South African Brands Overcome Unstable Conditions

- **Total brand value in the table increases 3% year-on-year to R395 billion**
- **Capitec, the fastest growing bank brand, is up 25% in value to R5 billion**
- **The retail industry shows signs of recovery, recording 9% growth overall**
- **MTN remains the nation's most valuable brand with a value of R40.8 billion**

Every year, leading brand and branded business valuation consultancy, Brand Finance puts thousands of the top brands to test. These brands are valued to determine the most powerful and the most valuable brands by country, by industry, and against all other brands worldwide.

Despite being plagued with a recession, political instability and a higher unemployment rate, the total value of brands in the table has increased 3% year-on-year from R384 billion in 2016 to R395 billion in 2017. Jeremy Sampson, Director of Brand Finance Africa, states, "South Africa is in many ways typical of an emerging market with an economy founded on natural resources and mining, underpinned by banking and telcos. However, when a country is struggling to grow at 1% whilst its brands grow by 3% it says much about the future potential if not interfered with."

The banking sector – comprised of nine brands, outperforms all others, with a total brand value of R100 billion, making up nearly 25% of the total brand value of the table. Telecoms follows in second with R73 billion and retail in third with a total value of R49 billion. According to Lafferty's 2017 Global Bank Quality benchmarking study, it ranked South African banks as the most sound in the world, reaffirming the potency of the industry.

Capitec is not only the nation's fastest growing bank brand, but the fastest growing brand overall. Its brand value is up 25% to R5 billion, with a Brand Strength rating of AAA-, claiming the title as one of strongest South African brands in the table overall. Capitec's customer base continues to grow, with over 120,000 new customers added every month, putting the bank closer to 8.4 million customers at the end of 2016. The bank attributes its success to its simplified and affordable product offering, providing a competitive advantage over the often complex products offered by competitors. At the end of February 2017, Capitec enjoyed headline earnings of R3.8 billion. It also scores highly on customer satisfaction – the bank emerged as the best in South Africa, garnering a score of 83.3% on the South African Customer Satisfaction Index (SAcsi) in April 2016.

Like Capitec, First National Bank boasts a AAA- rating making it one of the nation's strongest brands. The bank launched its own-branded smartphones as it expands into the mobile banking space. Mobile banking in Africa has blossomed as banks sense new opportunities that arise from an increased digital presence. Dr. KLM Makhubela, CEO of Brand South Africa, comments, "South African commercial brands help to fly the country's flag high – domestically and internationally. In today's market, it is crucial that we stand apart from the crowd. The competition is no longer only on a local stage, organisations now compete on the global stage." FNB have truly embraced this mentality. It is the first financial services firm in South Africa to launch its own smartphone; the company is already a pioneer nationally and it may well be that the technological advancement is to gear it up to compete on an international level.

Like the banking sector, there are nine retail brands in the table, with a total value of R48.6 billion. Recently, retail spend has recovered but it remains fragile as a result of the weakening value of the rand, severe droughts, and rising interest rates to name a few. Despite this, grocery retailers demonstrated resilience and positive performance in 2016, registering 9% growth overall, slightly stronger than the 8% from the previous year. Spar is the fastest growing retail brand, up 15% in value to R10.4 billion and Shoprite, the most valuable retail brand, is up 2% to R11.1 billion; and Clicks is up 7% to R3.4 billion. However, the tough trading environment in South Africa is likely to persist especially in light of the political uncertainty undermining consumer confidence. As a result, the long-term outlook of the retail industry remains to be seen; retailers will have to differentiate themselves in order to remain competitive in a challenging environment.

MTN remains the nation's most valuable brand, with a value of R40.8 billion, up 10%. The company's financial results for 2016 reflect the most challenging year in the company's 22-year history, fuelled by regulatory, macro-economic and political challenges. In spite of these conditions, MTN continues to strive for growth. MTN invested R4.6 billion to improve its network, working towards its aim of unlocking value in the digital-and data-adoption space for future growth. Data revenue contributed 20% to its revenue in the quarter ending March 2017. Having said that, MTN's brand value is nearly 30% lower than it was at its peak in 2014, illustrating a downward trend for the brand despite its growth. Vodacom, the nation's second most valuable brand with a value of R24.3 billion, is closing the gap. Should MTN continue its regressive trend, it may be that Vodacom closes the gap and usurps MTN as South Africa's most valuable brand in the near future.

ENDS

Note to Editors

Brand values on Brandirectory are reported in USD. For conversions into local currency, please consult the hover over the 'i' button on the web version of the table and select.

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About Brand Finance

Brand Finance is the world's leading brand and branded business valuation consultancy, with offices in over 25 countries. We provide clarity to marketers, brand owners and investors by quantifying the financial value of brands. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax and intellectual property, Brand Finance helps clients make the right decisions to maximise brand and business value and bridges the gap between marketing and finance.

About Brand South Africa

Brand South Africa is the official marketing agency of South Africa, with a mandate to build the country's brand reputation, in order to improve its global competitiveness. Its aim is also to promote pride and patriotism among South Africans, in order to contribute to social cohesion and nation brand ambassadorship.

Methodology

Definition of Brand

When looking at brands as business assets that can be bought, sold and licensed, a technical definition is required. Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as "a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value."

However, a brand makes a contribution to a company beyond that which can be sold to a third party. 'Brand Contribution' refers to the total economic benefit that a business derives from its brand, from volume and price premiums over generic products to cost savings over less well-branded competitors.

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance. Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

Approach

Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand, assuming it were not already owned.

The steps in this process are as follows:

1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world's largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database of license agreements and other online databases.

3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 0-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.

4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.

5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.

6 Apply the royalty rate to the forecast revenues to derive brand revenues.

7 Brand revenues are discounted post tax to a net present value which equals the brand value.