



Retail 50 2015

The annual report on the world's most valuable retail brands
February 2015

Foreword.



David Haigh, CEO, Brand Finance

“The boardroom can sometimes feel like the tower of Babel, with CMOs and CFOs speaking mutually unintelligible languages, damaging the prospects for what should be their shared goals. Brand Finance bridges the gap between marketing and finance.”

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets.

Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers. As a result, marketing teams struggle to



communicate the value of their work and boards then underestimate the significance of their brands to the business.

Sceptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax



and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money.

That is why we connect brands to the bottom line. By valuing brands we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximizes profits.

Of course not all non-marketers need to be convinced that brands are valuable. Warren Buffet, renowned for his financial nous and stock picking ability, is famously keen on investing in some of the world's biggest and best-loved brands such as Heinz and Coca-Cola. The sage

of Omaha certainly does extremely well from most of his investments, but could he be doing better?

It is all well and good to want a strong brand that customers connect with, but as with any asset, without knowing the precise, financial value, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is?

Brand Finance has conducted hundreds of brand and branded-business valuations to help answer these questions. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

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About Brand Finance

Brand Finance is the world's leading independent brand valuation and strategy consultancy. Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For almost 20 years we have helped companies to connect their brands to the bottom line, building robust business cases for brand decisions, strategies and investments. In doing so, we have helped finance people to evaluate marketing programmes and marketing people to present their case in the Board Room.

Independence
Brand Finance is impartial and independent. We assess and help to manage brands, but we do not create or own them. We are therefore able to give objective, unbiased advice because we have no vested interest in particular outcomes of a project and our recommendations are entirely independent. We are agency agnostic and work collaboratively with many other agencies and consultancies.

Technical credibility
Brand Finance has high technical standards. Our work is frequently peer-reviewed by the big four audit practices and our work has been accepted by tax authorities and

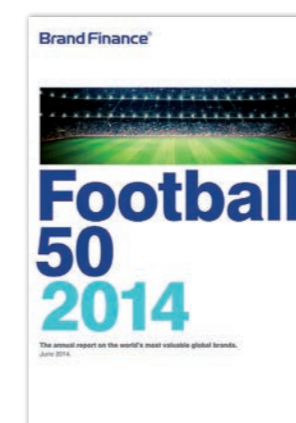
regulatory bodies around the world. We are one of the few companies certified to provide brand valuations that are fully compliant with ISO 10668, the global standard on monetary brand valuations.

Transparency
There are no black boxes. Our approach is to work openly, collaboratively and flexibly with clients and we will always reveal the details of our modelling and analysis. This means our clients always understand what lies behind 'the number'.

Expertise
We possess a unique combination of skills and experience. We employ functional experts with marketing, research and financial backgrounds, as well as ex-client-side senior management who are used to 'making things happen'. This gives us the mindset to think beyond the analysis and to consider the likely impact on day-to-day operations. We like to think this differentiates us because our team has real operational experience.

For more information, please visit our website: brandfinance.com

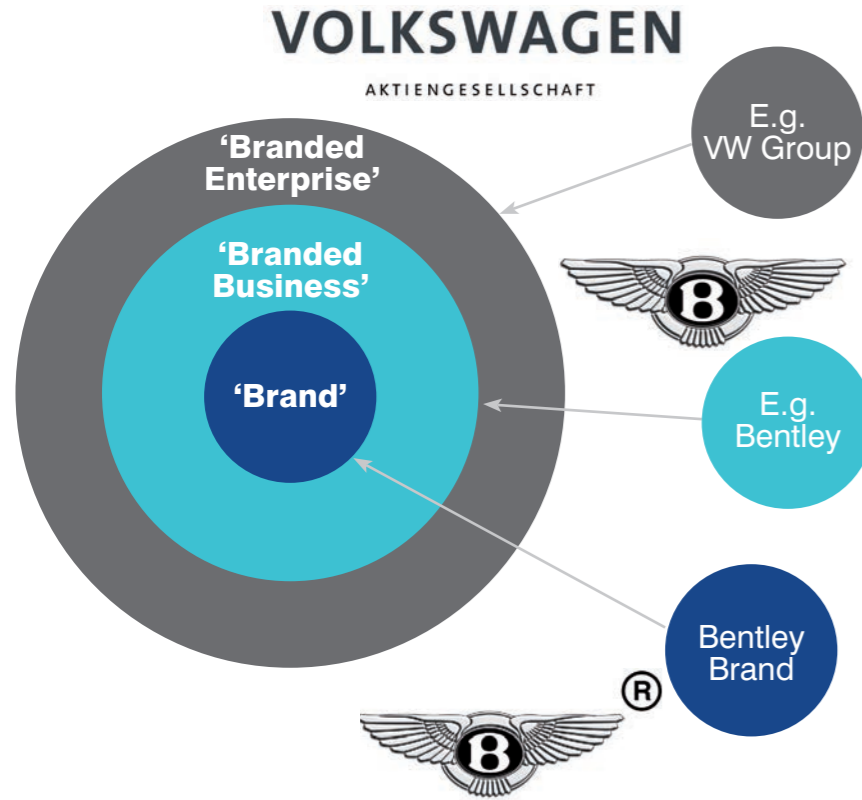
Brand Finance puts thousands of the world's biggest brands to the test every year, evaluating which are the most powerful and most valuable. The Global 500 covers the top 500 from all sectors and is just one of many annual reports produced by Brand Finance. Visit www.brandfinance.com to discover more.



