

BRAND VALUATION
EXCERPTS

Value of Marketing



Natalie Mizik
Columbia

MASB Board Meeting
Chicago, March 2010

Brand Valuation

There are three main brand consultancies producing annual brand rankings:

Interbrand “Best Global Brands”

Published in *Business Week* in September

Millward Brown “Top 100 Lists”

Published in the *Financial Times* in April

Brand Finance “The World’s 500 Most Valuable Brands”

Published on their website in April

**Interbrand and Millward Brown use the earnings split approach;
Brand Finance uses relief from royalty**



Highly Divergent Estimates of Brand Value

Brand	IB BV 09	Brand	MB BV 09	Brand	BF BV 09
Coca-Cola	68,734	Google	100,039	Wal-Mart	40,616
IBM	60,211	Microsoft	76,249	Coca-Cola	32,728
Microsoft	56,647	Coca-Cola	67,625	IBM	31,530
GE	47,777	IBM	66,622	Microsoft	30,882
Nokia	34,864	McDonald's	66,575	Google	29,261
McDonald's	32,275	Apple	63,113	GE	26,654
Google	31,980	China Mobile	61,283	HSBC	25,364
Toyota	31,330	GE	59,793	Vodafone	24,647
Intel	30,636	Vodafone	53,727	Hewlett-Packard	23,837
Disney	28,447	Marlboro	49,460	Toyota	21,995
Hewlett-Packard	24,096	Wal-Mart	41,803	Bank of America	21,017
Mercedes	23,867	ICBC	38,056	McDonald's	20,003
Gillette	22,841	Nokia	35,163	Nokia	19,889
Cisco Systems	22,030	Toyota	29,907	AT&T	19,850
BMW	21,671	UPS	27,842	Verizon Wireless	18,854
Louis Vuitton	21,120	Blackberry	27,478	China Mobile	17,196
Marlboro	19,010	Hewlett-Packard	26,745	Orange	16,799
Honda	17,803	BMW	23,948	Disney	16,750
Samsung	17,518	SAP	23,615	Budweiser	16,692
Apple	15,443	Disney	23,110	Tesco	16,408

Source: Type 2 Consulting

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Source: Type 2 Consulting

Natalie Mizik "Valuing Marketing"

No Agreement on the Direction of Change

Brand	09 vs 08 I'BRAND	09 vs 08 M BROWN	09 vs 08 B FINANCE	Sign change consistent?
Coca-Cola	3%	16%	-28%	NO
Microsoft	-4%	8%	-31%	NO
Google	25%	16%	-32%	NO
IBM	2%	20%	-17%	NO
GE	-10%	-16%	-26%	YES
McDonald's	4%	34%	-8%	NO
Apple	13%	14%	-37%	NO
Nokia	-3%	-20%	-40%	YES
Toyota	-8%	-15%	-16%	YES
Hewlett-Packard	2%	-9%	-30%	NO
Disney	-3%	-3%	-15%	YES
Intel	-2%	4%	-45%	NO
BMW	-7%	-15%	-21%	YES
HSBC	-20%	3%	-28%	NO
Gillette	3%	6%	-75%	NO
UPS	-8%	18%	-20%	NO
Cisco Systems	3%	-25%	-40%	NO
Mercedes	-7%	-14%	-51%	YES
Oracle	-1%	-6%	17%	NO
Pepsi	3%	-3%	-38%	NO

Summary:

□ What is known?

very little (Srinivasan and Hanssens, JMR2009)

□ What needs to be done?

- standardization of marketing metrics
- improvements to financial reporting of marketing activities (accounting practices)
- education on research methods
- research to establish long-term effects of mktg
- research to identify valuable Marketing Metrics, i.e., metrics with *incremental* value to existing set

