IP Challenges in the 21st Century

Brand Finance, 7th April 2018

Mr. Samir Dixit
Managing Director
Brand Finance Asia Pacific
We are in the ideas economy.

The economy of intangibles
The BRAND is the most powerful intangible for creating shareholder and business value.

It’s also under maximum threat in the 21st Century.
IP/Intangible assets account for almost half of global enterprise value

- Most Comprehensive Research ever compiled on Intangible Assets.
- Brand Finance analysis of top 120 national stock exchanges. 57,000 companies.
- Over 41% of global enterprise value is intangible.

Source: 2017 BrandFinance® Global Intangible Finance Tracker (GIFT™)
IP Ecosystem and Related Challenges

IP ecosystem is typically made up of the following:

The IP Ecosystem is typically made up of the following:

<table>
<thead>
<tr>
<th>IP Creation</th>
<th>→</th>
<th>IP Protection</th>
<th>→</th>
<th>IP Enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP Rejuvenation</td>
<td>←</td>
<td>IP Governance</td>
<td>←</td>
<td>IP Maintenance</td>
</tr>
<tr>
<td>IP Value Enhancement</td>
<td>→</td>
<td>IP Commercialisation</td>
<td>→</td>
<td>IP Exploitation</td>
</tr>
</tbody>
</table>

*Typically high involvement and large supporting infrastructure. Once protected, relatively low risk.*

*Typically low involvement and smaller supporting infrastructure.*

*Even if protected, IP always has a high “Encroachment Threat” and “Commercial Risk”*
IP Risks & From Whom?

The commercial and encroachment risks will be equally via indirect stakeholders in the 21st Century

IP Enforcement and protection

Lack of IP Governance and Exploitation

IP Infringement

Reputation Risk

Financial Risk

Strategic Risk

Packaging Risk

Product Ban and other restrictions

Passing off. Infringement

Communication Ban. Social Media Backlash

Regulatory Risk

Legal Risk

Poor Commercialisation

Customer Boycott

Competition Risk

Media Risk

Social Risk

Government Risk

Trade Risk

Lack of IP recognition

Infringement, Passing-off and Plain Packaging

White Labelling and Retail Placement Restrictions

IP Infringement

Lack of IP Governance and Exploitation

Poor Commercialisation

Infringement, Passing-off and Plain Packaging

White Labelling and Retail Placement Restrictions

Lack of IP recognition

Customer Boycott

Social Risk

Government Risk

Trade Risk

Regulatory Risk

Legal Risk

Financial Risk

Strategic Risk

Packaging Risk

Product Ban and other restrictions

Passing off. Infringement

Communication Ban. Social Media Backlash

Regulatory Risk

Legal Risk

Poor Commercialisation

Customer Boycott

Competition Risk

Media Risk

Social Risk

Government Risk

Trade Risk

Lack of IP recognition

Infringement, Passing-off and Plain Packaging

White Labelling and Retail Placement Restrictions

Lack of IP Governance and Exploitation

Poor Commercialisation
Packaging is just packaging, right?
After all, it’s the product that really matters.

- Every year, 95%* of new products fail. The reason is packaging.
- Most customers don't have the time or energy to weigh the advantages and disadvantages of the products in their shopping carts, so they use a shortcut to make their decision. That shortcut is “PRODUCT PACKAGING”
- Packaging is one of the most crucial IP for brand recognition and sales. Not the product category recognition but the brand.
  - Shape and form
  - Colours
  - Graphics

*Source: https://www.forbes.com
Packaging is just packaging, right?
After all, it’s the product that really matters.

You cannot buy an empty Tiffany box, ever.

The Color
Pantone No. 1837 (coined for the year of Tiffany’s founding) is also known as forget-me-not blue and robin’s egg blue. It is the most protected color in the branding industry.

THE BOX
Pantone makes the blue coated paper packaging for Tiffany.

