UNIVERSITY OF PASSAU

Chair for Business Administration with Specialization in Marketing und Services

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Methods of Brand Valuation: What is Known

Featured Project: Measuring Brand Value

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- What‘s in a brand name?
- Measuring brand value – Metric characteristics and methods
- Discussion

- **What‘s in a brand name?**
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A shortcut for tangible and intangible values

The ultimate driving machine

A guarantee for quality

Always better

Miele

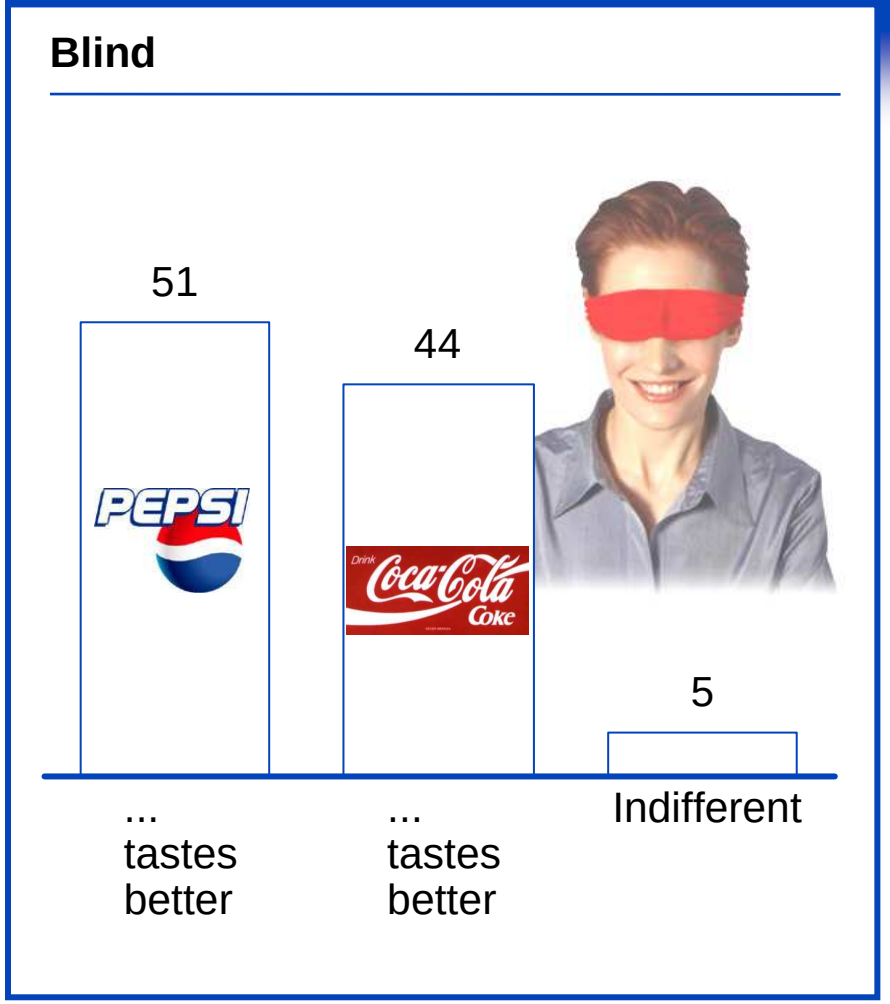
A delivery on a promise

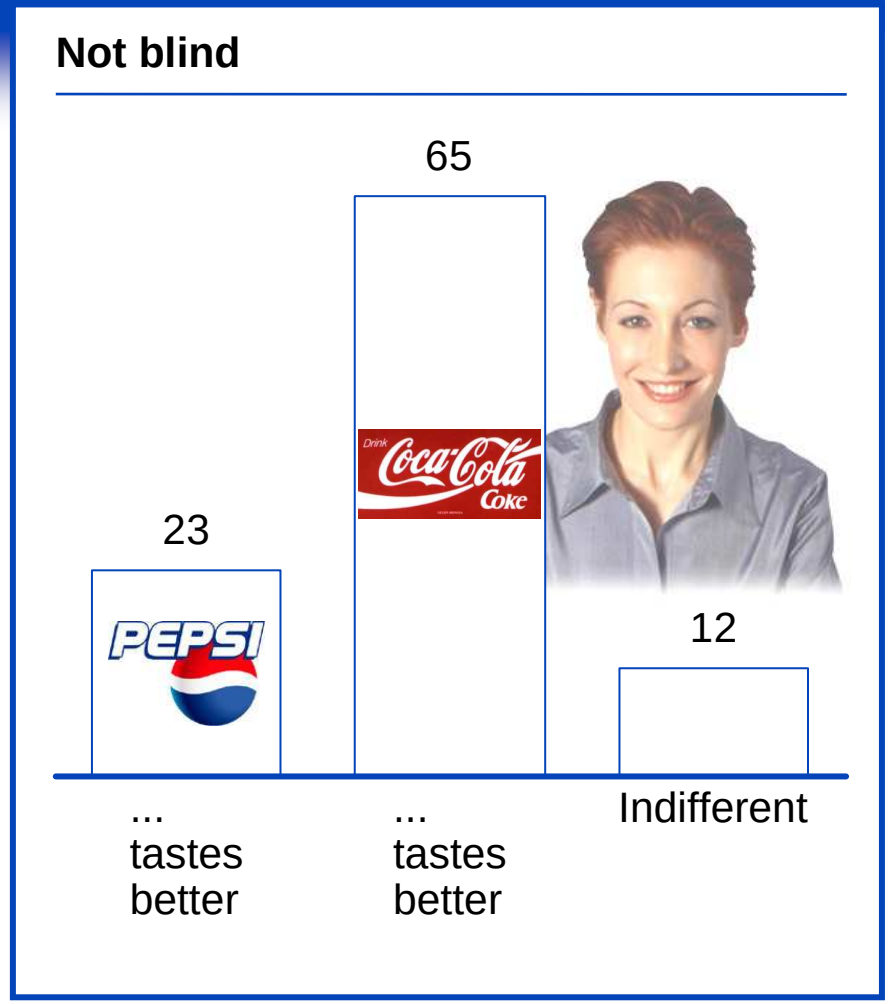
I’m lovin’ it

Brands are more than the product

in percent

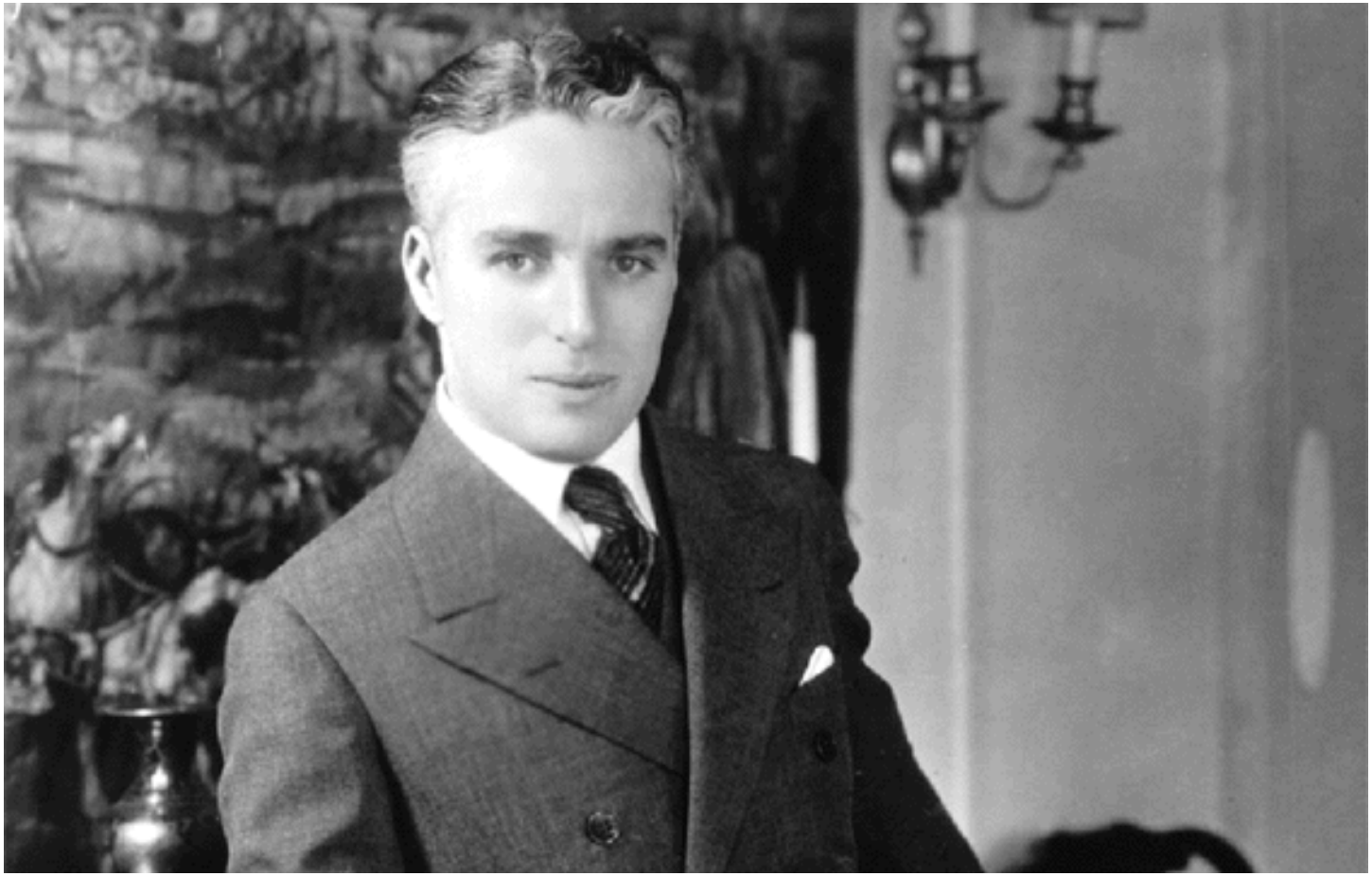
Gustation test for soft drinks



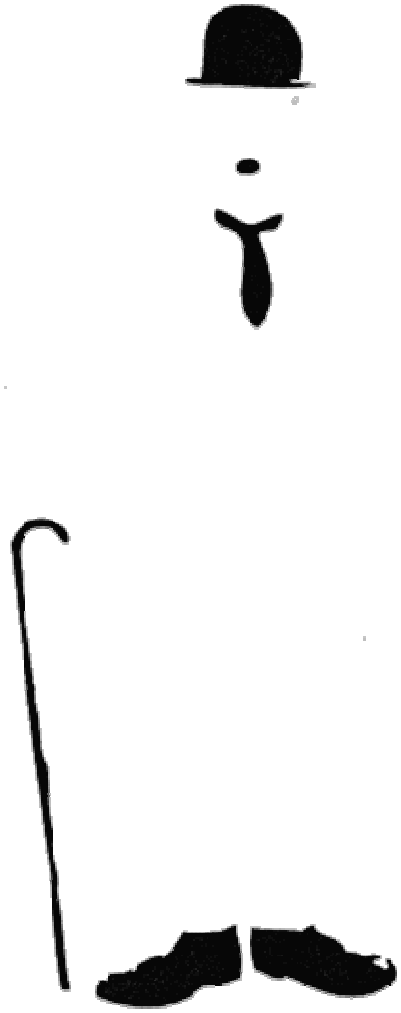


Source: Chernatony & McDonald (1992)

