

# VIEWPOINT

## Unleashing The Value Of The Brand: M&S

A man goes into a shop to buy a can of baked beans, doesn't see a Heinz can so he walks away with nothing. This is its founder Henry J Heinz's definition of ultimate brand loyalty, a definition that aptly summarises why we bother with branding at all. But can a value be attributed to this, and if so what is that value?

Brands, along with other intangible assets such as licenses, patents and copyrights, are often the most valuable assets within a company. Marks & Spencer, for example, has a current market capitalisation of £8.1b giving an enterprise value of £10.6b. After subtracting its £5b tangible assets, such as property and working capital, the remaining £5.6b is the value of intangibles of which the lions share can be attached to the brands. In 1997 however, when everything was hunky-dory and M&S was valued at £20.5b, its tangible assets being largely the same, the intangibles, essentially the brands, were valued at £15.5b – nearly three times greater than today!

Often there can be a significant disconnect between market capitalisation and the value of a brand and business. Only when the business delivers products that match with the values of the brand can the true commercial value of the brand be leveraged.

Marks and Spencer's brand perception from a consumer's point of view remains undamaged. In fact, consumer research indicates that in 2002 when profits were still declining, brand loyalty was actually increasing over that of all other competitors including Debenhams, House of Fraser, Next and Dorothy Perkins. The problems were of an operational nature, it is this that was damaging top line sales and margins, poor fashion lines, high levels of stock clearance, discounting and inefficient distribution. The brand was not collapsing; there was, and still is significant loyalty and emotional attachment to the Marks and Spencer retail brand across a broad swathe of the British public.

Many brands, such as IBM, Next and Burberry, have been so resilient they have been able to overcome severe organisational and management problems which have damaged shareholder value such that the Enterprise has been able to bounce back and even surpass previous values. Ask any one of these organisations if they could have done it without a brand and the answer would be a resounding 'NO'.

This is the power of the brand. Brand value resides in the ability to generate cash through margin and market share growth, they bring: reduced risk; premium pricing; extensions and new products; ease of choice for the consumer and increased loyalty. Nothing is more tangible than the cash flows generated year after year by a strong brand, so why then does the market consider them intangible!

To understand value there is a real need to understand the strength of a brand in the minds of the consumer in competitive context, and this requires separating Brand Value from other aspects of the business – often a brand's true value is lying dormant, trapped beneath a plethora of inefficiencies.

Philip Green, therefore, is looking at a bargain: he's bidding for a brand that's potentially undervalued threefold. If he is successful and he can match the product to the brand values – which he's done with aplomb for bhs and Arcadia – the profits will come flooding in and the power of the M&S brand will be unleashed.