Bridging the gap between marketing and finance

Methodology

What do we mean by 'brand'?



Definitions

+ **Enterprise Value** – the value of the entire enterprise, made up of multiple branded businesses

+ **Branded Business Value** – the value of a single branded business operating under the subject brand

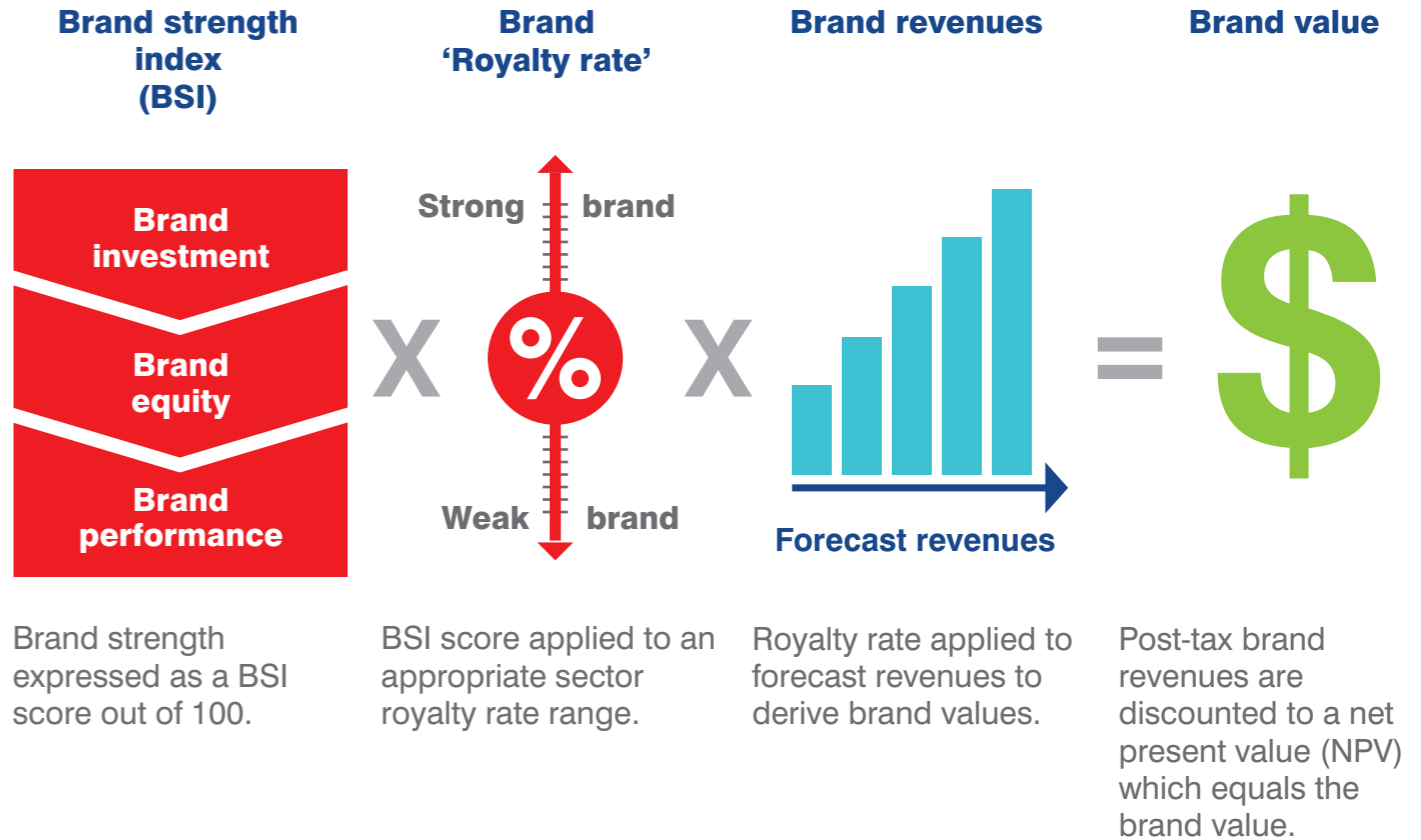
+ **Brand Value** – the value of the trade marks (and relating marketing IP and 'goodwill' attached to it) within the branded business

