
# ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS

The purpose of this document is to address the questions that you are most likely to be asking in relation to the Top Performing European Retail Brands.

## What is brand value?

Brand value is the dollar value of a brand, calculated as Net Present Value (NPV) or today's value of the earnings the brand is expected to generate in the future. Like any other financial value, brand value is based on the assumptions and information available at that point in time. Brand value is calculated according to the most widely accepted and used valuation principles. This makes brand value comparable to business — and all NPV-based asset values.

The valuations of brands appearing in the Top Performing European Retail Brands are calculated in their current use to their current owner. They therefore do not necessarily represent the potential purchase, extension or licensing value of the brands.

## Why value brands?

The purpose of these valuations is to demonstrate to the business community that brands are very important business assets and in many cases the single most valuable company asset. We also aim to make branding and marketing key business issues that have direct shareholder value impact. Through seven years of publishing Best Global Brands in *BusinessWeek* magazine we have created the world's most significant and influential brand and marketing study. In fact PRWeek magazine in the US, produced a study that showed that the Business Week/ Interbrand Best Global Brands ranking was the third most sought-after benchmark report by CEO's.

## How does Interbrand derive the value of brands?

Our valuation approach is a derivative of the way businesses and financial assets are valued. It fits with current corporate finance theory and practice. There are three key elements and they are detailed below:

### *Financial Forecasting*

We identify the revenues from products or services that are generated with the brand. From these Branded Revenues we deduct operating costs, applicable taxes and a charge for the capital employed to derive Intangible Earnings. Intangible Earnings are the earnings that are generated by all of the business' intangibles, including brands, patents, R&D, management expertise, etc. This is a prudent and conservative approach as it only rewards the intangible assets after the tangible assets have received their required return. The concept of Intangible Earnings is therefore similar to value based management concepts such as economic profit or EVA (Economic Value Added is Stern Stuart's branded concept). Based on reports from financial analysts we prepare a forecast of Intangible Earnings for six years.

*Role of Branding*

Since Intangible Earnings include the returns for all intangibles employed in the business, we need to identify the earnings that are specifically attributable to the brand. Through our proprietary analytical framework called Role of Branding we can calculate the percentage of Intangible Earnings that are entirely generated by the brand. In some businesses, e.g., fragrances or packaged goods, the Role of Branding is very high – as the brand is the predominant driver of the customer purchase decision. However, in other businesses (in particular b2b) the brand is only one purchase driver amongst many and the Role of Branding is therefore lower. For example, people shop at Carrefour not only because of the brand but mostly because of other factors such as convenience of store locations and product range. For each of the brands (and categories) we have assessed the Role of Branding.

The Role of Branding is derived as a % – thus if it is 50%, we take 50% of the Intangible Earnings as Brand Earnings. If it is 10%, we only take 10% of the Intangible Earnings.

*Brand Strength*

For deriving the net present value of the forecast Brand Earnings we need a discount rate that represents the risk profile of these earnings. There are two factors at play: firstly, the time value of money (i.e. €100 today is more valuable than €100 in five years because one can earn interest on the money in the meantime); and secondly, the risk that the forecast earnings will actually materialize. The discount rate represents these factors as it provides an asset specific risk rate. The higher the risk of the future earnings stream, the higher will be the discount rate. To derive today's value of a future expected earnings stream, it needs to be 'discounted' by a rate that reflects the risk of the earnings actually materializing and the time for which it is expected. For example, €100 from the Tesco brand in five years requires a lower discount rate than €100 from the Fresh & Easy brand in five years. This is because the Tesco brand is stronger and therefore more likely to deliver the expected earnings.

The assessment of Brand Strength is a structured way of assessing the specific risk of the brand. We compare the brand against a notional ideal and score it against common factors of brand strength. The ideal brand is virtually 'risk free' and would be discounted at a rate almost as low as government bonds or a similar risk free investment. The lower the Brand Strength, the further it is from the risk-free investment and so the higher the discount rate (and therefore the lower the net present value).