Personalities have a face



... which makes them distinctive



Brands also have a face

... and stand out from the croud

Brands create value for the company!
Price index

1 Liter = 1,137

1 Liter = 282

1 Liter = 100*

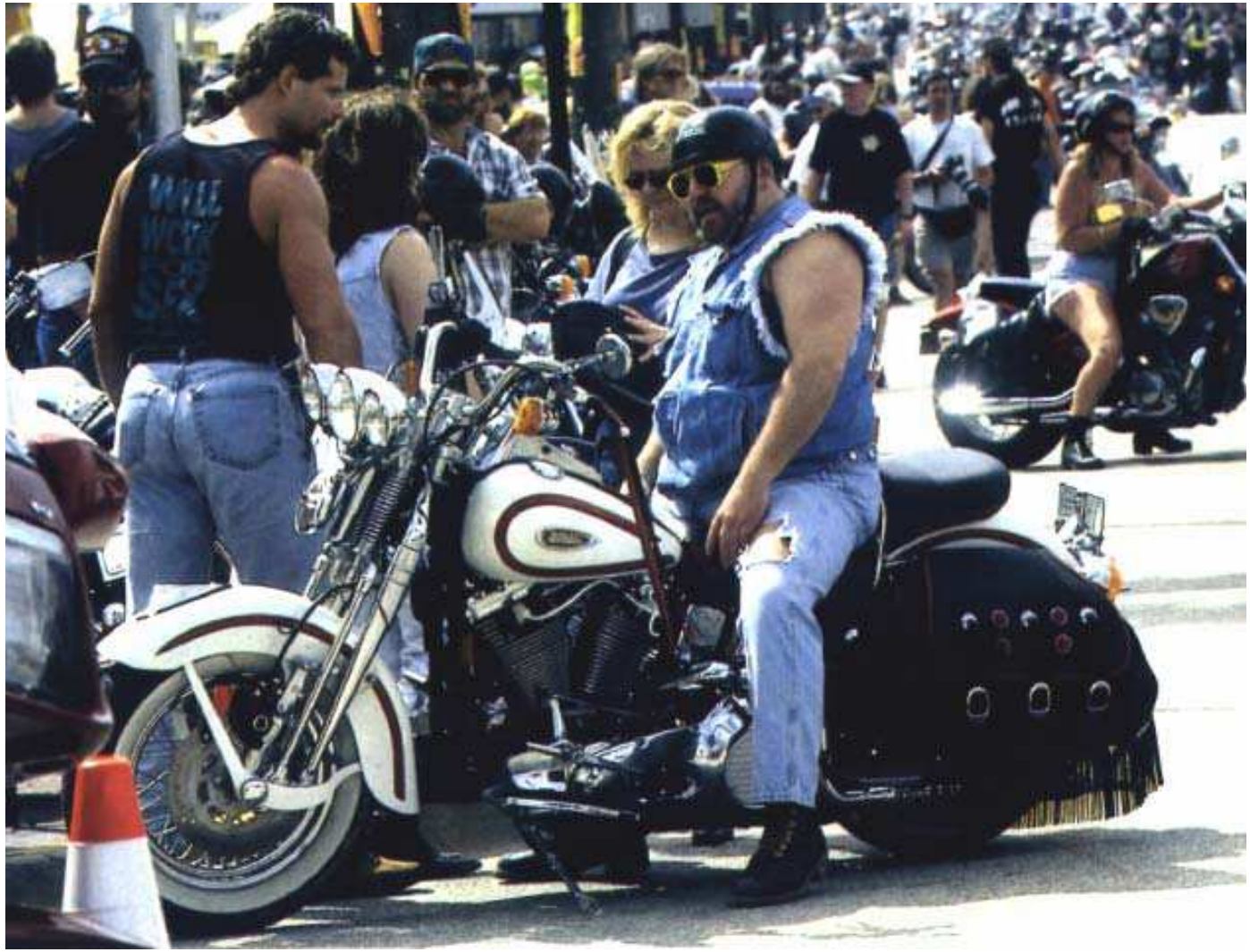
* Average
Source: Kaufhof, Mai 2007

Are there limits of price stretching?

100 ml = EUR 1.17

100 ml = EUR 79.93

