BRAND VALUATION: WHAT IT MEANS AND HOW IT IS DONE

Dr. S. K. Gupta

Managing Director

ICMAI Registered Valuers Organization

The Perspective

Over recent years, intangible assets have become more important to businesses operating in a wide variety of industries. This, in turn, has put a premium on being able to come up with credible ways to value brands. There is now widespread acceptance that brands play an important role in generating and sustaining the financial performance of businesses. With high levels of competition and excess capacity in virtually every industry, strong brands help companies differentiate themselves in the market and communicate why their products and services are uniquely able to satisfy customer needs. It is a truth universally acknowledged that modern business success increasingly depends on intangible assets - and in particular, on brands. Consequently, the importance of the management of intangibles has grown. In order to manage and control the value of intangible assets it is of course necessary to be able to determine this value.

What Is a Brand and What Does It Include?

ISO 10668 defines a brand as a:

"marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/values."

A simpler dictionary definition of a brand is "a trademark or distinctive name identifying a product, service, or organization." Brands identify a business and distinguish a company's products and services from its competition. The following table lists 26 different types of brand-related assets. There are two different concepts all of which are sometimes referred to as the brand.

- **Logos and Visual Elements :** First, there are logos and associated visual elements. This is the most specific definition of brand focusing on the legally protectable, visual and verbal elements that are used to differentiate one company's products and services from another and to stimulate demand for those products and services.
- **Intellectual Property Rights :** larger bundle of trademark and associated intellectual property rights. Under this definition, brand is extended to encompass a larger bundle of intellectual property rights. Marketing intangibles such as domain names, product design rights, trade dress, packaging, copyrights in associated colours, smells, sounds, descriptors, logotypes, advertising visuals and written copy are often included in this wider definition.

A strong brand is a combination of physical, functional and emotional attributes. It is the complete package of these attributes which becomes the essence of a particular brand and provides the basis for differentiation from its competitors. In different sectors the importance of each element varies in degree but they can all be part of a brand, summarised as follows:

- **Physical:** names, colours, descriptors, smells/tastes, symbols, packaging, logotypes, straplines, sounds, advertising
- **Functional:** ensure recognition, simplify selection, guarantee origin, confirm quality
- **Emotional:** association, reassurance, aspiration, self-expression

Brands are ideally suited to this task because they communicate on a number of different levels. Brands have three primary functions – navigation, reassurance and engagement:

- **Navigation**: brands help customers to select from a bewildering array of alternatives.
- **Reassurance**: they communicate the intrinsic quality of the product or service and so reassure customers at the point of purchase.

- **Engagement:** they communicate distinctive imagery and associations that encourage customers to identify with the brand.

Brand valuation

Brand valuation is a process of a company's net worth analysis from the company's perspective. It considers all the tangible and intangible assets of the firm for computation. Brand valuation is the process of estimating the total financial value of a brand. The term brand, infers to names, terms, signs, symbols and logos that identify goods, services and companies. Brand Value is not just a financial number. As put forth by Ajimon Francis, Indian head and CEO for global brand consultancy Brand Finance, "It (Brand Value) is a measure of several factors like loyalty of customers, the ability of a brand to keep offering newer products and technology, and the connect with consumers, who give it a premium."

The term brand is used in practice to refer to many different things, not necessarily just a product or service or a name or trademark. A relevant brand valuation needs to encompass exactly what is required in the circumstances. Brand Valuation as a concept is the net value of all a business' tangible as well as intangible assets. Brand valuation is a method to estimate of the overall value of the brand. Brand value is the monetary worth of your brand, if you were to sell it.

Importance of Brand Valuation

Brand valuation has been by far used for many purposes by companies.

1. Mergers and Acquisitions: Usually, a company or an organization does not pay the book value while acquiring another business entity. Now the difference between the paid acquisition price and book value is known as Goodwill. Goodwill can be defined as the value of a business entity which is not directly attributable to its tangible assets and liabilities. Estimating the financial value using brand valuation of a brand helps us to determine the premium over book value that a buyer should be paying.

2. Licensing: One of the approaches to take advantage of the value of a solid brand is by broadening or permitting the brand. It is feasible for both the licensor and the licensee to profit financially from an authorizing course of action. The licensor profits by another wellspring of income that requires minimal capital speculation. The licensee benefits by having a lower channel, publicizing and client obtaining costs.

3. Financing: While companies don't convey marks on their monetary records as long-term resources, money related markets perceive the commitment brands have on investor esteem. Organizations with solid brands consistently acquire preferable budgetary terms over organizations with poor brands. The higher the estimation of the brand through brand valuation, the better the terms.

