

Why not-for-profit business should value their brands

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Non-for-profit organisations are playing a growing role in today's society and consumers are increasingly attracted to their mission and values.

We recently completed a particularly interesting project with the Royal College of Art, a leading postgraduate university of art and design, where we looked to measure the non-financial contributions made by the RCA brand. This was a particularly innovative piece of work and allowed the College to build a powerful case for understanding the value of the RCA brand.

What sets not-for-profit organisations and indeed institutions like the RCA apart, is that financial resources are a means to achieve their mission and their purpose, not the end in itself. These companies often lead the debate on emotive subjects that go beyond financial or product performance, have an enormous role in changing people's lives and behaviours, and create invaluable benefits to society as a whole. They do however often suffer from a lack of resources, due to their non-commercial objectives.

Because of this, there is an emerging need from these organisations to assess the value of their brands. This is for two main reasons. Firstly, not-for-profit organisations increasingly compete with each other for the attention and commitment of similar groups of people. And secondly, they are increasingly required to take a more commercial approach towards business partnerships both in terms of sponsorship, licensing and also commercially tendered contract services. Whereas commercial organisations have grown up used to deploying all their assets in the pursuit of competitive success, increasingly not for profit organisations are waking up to the need and the opportunity to use their only truly non-replaceable asset (their brand) in the pursuit of their mission.

Particularly now, when resources are particularly tight, understanding how to get the most value from the brand for a not-for-profit organisation is central to its sustainability. Interbrand's proprietary approach is an adaptation of our market leading brand valuation methodology for commercial businesses. It not only provides a true value for the brand, but also generates recommendation on how that value can be protected and increased over time.

Brand Valuation and Economic Advantage

The brand valuation discipline is not new. It was first developed by Interbrand in the 1980s as a practice that facilitated more accurate business valuations for purposes such as mergers and acquisitions of businesses and individual brands. Since then, the discipline has grown into a vital tool that enables managers to efficiently create value to organisations through their brands.

There are a number of ways to assess the value of a brand. The most widely used and accepted methodology is based on the economic earnings generated by the brand asset

in its current use. But how does this apply to not-for-profit organisations?

The difficulty is that the standard approach used for valuing commercial brands requires a profit forecast and an expected return rate for a given owner, for example shareholders. Interbrand embraced the challenge to devise a robust and defensible way of calculating the financial value of not-for-profit brands despite these obstacles. We adapted our methodology to consider the contribution to investable resources the brand makes in the context of a not-for-profit organisation.

Central to the method is the concept of “branded economic advantage”. This is a measure of the extra money generated by the organisation towards its mission that can be attributed to the success of its brand, across its various audiences. This is made up of extra income and reduced costs.

This intuitively makes sense: we all know that leading not-for-profit brands have a special place in people’s hearts that subsequently influences their economic choices. These choices include, for example, who to work for, who to give to, who to supply with goods and services, and who to invest their time and effort as volunteers and students for example. Additionally, where other organisations and businesses are making choices, brand influences the choice of who to partner and associate with.

A thorough understanding is required to estimate the sustainability of the revenue and cost advantage enjoyed by the organisation, though its brand, over and above what would otherwise be expected. This essential benchmark is provided by comparing the performance of the organisation’s revenue and cost lines across a large number of comparable brands.

Interbrand’s proprietary database contains the financial performance data of over 3000 leading not-for-profit organisations. This comparative analysis gives the valuation the objective, transparent and robust quality needed by modern day institutions and managers alike.

RCA strong relationships is worth £57m

When we first developed our standard brand valuation methodology, the purpose was to help a client to solve a problem with no apparent answer – what is the value of my customer relationships.

The story of our latest innovation with the RCA bears many similarities. There was a need to show the value created by the Royal College of Art brand in order to reinforce the case for premium funding from government. Our study proved that the RCA owns and manages a powerful brand asset which creates an economic advantage for the RCA as a whole.

The study showed that the RCA brand creates value by positively influencing the perceptions and behaviours of a variety of stakeholders that interact with the College.

The main stakeholders include students, staff, businesses, donors and specialist suppliers – all of which have different motivations and reasons for engaging with the College. The brand enables the RCA, through its impact on stakeholder behaviour, to command premium fees for its courses and cultural events, and to enjoy lower costs of doing business.

The strength and stability of the brand and its international reputation help to secure this advantage over time. It also creates a virtuous cycle of economic value whereby the organisation can re-invest its advantage therefore further building the strength to the brand. The Royal College of Art brand was valued at £57m at the end of 2008.

Jeremy Myerson, Director of Innovation RCA, the College's network for business, who worked closely with Interbrand on the RCA brand valuation, comments:

“This was a very valuable exercise for the College and a pioneering one too as, essentially it piloted a brand valuation methodology for the high education sector as a whole.

“Valuing a brand for a not-for-profit organisation is demanding of a new approach and a willingness to be flexible. We found Interbrand to be exceptionally responsive partners. They were careful to get under the skin of the Royal College of Art and rigorous in their subsequent financial analysis of how our brand exerts economic leverage.”

At Interbrand we believe that this partnership will encourage other not-for-profit organisations and High Education institutions to consider a similar exercise. The depth of insight and understanding that results from the collaboration provides organisations with the factual tools for strategic growth and development.

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