„We gave up selling motor bikes. We sell a way of life. The bike is an add-on for free!“
(Jeffrey Bluestein, CEO)

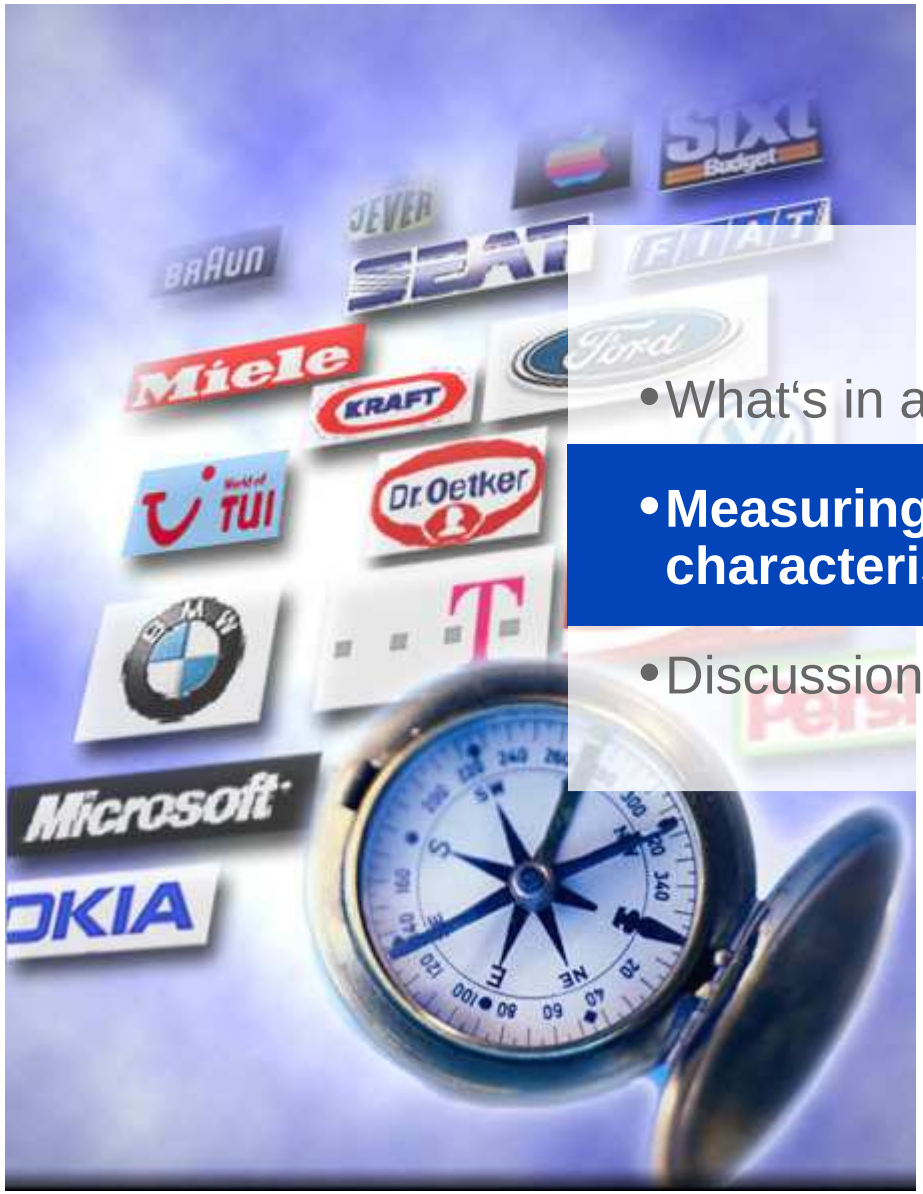


Brand value arises in the head of the customer

Brand value

"... is the discounted incremental future cash flows accruing from products and services bearing the brand name compared with a (fictitious) situation in which the firm offerings had no brand name..."