THE NAME
Tiffany and Co boxes are embossed in Baskerville Old Face with Tiffany & Co. - but that really don’t need to be. The Tiffany blue pretty much says it all.

THE ACCENT
A white satin ribbon tied on at the counter is the de rigueur accompaniment to the signature blue box. During the holidays, Tiffany uses a red ribbon instead.

THE COLOR
Pantone No. 1837 (coined for the year of Tiffany’s founding) is also known as forget-me-not blue and robin’s egg blue. It is the most protected color in the branding industry.

People rarely consciously look at logos.
Shopping habits are formed years ago, and don’t change. But when packaging suddenly changes in a big way, people definitely notice.

After its package redesign, sales of the Tropicana plummeted 20% between Jan. 1 and Feb. 22. On Feb. 23, the company announced it would bow to consumer demand and scrap the new packaging. It had been on the market less than two months.

Unit sales dropped 20%, while dollar sales decreased roughly $33 million between Jan. 1 and Feb. 22.

Several of Tropicana’s competitors appear to have benefited from the misstep. Minute Maid, Florida’s Natural and Tree Ripe all posted double-digit unit sales increases during the period. Private-label products also saw an increase during the period, in keeping with broader trends in the food and beverage space.
Packaging Under Threat in the 21st Century

- Passing-offs
- White Labelling
- Counterfeiting
- Plain Packaging
Plain Packaging: Consumer Protection or Economic Destruction
Packaging Passing-off is a highly profitable business

Ghost brands and counterfeits trade on the halo value of an established brand

Packaging Protects. Plain packaging will take passing off and counterfeiting many steps further.
What is Plain Packaging?

Removal of all branded features from external packaging, except for the brand name written in a standardised font, with all surfaces in a standard – often drab brown – colour.

Plain Packaging for tobacco:

• Australia, France, Britain, and Ireland have already implemented plain packaging for tobacco products.

• Many others, including Norway, Georgia, Slovenia, Hungary, and New Zealand have legislated for it.
Is it imminent?
Increasing calls to extend the legislation

• In 2015, the WHO-backed *Tobacco Atlas*, called for extending plain packaging to alcohol and some food and drink products.

• The Ontario Medical Association has mocked up images of plain packaging on food and drink products.

• In March 2017, Cambridge academic Wolfram Schultz, winner of the €1 million Brain Prize for the understanding of decision-making, made a widely publicised call for plain packaging to be applied to fatty, salty foods to improve public health.

• In November 2017, medical journal *The Lancet* called for plain packaging to be considered for alcohol, issue previously raised by Public Health England.

• Also in the past month, Canada’s Yukon became the first territory in the world to introduce sizeable health warning labels on all alcohol products, cautioning against the risk of cancer. **NOW RETRACTED**

• **LATEST LEGISLATION IN IRELAND ON FOOD & DRINK**
Key Findings

$187 billion of total implied loss in value for 8 major brand-owning companies as a result of reduced brand strength and marketing effectiveness

At least $293 billion of total implied loss across the beverage industry
### Fig. 2 - Breakdown of Affected Brands and Exposure to Legislation by Company