Definition of 'Brand'

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However when looking at brands as business assets that can be bought, sold and licensed, a more 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”

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.



Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

Royalty rate applied to forecast revenues to derive brand values.

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

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.
- 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 1-5% 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 4.2%.
- 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.

Sector Analysis – Retail

Retail 50



Amazon leads the way in the retail sector by a significant margin, and the brand continues to grow. The online retailer overtook Walmart in brand value terms in early 2014 and has pulled further ahead this year, rising 24% to US\$56 billion, highlighting the challenge to the industry as a whole posed by new technology.

Alibaba is the fastest growing brand in the sector. Its brand value has increased 90% in a year to US\$11.4 billion. There is still significant scope to grow domestically with only half the Chinese population currently online. Allied with this, following its IPO Alibaba has US\$25 billion of new capital to challenge Amazon.

Walmart's brand value increased 4% to US\$46.7 billion. Though this doesn't match Alibaba or Amazon, or the brand value growth rates we have seen in some other sectors, for a brand

with US\$350 billion sales, in an industry going through a period of intense competition, it represents a solid performance. New CEO Doug McMillan is charting a stable course for the brand. A wage hike for half a million employees, with an increase in minimum pay to \$9/hour (\$10/hour from February 2015), will benefit the business and the brand. The publicity surrounding the announcement alone will improve Walmart's brand image. The boost to staff morale should see improved productivity and customer service, both of which are important inputs into Brand Finance's Brand Strength Index.

As recently as 2010 Walmart was the world's most valuable brand across all sectors but it has been gradually been overtaken by the bigger tech brands such as Microsoft, Apple and Google. Amazon overtook it in 2014, highlighting

	1 Rank 2015: 1 2014: 1 → BV 2015: \$56,124m +24% BV 2014: \$45,147m Brand Rating: AAA-		6 Rank 2015: 6 2014: 8 ↑ BV 2015: \$16,157m +5% BV 2014: \$15,350m Brand Rating: AA+
	2 Rank 2015: 2 2014: 2 → BV 2015: \$46,737m +4% BV 2014: \$44,779m Brand Rating: AA+		7 Rank 2015: 7 2014: 6 ↓ BV 2015: \$15,381m -15% BV 2014: \$18,084m Brand Rating: AA
	3 Rank 2015: 3 2014: 3 → BV 2015: \$24,471m +1% BV 2014: \$24,323m Brand Rating: AA+		8 Rank 2015: 8 2014: 9 ↑ BV 2015: \$14,453m +6% BV 2014: \$13,667m Brand Rating: AA
	4 Rank 2015: 4 2014: 5 ↑ BV 2015: \$20,267m +11% BV 2014: \$18,283m Brand Rating: AA+		9 Rank 2015: 9 2014: 11 ↑ BV 2015: \$14,301m +11% BV 2014: \$12,917m Brand Rating: AA-
	5 Rank 2015: 5 2014: 4 ↓ BV 2015: \$18,540m +0% BV 2014: \$18,471m Brand Rating: AA-		10 Rank 2015: 10 2014: 10 → BV 2015: \$14,070m +5% BV 2014: \$13,379m Brand Rating: AA+

the challenge to the industry as a whole posed by new technology. Walmart has taken steps in the right direction, having set up tech labs in Silicon Valley and acquiring e-commerce businesses Adchemy and Styler in 2014. However it is a long road back to regain ground lost to Amazon.

