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Transferability: Richard Branson’s Personal Brand is Not More Valuable than the Virgin Brand

By John Mill (Director of Learning and Improvement)

Richard Branson is a highly charismatic entrepreneur who has started 400+ businesses and has almost 11 million followers on LinkedIn. His celebrity leads many to conclude that his personal brand is more valuable than the Virgin brand. This sentiment is described on LinkedIn:

> Richard Branson's personal brand is 100 times more powerful than the Virgin one. Here's why:
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> Richard Branson has 10 million followers on LinkedIn, by far and away the number one most followed professional on LinkedIn. His personal brand is so powerful that he showers glitter and gold over every single Virgin brand because of his iconic, entrepreneurial status.
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> If you ask any professional on LinkedIn exposed to his numerous LinkedIn blog posts, the majority will say that Virgin is a cool and fun place to work and that the brand is one of the most entrepreneurial. Remove Branson from the equation and the picture is the same as any other airline, mobile, financial, or fitness brand… nothing special.

I understand why the author came to this conclusion—I used to believe the same thing. However, the conclusion that the business is *nothing special* is a romantic notion. We all want to be needed, to be important. But believing that your business is nothing special and that it’s really all about the entrepreneur is a dangerous trap.

The dangerous trap is that if all the value is in the owner then one day you will wake up to find that you have a business you cannot sell. The value is non-transferable. If you get hit by a bus, it's over.

In spite of the danger, it is a very common trap. The vast majority of businesses are not saleable. Most entrepreneurs fall in and never find their way out. They are arrogant when they should be humble. They do not respect the people around them and do not pursue building the value of the business with intensity. The end game is a dependent, non-transferable or low value business.

Owner Dependency and Business Valuation

It is helpful to articulate the impact of an owner-dependent business in the framework of a business valuation. To do so we need to consider how the assets of the business will be valued in a sale. We also need to see how the presence of an entrepreneurial founder affects that valuation.

To clarify, we are looking at the value of a business at the point where it will be transferred. This means the business has to be valued on the basis the founder will leave. This means we have value what is left when the founder leaves. This is what we mean when we use the term *transferability.*

Transferability

To take ownership of something it must be transferable. Determining which business assets are transferable is a huge business. Due diligence is the work that is conducted to determine transferability. The universal questions are: what exactly am I getting? what exactly is being transferred?

With tangible assets, due diligence is simply a checklist. For example:

- If there a registered trademark for the trade name?
- Are there valid contracts with all key employees, customers and suppliers?
- Do we own the factory?
- Can leases be assigned?

Intangible assets are much more difficult. The term *brand* is used in the LinkedIn article. One meaning of the term brand is associated with trademarks. Another meaning of the term brand is much broader encompassing every aspect of the reputations of a business. In business valuation terms, this broader concept is called *goodwill*. Technically speaking, goodwill is calculated as the value by which the purchase price in a transaction exceeds the net assets of the acquired company.

Goodwill is the attractive force of the business - a measure of how much business can be attracted. This enthusiastic LinkedIn article tells us that "Richard Branson's personal brand is 100 times more powerful than the Virgin one." As we will see when we look at valuation principles this statement cannot possibly be true.

Brands or goodwill can be very valuable. Goodwill is often the most valuable asset in the company. Take Coca-Cola for example, who closed out 2017 with an enterprise value of $222 billion. Coca-Cola ended 2017 with $2.4 billion in net identifiable assets, that is identifiable assets such as equipment, inventory, and accounts receivable minus liabilities.

So how does Coca-Cola have an enterprise value of $222 billion despite having just $2.4 billion in net assets? The answer is goodwill, which carries a tremendous level of implied value for Coca-Cola (nearly $220 billion).

In another example, WhatsApp was a profitless company with 50 employees. Facebook paid $19 billion to acquire WhatsApp and recorded over $15 billion of goodwill on the transaction. It is clear that goodwill - *the value over and above the net identifiable assets, based on the attractive force of the business* - can have immense value.

However, there is a type of goodwill that has no value in the sale of a business and that is called personal goodwill. By definition *personal* goodwill cannot be transferred. Look at these three varieties of personal goodwill.

Talent: Adele is a world-class talent and is so successful that she has decided to stop touring the world. Theoretically, you could purchase the rights to tour the world as Adele: using her name, her image and marketing material. The stadiums will fill up but the moment you take the stage there will be a riot. A less extreme example is the value associated with the practice of a famous lawyer—clients want that lawyer.

Talent only has *value in use* meaning a talented person can create value using their talent. Talent cannot be transferred and has no value in a business sale.

Command and Control

Many owners run their business from the inside of their head. They micromanage and do not delegate. Employees are subservient, knowing their place and following orders.

The company is divided into two classes: the thinkers and the doers. Management does the thinking and workers do the working. The statement "you are not paid to think" is sadly common. This is exactly the same as saying "you are not paid to be engaged" and explains why 85% of all employees are disengaged. A business with disengaged employees will have a significantly lower transfer value.

Tie-loathing adventurer: Richard Branson describes himself as tie-loathing adventurer. This is another way of saying entrepreneur. The artistic act of entrepreneurship, the identification and founding of businesses, is a variety of personal goodwill. Richard cannot sell his entrepreneurial ability, it has no fair market value. Entrepreneurship has *value in use*.