## What was the basis of the financial assessments?

Published annual reports were used to examine the revenues, earnings and balance sheets of the brand-owning companies. Analyst reports from JP Morgan Chase, Citigroup and Morgan Stanley are used as the basis for identifying the specific brand revenues and earnings and for forecasting future earnings.

## What was the basis for the marketing assessments?

Unlike other brand value league tables, Interbrand does not rely on a single source of marketing information. Using a single brand study would limit the type of information (usually limited to perceptual data) and the type of customer (usually general public) that can be considered. Because many leading brands operate in specific customer segments (especially b2b) only considering the general public can be very restrictive. Instead, Interbrand refers to a wide array of primary and secondary sources that are applicable to each brand. These include amongst others; Datamonitor, ACNielsen, Gartner, Hall & Partners, etc. Moreover Interbrand utilizes its network of brand valuation experts from offices around the world to ensure that the league table considers the brands from a global perspective.

What was The World Retail Congress' role in the European Retail League Table ranking?

WRC did not influence the selection of brands or the determination of any of the values. Their role was to provide a platform for Interbrand to announce the study.

Why are certain brands not on the list?

This is a frequent question especially from companies who would expect their brands to be on the list. There are five reasons:

- The brand does not have a significant presence in Europe
- The company does not produce public data that enables us to identify the branded business (the company has multiple brands or has unbranded production)
- The brand is not big enough (brand value below €282m falls below the 25 brand ranking)
- The business is driven by a number of intangible factors and it is difficult to separate the brand from the rest

What % of the branded business needs to be outside the home country to be considered European?

Zero, all that is required is that the home country is European.

Are there any brands that have a sufficient brand value but did not make the list?

There are certainly strong national brands that have a value exceeding €280m but which did not make the list because they do not meet our European criteria.

Were franchisee retailers considered?

Yes, franchise retailers were included.

What is the relationship between the following terms: brand awareness, brand equity, brand share and brand value?

Brand value is the only measure that looks at the economic benefit of the brand to its owner. In other words, it is an end in itself. Brand awareness and brand equity are a means to an end. Brand awareness is simply knowledge that a brand exists, thus brand awareness may prompt customers to consider buying a product. Brand equity is a measure of customer perceptions of a brand; thus it may give a customer reason to prefer a product over the alternatives. Brand share is simply the market share achieved by the brand. Thus brand awareness, equity and share are all measures of what a customer thinks or does, it is not an assessment of the economic value created by those thought or actions.

### How should we understand the brand value as a % of market capitalization?

The Market capitalization represents a market's valuation of all the equity of a company. In theory, market capitalization is the value of all tangible and intangible assets owned by a company, less all the debt owed by the company.

Brand value/ market capitalization relationship can be explained in a number of ways:

- If the brand value percentage of market capitalization is low, it suggests that the business is driven by other kinds of assets (tangible and intangible) and that the brand is relatively unimportant. It could also mean that the business is failing to leverage the brand as much as it should, and that investors should be concerned about that.

- If the brand value percentage of market capitalization is high, it suggests that the business is driven by the brand and that investors should take care of how the brand is being managed since this will have a very direct affect on shareholder value. It could also mean that the business is under-valued by the market and is failing to reflect the true value of all the assets of the business of which the brand is one (but only one). The comparison of brand value to market capitalization is mainly useful for mono-branded businesses as the market capitalization relates to all company assets. For companies that own and operate under many different brands such as Nestlé and J&J a comparison with market capitalization is less useful.