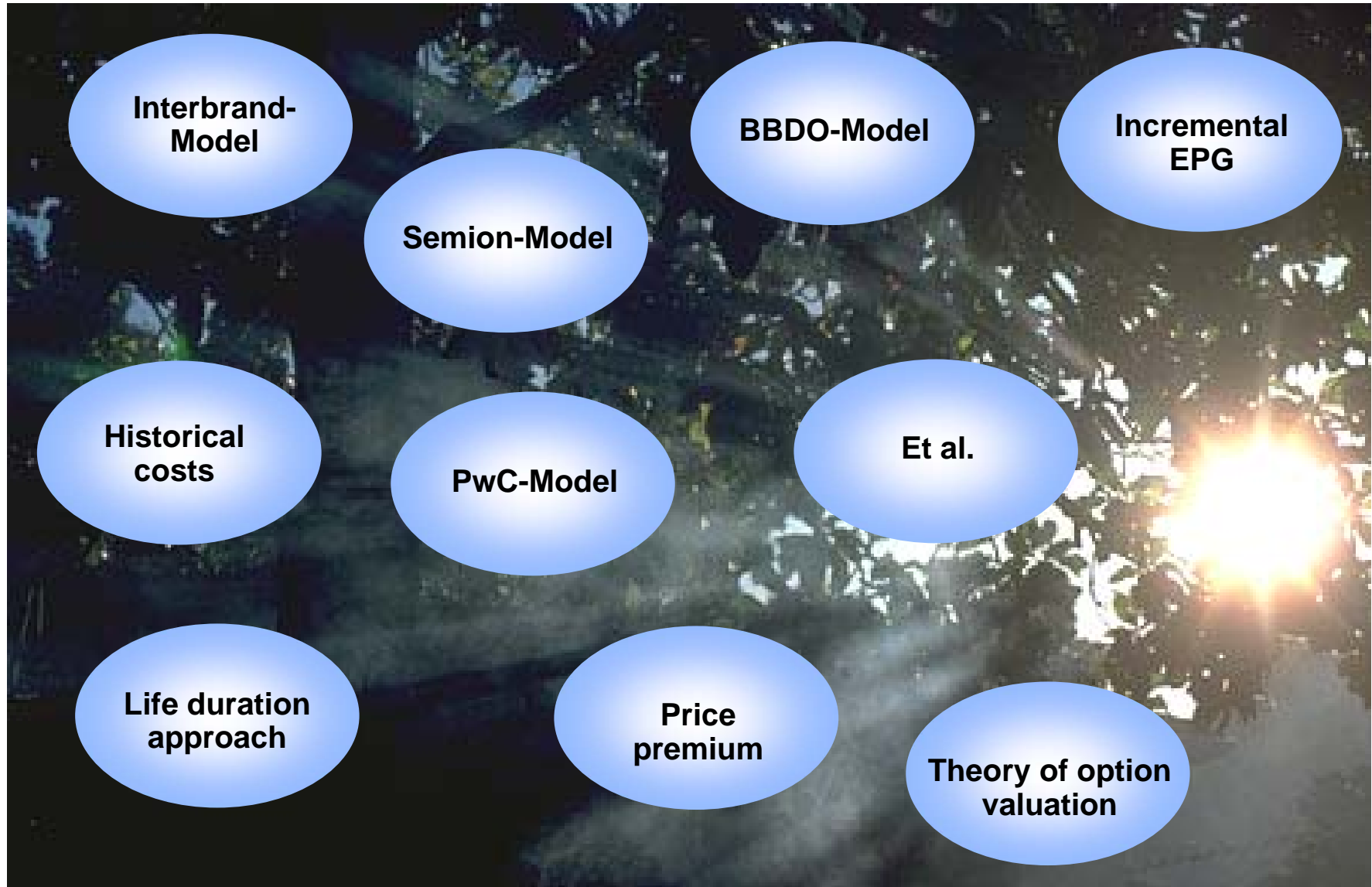
Methods of Brand Valuation: What is Known