4. Brand Reviews: Usually, brand investment reviews entail the comparison, across brands and against competitors of hard measures, such as sales and market share, and soft measures, such as reputation and awareness. For some brands, it is also important to determine financial value. Brand valuations allow companies to gauge their return on brand investment and to develop appropriate investment strategies across a portfolio of brands.

5. Budget Allocations: The marketing mix is utilized by advertisers who must settle on choices about the assignment of spending plan and assets. Organizations can now more precisely gauge the blend of promoting vehicles required to expand both spending proficiency and advertising viability. For a few organizations, brand valuations are a basic component of the marketing mix.

What is the difference between brand equity and brand valuation?:

Brand equity is driven by the customer's perception, I.e., consumer satisfaction, brand recognition, brand association, and consumer loyalty. However, brand valuation is the evaluation of a company's net worth with the help of the company's tangible and intangible assets. Moreover, brand equity is achieved through perceived quality, brand loyalty, brand awareness, and brand associations. On the contrary, brand valuation involves financial, legal, and behavioural analysis.

Brand valuation – basic considerations

Valuing a brand, like valuing any intangible asset or an overall business entity, requires both a qualitative and quantitative assessment of the benefits generated. With regard to the qualitative assessment, the appraiser should ask questions such as the following:

- How long has the brand been in use?
- Does the brand clearly differentiate the product or service with which it is associated?
- What is the geographic scope of the brand?
- How much does the brand facilitate the company's market penetration? How does it impact the company's market share?
- Is the company able to get better pricing on its product or service because of the brand? For example, salt is as commoditized a product as can be, yet Morton Salt sells at a 20 cent premium over other brands.
- How is the brand impacting the company's sales and marketing expenses?
- What are the risks of losing brand value quickly (through bad press/blogs/social media)? Brand values can be volatile and failure risk can be high.

- How did the brand build its recognition/reputation?
- How is the brand impacting overall customer behaviour?
- How long is the brand expected to be in use? To what extent is it possible that the brand may have an indefinite life?
- How well is the brand protected legally (if it is covered under a trademark, product or design patent, unregistered trademark on the basis of use, copyright, etc.)?
- Has the brand ever been licensed to a third party?
- How important is the brand relative to the company's other assets in producing the company's expected overall cash flows?

Brand Valuation Methods

Today's appreciation of the power of brands means that there is deep thinking, and as a result, a wide array of perspectives on what makes a brand successful, how brands interact with consumer psychology, and even what the true definition of brand should be. Unsurprisingly then, measuring brand value can be complex and confusing without a clear strategy in mind.

There are a number of different brand valuation methods. There are pros and cons of all these methods of valuing brands. A brand valuation method that is appropriate for one brand may not be the best valuation method for another. Judgement should be exercised to ensure the most appropriate of brand valuation methods is used. The main brand valuation methodologies are:

1. Income based brand valuation methods

- **Relief from royalty method:** this brand valuation method is based on how much the brand owner would have to pay to use its brand if it licensed the brand from a third party. It uses discounted cash flow analysis (DCF) to capitalise future branded cash flows
- **Excess-earnings method:** this brand valuation methodology calculates the earnings above the profits required to attract an investor – which uses the estimated rate of return based on the current value of the assets employed. These excess earnings are assumed to be attributable to the intellectual property, or brand.
- **Price premium method:** this brand valuation method is based on a capitalisation of future profit stream premiums attributable to a business' brand above the revenues of a generic business, without a brand.
- **Capitalisation of historic profits method:** the brand valuation method is based on the capitalisation of profits earned by the brand.

2. Market based brand valuation methods

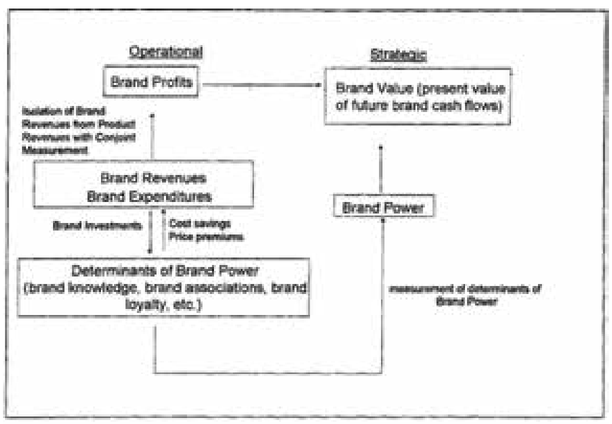
- **P/E ratios method:** the P/E (price to earnings) brand valuation method multiples the brand's profits by a multiple derived from similar transactions of profits to price paid based on the value of reported brand values.
- **Turnover multiples method:** this brand valuation method multiplies the brand's turnover by a multiple derived from similar transactions.