### Is it possible to recognize brand value on a balance sheet?

Several accounting standards – such as International Accounting Standards (IAS) 36 and 38, US GAAP, FASB 141, UK FRS 10 – allow and/or require the recognition of acquired goodwill including brands on the balance sheet. The standards clearly identify brands as intangible assets with an infinite economic life. This means unlike other intangible assets (e.g. patents, databases) or goodwill (e.g. training, workforce) brand value does not have to be amortized through the income statement. However, they are subject to an annual impairment test and their carrying value needs to be reduced if the value declines. The technique is consistent with the way in which Interbrand has assessed brands for balance sheet inclusion – though of course using more extensive and proprietary data.

### What is Interbrand's view on brands appearing on balance sheets?

We support the notion of the different accounting standards to recognise the value of brands on the balance sheet. Interbrand has been leading the debate on this issue for many years. However, current accounting standards allow only for the recognition of acquired brands not internally developed brands. Also, the impairment test for brands on the balance sheet allows only for a potential value reduction but not increase. The acquisition criterion means that the Gucci brand is recognized on the balance sheet of PPR, as an intangible asset while the Louis Vuitton brand does not show up on the balance sheet of LVMH.

We conclude that the recognition of acquired brands on the balance sheet is a step in the right direction for providing shareholders with better information about the assets they have invested in. However, it's still not sufficient, as the value of internally generated brands cannot be disclosed despite making up the vast majority of the most valuable brands around the world.

As the need for some formal statement about brand value (and the value of other intangible assets) is becoming increasingly important, we would advocate some type of statement in the annual report on the intangible business assets including brands. Whether this happens in the traditional balance sheet or whether it happens in a new 'Statement of Intangible Value' would be secondary (note: There is a precedent for this in the way in which the Cash Flow Statement was developed to complement, but not replace, the Profit & Loss Account.)

### Why is Interbrand an expert in assessing brand value?

In 1988, Interbrand developed and introduced the first valuation of a portfolio of brands that used a brand specific valuation approach. Since then we have continuously updated and improved our valuation approach to make it the global industry standard of brand valuation. The Interbrand brand valuation methodology is the widest endorsed and used valuation approach around the world. Interbrand alone has valued more than 5,000 brands in all industries worldwide.

Our valuations have been endorsed by leading academic institutions including Harvard, Thunderbird, Columbia, Emory and St. Gallen. Our valuation approach has the highest depth of applications including strategic brand management, marketing budget allocation, marketing ROI, portfolio management, brand extensions, M&A, balance sheet recognition, licensing, transfer pricing and investor relations. Our valuations have been audited for inclusion on the balance sheet by all leading accounting firms. Also, many tax authorities and law courts around the world have accepted our valuation approach.

### Does Interbrand conduct other brand studies?

Interbrand is widely recognized for its annual Best Global Brands Study in partnership with *BusinessWeek* magazine. We also have established national brand value league tables in Switzerland, France, Spain, Australia, Singapore, China, Taiwan, Mexico, Canada, Brazil and Russia. These follow an identical valuation process but only look at locally owned brands. This is Interbrand's first sector specific league table.

## What is the difference between the valuations in Interbrand's public studies and its consulting valuations for clients?

The valuation methodology is the same, however, the level of detail and the data input significantly differ. The public study valuations are based on publicly available marketing and financial data. Also, these valuations are mostly consolidated top line assessments although we recognize segment differences for diversified brands by product or service but not geography or any other classification (eg. financial services or technology). As the valuations are based on publicly available data, they are only as reliable as the data that the brand-owning companies publish about themselves (in annual reports, analysts briefings, press articles, syndicated market research, etc).

Consulting valuations are based on detailed customer segmentations, as well as in-depth marketing and financial analyses. They have a much higher level of accuracy and granularity. The purpose of a consulting valuation goes well beyond assessing financial numbers to identifying and quantifying value drivers and to manage brands for increasing the shareholder value of the underlying businesses. However, if clients undertake consulting valuations we are in a much better position to identify publicly available data that is likely to align the public valuation with the consulting valuation. In cases where companies make our consulting valuations publicly available, for example through a note in the balance sheet, these values will also be published as the public ranking value.

# 6. CONTACT US

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