Marc Fischer
University of Passau

MASB Summer Board Meeting, Boston

August 12-13, 2010

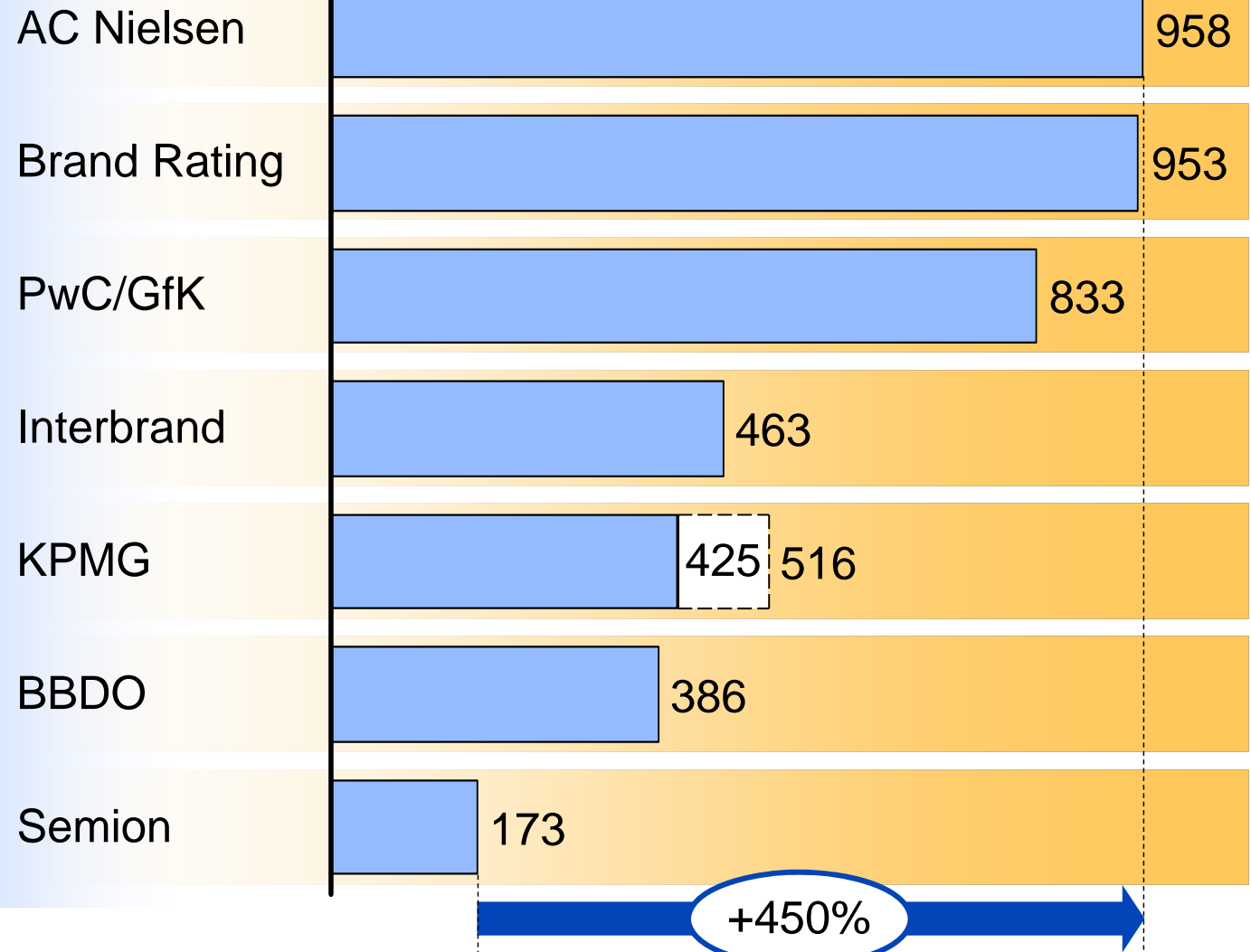
THERE IS A JUNGLE OF BRAND VALUATION MODELS, FOR EXAMPLE...