3. Cost based brand valuation methods

- **Creation costs method:** this brand valuation methodology estimates the amount that has been invested in creating the brand.
- **Replacement value method:** this brand valuation method estimates the investment required to build a brand with a similar market position and share.

Selecting the Right Method for Your Brand

All of these methods have pros and cons. This is natural, given the intangible and subjective nature of a brand and its value. Regardless of what method you choose, the exercise of measuring your brand's value will clearly illustrate its monetary impact on your company. Use it to inform your goal-setting and brand strategy going forward. Every method presented in this paper involves several problems. No one seems to produce an adequate measure that meets all requirements for use in brand controlling. However, a combination of some methods might deliver an adequate way to determine brand power and brand value which is also suitable for the controlling of brands. A combined model for a system of brand controlling performance measures could, for example, look like the following



Brand Controlling performance measures

In summary, to control the valuable intangible asset "brand", a controlling system has to be developed that makes it possible to control brand revenues and brand expenditures as monetary indicators and determinants of brand power as non-monetary indicators for operational controlling. The profit potential of a brand, represented by brand value, is broken down to its influencing indicators such as brand revenues and expenditures. Brand power, which is influenced by brand expenditures, has an impact on brand value and, as a result, should also be controlled. Brand value then can serve as a strategic performance measure that is broken down to the operational level. To control the operational performance measure "brand profit", traditional controlling instruments adapted to brand controlling could be applied

Conclusions

Today, brand has become a powerful competitive differentiator for a business enterprise. It is recognized as a bundle of various attributes, which helps sellers to differentiate themselves from each other. Growing global competition and ever shorter periods of supremacy of products with inbuilt latest technology, the contribution of brand to its owners will keep on increasing. Brand is just one of several factors that provide stable competitive advantage. As the importance of intangibles to company's increases, managers will inevitably need to install more value-based brand management systems that can align the management of the brand asset with that of other corporate assets and provide more reliable indicators on contribution of brand to the overall business performance

Brands are one of the most important value-creating assets within an organization, so it stands to reason that the asset's performance should be measured, evaluated, and valued much like other assets, many of which are capitalized in the books. Understanding what drives brand value and how brand fuels business and shareholder value creation is crucial to ensuring brand decision making is in lockstep with business strategy

References

1. *ANDREW, D. (1997): Brand Strength Analysis, in: Perrier, R. (ed.): Brand Valuation, 3rd ed., London 1997, pp. 55 – 60*
2. *BLACKET, T. (1989): The Nature of Brands, in: Murphy, J. (ed.): Brand Valuation - Establishing a True and Fair View, London 1989, pp. 1 - 11.*
3. *CR.IMMINS, J. C. (1992): Better Measurement and Management of Brand Value, in: Journal of Advertising Research, volume 32, no. 4, 1992, pp. 11-19.*
4. *GLOVER, C. (1997): Alternative Methods of Brand Valuation, m: Perrier, R. (ed.): Brand Valuation, 3rd ed., London 1997, pp. 19 - 24.*
5. *SIMMS, J. (1997): Accounting for Brands: An Industry Perspective, in: Perrier, R. (ed.): Brand Valuation, 3rd ed., London 1997, pp. 99 - 108.*
6. *STOBART, P. (1989): Alternative Methods of Brand Valuation, in: Murphy, J. (1989) (ed.): Brand Valuation - Establishing a True and Fair View, London 1989, pp. 23 - 31.*
7. *WARD, K. (1989): Can the Cash Flows of Brands really be capitalized?, in: Murphy, J. (1989) (ed.): Brand Valuation-Establishing a True and Fair View, London 1989, pp. 69- 79.*
8. *https://www.mbaskool.com/business-concepts/marketing-and-strategy-terms/17851-brand-valuation.html*
9. *https://brandfinance.com/insights/brand-valuation-what-it-means-and-why-it-matters*
10. *https://www.mondaq.com/india/advertising-marketing--branding/553838/brand-valuation--approaches-and-methods*
11. *https://www.brandvaluation.co.uk/Brand-Valuation-Issues/Brand-valuation-methods~14.html*
12. *https://www.lytho.com/blog/brand-value-what-is-it-and-how-can-you-measure-it/*
13. *https://www.valuationresearch.com/pure-perspectives/considering-brand-value/*
14. *https://www.wallstreetmojo.com/brand-valuation/*