

Bestra
brand consultants

**BESTRA'S 2011 UK
REPUTATION DIVIDEND RANKING**

*A uniquely powerful tool to help manage the reputational drivers
of corporate value*

March 31, 2011

INTRODUCTION

Few CEOs would deny that their corporate reputation ranks amongst their company's most important assets. However, few would say they have much of an understanding of how to value reputation or, more importantly, how it should be managed to maximise that value.

Metrics abound but there is nothing that offers useful insight into the economic impact of corporate reputation. Inevitably, they stop well short of connecting reputation and its drivers through to the shareholder value it underpins. No longer. Bestra's Reputation Dividend answers the question with the introduction of Reputation Dividend, the first index of the impact and financial value of corporate reputation.

A POWERFUL NEW TOOL

Reputation Dividend fills the gap. It's a totally new diagnostic tool for senior management and everyone responsible for corporate communications, brand or investor relations. Its uniquely objective approach to diagnosing the value generating components of corporate reputations provides managers with the means to maximise the impact of their efforts. Reputation Dividend helps to:

- Integrate corporate brand into a wider brand management strategy.
- Prioritise the foundations of existing reputation value – ensuring that brand messages and underlying activities play to and secure the key strengths of a company's corporate reputation.
- Plan communications strategy for value growth – by playing to the components of corporate reputation that will unlock incremental shareholder value fastest.

Bestra's Reputation Dividend will generate considerable appeal in the boardroom. It provides unambiguous pointers to where companies should be concentrating their reputation, corporate efforts and communications fire power and sheds new light on that holy grail of marketing 'which half of my budget is wasted and which half is working'.

It offers an objective means to monitor and manage corporate reputation based on an understanding of:

- Reputation Contribution – the financial value and relative proportion of market cap attributable to corporate reputation.
- The comparison of the relative value a company's corporate reputation to that of its peers and competitors.
- Isolation of nine principal components of reputation value – the individual levers of a company's reputation that do and or could contribute most.
- Reputation Leverage. A measurement of the return on investment in corporate brand management and communication.
- The study measures the growth in market cap due to past investment or what can reasonably be expected from any future investment in corporate reputation.

HEADLINES AND HIGHLIGHTS FROM BESTRA'S 2011 UK RANKING

- Corporate reputation is currently contributing close to c£460bn of shareholder value in UK FTSE350 companies.
- Notwithstanding the downturn, the economic contribution of the corporate reputations of Britain's largest public companies has increased for the third year running. Across the FTSE350 it now accounts for c30% of all shareholder value, a rise of 3%pts over the last 12 months.
- £430bn of the £460bn resides in the larger FTSE100 where corporate reputations are contributing on average 32% of companies' market cap. By comparison reputations are only adding 14% of value worth some £30bn to FTSE250 companies.
- The upward trend in value contribution through increasingly hard times underlines the importance of corporate reputation as a business asset. First, in mitigating some of the ravages of the downturn by shoring up shareholder value and second by setting up and or helping to pave the way for the recovery.....confidence
- But corporate reputation isn't just a repository of shareholder value, it is a means to grow it. The analysis shows that enhancing it will directly increase a company's market cap; stronger reputations will increase the confidence the investment community has in the ability of companies to deliver the economic returns they promise. On average 5% improvement in the strength of a reputation will lead to an increase of 1.8% in market cap in FTSE100 companies and 2.0% in FTSE250 companies.

HOW CAN BESTRA'S REPUTATION DIVIDEND HELP YOU?

... on two levels.

1. INDIVIDUAL COMPANY REPORTS BASED ON OUR 2011 STUDY

We are offering company specific reports based on our 2011 study. For any company included in the existing database* we will provide a corporate reputation analysis comprising:

- The current reputation value (including trend data where relevant)
- Peer-group comparisons. Breakdown of the primary reputational drivers and their impact on the companies' market cap.
- The companies' reputation risk profile – where, within the current reputation, the value is located (and so needs to be protected).
- Of each of the reputational drivers and expectations of RoI on different messaging strategy options.
- Contextual analysis of a businesses' reputation profile during the research period.
- Recommendations on reputational messaging priorities as they relate to securing and growing company value.

* See appendix for full listing

2. ORIGINAL REPUTATION RESEARCH AND CONSULTING

Using our model as the basis for conducting a more detailed analysis of the drivers of a company's reputation and their capacity to drive market cap (corporate value). This would include ad-hoc research and consulting designed to inform and guide corporate branding and communications strategies.

Using our model as the basis for conducting a more detailed analysis of the drivers of a company's reputation and their capacity to drive market cap (corporate value). This would include ad-hoc research and consulting designed to inform and guide corporate branding and communications strategies.

This service will appeal to organisations who wish to assess the value and impact of corporate reputation against a specific timeframe (for example, in the run-up to financial results), across specific geographies and against bespoke company-specific reputational measures. It includes:

- Original market research study to generate sensitive and up to date measures of the company's corporate reputation profile. This would be based on a pre-brief with client and take account of any existing data.
- Tailoring the overarching Reputation Dividend model to the corporate reputation in question and the management priorities.
- Integrating additional on and off-line reputational and financial research data from available sources. We see this as being the ideal entry point for a more comprehensive analysis of the company's current reputational standing.

