



The University of Chicago Booth School of Business

# Investing in Brands

*Opportunities for Private Equity to invest in brands & drive value in core markets*

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# Summary

*This presentation provides a brand evaluation framework to help uncover attractive investment opportunity upsides that others may not see.*

## BROAD FRAMEWORK

Targets with strong core brands but sub-optimal “Brand Relevance” provide non-obvious opportunities to create value and generate attractive returns.

## APPLICATION

### Assessment Risk

- While this framework is powerful, there is non-trivial assessment risk.
- There is meaningful possibility that evaluations mis-assess brand relevance opportunity and core brand extensibility.

### Leverage for Upside Cases

- Given this risk, this framework should contribute to upside cases and not be part of the core underwriting.
- Otherwise, deal underwriting will be too exposed to a single source of failure

### Underwrite Base Cases With Lower Risk

- Base cases should be premised on higher confidence value creation plans (e.g., manufacturing operational excellence, etc.)

### The Value

- Leveraging the framework will help illuminate potential upsides to give conviction to win a deal

### Suboptimal brand relevance can yield opportunities to create value that others don’t see.

#### Brands can be decomposed into three buckets.

- Brand Recognition: Are people familiar with your brand?
- Brand Perception: Do people value your brand?
- Brand Relevance: Is the brand relevant to people’s lives?

#### Strong brands with waning brand relevance provide strong investment opportunities.

- Owners are unlikely to sell flawless brands and/or bidding wars will erode returns
- Limited Brand Recognition will likely still have strong momentum, yielding similar results to flawless brands.
- Underperforming Brand Perception is difficult to invest in – it’s the core brand & takes time to fix
- Suboptimal Brand Relevance provides opportunity to see sources of value that others don’t see by better meeting customers where they are and solving their needs in more applicable ways.

### Firms should look for companies with strong brands and extend them via new products & distr. channels.

#### Opportunities have a strong brand, stagnant businesses, and operating leverage.

- Without strong love for the underlying brand, operating improvements are difficult.
- No product launches or new distribution channels exposes a brand to unoptimized brand relevance.
- A large fixed asset base implies operating leverage which amplifies returns.

#### PE Firms can create value by extending strong core brands to new products and distribution channels.

- New products can help improve the applicability of brands, either directly (like how Twix made Twix ice cream) or through licenses (like how Sour Patch Kids licensed their flavoring to energy drinks).
- New distribution can help meet customers where they are (like how Krispy Kreme is selling donuts at McDonald’s)

### This playbook has been successfully implemented across opportunities.

#### Roark’s Cinnabon improved brand relevance via new product and distribution, despite headwinds.

- Cinnabon decreased the portion size of their rolls to make it a more approachable indulgence during the height of the Atkins craze and launched coffee creamer with International Delight, among other licensed new products in other adjacent categories.
- Cinnabon sold new “Minibons” at Burger King to increase distribution as malls were struggling.
- 70% of Cinnabon’s Revenues come from non-franchise sources (i.e., these products).

#### Brynwood acquired neglected brands from Smuckers & improved relevance via new products.

- Since Brynwood acquired Funfetti, it has added 70 new items across cake flavors, holiday specials, gluten free products, frostings, & other product types.
- Funfetti grew sales to \$100M+ from \$30M at acquisition.

# Decomposing Brand

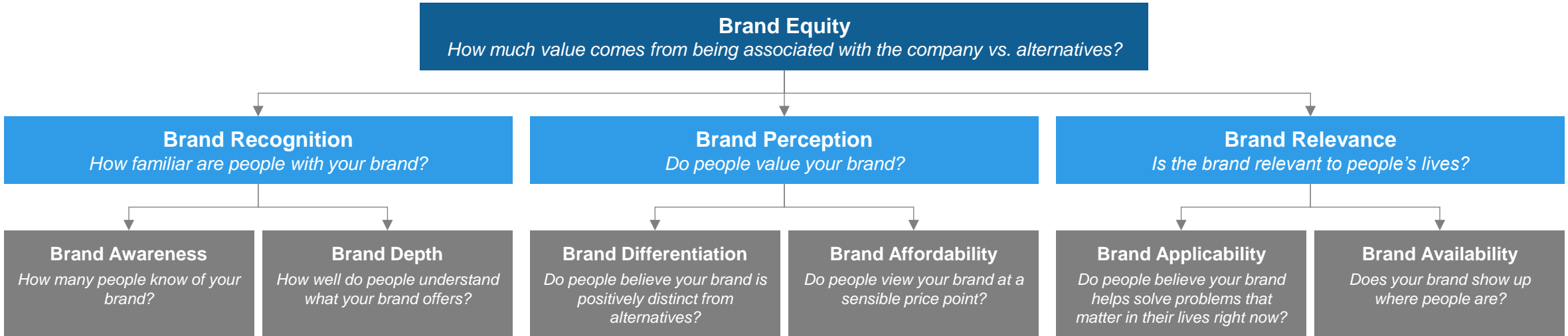
Strong brands have established trust with consumers that they will serve them well; this means that consumers recognize, have a positive perception of, and want to & are able to engage the brand.