Sources: according to Ailawadi, Lehmann, and Neslin (2003); Fischer (2007); Shocker and Weitz (1988); Simon and Sullivan (1993)



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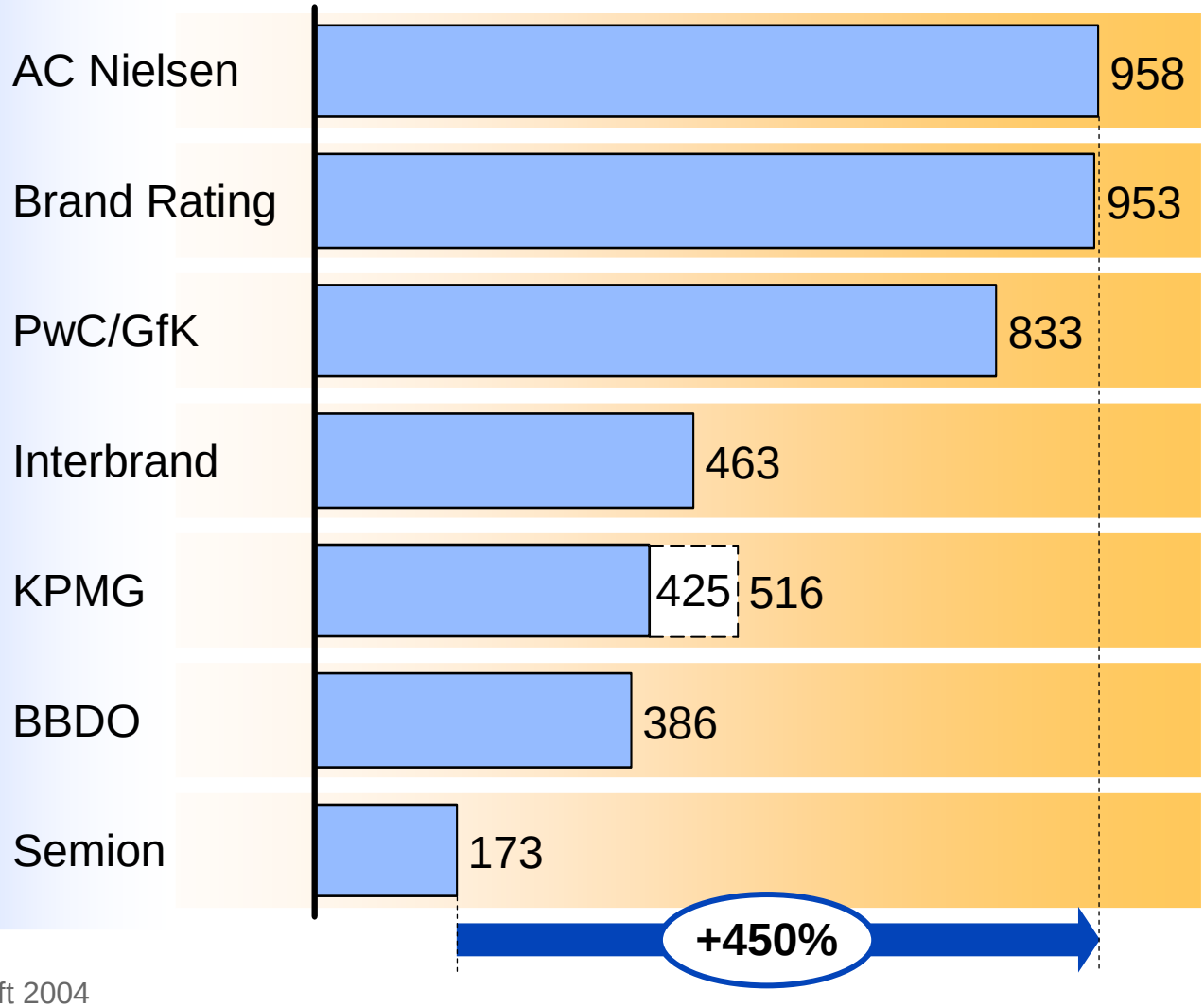
There is a jungle of brand valuation models ...

