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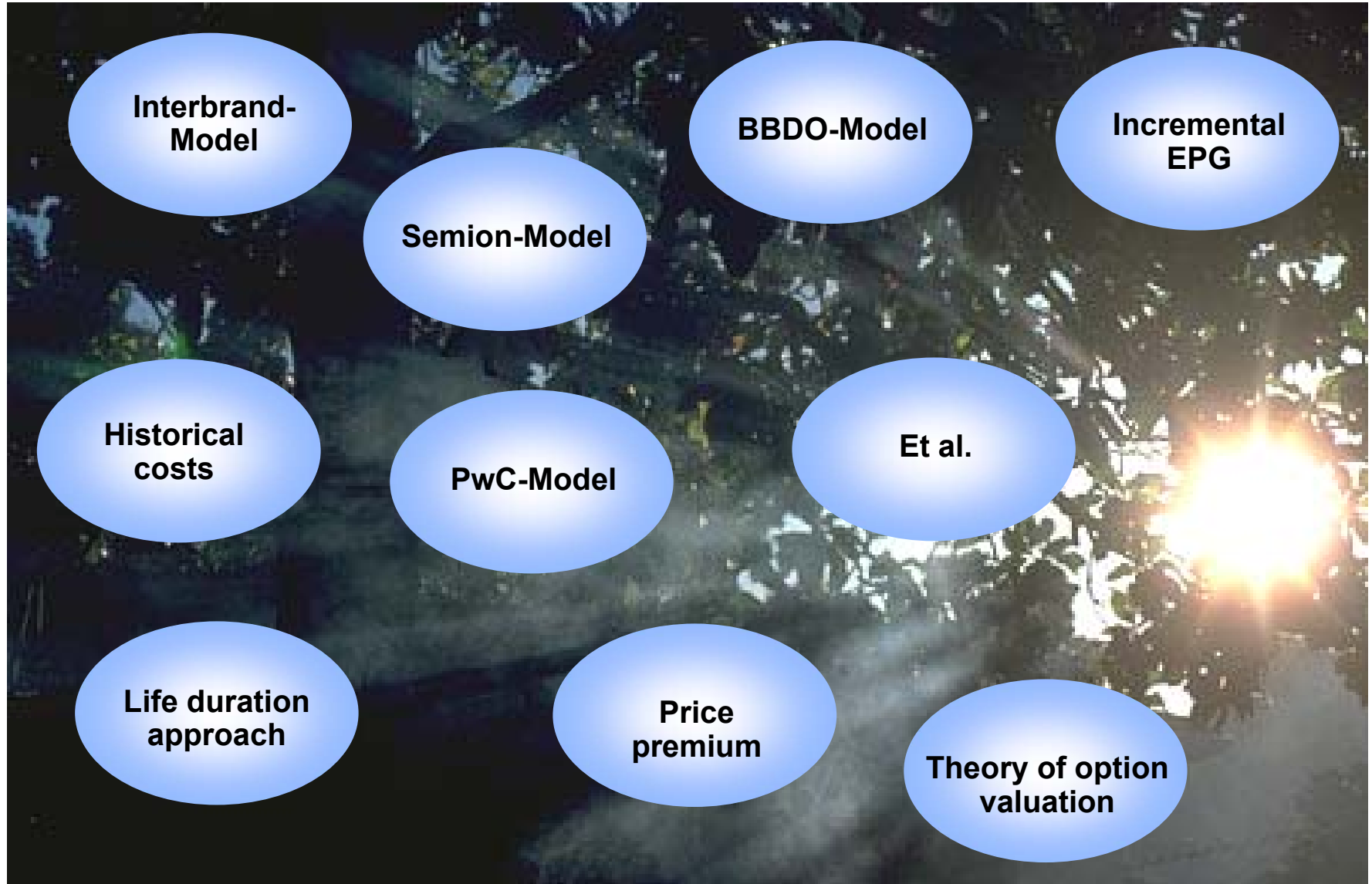
Measuring Brand Value:
What is Known about the Methods