The study becomes the basis for integrating corporate and brand strategy and more objective communications.

APPENDIX 1: OVERVIEW OF BESTRA'S METHODOLOGY

Over the last five years we have analysed the performance of close to 500 of the largest companies in the UK and the US. In the course of that we have developed an empirical model that explains the value of each company in terms of a combination of its financial and reputational factors.

All the input data are 'hard numbers' from reputable sources including Factset, Bloomberg and Management Today's Britain's Most Admired Companies study.

Using advanced regression analysis techniques we tested a wide variety of 'explanatory' variables - including shareholder equity, return on assets, forecast and reported dividend, EBITDA/EBIT and, EPS, liquidity, company and sector betas and corporate reputation and identified the critical group which together account for the bulk of the variation in a company's market cap.

Corporate reputation is treated at two levels. First, at an overall level and second in terms of nine core components of it defined from the source research ('quality of management', 'quality of goods and services', 'ability to attract, develop and retain talent', 'capacity to innovate', 'quality of marketing', 'community and environmental responsibility', 'use of corporate assets', 'financial soundness' and 'value as a long term investment').

The model is robust, intuitively sound and passes all the standard statistical tests. Moreover it is comprehensive in that it explains on average, close to 95% of corporate value.

APPENDIX 2: FURTHER STUDY HIGHLIGHTS FROM BESTRA'S 2011 UK REPUTATION DIVIDEND RANKING

The winners and losers

The ten most valuable corporate reputations are contributing on average 48% to shareholder value (as measured by market cap). That represents a combined value of some £228bn.

Top ten Reputation Contributions 2010/11	
Royal Dutch Shell PLC (CL A)	52.1%
Unilever PLC	52.0%
BG Group PLC	49.9%
Tesco PLC	49.8%
BHP Billiton PLC	48.8%
British Sky Broadcasting Group	48.2%
Centrica PLC	47.7%
Rolls-Royce Group PLC	46.1%
GlaxoSmithKline PLC	44.8%
Diageo PLC	44.7%

By contrast, the ten least effective reputations are all eroding value. On average 10.7% of market cap worth a total of £720m.

Bottom ten Reputation Contributions 2010/11	
Millennium & Copthorne Hotels	-0.3%
Ashmore Group PLC	-0.8%
Fidessa Group PLC	-2.1%
Cable & Wireless Communication	-4.4%
ITV PLC	-6.3%
Taylor Wimpey PLC	-7.2%
Punch Taverns PLC	-7.6%
Enterprise Inns PLC	-15.8%
Sports Direct International PL	-17.8%
Yell Group PLC	-44.9%

Index differences

The contribution of corporate reputation to holding up market cap was most apparent in the FTSE100. Whereas the reputation contribution declined in FTSE250 companies going into the downturn in 2008/09 and further in 2009/10, it grew steadily amongst FTSE100s. More effective reputation management secured value.

Average Reputation Contribution				
	2007/08	2008/09	2009/10	2010/11
FTSE100	20.7%	23.4%	29.3%	32.1%
FTSE250	12.2%	10.8%	9.8%	14.2%

Clearly, FTSE100 companies have been more effective in managing and deploying their reputation assets than their counterparts in the FTSE250.

Sector differences

Reputation contributions vary considerably by business sector. It ranges from an average of 16% in technology and utility companies to 51% in the oil & gas sector.

Average Reputation Contribution by business sector 2010/11	
Technology	16.2%
Utilities	16.3%
Telecommunications	18.5%
Consumer Services	20.5%
Financials	22.1%
Industrials	23.7%
Consumer Goods	24.5%
Health Care	27.4%
Basic Materials	30.4%
Oil & Gas	51.2%

Reputation as a driver of value growth

Corporate reputation is an active source of incremental value. The analysis shows that building corporate reputation will directly increase shareholder value; stronger reputations will increase the confidence the investment community has in the ability of companies to deliver the economic returns they promise. On average 5% improvement in the strength of a reputation will lead to an increase of 1.8% in market cap in FTSE100 companies and 2.0% in FTSE250 companies.

The reputation value drivers

Within corporate reputation as a whole there has been a marked change in the individual attributes the investment community is responding to. Last year, at the height of the recession and all the associated uncertainty, the most potent elements of reputation were the more pragmatic qualities of 'value as a long term investment', 'financial soundness' and 'quality of management'. It was improvements in perceptions of those the factors that delivered the greatest value growth. Now, with investors' uncertainty having settled a little, arguably, it is factors like 'quality of management' and 'quality of goods and services' that they are increasingly looking to.

Furthermore, and most likely stimulated by BP's difficulties last year, they are appreciating the importance of 'community and environmental responsibility' again. Whereas it was being marked down by the investment community before the Deepwater Horizon disaster it is now, quite rightly perhaps, recognised as a key value driver.

