# MASB
# Standards Project

## Brand Investment & Valuation
## Overview

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# Issue

- Marketing & finance practitioners agree
  - It is marketing's job to create, build & sustain brands
  - They produce current & future economic benefits for the firm
  - They are an important intangible asset owned by the enterprise
  - Brands create options for the firm
  - Brands represent much of the value of the firm
- Marketing’s activities are designed to
  - Enhance the strength of the brand among customers
  - In a manner that positively impacts market and financial returns
  - Short term and over time.
- There are no generally accepted standards for measuring the success of this marketing function
  - Extant measures do not agree in magnitude or direction of change
  - There are many “measures” but few tied to financial performance

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# Issue (cont)

- Firms utilize methods for “valuing brands” when acquiring or divesting
  - These valuations are generally performed by banks or accountants
  - With little marketing input
- The brand valuations (top brands) published by marketing services
  - Do have marketing metrics of “brand strength” among customers
  - But the valuations vary dramatically across provider
  - Both on an absolute basis and in the direction of change over time
- There are no generally accepted standards for performing these valuations, nor have the metrics representing “brand strength” been tied to market & financial outcomes in a predictable fashion

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# Objectives of BIV Project

To provide consistent, comparable, credible and actionable brand valuations through establishment of "generally accepted brand investment and valuation standards"

Involving:

- Creation of general principles, and standards/methodology
- For Investing in and Valuing Brands
- And empirical trials among 3-5 brands
- As examples of applying the principles & standards/methodology

The primary output:

- A generic model/methodology
- For marketers to use to value their brands
- And to guide investment decisions

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# BIV will apply the "Principles"

MASB Marketing Accountability Standards Board of the Marketing Accountability Foundation

**A rationale and proposed set of principles for brand valuation**

August, 2011

Drafted by Roger Sinclair PHD

Commissioned by Association of National Advertisers

ANA

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# Basic Principles #1 & #2

| *How did they calculate this value?* |
|---|
| The disclosure principle (BP # 1)<br>For a valuation to be valid and credible the method by which the valuation was calculated must be fully disclosed including all assumptions and calculations |

| *How are the brand advantages identified?* |
|---|
| The Economic base principle (BP # 2)<br>The basis of a brand valuation should be the calculation of economic profit which separates the brand from the non-branded version |

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Source: Sinclair August 2011

# Basic Principles #3 & #4

| *How is the brand portion of economic profit extracted?* |
| --- |
| <u>The brand contribution principle (BP # 3)</u><br>The valuation method shall have a component that works out the proportion of economic profit attributable to the brand |

| *If brands are long-lived, how is this accommodated?* |
| --- |
| <u>The expected economic life principle (BP # 4)</u><br>The valuation method shall attempt to model the complete expected economic life of the brand |

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Source: Sinclair August 2011

# Basic Principles #5 & #6

| *What part does the consumer play in brand valuation?* |
|---|
| <u>The brand strength principle (BP # 5)</u><br>The valuation method must have a component in the model that uses brand strength as a driver of value* |

| *Aren't assets affected by uncontrollable forces?* |
|---|
| <u>The environmental influences principle (BP # 6)</u><br>There must be a component that incorporates an evaluation of the relevant environmental factors that are outside the control of the marketer |

* Brand strength, measured by reliable and valid market research (see MASB MMAP standards), is a crucial input to any valid valuation.

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Source: Sinclair August 2011

# Basic Principles #7 & #8

*How should the discount rate be calculated?*

<u>The discount rate principle (BP # 7)</u>

The discount rate used for both the economic profit and DCF should be the Weighted Average Cost of Capital (WACC)

*Risk is fundamental to DCF; where is it applied?*

<u>The risk principle (BP # 8)</u>

Risk specific to the brand that might impose a negative impact on the future economic benefits should be taken account of in the cash flows and not the discount rate. It should be probability weighted

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Source: Sinclair August 2011

# Basic Principles #9 & #10

| *What happens with ambitious growth rates?* |
| --- |
| <u>The growth rate principle (BP # 9)</u><br>The short term growth rate should only exceed the average for the three previous years if there is credible justification to do so. Longer growth rates should use the sum of consensus GDP and inflation |

| *We don't always have impartial, fact based data.* |
| --- |
| <u>The source of data principle (BP # 10)</u><br>When possible data used should be from observable sources. Disclosure deals with data from unobservable sources |

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Source: Sinclair August 2011

# Basic Principles #11 & #12

| *Can I track trends with a brand valuation?* |
|---|
| <u>The consistency of time principle (BP # 11)</u><br>Valuation techniques and source data should be applied consistently so that valuations may be reliably replicated over time |

| *I can't afford to value every brand in every sector?* |
|---|
| <u>The multiple markets and segments principle (BP # 12)</u><br>Use an 80:20 Pareto Principle to arrive at a valuation for multiple markets and market sectors |

Source: Sinclair August 2011

# In summary

- Brands are assuming greater importance as assets
- Marketers are *not* being asked to value them for non-marketing purposes
- This is diverting funds and credibility to other business functions
- Marketers must embrace brand valuation and a set of standards that make brand values credible and valid in the boardroom and useful for marketing planning and measurement
- The MASB brand valuation principles and MMAP standards are designed to achieve just that

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Source: Sinclair August 2011

# BIV Starts w/Principle #5 (Brand Strength)

- The valuation method must have a component in the model that uses brand strength as a driver of value.
- Future economic benefits are generated because the company has acquired customers who will exchange cash for ownership, or use, of the brand.
- Brand strength, measured by reliable and valid market research (see MASB MMAP standards), is a crucial input to any valid valuation.
- The brand strength measurement, relative to other players in the category, is an indication of the likelihood that future cash flows will be earned.
- It is also a powerful indicator of the brand's expected economic life: the stronger the brand relationship or bond with its consumers the further into the future brand earnings can be projected.

Source: Sinclair's rationale & principles for brand valuation (pdf)

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# Who needs it?

- All performance oriented managers including
  - CMOs, because their job is to create, build & protect the brand (asset) which represents both short and long term growth potential (revenues at a premium price/margin)…and they need to demonstrate this on an on-going basis.
  - CFOs, because their job is to forecast return from various “investments”… and they currently view marketing as discretionary expense because they have not seen proof otherwise.
  - CEOs, because their job is to determine where to invest for both short and long term corporate performance.
  - Investors, because their job is to understand what the firm’s future growth potential looks like.

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Source: Blair August 2011

# What's in it for marketing community?

- More relevancy to the business purpose
  - Metrics that reliably predict market & financial return
  - Ability to make well informed "investment" decisions
- Acknowledged financial tools to justify/motivate plans
  - A solid bridge between marketing & finance
  - Continual improvement in performance over time
- Actions evaluated by sound business principles
  - Viewed as "strategic investment" vs "discretionary expense"
  - A seat in the Boardroom

Source: Blair August 2011

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# Thank-you!