Marc Fischer

University of Passau
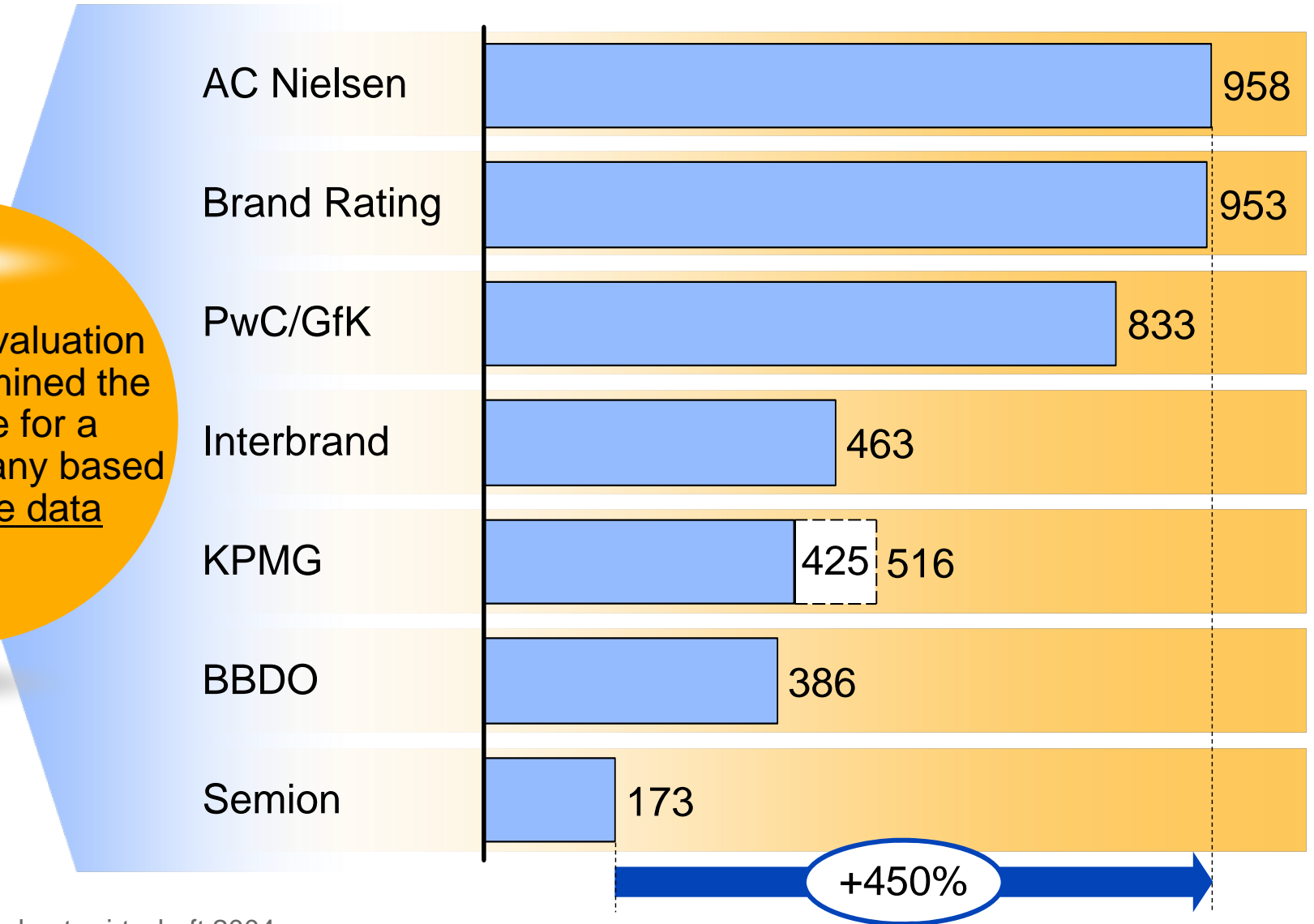
MASB Summer Board Meeting, Boston

August 12-13, 2010

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THERE IS A JUNGLE OF BRAND VALUATION MODELS, FOR EXAMPLE…

Interbrand-Model

BBDO-Model

Incremental EPG

Semion-Model

Historical costs

PwC-Model

Et al.

Life duration approach

Price premium

Theory of option valuation

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…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

Company	Brand Value
AC Nielsen	958
Brand Rating	953
PwC/GfK	833
Interbrand	463
KPMG	425 / 516
BBDO	386
Semion	173

+450%

Source: Special issue absatzwirtschaft 2004

Marc Fischer

AGENDA

- **COMBINING ACCOUNTING & MMAP CHARACTERISTICS**

- REVIEW OF COMMERCIAL METHODS

- VALIDATION

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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

CHARACTERISTICS OF MMAP AND FASB IDEAL METRICS

General accounting qualities (SFAC No. 2/1980)

- Relevance

- Reliability

- Comparability

- Understandability

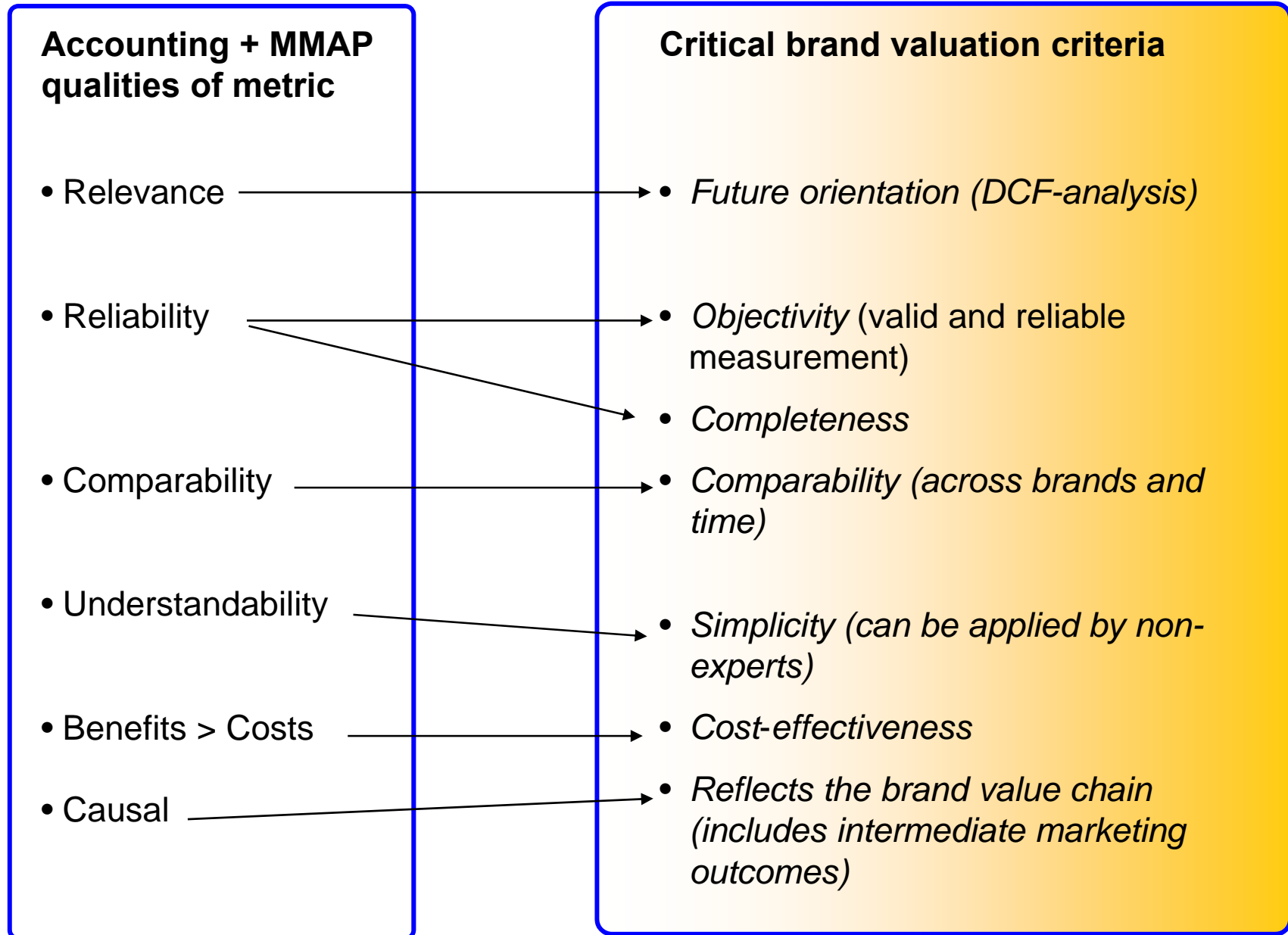**Interpretation/ components (FASB 1980)**