… which do not converge at all

BRAND VALUE

EUR millions

Seven brand valuation experts determined the brand value for a fictitious company based on the same data

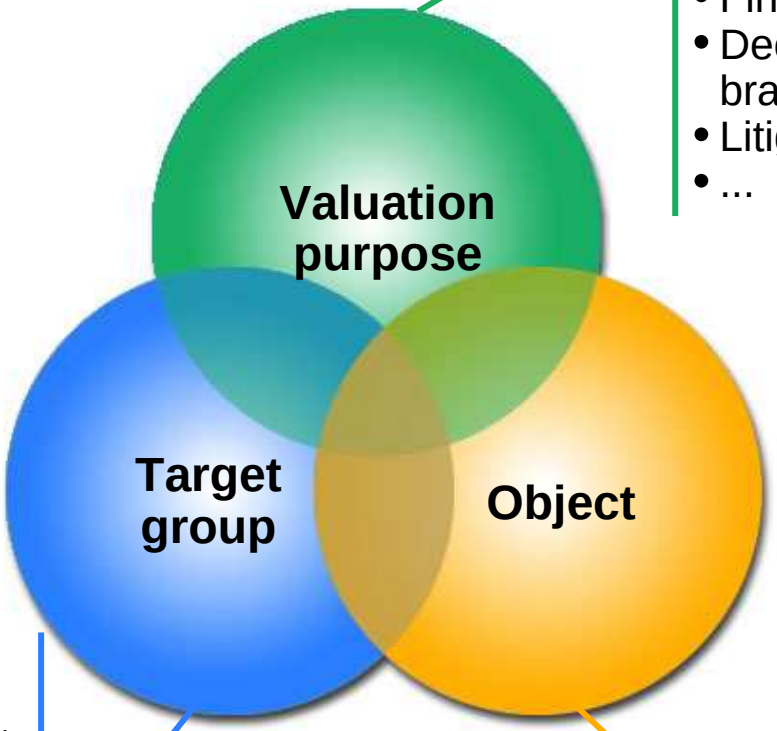


Source: Special issue absatzwirtschaft 2004

Brand valuation models need to fulfill their purposes

Key questions

- What is the purpose of valuation?
- Which is the target group?
- What is the object of valuation?



- Mergers and acquisitions
- Financial reporting
- Decision support for brand management
- Litigation support
- ...

- Analysts/ Investors
- Management
- Customers
- Employees
- Retailers
- ...

- Corporate brand
- Umbrella brand
- Brand portfolio
- Monobrand
- ...

We need standards for brand valuation

MMAP characteristics of an ideal metric

Characteristics of an ideal accounting metric

Where are accounting qualities important?

- Purchase price allocation in acquisitions, mergers, and sales of businesses
- Annual impairment tests for recognized brands
- Reporting to tax authorities
- Litigation and insolvency proceedings
- Communication to investors
- Securitized borrowing

Many external stakeholders only accept metrics that meet generally accepted accounting standards

The vast majority of characteristics of MMAP and FASB ideal metrics are congruent

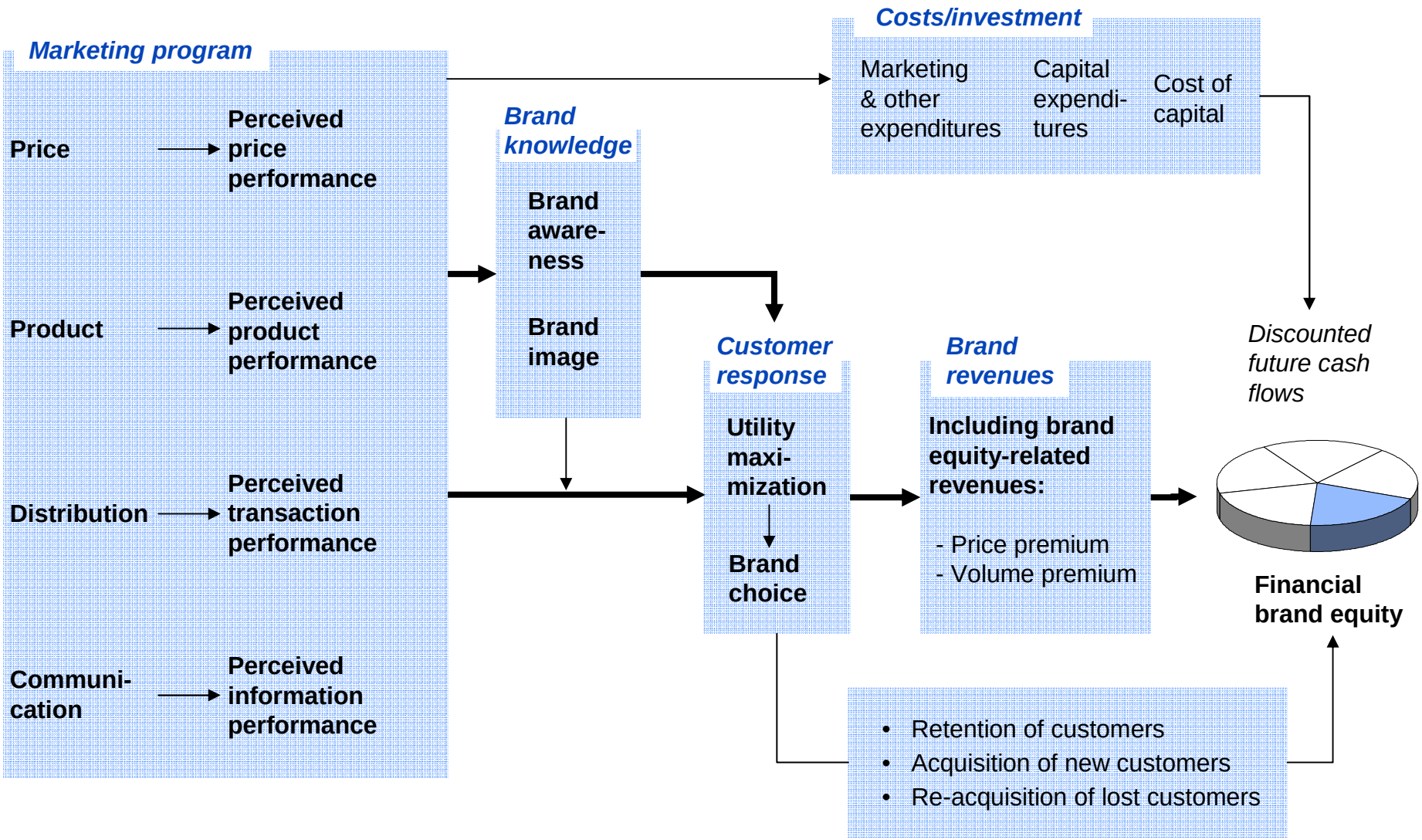
General accounting qualities (SFAC No. 2/1980)	Interpretation/components (FASB 1980)	MMAP characteristics of an ideal metric (MASB 2006)
• Relevance	- Predictive value - Feedback value - Timeliness	1. Relevant 2. Predictive 6. Sensitive
• Reliability	- Verifiability - Representational faithfulness - Neutrality	3. Objective 9. Transparent
• Comparability	- Consistency across analysis units and time	4. Calibrated 5. Reliable
• Understandability		7. Simple
• Benefits > Costs		8. Causal 10. Quality assured