<table>
<thead>
<tr>
<th>Parent</th>
<th>Brands Portfolio</th>
<th>Alcohol</th>
<th>Sugary Drinks</th>
<th>Savoury Snacks</th>
<th>Confectionary</th>
<th>Exposure</th>
<th>Implied Loss (USDm)</th>
<th>Loss as Proportion of Enterprise Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>PepsiCo</td>
<td>135</td>
<td>1%</td>
<td>17%</td>
<td>36%</td>
<td>8%</td>
<td>62%</td>
<td>-43,019</td>
<td>-27%</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>218</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>-10,029</td>
<td>-26%</td>
</tr>
<tr>
<td>The Coca-Cola Company</td>
<td>101</td>
<td>0%</td>
<td>50%</td>
<td>1%</td>
<td>0%</td>
<td>51%</td>
<td>-47,293</td>
<td>-24%</td>
</tr>
<tr>
<td>Heineken</td>
<td>196</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>-12,223</td>
<td>-20%</td>
</tr>
<tr>
<td>AB InBev</td>
<td>234</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>-43,331</td>
<td>-15%</td>
</tr>
<tr>
<td>Nestlé</td>
<td>114</td>
<td>0%</td>
<td>4%</td>
<td>1%</td>
<td>29%</td>
<td>33%</td>
<td>-24,344</td>
<td>-10%</td>
</tr>
<tr>
<td>Mondelēz International</td>
<td>105</td>
<td>0%</td>
<td>1%</td>
<td>8%</td>
<td>60%</td>
<td>69%</td>
<td>-6,156</td>
<td>-8%</td>
</tr>
<tr>
<td>Danone</td>
<td>139</td>
<td>0%</td>
<td>3%</td>
<td>1%</td>
<td>5%</td>
<td>9%</td>
<td>-299</td>
<td>-1%</td>
</tr>
</tbody>
</table>
Fig. 4a - Effect on Individual Brand Contribution Values - PepsiCo

Fig. 4b - Total Value Loss for PepsiCo
Pernod Ricard Example

Fig. 5a - Effect on Individual Brand Contribution Values - Pernod Ricard

Fig. 5b - Total Value Loss for Pernod Ricard
# Methodology

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Identify All Brands</th>
<th>Determine Whether Brand is Affected</th>
<th>Number Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>DANONE</td>
<td>139</td>
<td>13</td>
<td>126</td>
</tr>
<tr>
<td>Nestlé</td>
<td>114</td>
<td>38</td>
<td>76</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>101</td>
<td>52</td>
<td>49</td>
</tr>
<tr>
<td>Mondelez International</td>
<td>105</td>
<td>72</td>
<td>33</td>
</tr>
<tr>
<td>PEPSICO</td>
<td>135</td>
<td>84</td>
<td>51</td>
</tr>
<tr>
<td>Heineken</td>
<td>196</td>
<td>196</td>
<td>0</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>218</td>
<td>218</td>
<td>0</td>
</tr>
<tr>
<td>ABInBev</td>
<td>234</td>
<td>234</td>
<td>0</td>
</tr>
</tbody>
</table>

Conduct before and after plain packaging analysis on each affected brand.
Why losses to brands matter?

- $ 5.9 trillion in 2014 of “intangible capital,” - Nearly one third of the value of manufactured products sold around the world, such as branding, design and technology

  - According to a WIPO 2017 study of the global value chains companies use to produce their goods.

- The total number of Intellectual Property Rights dependent jobs rises to 82.2 million (38.1%)

- IPR-intensive industries generated more than 42% of total economic activity (GDP) in the EU, worth € 5.7 trillion

- IPR-intensive industries pay a wage premium of 46% over other industries.

  - According to European Union Industry-Level Analysis Report, October 2016

- Globally, intangible value continues to soar, rising from $19.8 trillion in 2001 to $47.6 trillion in 2016, despite a drop of over 50% during the financial crisis of 2008

  - Brand Finance GIFT Report 2017
To Conclude

Drinking is a serious addiction.
Fast food driven obesity is a global catastrophe.
Meat consumption causes cancer.
Smoking is a disease.
Sugar consumption drives more medical issues than all products combined.
Cosmetics related health problems have jumped 300%.

Should all these product packaging be banned and converted to plain packaging?

Should a fundamental IP right be denied basis an opinion?
Contact us

Samir Dixit  Managing Director  
Brand Finance Asia Pacific  
E. s.dixit@brandfinance.com  
T. +65 9069 8651

3 Church Street  
#08-00 Samsung Hub  
Singapore 049483

Brand Finance is the leading brand valuation and strategy firm, helping companies to manage their brands for improved business results.

www.brandfinance.com