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Value your brand

By Ted Matthews

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In 1992, according to Interbrand's annual Top 100 Global Brands ranking, IBM had brand equity of negative $52 million. Right. It was calculated and determined that every time the IBM name was brought into the selling equation, it had a detrimental effect on the process, hence the resulting negative brand equity.

Every year Interbrand reports on the value of Global Brands. The rankings, which are featured in BusinessWeek, employ a widely endorsed brand valuation methodology developed by Interbrand in the late 1980s. BusinessWeek selected Interbrand's method because it values brands the same way analysts value other assets - on the basis of how much they are likely to earn in the future. A discount factor is then applied to the projected earnings based on their risk level to arrive at a present value.

However, in Interbrand's current ranking, the equity of the IBM brand has rebounded, to say the least, with it sitting at a staggering, positive $51 billion - that's billion with a 'b'! What happened?

How can an 'asset' of such significant value not be addressed in a company's financial statements? Currently, only purchased brand value - in the form of goodwill from acquisitions - is reflected on the balance sheet of the acquiring company. Internally generated increases in brand value are not reflected. With all the changes being discussed in governance and financial reporting, maybe now is the time to accommodate brand value. Although unlikely to be given line item status on the balance sheet, I believe that a brand must be given a voice within the financial reports.

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Based on the fact that companies like IBM have a value attached to their brand which exceeds that of hard assets, cash on hand and accounts receivable combined, the brand and the branding process need to be given the professional discipline that an asset of this importance deserves. Surely it ranks right up there with HR, Finance and Corporate strategy, and yet it is most often the responsibility of the marketing people! You know, those folks with the funny clothes and the toys in their department who came up through the ranks from sales.

A brand is what people think of you.™ And in the founding history of every company there was an entrepreneur who held sole responsibility for what people thought about his company. The brand was the responsibility of the CEO. As firms evolved from local, national, then international and now global markets, the skill set of the founder was no longer the most suitable one. As professional managers, often financial or operations folks took the helm, the 'brand' became the domain of the marketing department. Today, North America is overrun with a band of professional managers who roam from company to company (working with any one firm for only 3 years, on average). These bright business school grads were never taught about brand building. They never started a company to gain the instinctive leadership branding skills of an entrepreneur. And today many find themselves inadequately prepared to manage the care and nurturing of the largest and yet most fragile unrecorded asset their company has.

In the example of IBM, Louis Gerstner was able to reverse the situation at IBM by once again taking CEO ownership of the IBM brand. In his book Who Says Elephants Can't Dance?, he tells of borrowing heavily on the entrepreneurial guidance of the founder Thomas Watson. Gerstner resuscitated the Purpose, the Vision and Mission and Values of the IBM brand and with this action brought life back to the IBM culture and made the company valuable again.

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