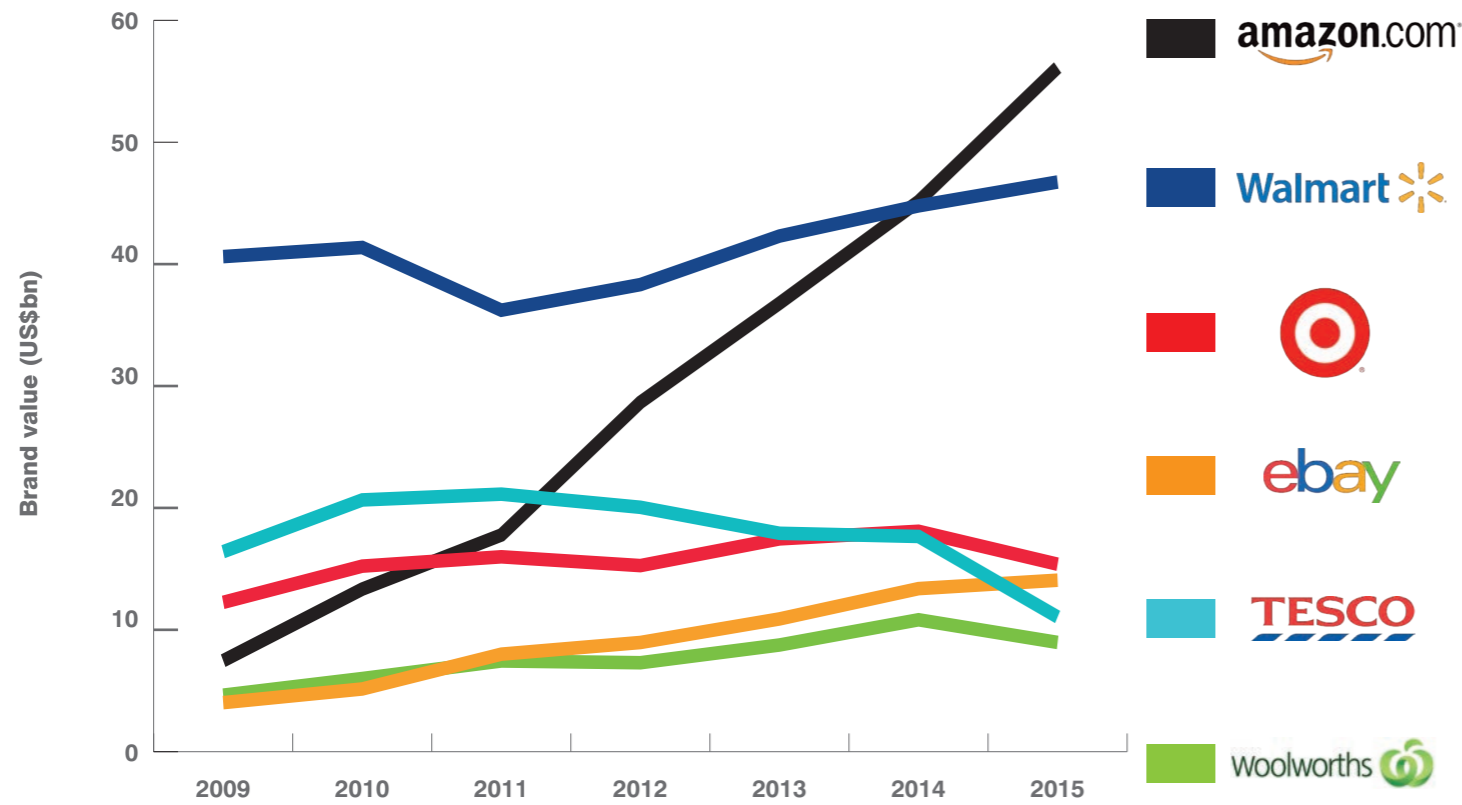
Target's is suffering from the fallout of last year's massive online data breach, when 40 million customer credit card numbers were compromised, harming its reputation. As a result Target has lost 15% of its brand value in a year, which sees it drop behind Walgreens.