Specific to each catalogue

Derived critical criteria for brand valuation

Accounting + MMAP qualities of metric	Critical brand valuation criteria
• Relevance	• *Future orientation (DCF-analysis)*
• Reliability	• *Objectivity* (valid and reliable measurement)
	• *Completeness*
• Comparability	• *Comparability (across brands and time)*
• Understandability	• *Simplicity (can be applied by non-experts)*
• Benefits > Costs	• *Cost-effectiveness*
• Causal	• *Reflects the brand value chain (includes intermediate marketing outcomes)*

Process of brand value creation



Source: Fischer (2007), 31

Financial brand valuation methods can be classified into three broad classes

Methods for valuing intangible assets

	Value equals…	Main limitation for brand valuation
Cost approach	Historical or replacing costs for asset	Costs are not predictive of future income streams
Market approach	Market transaction price, bid, or offer for identical or reasonably similar asset	Appropriate market data are usually not available for brands
Income approach	Present value of income, cash flows, or cost savings actually or hypothetically due to the asset	*No general main limitation as it is consistent with the definition of financial brand value*

Alternative brand valuation methods of the income approach (1/3)

Method	Basic idea	+	–
Price-premium method	Estimation of price difference between branded and unbranded offering	Intuitive logic & sensitive	Not complete
Volume-premium method	Estimation of volume (market share) difference between branded and unbranded offering	Intuitive logic & sensitive	Not complete
Revenue-premium method	Estimation of revenue difference between branded and unbranded offering	Simple & transparent if appropriate private label available	• Consistency across time and analysis units not ensured • Assumes competitive equilibrium strategies that need to be forecasted