- Predictive value
- Feedback value
- Timeliness

- Verifiability
- Representational faithfulness
- Neutrality

- Consistency across analysis units and time

MMAP characteristics of an ideal metric (MASB 2006)

1. Relevant
2. Predictive
6. Sensitive

3. Objective
9. Transparent

4. Calibrated
5. Reliable

7. Simple

- Benefits > Costs

Specific to each catalogue

8. Causal
10. Quality assured

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DERIVED CRITICAL CRITERIA FOR BRAND VALUATION

Accounting + MMAP qualities of metric

- Relevance
- Reliability
- Comparability
- Understandability
- Benefits > Costs
- Causal

Critical brand valuation criteria

- *Future orientation (DCF-analysis)*
- *Objectivity* (valid and reliable measurement)
- *Completeness*
- *Comparability (across brands and time)*
- *Simplicity (can be applied by non-experts)*
- *Cost-effectiveness*
- *Reflects the brand value chain (includes intermediate marketing outcomes)*

Marc Fischer

CLASSIFICATION OF BRAND VALUATION METHODS

		Value equals…	Main limitation for brand valuation
Methods for valuing intangible assets	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*

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ASSESSMENT OF COMMERCIAL BRAND VALUATION METHODS (1/3)

	Interbrand	Semion	Nielsen	PwC/Sattler
Brand valuation approach	Income split method	Incremental income method	Incremental income method	Incremental income method
Intermediate marketing outcome	Indicator-based brand strength	Indicator-based brand strength	Indicator-based brand strength	Utility-based revenue premium
Financial valuation approach	DCF valuation	EBIT-multiplier	Perpetuity of brand earnings	DCF valuation
Brand valuation criteria				
Future orientation	Y	Y	Y	Y
Objectivity (transparency)	N	N	N	Y
Completeness	Y	Y	Y	Y
Comparability (over brands and time)	(Y)	?	?	(Y)
Simplicity	(Y)	N	(Y)	N
Cost-effectiveness	N	N	?	N
Causal (reflects brand value chain)	Y	?	?	?

Y = Yes, (Y) = Limited, N = No

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ASSESSMENT OF COMMERCIAL BRAND VALUATION METHODS (2/3)

	Brand Rating	BBDO (BEES)
Brand valuation approach	Price premium method	Incremental income method
Intermediate marketing outcome	Indicator-based brand strength (iceberg)	Indicator-based brand strength
Financial valuation approach	Perpetuity of price premium	EBIT-multiplier
Brand valuation criteria		
Future orientation	Y	Y
Objectivity (transparency)	N	N
Completeness	N	Y
Comparability (over brands and time)	?	?
Simplicity	N	N
Cost-effectiveness	N	N
Causal (reflects brand value chain)	?	?

Y = Yes, (Y) = Limited, N = No

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ASSESSMENT OF COMMERCIAL BRAND VALUATION METHODS (3/3)

|	Y&R Brand Asset Valuator	Millward Brown	Corebrand	Fischer/McK
Brand valuation approach	"Not clear how financial value is obtained"	Income split method	Income split method	Income split method
Intermediate marketing outcome	Brand perception scores (BAV pillars)	Indicator-based brand contribution	Image index (brand power)	Utility-based brand equity share
Financial valuation approach	Stock return	Earnings multiplier	Market capitalization	DCF valuation
Brand valuation criteria				
Future orientation	Y	Y	Y	Y
Objectivity (transparency)	(Y)	N	(Y)	Y
Completeness	Y	Y	Y	Y
Comparability (over brands and time)	(Y)	?	(Y)	Y
Simplicity	(Y)	(Y)	Y	Y
Cost-effectiveness	?	?	?	Y
Causal (reflects brand value chain)	?	?	?	(Y)