## WHAT IS A BRAND?

**A brand is a promise to consumers that they will reliably solve their job to be done.**




**For strong brands, consumers trust that promise, reducing risk and enabling them to make purchases decisions without having to think.**

## DECOMPOSING BRAND



# Relationship Between Components







Each of the components play a different role in the marketing funnel and have a different role in how they contribute to overall brand value.

Category	Role in the Marketing Funnel		Relationship with Overall Brand Value	
	Role	Example	Role	Details
<div>Brand Recognition</div> <div>How familiar are people with your brand?</div>	Awareness	<div>I need a nice tasty, caffeinated beverage to have an exciting start to my day.</div> <div>Dunkin, Starbucks, and McDonald's all have coffee options.</div> <div></div>	<div>"The Amplifier"</div> <div>Potential Scale of the Brand</div>	Brand recognition serves as an <b>amplifier</b> of the brand. It purely dictates the <b>scale of potential success</b> you can have.
<div>Brand Perception</div> <div>Do people value your brand?</div>	Consideration	<div>Out of those, Starbucks has never let me down – I like their drinks the best.</div> <div>It's a little bit more expensive, but so worth it for me.</div> <div></div>	<div>"The Core"</div> <div>Fundamental Strength of the Brand</div>	<div>Brand perception is the <b>fundamental core</b> of the brand and is representative of whether people <b>associate positively or negatively</b> with your brand.</div> <div>If people don't associate positively, you've already lost the battle to win their business – and this perception is <b>very hard to change</b>.</div>
<div>Brand Relevance</div> <div>Is the brand relevant to your life?</div>	Conversion	<div>Great! There's a Starbucks down the road.</div> <div>This Pumpkin Spice Latte perfectly captures the kind of treat I was looking for.</div> <div>Oh! And I can buy bottles to have them at home!</div> <div></div>	<div>"The Efficiency"</div> <div>Conversion of the Brand to Commerce</div>	Brand Relevance represents how efficiently a business is <b>converting their brand value into business transactions</b> . If the brand doesn't have relevance, that won't lead to financial outcomes and the brand value is for nought.



# Why The Components Matter

Without recognition of the brand, customers don't know to look for it; without positive perception of the brand, customers won't consider it specifically; without brand relevance, customers won't engage with it.

Category	Sub-Category	Why It Matters	Brand Example	
THE AMPLIFIER Brand Recognition <i>How familiar are people with your brand?</i>	<b>Brand Awareness</b> <i>How many people know of your brand?</i>	Without awareness of your brand, you cannot have any sort of pre-existing relationship, resulting in commoditized interactions	 <b>Ilan's Cookie Shop</b>	<i>I didn't even know to look for Ilan's Cookie Shop when I visited New York</i>
	<b>Brand Depth</b> <i>How well do people understand what your brand offers?</i>	If people do not understand what your brand is, it will be difficult to drive proactive consideration above and beyond alternatives	 <b>IBM Watson</b>	<i>I've heard of IBM Watson, but I don't really know what it does</i>
THE CORE Brand Perception <i>Do people value your brand?</i>	<b>Brand Differentiation</b> <i>Do people believe your brand is positively distinct from alternatives?</i>	If your brand is just like everyone else's there's no reason to pick yours specifically	 <b>E*TRADE</b>	<i>E-Trade can help me trade stocks, but so can Robinhood, Fidelity, and Charles Schwab</i>
	<b>Brand Affordability</b> <i>Do people view your brand at a sensible price point?</i>	While people may admire your brand, if they don't believe it's at a sensible price point you will not be considered	 <b>instacart</b>	<i>Instacart offers me a valuable and unique service, but I just can't justify paying that much for it</i>
THE EFFICIENCY Brand Relevance <i>Is the brand relevant to your life?</i>	<b>Brand Applicability</b> <i>Do people believe your brand helps solve problems that matter in their lives right now?</i>	If your brand is not relevant to a customer, they will not overcome the friction to transact with you	 <b>THE ORIGINAL HEELYS WHEELED SHOES</b>	<i>I've heard of the Heely's brand and know what they do, but are shoes with wheels relevant to my life right now?</i>
	<b>Brand Availability</b> <i>Does your brand show up where people are?</i>	If your brand is not accessible to customers, they aren't able to engage – even if they want to!	 <b>AuntieAnne's</b>	<i>I'd love to devour some Auntie Anne's, but I don't go to malls anymore</i>