...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

AGENDA

- **COMBINING ACCOUNTING & MMAP CHARACTERISTICS**
 - REVIEW OF COMMERCIAL METHODS
 - VALIDATION
-

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

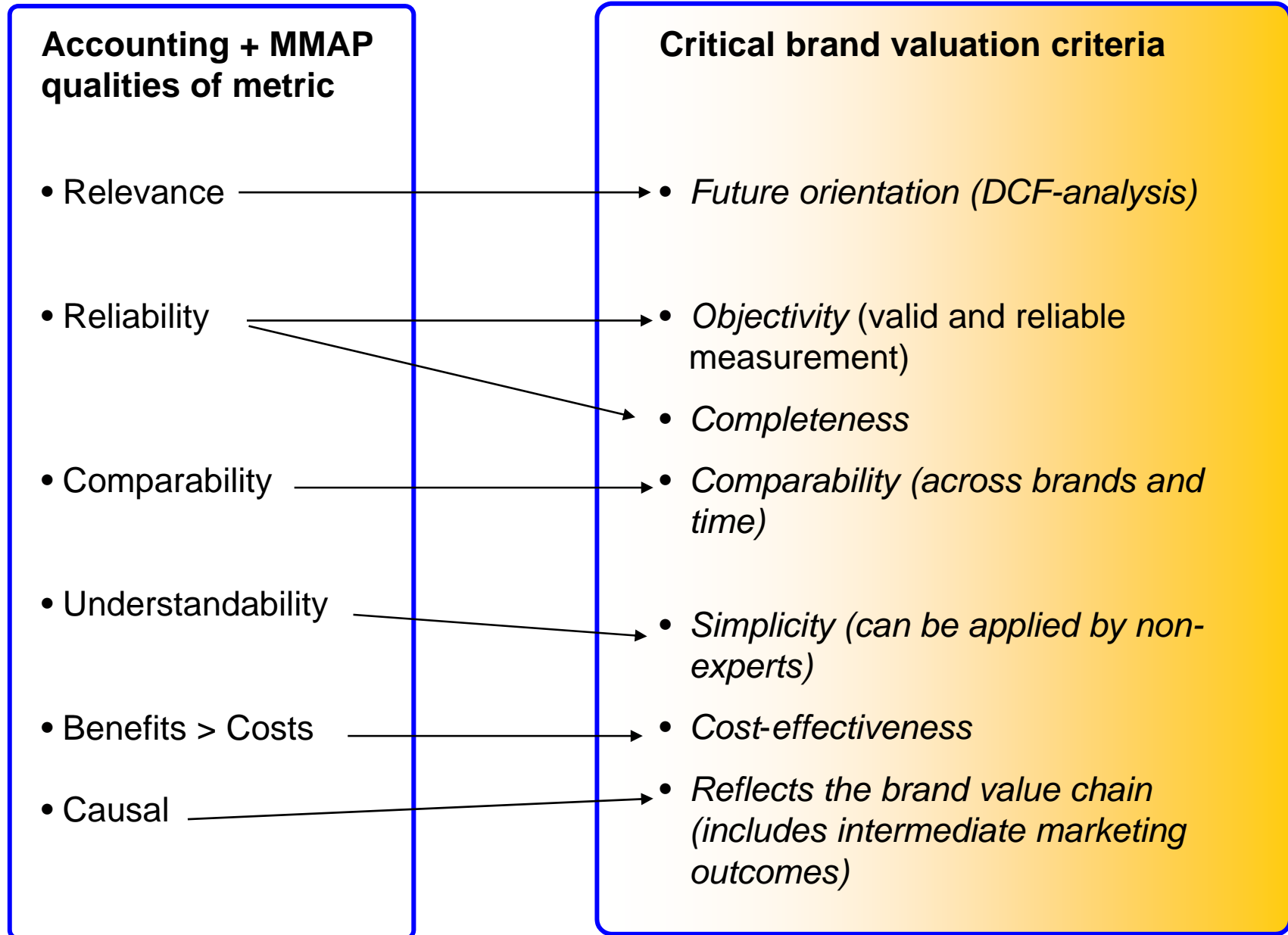
MMAP characteristics of an ideal metric (MASB 2006)

1. Relevant
2. Predictive
6. Sensitive
3. Objective
9. Transparent
4. Calibrated
5. Reliable
7. Simple
8. Causal
10. Quality assured