Y = Yes, (Y) = Limited, N = No

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- **VALIDATION**

BAV MEASURE CONTAINS INFORMATION INCREMENTAL TO EARNINGS IN EXPLAINING STOCK RETURN OF A FIRM
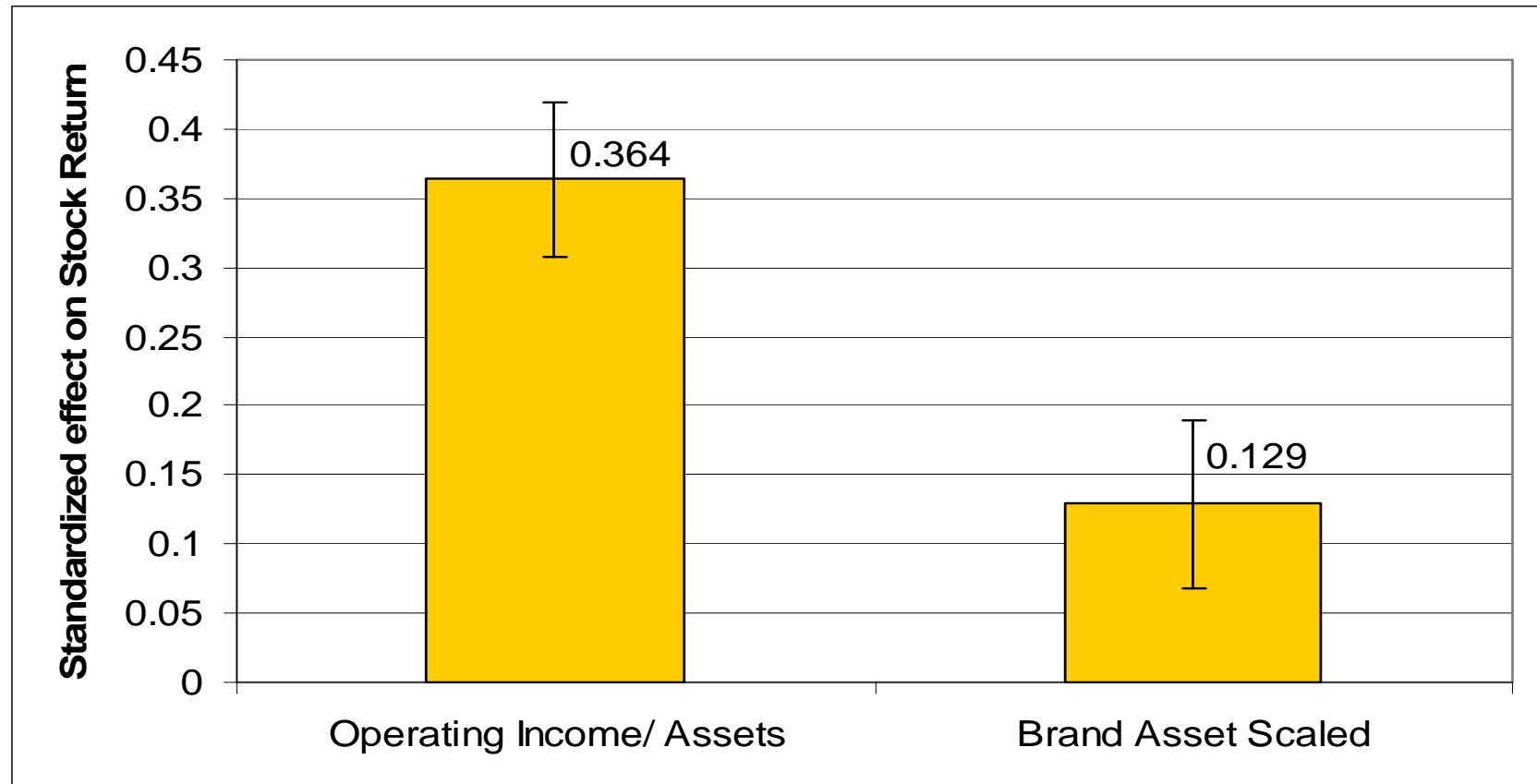
Brand Asset measure provides information about the future growth opportunities of the firm which is incremental to the information contained in Operating Income. Brand Asset can add additional 35% (.129/.364) of valuable information to Operating Income data in explaining stock returns. Results presented are based on the models using continuously compounded stock returns, i.e., log(ret).