# Implications for Investing

Underperforming Brand Perception is difficult to invest in – it is the core foundation of a brand and fixing it takes time; Brand Recognition and Brand Relevance offer more investable opportunities by building off strong Brand Perception (the core).

Category	Sub-Category	Difficulty to Improve		Investability if Sub-Optimal		Commentary
THE AMPLIFIER Brand Recognition <i>How familiar are people with your brand?</i>	<b>Brand Awareness</b> <i>How many people know of your brand?</i>	LOW	➡	CAN INVEST	⬅	▪ Low brand awareness can be improved via word of mouth and/or more <u>proactive increases in brand marketing</u> to create value
	<b>Brand Depth</b> <i>How well do people understand what your brand offers?</i>	LOW	➡	CAN INVEST	⬅	▪ Similar to Brand Awareness
THE CORE Brand Perception <i>Do people value your brand?</i>	<b>Brand Differentiation</b> <i>Do people believe your brand is positively distinct from alternatives?</i>	HIGH	➡	HARD TO INVEST	⬅	▪ Building perception of <u>brand differentiation</u> is built over years/decades ▪ With no perceived brand differentiation, <u>success will be hard to come by and that likely won't change soon</u>
	<b>Brand Affordability</b> <i>Do people view your brand at a sensible price point?</i>	MEDIUM	➡	HARD TO INVEST	⬅	▪ Solving this would require lowering prices which can be <u>difficult to offset with enough volume</u> to deliver an attractive growth profile
THE EFFICIENCY Brand Relevance <i>Is the brand relevant to your life?</i>	<b>Brand Applicability</b> <i>Do people believe your brand helps solve problems that matter in their lives right now?</i>	MEDIUM	➡	CAN INVEST	⬅	▪ While a current product may be less appealing to customers, an <u>extension of what makes the brand great</u> can lead to <u>new products that are relevant</u> to customers
	<b>Brand Availability</b> <i>Does your brand show up where people are?</i>	LOW	➡	CAN INVEST	⬅	▪ Availability can be improved through new <u>distribution strategies</u>

# Where Opportunities Lie

Companies with weaker Brand Relevance present both opportunities where an owner is willing to sell and a non-obvious buying opportunity, improving returns.

Target Archetype	Likelihood to Sell	Commentary	Obviousness	Commentary
No Brand Flaws	Typically Unlikely	Given strong performance, owners will be unlikely to sell. Opportunistic teams may seek growth capital (i.e., minority checks).	Typically Obvious	If a company is looking to sell, strategics and financial sponsors will readily see the opportunity and erode returns via high entry price.
Brand Recognition Flaws	Typically Unlikely	Given strong momentum, owners will see opportunity ahead and seek growth capital (i.e., minority checks) instead.	Typically Obvious	If a company is looking to sell, strategics and financial sponsors will readily see the opportunity and erode returns via high entry price.
Brand Relevance Flaws	More Likely	With potentially poor financial performance and unclear paths forward, ownership will be most likely to seek a new owner of the business.	Less Obvious	Brand Relevance optimizations are harder to see offering potential to realize better value relative to price paid.

# What to Look For To Find Brand Relevance Opportunities

Firms should look for targets with strong core brands and poor operational management (no new products / channels) via carveouts or family buyouts; targets can be turnarounds or healthy businesses.

## Core Operational Characteristics

Opportunities will have a beloved core brand, minimal product innovation or new distribution channels, and operating leverage to amplify results.

