Creating and managing brand value Interbrand

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Brand Valuation

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Interbrand
130 Fifth Avenue
New York, NY
10011

Telephone: 212 798 7500
www.interbrand.com

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Jan Lindemann,
Managing Director
Global Brand Valuation

Interbrand

jan.lindemann@interbrand.com

"If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trade marks, and I would fare better than you."
— John Stuart, Chairman of Quaker (ca. 1900)

In the last quarter of the 20th century there was a dramatic shift in the understanding of the creation of shareholder value. For most of the century, tangible assets were regarded as the main source of business value. These included manufacturing assets, land and buildings or financial assets such as receivables and investments. They would be valued at cost or outstanding value as shown in the balance sheet. The market was aware of intangibles, but their specific value remained unclear and was not specifically quantified. Even today, the evaluation of profitability and performance of businesses focuses on indicators such as return on investment, assets or equity that exclude intangibles from the denominator. Measures of price relatives (for example, price-to-book ratio) also exclude the value of intangible assets as these are absent from accounting book values.

The brand is a special intangible that in many businesses is the most important asset. This is because of the economic impact that brands have.

This does not mean that management failed to recognize the importance of intangibles. Brands, technology, patents and employees were always at the heart of corporate success, but rarely explicitly valued. Their value was subsumed in the overall asset value. Major brand owners like The Coca-Cola Company, Procter & Gamble, Unilever and Nestlé were aware of the importance of their brands, as indicated by their creation of brand managers, but on the stock market, investors focused their value assessment on the exploitation of tangible assets.

Evidence of brand value

The increasing recognition of the value of intangibles came with the continuous increase in the gap between companies' book values and their stock market valuations, as well as sharp increases in premiums above the stock market value that were paid in mergers and acquisitions in the late 1980s.

Today it is possible to argue that, in general, the majority of business value is derived from intangibles. Management attention to these assets has certainly increased substantially.

The brand is a special intangible that in many businesses is the most important asset. This is because of the economic impact that brands have. They influence the choices of customers, employees, investors and government authorities. In a world of abundant choices, such influence is crucial for commercial success and creation of shareholder value. Even non-profit organizations have started embracing the brand as a key asset for obtaining donations, sponsorships and volunteers.

Some brands have also demonstrated an astonishing durability. The world's most valuable brand,[1] Coca-Cola, is more than 118 years old; and the majority of the world's most valuable brands have been around for more than 60 years. This compares with an estimated average life span for a corporation of 25 years or so.[2] Many brands have survived a string of different corporate owners.

Several studies have tried to estimate the contribution that brands make to shareholder value. A study by Interbrand in association with JP Morgan (see Table 2.1) concluded that on average brands account for more than one-third of shareholder value. The study reveals that brands create significant value either as consumer or corporate brands or as a combination of both.

Table 2.1 The contribution of brands to shareholder value

Company	2002 brand value ($bn)	Brand contribution to market capitalization of parent company (%)	2001 brand value ($bn)
Coca-Cola	69.6	51	69.0
Microsoft	64.1	21	65.1
IBM	51.2	39	52.8
GE	41.3	14	42.4
Intel	30.9	22	34.7
Nokia	30.0	51	35.0
Disney	29.3	68	32.6
McDonald's	26.4	71	25.3
Marlboro	24.2	20	22.1
Mercedes-Benz	21.0	47	21.7

Source: *BusinessWeek*, Interbrand/JP Morgan league table, 2002

Table 2.1 shows how big the economic contribution made by brands to companies can be. The McDonald's brand accounts for more than 70 percent of shareholder value. The Coca-Cola brand alone accounts for 51 percent of the stock market value of the Coca-Cola Company. This is despite the fact that the company owns a large portfolio of other drinks brands such as Sprite and Fanta.

Today, leading companies focus their management efforts on intangible assets. For example, the Ford Motor Company has reduced its physical asset base in favor of investing in intangible assets.

Studies by academics from Harvard and the University of South Carolina[3] and by Interbrand[4] of the companies featured in the "Best Global Brands" league table indicate that companies with strong brands outperform the market in respect of several indices. It has also been shown that a portfolio weighted by the brand values of the Best Global Brands performs significantly better than Morgan Stanley's global MSCI index and the American-focused S & P 500 index.