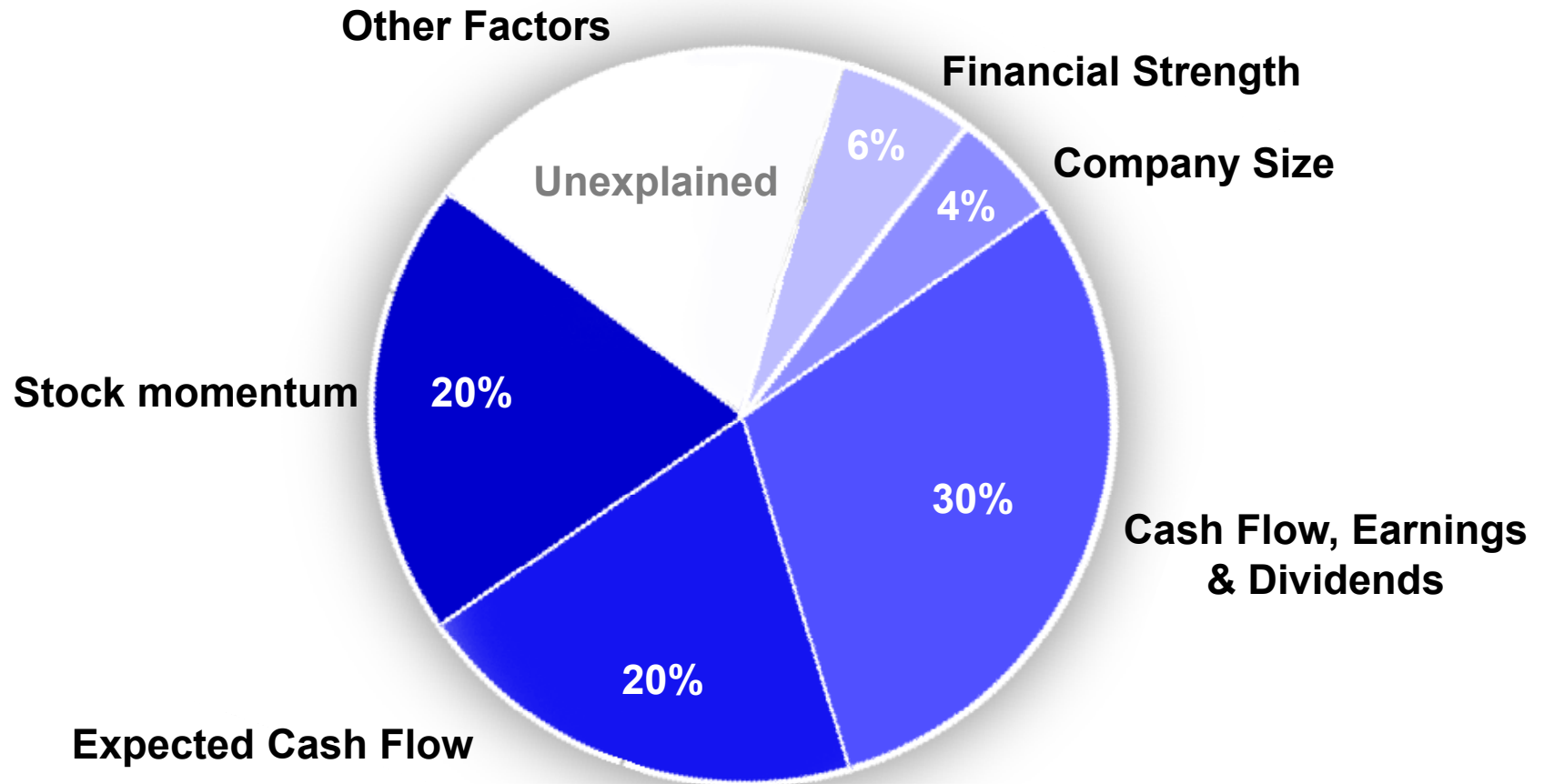Source: Mizik, N. (2010), Presentation at MASB Winter Board Meeting

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IMPACT OF POSITIVE/NEGATIVE CHANGE IN PERCEIVED BRAND DIFFERENTIATION (BAV PILLAR) ON STOCK RETURN
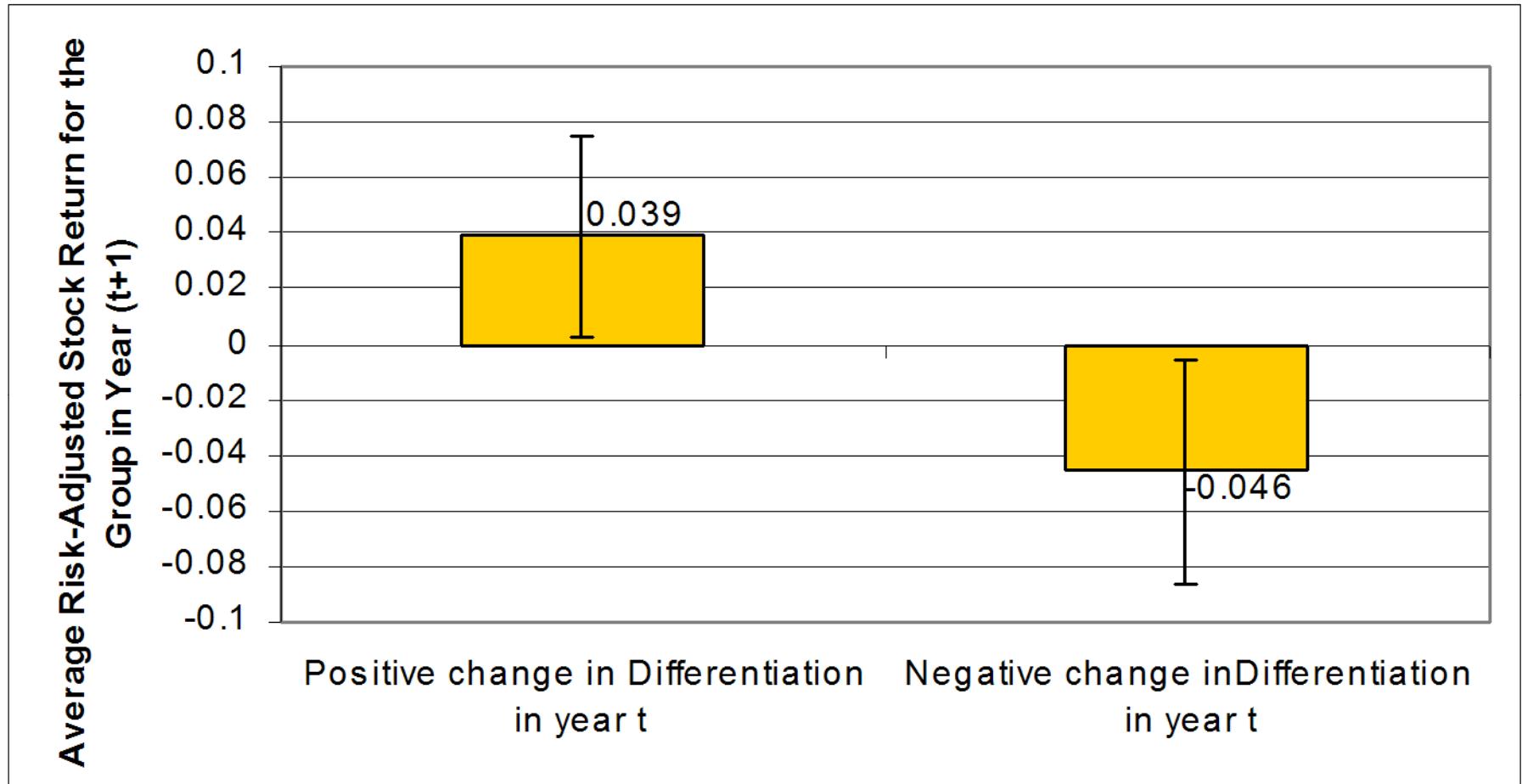
Source: Mizik, N. (2010), Presentation at MASB Winter Board Meeting