	Beloved Core Brand	Stagnant Business	Operating Leverage
Characteristic to look for	Beloved core brand but diminishing relevance in customer surveys	No new products / channels in the last few to several years	Large fixed assets base (e.g., owned manufacturing)
Rationale	Without strong love for the underlying brand, operating improvements are difficult	No product launches or new distribution channels exposes a brand to deteriorating brand relevance	A large fixed asset base implies operating leverage opportunities from sub-scale operations
Implication	Value creation initiatives will have much higher probabilities of success.	The opportunity set of value creation initiatives will be much larger.	The reward for successful value creation will be amplified.



## Financial Archetypes

Given there is a brand deficiency it's possible that targets are turnaround situations, but this framework also applies to healthy businesses.

Archetype	Stagnant Business	Description	Investing Implications
Archetype #1	Financial Turnarounds	Companies with deteriorating financial performance and/or distressed situations.	<ul style="list-style-type: none"><li>Lower purchase prices</li><li>Higher execution risk given financial inflexibility and potentially worse economics</li></ul>
Archetype #2	Healthy Businesses	Healthy businesses with previously unseen potential.	<ul style="list-style-type: none"><li>Higher purchase prices</li><li>Lower execution risk given healthy economics</li></ul>





## Where To Look

Brand Context		Transaction Types		
Older, Generational Brands	Non-Core Brand in Larger Portfolio	Corporate Divestitures	M&A Spin-Offs	Retiring Family Business Buyouts



# Value Creation Levers

Brand Applicability can be increased through new product strategies and Brand Availability can be improved through new distribution strategies; both can be actioned directly (longer term) or indirectly through third-party partnerships / licensing (tends to be shorter term).

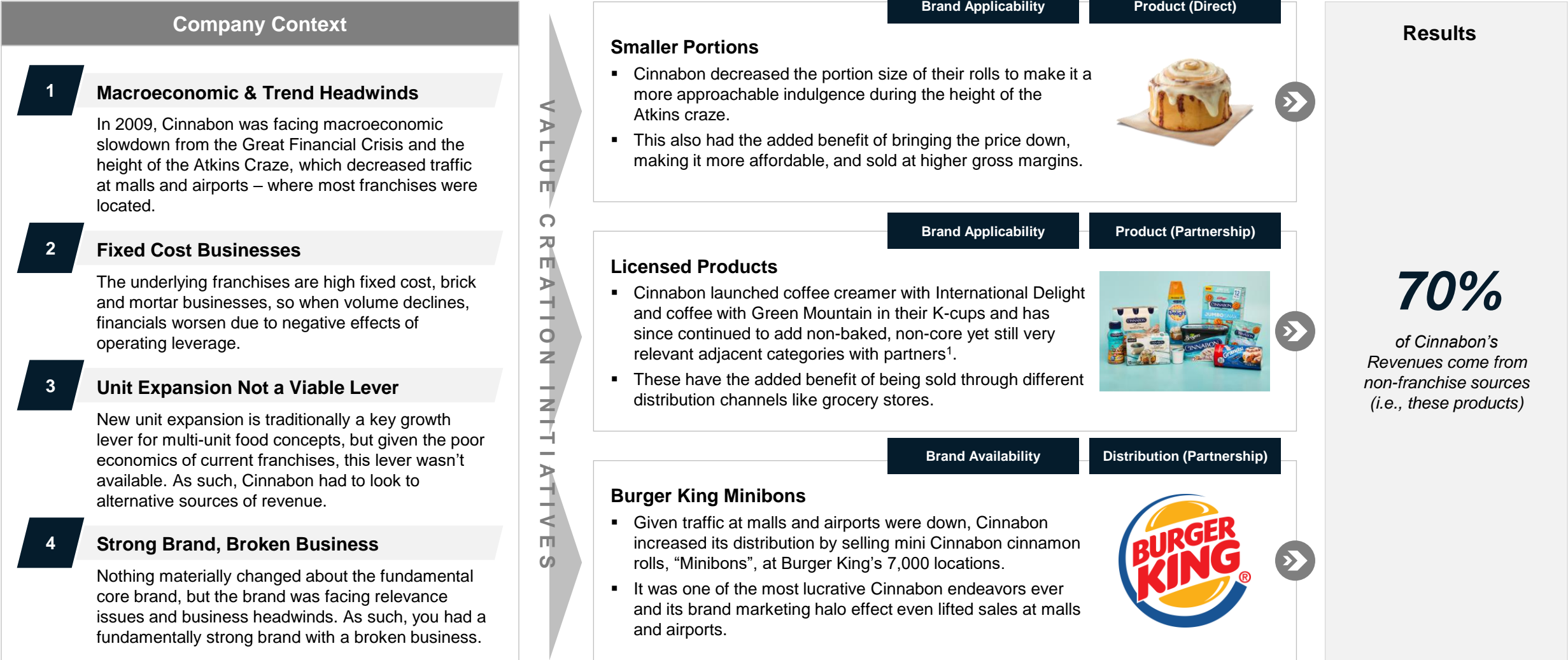
Problem Area		Lever to Solve	Lever Type	Lever Type	Commentary	Examples
Brand Relevance	Brand Applicability	New Product(s)	Directly	HARDER LONGER TERM	Extending the brand to new product lines can increase applicability of the brand*	 Twix created <a href="#">Twix ice cream</a> and smaller <a href="#">Twix Minis</a> as new products
			Indirectly (Licensing)	EASIER SHORTER TERM	Licensing the brand can leverage partner competencies to go to market in novel ways, increasing applicability*	 Sour Patch Kids created a Sour Patch Kids flavored <a href="#">energy drink</a> with Ghost
	Brand Availability	New Distribution	Directly	HARDER LONGER TERM	Adding new distribution channels (owned, franchised, retailed, or D2C) can increase availability for customers**	 Soylent <a href="#">partnered</a> with Dot Foods, a food redistribution co., to access new retailers nationwide
			Indirectly (Partnerships)	EASIER SHORTER TERM	Partnering with other companies can provide step-change increases in distribution, increasing availability	 Krispy Kreme formed a <a href="#">partnership</a> with McDonalds to sell donuts in its stores