Today, leading companies focus their management efforts on intangible assets. For example, the Ford Motor Company has reduced its physical asset base in favor of investing in intangible assets. In the past few years, it has spent well over $12 billion to acquire prestigious brand names such as Jaguar, Aston Martin, Volvo and Land Rover. Samsung, a leading electronics group, invests heavily in its intangibles, spending about 7.5 percent of annual revenues on R & D and another 5 percent on communications.[5] In packaged consumer goods, companies spend up to 10 percent of annual revenues on marketing support. As John Akasie wrote in an article in *Forbes* magazine:[6]

"It's about brands and brand building and consumer relationships … Decapitalized, brand owning companies can earn huge returns on their capital and grow faster, unencumbered by factories and masses of manual workers. Those are the things that the stock market rewards with high price/earnings ratios.

Brands on the balance sheet

The wave of brand acquisitions in the late 1980s resulted in large amounts of goodwill that most accounting standards could not deal with in an economically sensible way. Transactions that sparked the debate about accounting for goodwill on the balance sheet included Nestlé's purchase of Rowntree, United Biscuits' acquisition and later divestiture of Keebler, Grand Metropolitan acquiring Pillsbury and Danone buying Nabisco's European businesses.

Accounting practice for so-called goodwill did not deal with the increasing importance of intangible assets, with the result that companies were penalized for making what they believed to be value-enhancing acquisitions. They either had to suffer massive amortization charges on their profit and loss accounts (income statements), or they had to write off the amount to reserves and in many cases ended up with a lower asset base than before the acquisition.

Today, many companies including LVMH, L'Oréal, Gucci, Prada and PPR have recognized acquired brands on their balance sheet.

In countries such as the UK, France, Australia and New Zealand it was, and still is, possible to recognize the value of acquired brands as identifiable intangible assets and to put these on the balance sheet of the acquiring company. This helped to resolve the problem of goodwill. Then the recognition of brands as intangible assets made use of a grey area of accounting, at least in the UK and France, whereby companies were not encouraged to include brands on the balance sheet but nor were they prevented from doing so. In the mid-1980s, Reckitt & Colman, a UK-based company, put a value on its balance sheet for the Airwick brand that it had recently bought; Grand Metropolitan did the same with the Smirnoff brand, which it had acquired as part of Heublein. At the same time, some newspaper groups put the value of their acquired mastheads on their balance sheets.

By the late 1980s, the recognition of the value of acquired brands on the balance sheet prompted a similar recognition of internally generated brands as valuable financial assets within a company. In 1988, Rank Hovis McDougall (RHM), a leading UK food conglomerate, played heavily on the power of its brands to successfully defend a hostile takeover bid by Goodman Fielder Wattie (GFW). RHM's defence strategy involved carrying out an exercise that demonstrated the value of RHM's brand portfolio. This was the first independent brand valuation establishing that it was possible to value brands not only when they had been acquired, but also when they had been created by the company itself. After successfully fending off the GFW bid, RHM included in its 1988 financial accounts the value of both the internally generated and acquired brands under intangible assets on the balance sheet.

In 1989, the London Stock Exchange endorsed the concept of brand valuation as used by RHM by allowing the inclusion of intangible assets in the class tests for shareholder approvals during takeovers. This proved to be the impetus for a wave of major branded-goods companies to recognize the value of brands as intangible assets on their balance sheets. In the UK, these included Cadbury Schweppes, Grand Metropolitan (when it acquired Pillsbury for $5 billion), Guinness, Ladbrokes (when it acquired Hilton) and United Biscuits (including the Smith's brand).

Today, many companies including LVMH, L'Oréal, Gucci, Prada and PPR have recognized acquired brands on their balance sheet. Some companies have used the balance-sheet recognition of their brands as an investor-relations tool by providing historic brand values and using brand value as a financial performance indicator.

In terms of accounting standards, the UK, Australia and New Zealand have been leading the way by allowing acquired brands to appear on the balance sheet and providing detailed guidelines on how to deal with acquired goodwill. In 1999, the UK Accounting Standards Board introduced FRS 10 and 11 on the treatment of acquired goodwill on the balance sheet. The International Accounting Standards Board followed suit with IAS 38. And in spring 2002, the US Accounting Standards Board introduced FASB 141 and 142, abandoning pooling accounting and laying out detailed rules about recognizing acquired goodwill on the balance sheet. There are indications that most accounting standards, including international and UK standards, will eventually convert to the US model. This is because most international companies that wish to raise funds in the US capital markets or have operations in the United States will be required to adhere to US Generally Accepted Accounting Principles (GAAP).

