Measuring the Value of Brands

Mind the Ps, Qs and a Whole Lot More!

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"You now have to decide what 'image' you want for your brand. Image means personality. Products, like people, have personalities, and they can make or break them in the market place."

- ***David Ogilvy, English Advertising Executive***

Brand Valuation – Strategic Importance

Strong brands influence customer choice and create loyalty, they help attract and retain talent, and they provide a valuable differentiator in an otherwise crowded market. As a result, brand attributes such as perceived quality and awareness are a primary source of competitive advantage and drive value within the firm. When valuing a brand, it is therefore important to develop a methodology that accounts for these factors. More specifically, integrating the overall market dynamics, competitor strength, financial information and other aspects into the valuation model is critical to obtaining a robust valuation estimate.

Once the brand valuation model has been developed, it can provide a framework upon which business modeling can be performed in order to evaluate strategic options such as brand positioning decisions, thereby making the valuation a versatile strategic tool for business management.

Defining the Brand

Under ISO 10668, the term 'brand' is defined as a marketing-related intangible asset that may include names, terms, logos and domains that are intended to identify goods and create distinctive images and associations in the minds of stakeholders, thereby creating economic benefits for the owner. More specifically, a brand's value (i.e., its "brand equity") is derived from various qualitative factors. According to Aaker, there are ten attributes, within five categories, that will be determinant of brand equity.[1] These include:

1) **Loyalty Measures**
   - Price Premium
   - Customer Satisfaction or Loyalty (Attitude)
2) **Perceived Quality or Leadership Measures**
   - Perceived Quality
   - Leadership or Popularity
3) **Other customer-oriented associations or differentiation measures**
   - Perceived Value
   - Brand Personality
   - Organizational Associations
4) **Awareness measures**
   - Brand Awareness & Reach
5) **Market behavior measures**
   - Market Share & Price
   - Distribution Coverage

[1] Aaker, David A., *Measuring Brand Equity*. New York: The Free Press, 1991.

Similarly, Young & Rubicam reduced this list into the following four key brand factors:[2]

1) **Brand Vitality**
   a. **Differentiation:** What are the defining characteristics of the brand and its distinctiveness relative to competitors?
   b. **Relevance:** What is the connection of the brand to a given consumer?
2) **Brand Stature**
   a. **Esteem:** What are consumers' respect for and attraction to the brand?
   b. **Knowledge:** What is the consumers' understanding of what the brand represents?

In addition to these various brand attributes, any credible brand analysis must also identify additional influences on value including the perspective from which value is assessed, brand extension, and comparability tracking of competitive brands, to name a few.

Brand Valuation Approaches

ISO 10668 specifies requirements for procedures and methods of monetary brand value measurement. More specifically, it sets forth a framework for brand valuation, including objectives, bases of valuation, approaches to valuation, methods of valuation and sourcing of quality data and assumptions. It also specifies methods for reporting the results of such valuation.

In essence, though, there are three main types of brand valuation methods:

- **The Cost Approach** – This approach measures the value of a brand as the cost invested in its creation and development. The idea being that an investor would not pay more for a brand than it would cost to recreate or replace it. However, since this approach is based on retrospective data it does not consider a company's future earnings.

- **The Market Approach -** The brand is valued based on what others in the market have paid for similar assets. With so few brands being bought and sold, using this method may be as difficult as finding a recent sale of another brand with a similar awareness, strength, or economic and legal situation against which to benchmark.

- **The Income Approach** - This approach measures the value of the brand by reference to the present value of the economic benefits received over the rest of the useful life of the brand. And, there are six (6) recognized methods of application within the income approach.

Income Approach Methods – Brand Valuation

1) **Price Premium Method** – This method estimates the value of a brand by the price premium it generates when compared to a similar but unbranded product or service.
2) **Volume Premium Method** – This method estimates the value of a brand by the volume premium it generates when compared to a similar but unbranded product or service. This must take into account the price premium method.
3) **Income Split Method** – This method values the brand as the present value portion of the economic profit attributable to the brand over the rest of its useful life. This method has problems in that profits can sometimes be negative, leading to unrealistic brand value, and also that profits can be manipulated so

[2] Brand Asset Valuator (BAV) - ©2003, Young & Rubicam Inc.

may misrepresent brand value. This method uses qualitative measures to decide the portion of economic profits to be accredited to the brand.