COREBRAND'S DECOMPOSITION OF STOCK PERFORMANCE

CoreBrand can explain a portion of the 20% "Unexplained"

* Data sources: Value Line Investment Survey, Competitive Media Reporting and Corporate Branding Index annual survey

Source: Corebrand: Metrics that matter

THE EXPLAINED SHARES IN STOCK PERFORMANCE CHANGE DIFFER ACROSS INDUSTRIES

Understanding your business within identified industry ranges:

- Electric utilities   1.62% *range 0-5%*

- Home builders   1.86% *range 0-6%*

- Insurance industry   4.90% *range 1-14%*

- Computers, peripherals   8.49% *range 1-18%*

- Beverages   13.00% *range 3-21%*

- Restaurants   12.66% *range 2-19%*

- Consumer Pkgd Goods   14.60% *range 4-20%*

Source: CoreBrand Directory of Brand Equity

VALIDATING BRAND INVESTMENTS AND CAPITAL FLOW: SHORT- / LONG-TERM ELASTICITIES
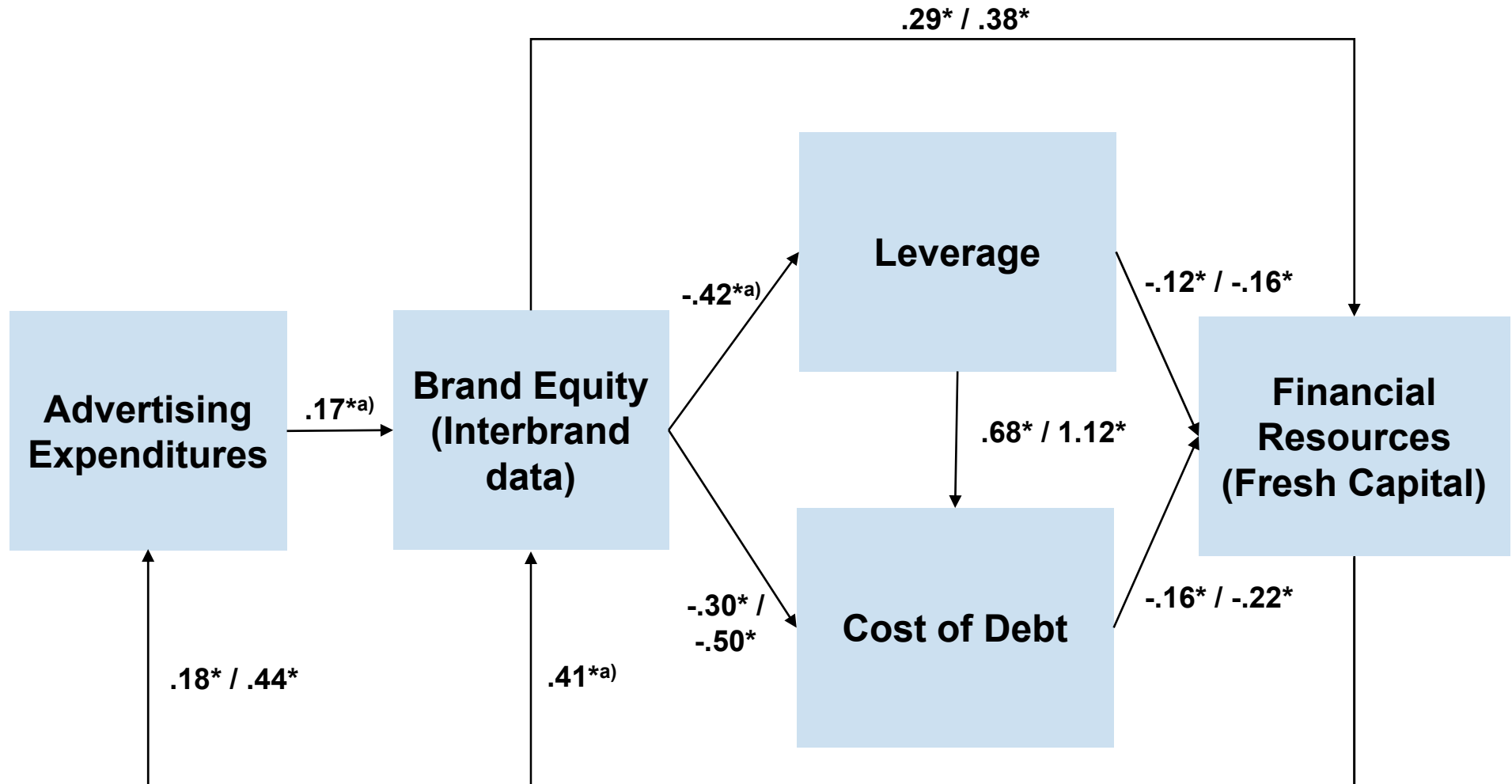
* Significant at p < .05 (Sample includes 344 firms and 475 brands)

[a] No differentiation between short- and long-term effect. The estimate of .17 means that a 100% increase in ad expenditures results in a 17% increase in financial brand equity.