The worst performance came from Tesco. The UK's number one retailer has become a magnet for bad news. The setbacks began with unsuccessful US expansion efforts leading to wasted resources and a loss of focus at home.

More recently it has been hit by a huge accounting scandal, with profits overstated by hundreds of millions. Its latest setback is the announcements of an the first ever investigation by the grocery ombudsman over unfair treatment of suppliers. Tesco will be hoping that this year's 37% drop in brand value brings it to a low point from which it can now begin to recover.

Almost all UK retailers are struggling however. M&S is down 1%, Sainsbury's brand value is down 16% and Morrisons is down 25%. All are struggling as a result of the price war that has developed. Competition from discounters is also putting on the pressure. Lidl and Aldi have rapidly won over once sceptical customers with clever advertising to highlight that negative brand perceptions are misplaced. Aldi's brand value is up 11% to US\$14.3 billion. ASDA has registered more modest growth of 2%. However

Sector – Retail



there are signs that the \$8 billion brand may soon disappear. The recent adoption of Walmart's 'Save Money, Live Better' slogan and integration of its 'sunshine' logo could foreshadow a full scale retirement of the ASDA brand.

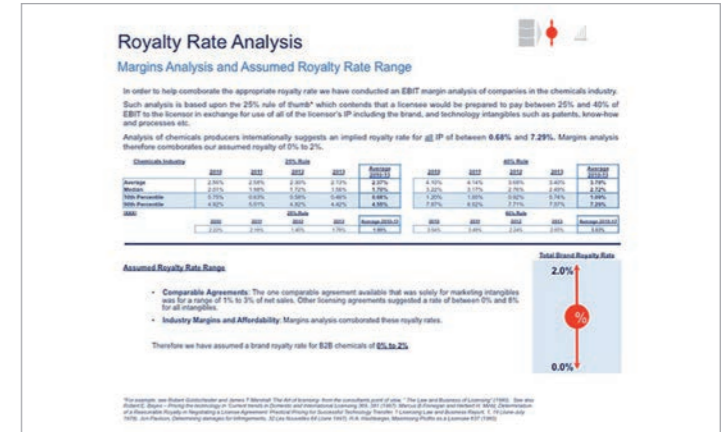
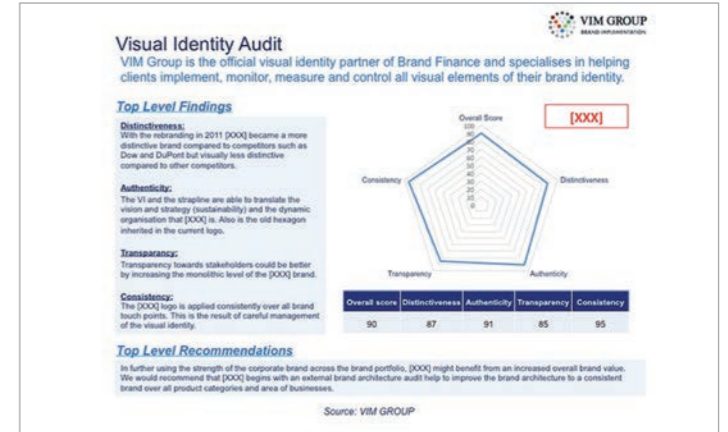
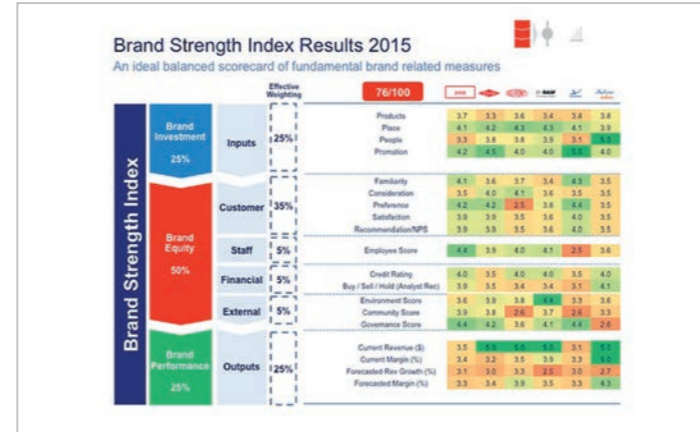
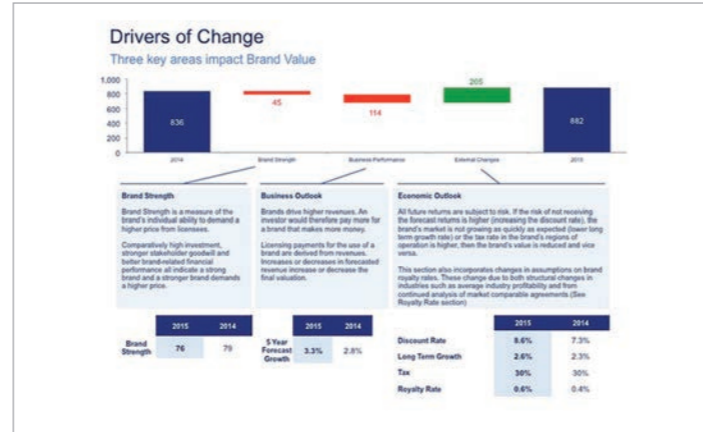
Further down the table, Tiffany and Victoria's Secret are notable strong performers. Victoria's Secret's marketing is supported by its iconic shows featuring the 'Angels'. They are the ultimate brand ambassadors and have included some of the world's most famous and photographed women such as Tyra Banks, Helena Christensen, Claudia Schiffer, Adriana Lima and Miranda Kerr. CEO Sharen Jester Turney continues to expand the brand internationally, with new stores opening in the UK and China in 2014.