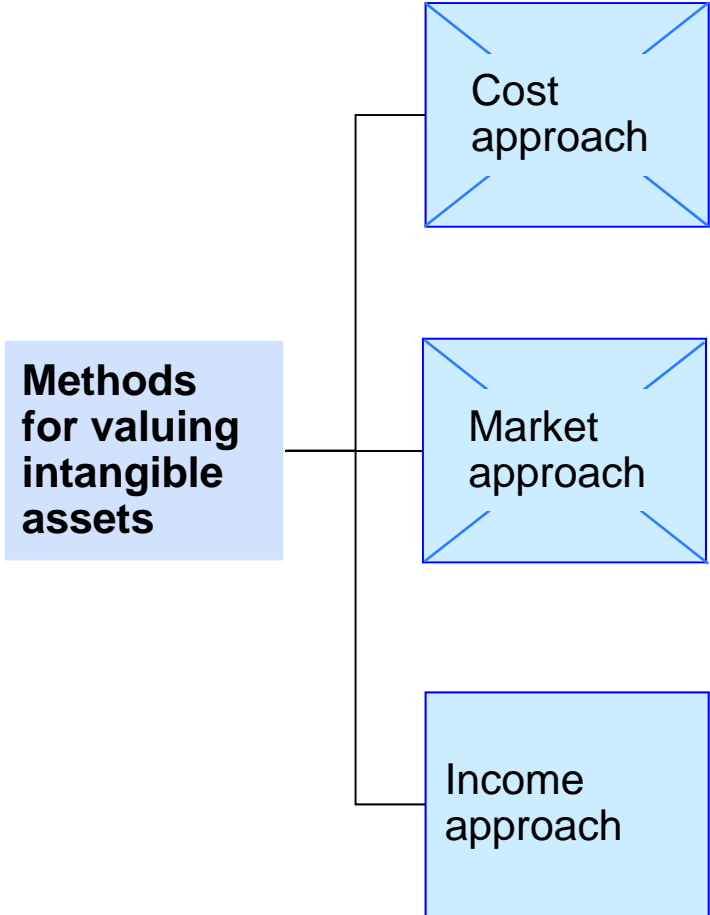
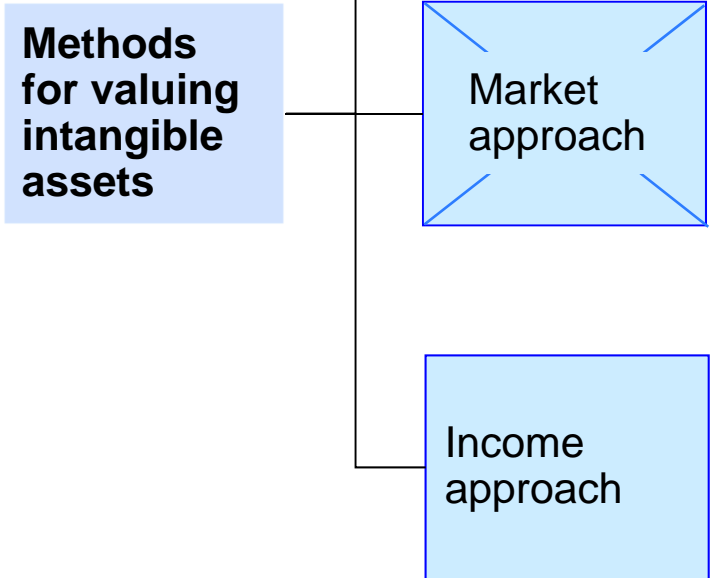
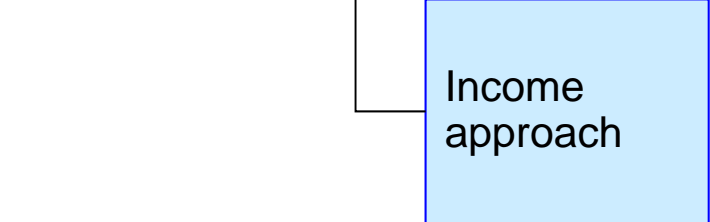
• Benefits > Costs

Specific to each catalogue

DERIVED CRITICAL CRITERIA FOR BRAND VALUATION



CLASSIFICATION OF BRAND VALUATION METHODS

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

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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