\* Initial efforts should focus on improving perception of variety without moving too far away from the core; it's important to honor and respect the core value of the brand, so as to not tarnish it (which would have cascading effects)

\*\* Whether this is the right lever to pull and how to pull it is highly brand and situation dependent

# A Private Equity Case Study – Roark Capital & Cinnabon

Roark’s portfolio company, Cinnabon, was facing strong headwinds during the Great Financial Crisis and at the height of the Atkins crisis but was able to create value by improving brand relevance with new products and brand availability with new distribution channels.



Notes: (1) It's important to note that Cinnabon has been careful to make sure that the partnerships stay true to the warm, indulgent feel of the brand.

# A Private Equity Case Study – Brynwood Partners & Hometown Food Company



*Brynwood Partners acquired several neglected, non-core brands from Smuckers and was able to drive significant value by improving Brand Relevance with new product launches.*

## Company Context

VALUE CREATION INITIATIVES

### 1 Non-Core, Yet Strong Brands

The J.M. Smucker Co. divested their baking and dessert mix products to focus on their coffee and pet foods businesses. This included the Pillsbury baking mix business (excl. refrigerated business) and Funfetti, Martha White, White Lily, and Hungry Jack brands. These each have strong brands and are key players in their markets.

Sales were declining and because this wasn't considered part of the core portfolio, the business hadn't gotten the attention it deserved for quite a few years, providing opportunity.

### 2 Complicated, Tangled Carve-Out

The acquisition was a tricky corporate carve out, requiring detangling the company from Smucker's systems & operations and had zero employees to manage the company, deterring financial sponsors.

Because the Pillsbury brand was split in two, strategics couldn't participate.

### 3 Owned Manufacturing with Fixed Costs

The company came with a 650k sq. ft. factory in Toledo with shrinking volume. Given fixed costs, this caused a financial drag on the business.

#### Brand Applicability

#### Product (Direct)

#### New Product Lines

- In the nearly four years since Brynwood acquired Funfetti, it has added 70 new items across cake flavors, holiday specials, gluten free products, frostings, and other product types.
- Rather than having slow, meticulous stage-gated commercialization paths, Brynwood would trust the instincts of its marketing teams and buyers at retailers to quickly ship new products.



#### Brand Applicability

#### Product (Partnership)

#### New Products With Partners

- Funfetti has also partnered with Mondelēz International's Oreo brand and Nestlé's Coffee-mate to launch new products.
- Partnering with other Hometown Food Company brands, Funfetti launched new donut and frozen pancake products with Pillsbury and Hungry Jack.



#### Results

**\$100M**

*Funfetti grew sales to \$100M+ from \$30M at acquisition*