Relative value impact		
Reputation factor	2009/10	2010/11
Quality of management	0.7	1.4
Quality of goods & services	1.6	1.4
Capacity to innovate		0.6
Financial soundness	0.9	0.3
Ability to attract talent	0.5	
Value as a long term investment	2.9	0.5
Quality of marketing	0.6	
Community & environmental responsibility	-1.5	1.0
Use of corporate assets	0.7	

APPENDIX 3: COMPANIES IN BESTRA'S 2011 UK REPUTATION DIVIDEND RANKING

COMPANY	Reputation Contribution (as % of market cap)
Royal Dutch Shell PLC (CL A)	52%
Unilever PLC	52%
BG Group PLC	50%
Tesco PLC	50%
BHP Billiton PLC	49%
British Sky Broadcasting Group	48%
Centrica PLC	48%
Rolls -Royce Group PLC	46%
GlaxoSmithKline PLC	45%
Diageo PLC	45%
Serco Group PLC	44%
Anglo American PLC	43%
Rio Tinto PLC	43%
Reckitt Benckiser Group PLC	43%
J Sainsbury PLC	43%
Whitbread PLC	42%
Vodafone Group PLC	42%
Aggreko PLC	42%
Kingfisher PLC	41%
Pearson PLC	40%
Wm. Morrison Supermarkets PLC	40%
Johnson Matthey PLC	40%
AstraZeneca PLC	39%
Xstrata PLC	39%
Associated British Foods PLC	38%
Capita Group PLC	37%

Next PLC	36%
Compass Group PLC	36%
Berkeley Group Holdings PLC	36%
Balfour Beatty PLC	36%
Tullow Oil PLC	36%
Stagecoach Group PLC	36%
Burberry Group PLC	34%
Carnival Corp.	34%
Admiral Group PLC	34%
WPP Plc	34%
BAE Systems PL C	33%
Experian PLC	33%
Autonomy Corp. PLC	33%
Cairn Energy PLC	33%
Inmarsat PLC	33%
BP PLC	33%
IG Group Holdings PLC	32%
Marks & Spencer Group PLC	32%
SABMiller PLC	32%
Travis Perkins PLC	32%
InterContinental Hotels Group	32%
Ultra Electronics Holdings PLC	31%
Victrex PLC	31%
Dunelm Group PLC	30%
Tate & Lyle PLC	30%
Shire PLC	30%
National Grid PLC	30%
Scottish & Southern Energy PLC	30%
Cobham PLC	29%
Sage Group PLC	29%
Croda International PLC	28%
Babcock International Group PL	28%
Mitchells & Butlers PLC	27%
FirstGroup PLC	26%
G4S PLC	26%
Go -Ahead Group PLC	26%
ICAP PLC	26%

Britvic PLC	25%
Man Group PLC	25%
RSA Insurance Group PLC	25%
Schroders Plc Vtg	25%
WH Smith PLC	24%
Mothercare PLC	24%
J.D. Wetherspoon PLC	23%
Intertek Group PLC	23%
Halfords Group PLC	23%
TUI Travel PLC	23%
Dairy Crest Group PLC	23%
Thomas Cook Group PLC	23%
Bunzl PLC	23%
Logica PLC	23%
Derwent London PLC	23%
GKN PLC	22%
Reed Elsevier PLC	22%
AMEC PLC	22%
Cranswick PLC	22%
Hargreaves Lansdown PLC	22%
United Utilities Group PLC	21%
Persimmon PLC	21%
Greene King PLC	21%
Severn Trent PLC	21%
Hammerson PLC	21%
Hikma Pharmaceuticals PLC	20%
Shaftesbury PLC	19%
Aberdeen Asset Management PLC	19%
International Power PLC	19%

ABOUT BESTRA

The world continues to change at a dashing pace...

We are a new kind of global branding consultancy with exceptional talent, and with an innovative model...

We understand the power of brands in the wake of new media, and how social behavior impacts brand perceptions. It is a new mindset.

We have delivered stellar results to our clients in past global engagements eliminating barriers and increasing efficiencies

We have seasoned partners around the world, working as a single team, who are dedicated to your project. We tailor teams according to project needs rather than geographic proximity.

In addition, we have an engaged independent professional worldwide staff, specializing in analytics, design and support.

Bestra Brand Consultants prepares its clients for the unforeseeable by providing tangible brand design, strategy, analytics, and innovative solutions that support and integrate with your business model. We can lead the way.

CONTACT:

Contact:

London

Simon Cole
simon.cole@bestrabrand.com
M +44.7788.926.121

New York

Alfredo DeLima
alfredo.delima@bestrabrand.com
M +1.646.593.1435

Madrid

Aurora Michavila
aurora.michavila@bestrabrand.com
M +34.690.615.815

Medellin

Felipe Tamayo
felipe.tamayo@bestrabrand.com
M +57.310.448.0804