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

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

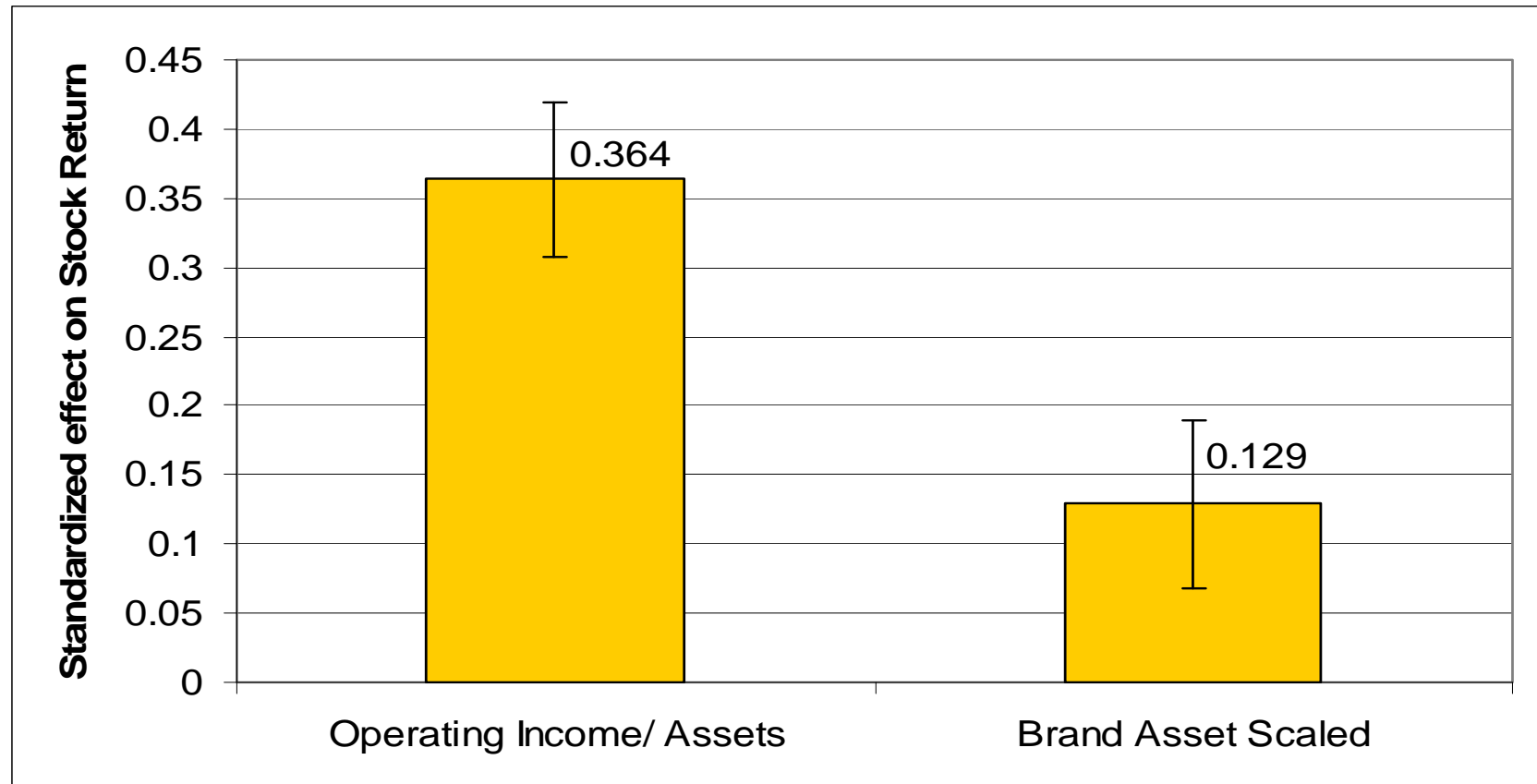
Future orientation	Y	Y	Y	Y
Objectivity (transparency)	(Y)	N	(Y)	Y
Completeness	Y	Y	Y	Y
Comparability (over brands and time)	(Y)	?	(Y)	Y
Simplicity	(Y)	(Y)	Y	Y
Cost-effectiveness	?	?	?	Y
Causal (reflects brand value chain)	?	?	?	(Y)