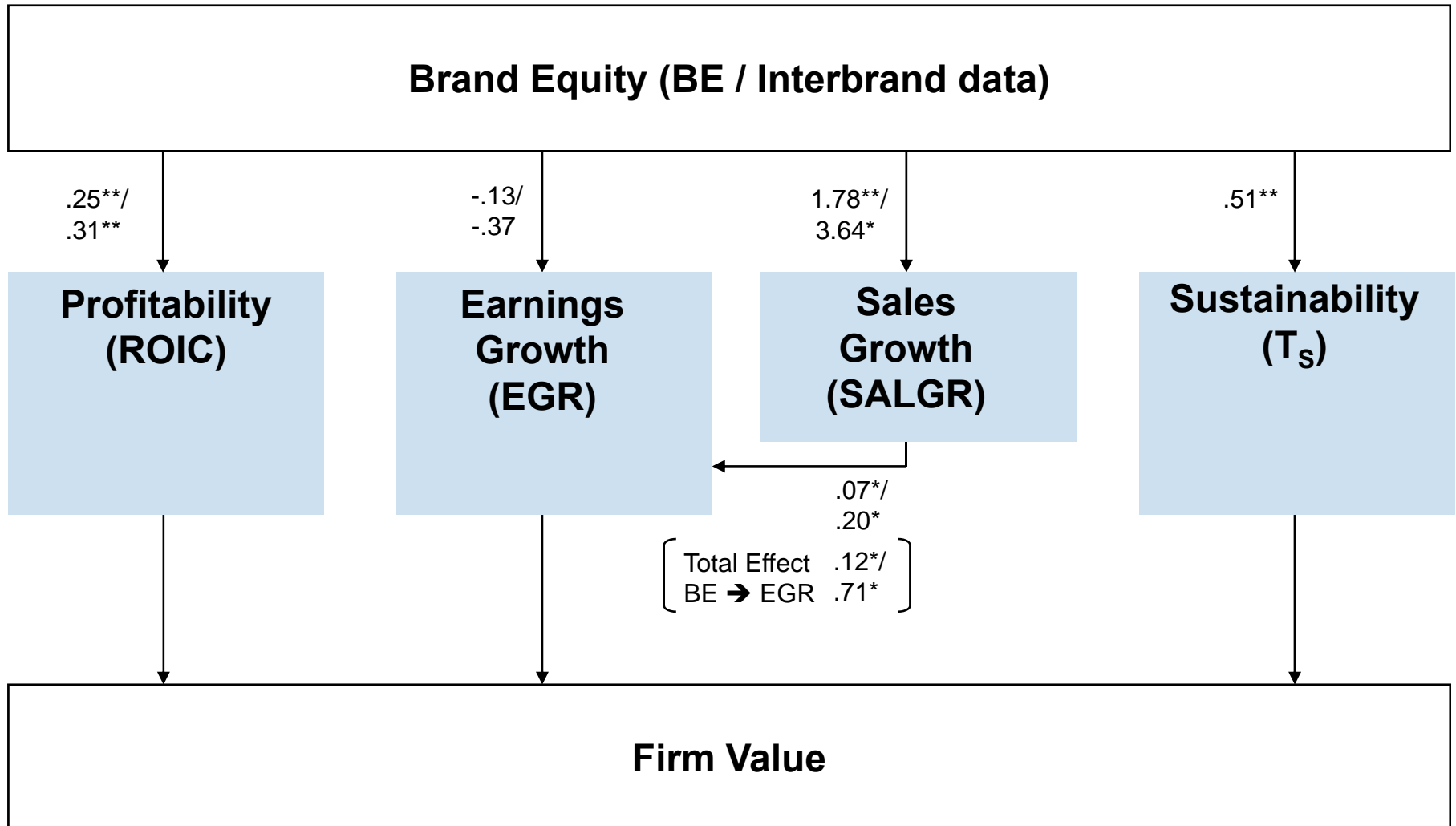# PREDICTIONS FROM THE DYNAMIC BRAND VALUE CHAIN EXPLAIN STOCK RESPONSE

	Model 1	Model 2	Model 3	Model 4
UΔROI (operating return)	1.91*	1.72*	1.73*	1.70*
UΔFR (predicted financial resources)		.55*	.56*	.56*
UΔBE (predicted brand equity)			.15*	.14*
UΔADV (predicted ad spending)				1.53
Adj. R^2	.25	.31	.33	.33

*Significant at $p < .05$; N = 327

Notes:

➢ Financial resources, brand equity, and advertising are size adjusted by total assets.

➢ Each equation also includes

   (1) annual dummy variables to capture the effects of economywide factors,
   (2) industry dummy variables to capture industry-specific effects,
   (3) annual effects for log(market value$_{it-1}$) and log(book value$_{it-1}$/market value$_{it-1}$) to capture firm-specific risk-factors

RESULTS: SHORT-/LONG-TERM ELASTICITIES

Brand Equity (BE / Interbrand data)

.25**/ .31**

-.13/ -.37

1.78**/ 3.64*

.51**

Profitability (ROIC)

Earnings Growth (EGR)

Sales Growth (SALGR)

Sustainability (T_S)

.07*/ .20*

Total Effect   .12*/
BE ➔ EGR   .71*

Firm Value

* Significant at p<.10;**p<.05; *** p<.01

Reading example: A 100% increase in brand equity results in a 25% increase in profitability (ROIC) in the short run and 31% increase in the long run.

