

MASB Marketing Accountability Standards Board

2011 Winter Board Meeting



ISO 10668

„Brand valuation – Requirements for monetary brand valuation“

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Introduction

- MAPA GmbH, Zeven, Germany



NUK®



BILLY BOY



Spontex

JARDEN
corporation

- MARKENVERBAND e.V., Berlin



MARKENVERBAND

Overview

1. Monetary Brand Valuation – a hot topic?
2. Context
3. ISO 10668
 - i. Participants
 - ii. Process
 - iii. Subject Matter
4. Potential and Limitations

1. Monetary Brand Valuation – a hot topic?

- The Age of Brands?!
 - ✓ Brands are widely perceived as „Crown Jewels“ by Senior Management of branded goods and service manufacturers
 - ✓ „Price“ is a value-defining parameter
 - ✓ Yet: The percentile of companies that have valuated their brands is considerably low

1. Monetary Brand Valuation – a hot topic?

- The Advent of Controlling...
 - ✓ Business Units = Profit Centers
 - ✓ All (marketing) expenditures and investments under scrutiny
 - ✓ Brands – a challenge to Controlling

1. Monetary Brand Valuation – a hot topic?

- IAS/IFRS
 - ✓ Undisputed international recognition and importance of financial reporting – formal endorsement in 2003 by the European Commission in EU Directive 1725/2003
 - ✓ IAS 38 *Intangible Assets* – a Standard...
 - ✓ IAS 38.63: *„Brands ... that are internally generated should not be recognised as assets.“* – not for Brands.

1. Monetary Brand Valuation – a hot topic?

- Brand valuation – too good to be true?
 - ✓ Perception of Marketing and Brands and other Intangibles?!
 - ✓ Reliability? Objectivity? Validity? Sensitivity? Transparency? Simplicity? Affordability?
 - ✓ „Black Box“ Problem
 - ✓ Lack of Acceptance as a result

2. Context – A Standard in the Making...
 1. History and Status Quo at the on-set
 2. Perception, Reception of ISO PC 231

2.1 History and Status Quo at the on-set

A Time for Standardisation:

- ✓ IAS 38
- ✓ „*Measurement-based Accountability and Standards*“
- ✓ IVSC Guidance „*Valuation of Intangible Assets*“
- ✓ Brand Valuation Standardisation Initiatives underway in Austria (ON 16800), UK, Spain, Denmark, Germany
 - ✓ German Accounting Association IDW S 5
 - ✓ DIN Working Committee „Brand Valuation“ (Jan 18, 2005)

2.2 Perception, Reception of ISO PC 231

- 2006: New Work Item Proposal „Brand Valuation“ suggested by ISO
- Nov 14, 2006: ISO Project Committee 231 „Brand Valuation“
- „Friends and Foes“...
 - ✓ 27 replies
 - ✓ 20 Yes for Justification of Proposal
 - ✓ 18 Yes, 3 No for Addition to ISO work program
 - ✓ 15 Yes for Participation

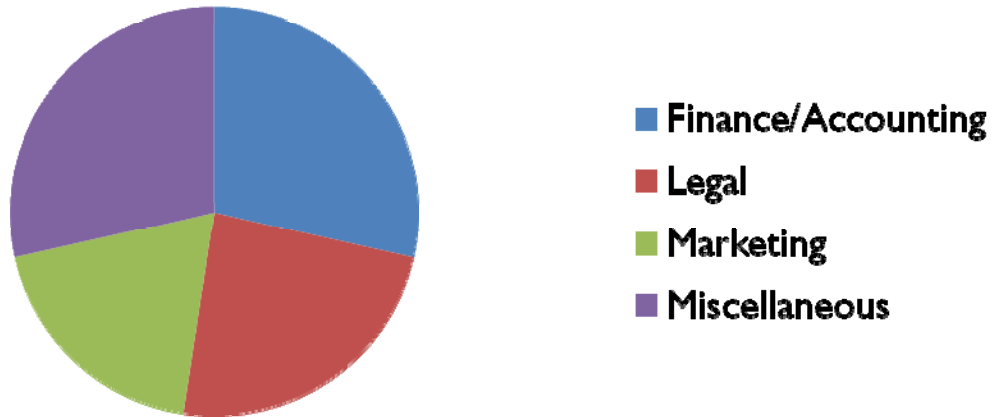
2.2 Perception, Reception of ISO PC 231

- Approval of DIS 10668 by ISO/PC 231 Nov. 30, 2009:
 - ✓ 11/12 P-Members in favor = 92% (required: $\geq 66.66\%$)
 - ✓ 01/12 P-Members against = 8% (required: $\leq 25\%$)
- ISO 10668 First Edition 2010-09-01