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

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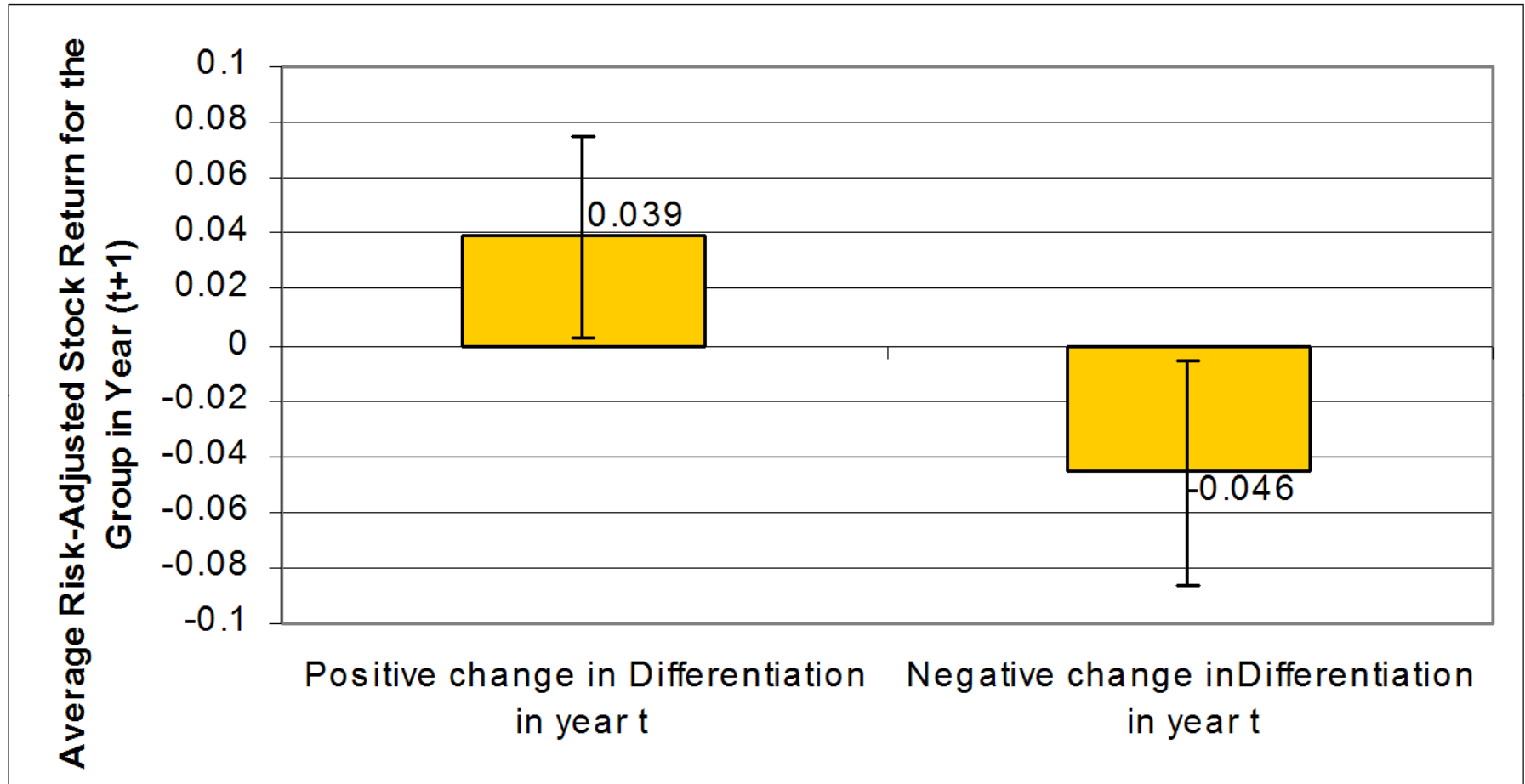
BAV MEASURE CONTAINS INFORMATION INCREMENTAL TO EARNINGS IN EXPLAINING STOCK RETURN OF A FIRM



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., $\log(\text{ret})$.