EFFECTS OF BRAND EQUITY ON FIRM VALUE VIA DIFFERENT VALUE DRIVER

Firm value Elasticity [a]

| **Brand Equity** (Interbrand) (e.g., +50% = +4.17 bn $)* | .31 → | **ROIC** (+15%➜ ΔROIC 3.5%)* (ΔFV =+.72 bn $ => 1.7%)** | .03 |

| **Brand Equity** (Interbrand) (e.g., +50% = +4.17 bn $)* | .83 → | **Earnings Growth** (+41.5%➜ΔEGR 5.2%)* (ΔFV =+4.4 bn $ => 10.4%)** | .21 |

| **Brand Equity** (Interbrand) (e.g., +50% = +4.17 bn $)* | .51 → | **Sustainability*** (+30.5%➜ ΔT_S = 1.02)* (ΔFV =+2.7 bn $ => 6.4%)** | .13 |

| **Brand Equity** (Interbrand) (e.g., +50% = +4.17 bn $)* | → | **Firm Value**** (ΔFV =+9.5 bn $ => 22.4%) | .45 |
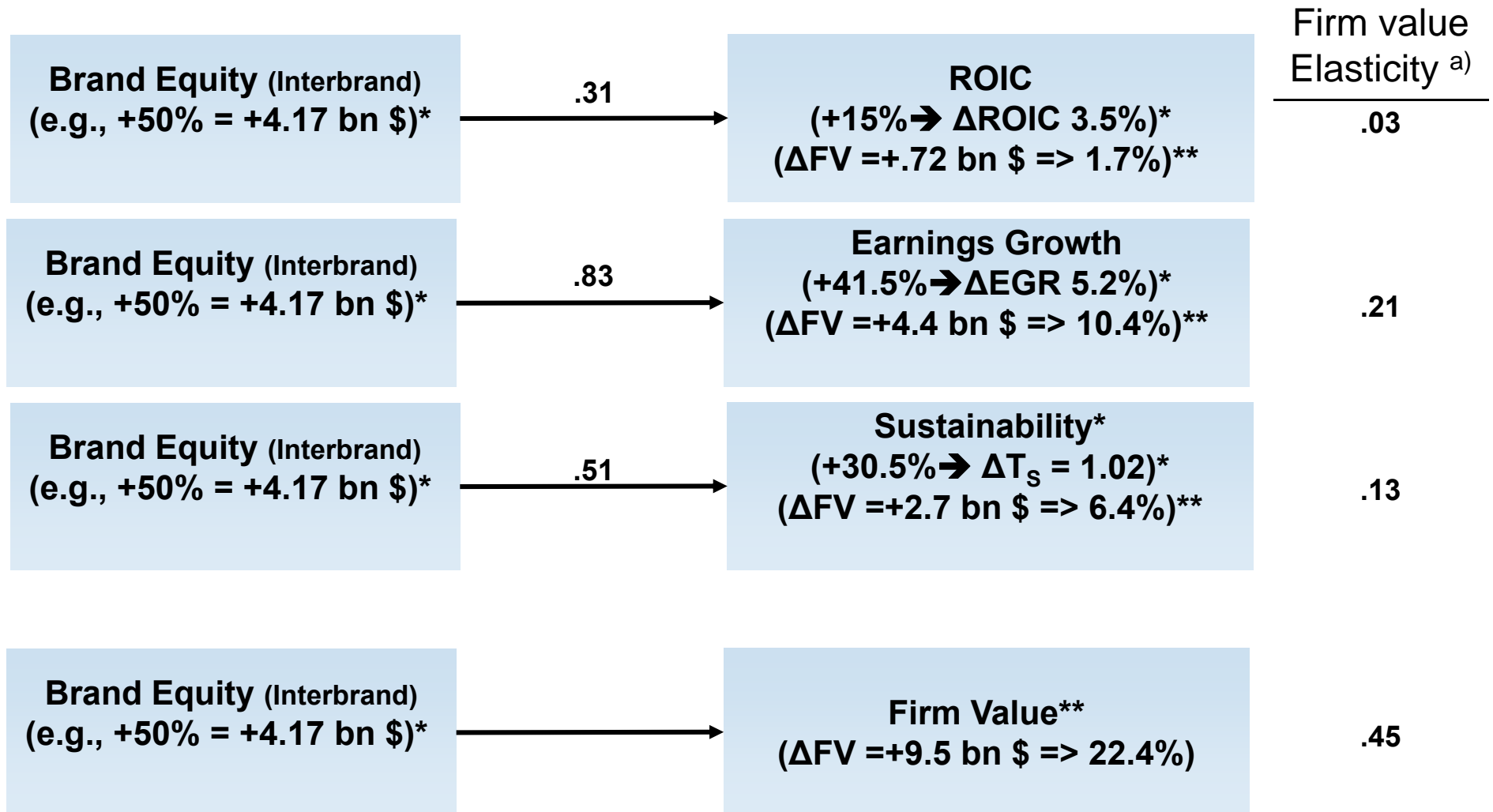
 * Based on sample mean values

** Based on mean firm values

[a] The estimate of .03 means that a 100% increase in brand equity results in a 3% increase in firm value that is mediated by improved profitability (ROIC).

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SUMMARY

What is known

- Brand value creation starts in the head of customers and other stakeholders; many methods incorporate this step

- Brand valuation is forward looking and requires to apply corporate valuation

What needs to be done

- Create more transparency about approaches to measure brand strength/power/perceptions and about methods to isolate the brand effect

- Create more transparency about cost-effectiveness of methods

- Develop guidelines and minimum standards for empirical validation (consistency with MMAP)

- Develop a standardized profile for each method that helps classify the approach and understand its limitations

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