

The Four-Hundred-Grand Brand

Here's a true story, with the names changed to protect the innocent and the fortunate.

Two men, Phil and Don, spent seven years building a contracting company into a solid business. They aren't famous, but they do well enough to order filet mignons without thinking twice. In 1995, another man approached them and offered \$400,000 for their business.

Phil and Don's contracting company had no inventory, no proprietary products or services, no patents or copyrights, and only one employee other than Phil and Don. The company rented a storefront and owned no real estate, no capital assets, and no accounts receivable. A thorough accounting, in fact, would have revealed that the \$400,000 company's only assets were its name and client list.

What was the buyer offering to buy?

Was it the Client list? It couldn't be. Clients used the company's service only once or twice in a lifetime. Repeat business wasn't much better than in funeral parlors. Moreover, the client list had value only if the clients thought that although the old owners were no longer with the company, the company would still provide the same high quality.

In other words, those old clients—and any new ones—were simply buying the brand. And that is what the businessman offered \$400,000 for, too: a \$400,000 brand, built in just seven years with relatively little investment.

For years, AMRE, a Dallas-based provider of vinyl siding, paid Sears \$30 million *each* year—more than seven times AMRE's net profit—to license Sears's brand name. As a result, and because of the consumer's confidence in the Sears name, AMRE was able to mark up each siding sale 2.2 times—far over industry norms. (In 1995, AMRE realized there was a good brand with a much lower price and struck a 20-year, \$230 million licensing agreement with Century 21.)

Kraft sold for eight times its book value. Experts agreed that the only explanation was the enduring power and enormous value of the Kraft brand.

What is a brand worth? Should you try to build one?

Thousands, millions, then billions. And emphatically, yes.

A brand is money.

Excerpted from: *Selling the Invisible, A Field Guide to Modern Marketing* by Harry Beckwith.