3. ISO 10668 – (i) Participants

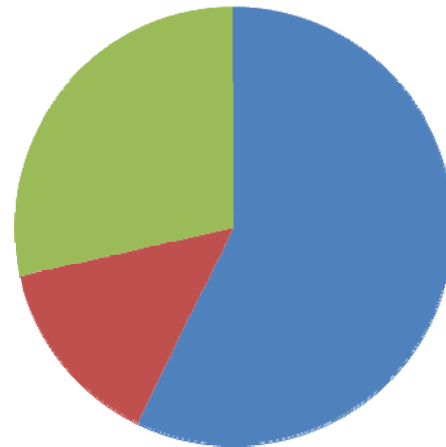
- Who came, when ISO called?
 - ✓ 23 Delegates (average) at an ISO PC 231 meeting

Participants by Background



3. ISO 10668 – (i) Participants

- Who came, when ISO called?
 - ✓ 23 Delegates (average) at an ISO PC 231 meeting



Participants by Profession

- Brand Valuers
- Brand Owners
- Misc. (Standardisation Bodies)

3. ISO 10668 – (ii) Process

- DIN Working Document as starting point for discussion
- Early consensus on
 - ✓ Scope (*monetary brand valuation*)
 - ✓ Scope (*procedures and methods* – Meta Standard)
 - ✓ „3-Tier-Approach“ (*financial, behavioral, legal*)
- Hot Topics
 - ✓ Scope: Definition of „*Brand*“ (versus „*trademark*“)
 - ✓ Interdependency of Tiers/Modules

The ISO Standard Development Process

TC/SC route

Deliverables

STAGE 1 NP
(new work item proposal)

STAGE 2 Building expert consensus

STAGE 3 Consensus building within TC/SC

STAGE 4 Enquiry on DIS (Draft International Standard)

STAGE 5 Formal vote on FDIS (proof check by secretariat)

STAGE 6 Publication of International Standard

First CD or **ISO/PAS**:

- Simple Maj of P-members
- Review 3 years – Max 6

DIS or **ISO/TS** :

- $\frac{2}{3}$ Maj of P-members,
- Review: 3 years

ISO/TR for **non-normative** documents

- Simple Maj of P-members
- No review

FDIS

$\frac{2}{3}$ Maj of P-members
less than $\frac{1}{4}$ negative votes

Final text of International Standard

ISO International Standard
Review: 3 years and then each 5 years

Workshop route

International Workshop Agreement

3. ISO 10668 – (iii) Subject Matter

Structure of ISO 10668

1. Scope
2. Terms and Definitions
3. General requirements
4. Specific requirements
5. Valuation Approaches and methods
6. Necessary valuation inputs
 - 6.1 Market and financial data
 - 6.2 Behavioural aspects
 - 6.3 Legal aspects
 - 6.4 Sourcing of quality data and assumptions
7. Reporting
8. Independence

3. ISO 10668 – (iii) Subject Matter

Introduction

Intangible assets are recognized as highly valued properties. Arguably the most valuable but least understood intangible assets are brands. However, reliable values need to be placed on brands. This International Standard provides a consistent, reliable approach to brand valuation including financial, behavioural and legal aspects.

- Comments

- ✓ Reliability, Consistency as pre-reqs to acceptance of brands as fully emancipated Intangible Assets
- ✓ 3-Tier-Approach: Financial, Behavioural (Marketing), Legal

3. ISO 10668 – (iii) Subject Matter

2 Terms and Definitions

Brand:

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

- Comments

- ✓ American Marketing Association – Brand Definition: *A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name.*

3. ISO 10668 – (iii) Subject Matter

2 Terms and Definitions

Trade mark:

*legally **protectable** sign (in particular words including personal names, letters, numerals, figurative elements and combinations of colours), or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings*

- Comments

- ✓ TRIPS Art. 15: *Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark.*

3. ISO 10668 – (iii) Subject Matter

3 General Requirements

Transparency

Reliability

Sufficiency

Objectivity

Financial, behavioural and legal parameters

When performing a monetary brand valuation, financial, behavioural and legal parameters shall be taken into account, said parameters forming part of the overall assessment. The monetary brand valuation shall be conducted on the basis of the findings from the financial, behavioural and legal modules.