Richard uses his stardom to attract more opportunities. But the important point is that Richard's stardom does not and cannot impact the value of the transferable goodwill of the Virgin brand.

In the case of Richard and Virgin, we have both – personal goodwill and transferable goodwill – operating side by side. The issue for the intelligent entrepreneur is: how do I create transferable goodwill? The answer is quite simple: *delegation equals value.* Delegation is the runway to transferability.

The real secret is in knowing how best to delegate. The answer is found in the poorly understood discipline called leadership. The core attribute of leadership is *respect for people*. Let the team learn and grow so they can operate the business independently.

Delegation is aptly described in Mitch Kowalski's book *The Great Reformation* about law firms, which are famously command and control hierarchies. But disruption is looming and there is an enlightened group of firms that have discovered a new better way of operating:

> And while Radiant Law's team approach to legal services is enviable, at its core is a strong understanding of what's important to its employees. Respect for employees by empowering them to take an active part in firm decisions, seeking constant improvement, and seeking to make work more interesting, while also improving client quality and reducing internal costs are critical to the firm's success – not lucrative compensation packages. Andrew Grech's words again echoed in my head, that success is "driven by people understanding purpose and feeling they have sufficient autonomy to influence that purpose and influence their ability to achieve that purpose." Alex was following those words even if he didn't realize it.

It is clear that this a core skill set that Richard Branson has developed:

> We pride ourselves on heartfelt service. Allowing your team the freedom to be themselves is key to achieving that. By putting too many processes and procedures in place, staff can be hindered when they need to make judgement calls, based upon their experience, their humanity, and the company culture. Across our hotels, our trains, our health clubs, our banks – all across the Virgin Group – we give our teams the latitude to make decisions based on common sense, not outdated rule books. It simply comes down to giving your staff the right tools to do their job, then trusting them to do the right thing.
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> When positive, heartfelt values are instilled in your team, they will be empowered, they will feel appreciated and know they are part of a bigger mission than just making money. This will come across in the way they treat your customers, who in turn will prove to be more loyal to your brand and service. And, in the end, this will reflect positively on your profits too.
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> "If the person who works at your company is not appreciated, they are not going to do things with a smile," Branson says. By not treating employees well, companies risk losing customers over bad service. To this end, Branson says he has made sure that Virgin prioritizes employees first, customers second, and shareholders third.
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> "Effectively, in the end shareholders do well, the customers do better, and your staff remains happy," he says.

It is for this reason that I disagree with the writer when he says: "Remove Branson from the equation and the picture is the same as any other airline, mobile, financial, or fitness brand… nothing special." This writer does not understand the value of a connected culture. He thinks the differentiator in business is the personality of the founder. This is a dangerous assumption that invites a founder to sit on the throne of command & control, cloaked in the value-crushing belief that they, and not their people, are special.

Entrepreneurs who are fully mature in terms of IQ, EQ, and AI develop businesses that are not dependent. In the same way good parents raise their children to be strong ferocious adults, an intelligent entrepreneur empowers the people in the business to be ferocious and independent.

The most famous and most successful entrepreneur of all time, Steve Jobs, was sadly removed from his company in 2011. At the time I had not yet learned the lessons of great leaders so I predicted that the Apple brand would fade from glory. Apparently, I was wrong.

Since that time, I have spent a lot time trying to unlock the secrets of leadership. Jim Collins, author of *Good to Great*, was surprised when he discovered that the qualities of great leaders, Level 5 leaders, are a seemingly paradoxical blend of humility and fierce resolve:

> Darwin Smith stands as a classic example of what we came to call a Level 5 leader—an individual who blends extreme personal humility with intense professional will. We found leaders of this type at the helm of every good-to-great company during the transition era. Like Smith, they were self-effacing individuals who displayed the fierce resolve to do whatever needed to be done to make the company great.

It took me a long time to understand what Collins meant by humility. I have come to understand that there are two very distinct types of humility. The first is fear-based. They are afraid to be fierce, afraid to have resolve. They use humility so they will not be noticed; essentially, they are hiding so the world expects nothing of them.

The second is strength-based. This fierce person has been through great battles, won great victories, and suffered enormous defeat. They understand that fame has no meaning and that it is only the people around you who matter. And so the people of extreme talent and ability – the fierce people – must step back. They must learn like the young Jedi to control their powers and only unleash them when it advances the team.

The humility of the fierce is simply the outward expression of people who are deeply respectful of others. Humility is the way respectful people behave.

This is not a humility based on suppressing their ambition or intensity; in fact, it is the opposite. The desire to succeed is so intense that a true leader sublimates their own interests to the interests of the team so completely as to be indistinguishable. A sincere reply to the polite “how are you” could equally be “as my team is.” Collins describes it like this:

> Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. It’s not that Level 5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious—but their ambition is first and foremost for the institution, not themselves.

I have learned that entrepreneurial greatness is really measured in the quality of contribution they give to others. If an entrepreneur like Richard Branson is blessed with charisma and stage presence, then they should be the star of the show. Stardom is a great asset if managed properly.

The key is recognizing that stardom is simply a part of brand management. If it works to generate tremendous goodwill that can used to attract opportunities, great. Off stage however, the focus is on developing those opportunities with a team of excellent, independently functioning people. And *that* requires humility and fierce resolve.

About Valitas

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