The Wits-developed BrandMetrics algorithm has now been applied over three hundred times to a vast variety of brands. It has produced values for a range of uses such as Capital Gains Tax; litigation; company mergers and acquisitions; and of course, its original purpose: as a marketing metric. The nation branding challenge was new. Countries differ from companies. They do not have income statements and balance sheets and it is quite hard to decide who are its customers and how they would assess the nation brand.

The International Marketing Council (IMC) commissioned a valuation in 2001. It took a full two years to produce and the route to the value is a lesson in adaptation and innovation.

BACKGROUND
For those who do not know, BrandMetrics is a mathematically based model that integrates a variety of variables related to the brand and produces a monetary value. The basic finance tool is Discounted Cash Flow. The profits that the brand earns in excess of its cost of capital are projected to some distant horizon and are then discounted back to present value and capitalised. The cost of capital is used as the discount rate.

There are a few key steps in the BrandMetrics process: finance – the brand earnings (Brand Premium Profit) are separated from the total earnings; survey based data – the focal brand is positioned in a space bounded by the category’s strongest and weakest brands; a powerful device based on the Delphi forecasting approach identifies the key drivers of economic profit and then generates a percentage which, when applied to the economic profit, strips out the brand portion; and a unique version of a SWAT – an analysis that sets up the crucial time parameters for the discounted cash flow calculation.

JUST WHO IS THE CUSTOMER?
But brands have customers who spend money and have attitudes towards the brand. Nation brands did not, at first glance, have these characteristics. It seems obvious now, but deciding that the customer of Brand SA was the overseas buyer of our exports; the traveller who visits ours shores; and the investor who puts capital into South African projects, was a difficult conclusion to reach. When we realised that these three groups are influential in an astounding one third of our country’s Gross Domestic Product (GDP), selecting them as our brand’s customers became quite clear.

But to what extent are these tourists, investors and buyers of goods and services influenced by the South African label? Not much it turns out.

We conducted a fascinating piece of research among thirty leading exporters and importers: people who know about these things. We also worked with Tourism SA and extracted data from their recent surveys. The objective of the research was to find out what portion of the R325 billion we earn from these sources is brand protected. In other words is South Africa the draw or are the attributes commodity based?

The result was a pitiful 16%. A mere 16% of our foreign earnings has anything to do with the brand. (exports = 7.1%; tourism = 52%; foreign investment is so low it didn’t really feature). That gave us a Brand Premium Profit of R52,1 billion and our country’s first marketing objective. Marketers will understand that that stream of income – one third of our GDP – must be brand protected which gives new and urgent meaning to the IMC branding campaign.

STRENGTH OF RELATIONSHIPS
Normally, market research is used to establish the focal brand’s position in the market category relative to its competition. BrandMetrics was conceptualised as a device to measure the value of brand equity and the source of this sits in the minds of users of the category. The strength of the relationship between the brand and its customers and how this compares to the category leader and minnow, illustrates the worth of the brand. The closer it is to the category leader the more valuable it is.

To conduct market research globally would be prohibitively expensive if indeed possible. But we were given support from a highly credible institution. Each year Swiss Business School IMD conducts a survey of more than fifty economies and publishes its World Competitiveness Yearbook in which the countries are ranked. To compute the variables IMD conducts two types of research. The first is the hard data; figures such as GDP, inflation, numbers of telephones etc. Numerous sets of numbers are gathered analysed and processed to achieve the hard data ranking. The second study is perceptual. Working with partners in each economy surveys are conducted to establish perceptions of each country according to over 110 variables.
We argued that South Africa has to compete with the world’s leading economies. Buyers of goods and services, investors and tourists consider all sources when deciding on what brand to buy or country to visit. The IMD perceptual survey was therefore ideal for our purposes.

<table>
<thead>
<tr>
<th>(percentages)</th>
<th>SA</th>
<th>Dominant Brand (DB)</th>
<th>Marginal Brand (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>50</td>
<td>75.4</td>
<td>243</td>
</tr>
<tr>
<td>Government efficiency</td>
<td>52.8</td>
<td>86.86</td>
<td>21.11</td>
</tr>
<tr>
<td>Business efficiency</td>
<td>53.84</td>
<td>83.35</td>
<td>29.57</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>55.23</td>
<td>89.19</td>
<td>34.32</td>
</tr>
</tbody>
</table>

In the table South Africa’s position in the IMD rankings is set out. The position changes when the hard data is added, but this tabulation is ideal for the BrandMetrics model because it places our nation brand, perceptually in relationship to the leaders in the category in which we compete. This is our brand equity and it clearly could be greatly improved.

In the conventional version of BrandMetrics the focal brand and its dominant and marginal brands are evaluated in the light of an investigation of the category. The purpose of this is to set time parameters for the discounted cash flow forecast. The dominant and marginal brands, as measured by the research above, are assigned years of expected life. This is achieved by a detailed assessment of the category in terms of its stability or volatility. No matter how strong the brand leader is in terms of its consumer franchise, if it is unable to make a profit due to competitive forces, or if external pressures such as government regulations or global trends threaten it, it must be considered to have an uncertain future. Our Expected Life assessment makes this evaluation and sets Expected Life in years for the Dominant and Marginal brands.

A nation brand is similarly subject to external forces and category conditions. But because of the nature of a nation brand and also due to the requirements of this valuation to set the value in an economic and sociological context, we have diverged from our usual approach.

THE REALITIES

Our nation brand’s ability to compete on the world stage is constrained not just in the way our brand is viewed by its customers, but also by the conditions that prevail in its geographic region that we define as Sub-Saharan Africa. We have unemployment and health problems. Many of our neighbouring countries are not performing well economically or politically. South Africa is affected by these conditions of poor development. We looked for a device to help us place our nation brand in a true context and found it in the work of Nobel prize-winning, British based economist Amartya Sen.

Professor Sen conceives development in a different way to most. It is, he claims, the freedom that people have to lead the lives they would like to lead. He proposes five development freedoms that measure this. We sought out data from internationally credible sources to flesh out these five freedoms for the countries in our Sub-Saharan region as compared to the countries that are acknowledged to be developed.

The result is set out in the following table and lists the highest scores recorded by any country in the region, and the lowest. Not surprisingly, the high scores all refer to South Africa.

These sets of data might make little sense in isolation.

While comparisons with consumer brands are no more than amusing, the real value lies in the valuation being used to track progress in marketing our brand and doing this within a context of improved freedoms for the people of our country and region. That puts branding and brand valuation right at the heart of building the successful nation that we are all set on developing.

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