Top 50 most valuable brands 1-50.

Rank 2015	Rank 2014	Brand name	Domicile	Brand value (\$m) 2015	% change	Brand value (\$m) 2014	Brand rating 2015	Brand rating 2014
1	1	Amazon.com	United States	56,124	24%	45,147	AAA-	AAA-
2	2	Walmart	United States	46,737	4%	44,779	AA+	AA+
3	3	Home Depot	United States	24,471	1%	24,323	AA+	AA-
4	5	CVS Caremark	United States	20,267	11%	18,283	AA+	AA
5	4	IKEA	Sweden	18,540	0%	18,471	AA-	AA+
6	8	Walgreens	United States	16,157	5%	15,350	AA+	AA
7	6	Target	United States	15,381	-15%	18,084	AA	AA
8	9	Sam's Club	United States	14,453	6%	13,667	AA	AA+
9	11	ALDI	Germany	14,301	11%	12,917	AA-	AA-
10	10	eBay	United States	14,070	5%	13,379	AA+	AAA-
11	12	Lowe's	United States	12,790	1%	12,629	AA	AA
12	23	Alibaba	China	11,377	90%	6,000	AA+	AA+
13	7	Tesco	UK	11,052	-37%	17,659	AA	AA
14	14	Costco	United States	10,551	1%	10,420	AA	AA+
15	15	Carrefour	France	9,636	-4%	10,078	AA	AA+
16	13	Woolworths	Australia	8,964	-17%	10,823	AA	AA+
17	18	ASDA	United States	8,031	2%	7,838	AA+	AA
18	16	Macy's	United States	7,620	-8%	8,287	AA	AA
19		JD.com	China	6,698			A+	
20	17	Sainsbury's	UK	6,694	-16%	7,968	AA	AAA-
21	19	Cartier	Switzerland	6,674	-9%	7,319	AAA	AAA
22	26	Nordstrom	United States	6,012	8%	5,568	AA	AA
23	22	Kroger	United States	6,010	-1%	6,042	AA	AA
24	21	Coles	Australia	5,828	-8%	6,335	AA	AA+
25	42	Sherwin-Williams	United States	5,506	38%	3,976	AA+	AA+
26	25	Aeon	Japan	5,499	-3%	5,656	A+	AA-
27	29	Rolex	Switzerland	5,493	9%	5,031	AAA+	AAA+
28	28	Publix	United States	5,481	4%	5,277	AA	AA-
29	27	E Leclerc	France	5,456	0%	5,462	AA+	AA+
30	24	Groupe Casino	France	5,326	-8%	5,783	AA	AA
31	30	Marks & Spencer	UK	4,979	-1%	5,026	AA+	AAA-
32	20	Morrisons	UK	4,826	-25%	6,417	AA-	AA-
33	34	Edeka	Germany	4,538	0%	4,533	A-	A+
34	36	Magnit	Russia	4,526	5%	4,291	AA-	A+
35	32	Metro	Germany	4,504	-1%	4,565	AA	AA
36	33	Chow Tai Fook	Hong Kong	4,395	-3%	4,544	A+	A
37	48	Tiffany & Co.	United States	4,331	19%	3,647	AAA-	AAA-
38	44	Victoria's Secret	United States	4,202	7%	3,919	AAA-	AA+
39	31	7-Eleven	Japan	4,065	-12%	4,629	AA-	AA-
40	39	Omega	Switzerland	4,062	-2%	4,146	AA+	AAA-
41	41	Whole Foods	United States	4,037	1%	3,987	AA-	AA+
42	40	Kohl's	United States	4,001	-1%	4,045	AA	AA-
43	35	Safeway	United States	3,972	-9%	4,364	AA-	AA
44	45	Dollar General	United States	3,967	6%	3,732	AA	AA
45	38	Auchan	France	3,693	-12%	4,202	AA-	AA
46	43	Best Buy	United States	3,683	-7%	3,974	AA	AA
47	47	AutoZone	United States	3,640	-1%	3,659	AA	AA
48	52	Carmax	United States	3,422	0%	3,429	A+	AA
49	54	Bed Bath & Beyond	United States	3,196	0%	3,206	AA-	AA
50	37	QVC	United States	3,071	-28%	4,246	AA-	AA-