- **Comments**
 - ✓ Short List for Acceptability
 - ✓ 3-Tier-Mantra

3. ISO 10668 – (iii) Subject Matter

4 Specific requirements

4.2 Value concept

The monetary value of a brand shall represent the economic benefit conferred by a brand over its expected useful economic life. Generally, the monetary value shall be calculated by reference to cash flows, determined by reference to earnings, economic profits or cost savings.

- Comments

- ✓ Specific requirements as ascertainment of General requirements
- ✓ Value concept explicit indication of income approach (as opposed to cost or market approaches)

3. ISO 10668 – (iii) Subject Matter

5 Valuation approaches and methods

5.2 Income Approach

The income approach measures the value of the brand by reference to the present value of the economic benefits expected to be received over the remaining useful economic life of the brand.

The steps followed in applying the income approach shall include estimating the expected after-tax cash flow streams attributable to the asset over its remaining useful economic life and converting these after-tax cash flow streams to present value through discounting with an appropriate discount rate.

Comments

- ✓ Income Approach as de facto preferred approach with most extensive deliberations regarding methods
- ✓ Methodological relationship of Price Premium and Volume Premium methods?
- ✓ No formal preference

3. ISO 10668 – (iii) Subject Matter

5 Valuation approaches and methods

5.3 Market Approach

When applying the market approach, brands considered as comparable shall have similar characteristics to the brand subject to valuation, such as brand strength, goods and services or economic and legal situation.

In order to be comparable, the transactions shall have been made within a reasonable closeness in time to the value date of the subject for valuation.

The valuation shall take into account the fact that the actual price negotiated by independent parties in a transaction may reflect strategic values and synergies that cannot be realized by the present owner.

NOTE The number of transactions relating to brands as isolated assets is very small. In addition, when the data are known, the characteristics of the brand being valued can differ significantly from the characteristics of the few examples of brands being sold.

Comments

- ✓ Considerations should in practice discourage use of Market Approach

3. ISO 10668 – (iii) Subject Matter

5 Valuation approaches and methods

5.4 Cost Approach

The actual cost invested in the brand shall encompass all costs spent on building and protecting the brand up to the value date. The cost to replace the brand shall include the cost of constructing a similar brand of equivalent utility at prices applicable at the time of the valuation analysis. The reproduction cost shall represent the cost to be incurred, at the value date, to recreate a similar brand and shall be adjusted in order to take into account potential losses of awareness and strength.

NOTE The cost approach to value is often based on retrospective data and does not consider a company's future earnings potential.

*The cost approach can be used when the other valuation approaches cannot be implemented **and** there is reliable data to estimate the cost.*

Comments

- ✓ Restricted applicability as „Approach of last resort“ only, if other approaches cannot be implemented

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs - Market Data

6.1 Market and financial data

In order to assess the market in which the subject brand operates (e.g. size, trends), an analytical review of the current and predicted market volumes, values, margins and channels shall be performed. The appraiser shall ensure that the results of this review are reflected in the valuation.

The appraisal shall include an assessment of all relevant financial data.

Comments

- ✓ The requirements complements the finance-oriented valuation approaches and serves as a link to the necessary valuation inputs for the two tiers „behavioural“ and „legal“

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Behavioural Aspects

6.2.1 Relation to financial aspects

*In order to assess the value of the brand the key financial parameters and valuation assumptions **shall** be adjusted based on an analysis of the behavioural aspects of the brand.*

*When applying the **income approach**, an analysis of the behavioural aspects of the brand is necessary in order to determine the monetary proportion attributable to the brand, and to assess the risk connected to the brand when determining the discount rate.*

*When applying the **market approach**, an analysis of the behavioural aspects of the brand is necessary in order to determine the appropriate multiples.*

*When applying the **cost approach**, an analysis of the behavioural aspects is necessary in order to determine the cost of constructing a similar brand of equivalent utility.*

Comments

- ✓ Behavioural aspects most strongly anchor the marketing disciplines in the approaches and methods - indiscriminately of the approach

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Behavioural Aspects

6.2.2 General Considerations

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.

NOTE *The core of the brand value lies in the asset's associated meaning(s) among stakeholders. Associated meanings can limit or extend the use of the brand for different purposes. (...)*

Comments

- ✓ Monetary value directly linked to marketing-related brand issues

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Behavioural Aspects

6.2.3 Determining the brand situation

The appraisal shall include an assessment of the brand situation in the market including the brand value drivers.