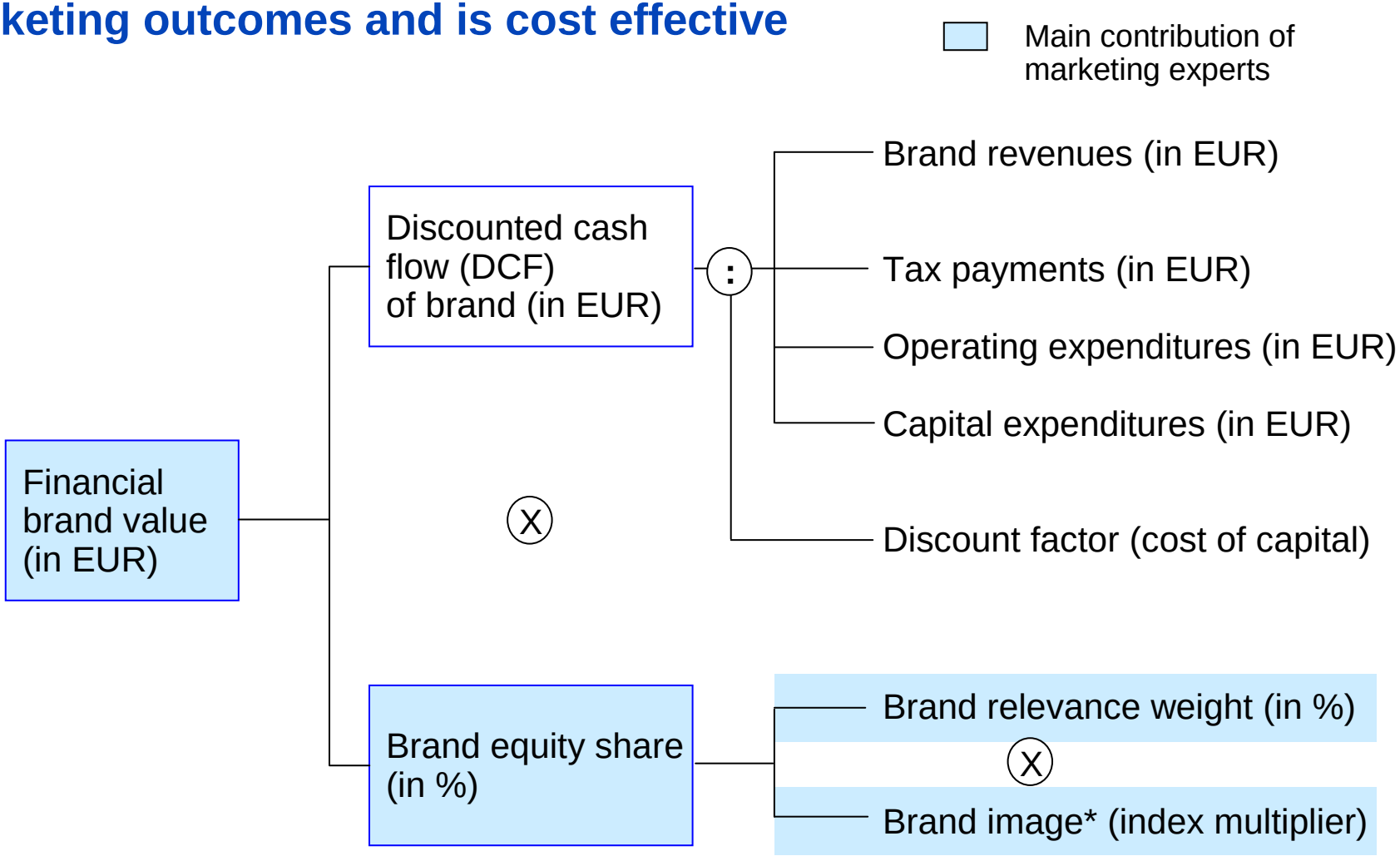
Alternative brand valuation methods of the income approach (2/3)

Method	Basic idea	+	–
Relief-from-royalty method (Royalty savings method)	• Estimation of discounted hypothetical royalty payments that are saved by brand owner • Hypothetical royalty rates are based on observed rates of comparable brands	Intuitive logic & relevant	Comparable brands licensed at arm's length on a regular basis often do not exist
(Multi-period) **Excess earnings method**	Estimation of present value of cash flows attributable to the brand after deducting cash flows arising from all other tangible and intangible assets required to operate the business	Intuitive logic & relevant	• Not easy to implement as it requires to be complete in identifying all relevant tangible and intangible assets • Subject to error and high costs when valuing all other intangible assets that are difficult to measure

Alternative brand valuation methods of the income approach (3/3)

Method	Basic idea	+	–
Bottom-up premium profits method (Incremental income method)	Estimation of the difference between discounted cash flows from the branded business and the unbranded business	• Consistent with the definition of brand value • Relevant, predictive, and sensititve	• Credibility depends on the approach to determine incremental cash flows due to the brand • Not cost-effective because it requires to estimate a second cash-flow stream of the unbranded business
Top-down premium profits method (Income split method)	Same idea as above, but two-step procedure (1) Forecast of DCF of branded business (2) Determination of fair brand share in DCF of branded business	• As above • Simple, robust, and potentially cost-effective	Credibility depends on transparent and convincing approach for isolating the brand equity share

A top-down premium profits method that includes intermediate marketing outcomes and is cost effective



* Brand image measures the brand perceptions relative to relevant competitors. A value of one represents an image that is not different from the market average.

Source: Fischer (2007)

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Issues to be discussed

- **In which detail should the brand value chain be reflected in the valuation approach?**
- **Should a brand-specific risk factor be incorporated into the discount rate?**
- **Should cross-validation to isolate brand-specific cash flows always be required?**
- **MECE*-ness of cash flow decomposition**
- **Should the method allow for negative brand values?**
- **Other issues/questions?**

* MECE = Mutually Exclusive and Completely Exhaustive

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