Understand Your Brand's Value



A League Table Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI's
- + Competitor benchmarking

Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

- + Transfer pricing
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

- + Independent view of cost of capital for internal valuations and project appraisal exercises

Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

For more information regarding our League Table Reports, please contact:

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How we can help.



MARKETING

We help marketers to connect their brands to business performance by evaluating the financial impact of brand based decisions and strategies.

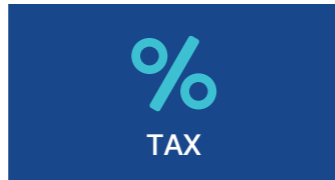
- + Brand Valuation
- + Brand Due Diligence
- + Profit Levers Analysis
- + Scenario Modelling
- + Market Research
- + Brand Identity & Customer Experience Audit
- + Brand Strength Analysis
- + Brand Equity Analysis
- + Perception Mapping
- + Conjoint & Brand/Price Trade-off Analysis
- + Return on Investment
- + Sponsorship Evaluation
- + Budget Setting
- + Brand Architecture & Portfolio Evaluation
- + Brand Positioning & Extension Evaluation
- + Brand Migration
- + Franchising & Licensing
- + BrandCo Strategy
- + Brand Governance Process
- + Brand Tracking
- + Management KPIs
- + Competitor Benchmarking



FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Fair Value Exercise (IFRS 3 / FAS 141)
- + Intangible Asset Impairment Reviews (IAS 36 / FAS 142)
- + Brand Due Diligence
- + Information Memoranda
- + Finance Raising
- + Insolvency & Administration
- + Market Research Design and Management
- + Return on Investment
- + Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Scenario Modelling & Planning
- + Transfer Pricing Analysis
- + Management KPIs and Target-setting
- + Competitor Benchmarking



TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Patent Valuation
- + Asset Transfer Valuations
- + Business & Share Valuations
- + Transfer Pricing Analysis
- + Royalty Rate Setting
- + Brand Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Market Research Design and Management
- + Brand Tracking
- + Expert Witness Opinion



LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Patent Valuation
- + Business & Share Valuations
- + Loss of Profits Calculations
- + Account of Profits Calculations
- + Damages Assessment
- + Forensic Accounting
- + Royalty Rate Setting
- + Brand Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Market Research Design and Management
- + Trademark Registration
- + Trademark watching service

Brand Valuation

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

Brand Monitoring

Improve reporting and brand performance management by integrating market research, investment, market and financial metrics into a single insightful scorecard model to track performance and inform strategic decisions.



Brand Analytics

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allow an understanding of how brands create bottom-line impact.

Brand Strategy

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

Contact details.

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