4) **Multi-period Excess Earnings Method** - This method requires a valuation of each group of intangible assets and then determines an applicable cost of capital for each one. The returns for each of these assets are deducted from the overall cash flow of the firm, and when all other assets have been accounted for, the remaining or “excess” cash flow is attributable to the brand.
5) **Incremental Cash Flow Method** - Identifies the extra cash flow in a branded business when compared to an unbranded, and comparable, business. However it is rare to find conditions for this method to be used since finding similar unbranded companies can be difficult.
6) **Relief from Royalty Method** - Assume theoretically that a company does not own the brand it operates under, but instead licenses the use from another. The royalty relief method uses available data of similar arrangements in the industry and assigns the value of the brand as the present value of future royalty payments.

Additional Data Inputs

Market and Financial Data

In order to gauge the current performance of the subject brand, the appraisal should carry out an analytical review of the current and forecast size of the market. Although not explicitly stated in the ISO, it is often necessary to separately evaluate all key market segments in which the brand operates, in order to take account of differences in competitive forces and market trends.

Financial data referred to in the Standard includes the discount rate, tax, long term growth rates and the useful economic life of the brand. The information requirements vary depending upon the valuation approach and method that have been selected.

Behavioral Aspects of the Brand

The Standard uses the term ‘behavioral’ to describe the attitudes and behavior of consumers and other business stakeholders. It states that “the valuation of a brand shall directly address the ways in which a brand generates value and shall consider all economic benefits that can be derived from the brand’s functions in the context of the branded business.” All valuation approaches require an evaluation of brand strength, the effect of the brand on demand, and the position of the brand in its key markets.

Legal Rights of the Brand

Legal protection is important as it permits the brand owner to use formal legal systems to prevent third parties from exploiting the brand, thereby providing exclusivity. An assessment of the legal protection available to the brand includes an analysis of all legal rights included in the definition of the subject brand, confirmation of their ownership, and consideration of legal parameters such as distinctiveness, extent of use and notoriety.

In general, the most important form of legal protection will be registered trademarks. However, common law rights and copyright might protect certain aspects of a brand. Legal rights have to be considered in all jurisdictions where the brand generates significant cash flow.

Obstacles to Brand Valuation

In a study conducted by Robbin, the number one concern when developing a brand valuation model was "the wide range of alternative valuation methods which will yield significantly different results." [3] Equally concerning was the inability to accurately assess a brand's useful life and the obvious lack of an active market for brands in general.

As a result of these deficiencies, it is difficult to accurately measure the reliability of any valuation model. That said, any model is only as good as the inputs used and it is clear that when valuing brand equity, careful consideration of all components listed above is critical.

Conclusion

As intellectual property grows in its importance, managers must understand not only the methods of valuing these assets, but also the unique risk factors associated with these assets. Each valuation technique outlined has its strengths and weaknesses, but as is true with enterprise valuation there is no right or wrong valuation approach. However, it is wise to use several of these methods when valuing a specific IP. This provides for differing viewpoints of the underlying asset value and is a useful check for consistency in assumptions.

Valuation Expertise

As the information economy grows, IP will continue to be an increasing source of competitive advantage and shareholder wealth for many companies. In addition, the financial reporting, tax and regulatory environments continue to evolve. As a result of these factors, there has emerged a critical need for independent, robust opinions of value that will withstand scrutiny within a variety of contexts. VALCOR is uniquely qualified to help companies with their IP and intangible asset valuation needs by providing comprehensive solutions that are based on substantial experience and reputation for integrity and independence.

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[3] Robbin, A.C., *The Potential Value of Brand Accounting*. Witwatersrand, Johannesburg: University Research Report, 1991, p 56.