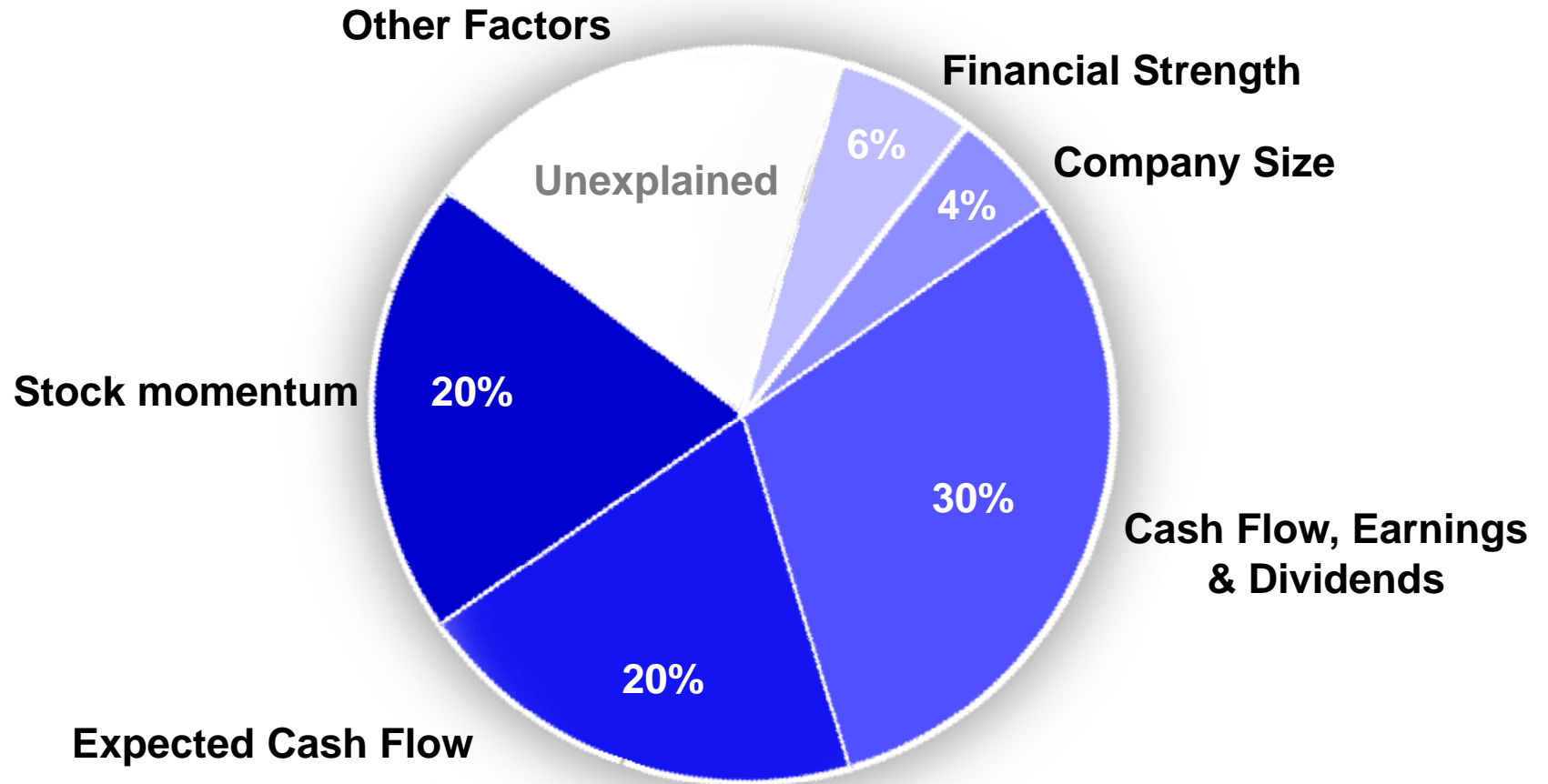
Source: Mizik, N. (2010), Presentation at MASB Winter Board Meeting

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

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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