*NOTE The emotional and rational states of mind among relevant stakeholders in relation to the brand determine its future success and hence the maintenance and/or increase in its value. These relationships are the foundation of the role of brands and the generation of brand loyalty, leading to **continued purchase** and the capacity for such brands to attract a **price premium**. Consequently, an assessment of the value of a brand and of the specific risks to a brand is generally not meaningful without a **comprehensive and diligent evaluation of relevant stakeholders' perceptions of the brand in comparison with its competitors**.*

Comments

- ✓ Indication of What, not How

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Behavioural Aspects

6.2.4 Brand strength

*In order to estimate the level of future sales volumes, revenues and risks an analysis of the brand strength **shall** be performed among the relevant stakeholder groups, and reflected in the appraisal.*

NOTE 1 Measures **commonly used** to understand brand strength include awareness, perceptual attributes, knowledge, attitude and loyalty.

NOTE 2 The quality and quantity of brand strength data available for the valuation will differ significantly from one brand to another.

NOTE 3 Brand strength **can** be impacted by changes in consumer behaviour and trends, brand investment, competitive activity and trade mark enforcement protection programmes.

Comments

- ✓ Indication of What, not How

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Behavioural Aspects

6.2.5 Effect on demand

*Every brand valuation **shall** incorporate an evaluation of the brand's relevance in its specific market and sector environment. The brand's relevance describes the influence which the brand exerts on the purchase decision in the target group in a market. Combining brand relevance for the industry with company specifics translates into how much value the brand contributes to the total value.*

*NOTE This information indicates how much of the **total cash flow is attributable to the brand.***

*Brand relevance shall be taken into account in relation to both current and future brand value. Thus estimates of changes – growth or decline – of the brand's future relevance in the market or sector segment investigated **shall** be incorporated in the evaluation.*

Comments

- ✓ Indication of What, not How

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Legal aspects

6.3.1 Assessment of legal protection

*The appraisal **shall** include an assessment of the legal protection afforded to the brand, identifying:*

- each of the legal rights that protect the brand;*
- the legal owner of each of those legal rights;*
- the legal parameters influencing negatively or positively the value of the brand.*

NOTE 1 *An important component of brand valuation is assessing the legal protection afforded to the brand **in each relevant jurisdiction**. Legal protection is one factor that informs brand value because it permits the brand owner to utilise formal legal systems to exclude third parties from using the same brand, thereby providing exclusivity.*

Comments

- ✓ The relevance of legal protection for the valuation of brands is a fundamental question with regard to whether a brand can have any value at all, if the legal situation is unclear and how much effort the appraiser shall show for research on the legal situation.

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Legal aspects

6.3.2.1 *General*

*An analysis under local laws shall be an **essential** element of brand valuation. The appraisal shall include the identification of the legal rights related to the brand and their ownership*

Comments

- ✓ The relevance of legal protection for the valuation of brands is an important question with regard to how much effort the appraiser shall show for research on the legal situation.

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs – Legal aspects

6.3.2.1 *General*

*An analysis under local laws shall be an **essential** element of brand valuation. The appraisal shall include the identification of the legal rights related to the brand and their ownership*

6.3.2.2 *Ownership*

The value determined in a brand valuation shall only be attributable to the owner of the legal rights.

6.3.2.3 *Determination of legal rights*

The legal rights shall be determined according to the relevant national and regional laws

Comments

- ✓ The relevance of legal protection for the valuation of brands is an important question with regard to how much effort the appraiser shall show for research on the legal situation.

3. ISO 10668 – (iii) Subject Matter

6 Necessary valuation inputs

6.4 Sourcing and use of quality data and assumptions

7 Reporting

8 Independence

Comments

- ✓ The Sourcing and use of quality data and assumptions, the Reporting and the Independence commitments serve the acceptance of valuations.

4. Potential and Limitations

5. *“The development of generally accepted and common standards will enhance the credibility of the marketing discipline, improve the effectiveness and efficiency of marketing activities, and enable continuous improvement over time.” (MASB)*
- *“Standards are essential for the efficient and effective functioning of a marketing driven business, because decisions about the allocation of resources and assessment of results rely heavily on credible, valid, transparent and understandable information.” (MASB)*
- Acceptance and Application?
 - Affordability?
 - Standard Competition, (international) Endorsement?
- Consistency of results?

Thank you...



...for your attention!

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