The principal stipulations of all these accounting standards are that acquired goodwill needs to be capitalized on the balance sheet and amortized according to its useful life. However, intangible assets such as brands that can claim infinite life do not have to be subjected to amortization. Instead, companies need to perform annual impairment tests. If the value is the same or higher than the initial valuation, the asset value on the balance sheet remains the same. If the impairment value is lower, the asset needs to be written down to the lower value. Recommended valuation methods are discounted cash flow (DCF) and market value approaches. The valuations need to be performed on the business unit (or subsidiary) that generates the revenues and profit.

The debate about bringing financial reporting more in line with the reality of long-term corporate value is likely to continue, but if there is greater consistency in brand-valuation approaches and greater reporting of brand values, corporate asset values will become much more transparent.

The accounting treatment of goodwill upon acquisition is an important step in improving the financial reporting of intangibles such as brands. It is still insufficient, as only acquired goodwill is recognized and the detail of the reporting is reduced to a minor footnote in the accounts. This leads to the distortion that the McDonald's brand does not appear on the company's balance sheet, even though it is estimated to account for about 70 percent of the firm's stock market value (see Table 2.1), yet the Burger King brand is recognized on the balance sheet. There is also still a problem with the quality of brand valuations for balance-sheet recognition. Although some companies use a brand-specific valuation approach, others use less sophisticated valuation techniques that often produce questionable values. The debate about bringing financial reporting more in line with the reality of long-term corporate value is likely to continue, but if there is greater consistency in brand-valuation approaches and greater reporting of brand values, corporate asset values will become much more transparent.

The social value of brands

The economic value of brands to their owners is now widely accepted, but their social value is less clear. Do brands create value for anyone other than their owners, and is the value they create at the expense of society at large?[7] The ubiquity of global mega-brands has made branding the focus of discontent for many people around the world. They see a direct link between brands and such issues as the exploitation of workers in developing countries and the homogenization of cultures. Furthermore, brands are accused of stifling competition and tarnishing the virtues of the capitalist system by encouraging monopoly and limiting consumer choice. The opposing argument is that brands create substantial social as well as economic value as a result of increased competition, improved product performance and the pressure on brand owners to behave in socially responsible ways.

Competition on the basis of performance as well as price, which is the nature of brand competition, fosters product development and improvement. And there is evidence that companies that promote their brands more heavily than others in their categories do also tend to be the more innovative in their categories. A study by PIMS Europe for the European Brands Association[8] revealed that less-branded businesses launch fewer products, invest significantly less in development and have fewer product advantages than their branded counterparts. Almost half of the "non-branded" sample spent nothing on product R&D compared with less than a quarter of the "branded" sample. And while 26 percent of non-branded producers never introduced significant new products, this figure was far lower at 7 percent for the branded set.

The need to keep brands relevant promotes increased investments in R&D, which in turn leads to a continuous process of product improvement and development. Brand owners are accountable for both the quality and the performance of their branded products and services and for their ethical practices. Given the direct link between brand value and both sales and share price, the potential costs of behaving unethically far outweigh any benefits, and outweigh the monitoring costs associated with an ethical business. A number of high-profile brands have been accused of unethical practices. Interestingly, among these are some of the brands that have been pioneering the use of voluntary codes of conduct and internal monitoring systems. This is not to say that these brands have successfully eradicated unethical business practices, but at least they are demonstrating the will to deal with the problem.

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The more honest companies are in admitting the gap they have to bridge in terms of ethical behavior, the more credible they will seem. Nike, a company once criticized for the employment practices of some of its suppliers in developing countries, now posts results of external audits and interviews with factory workers at www.nikebiz.com. The concern of multinational companies is understandable, considering that a 5 percent drop in sales could result in a loss of brand value exceeding $1 billion. It is clearly in their economic interests to behave ethically.

Approaches to brand valuation

Financial values have to some extent always been attached to brands and to other intangible assets, but it was only in the late 1980s that valuation approaches were established that could fairly claim to understand and assess the specific value of brands. The idea of putting a separate value on brands is now widely accepted. For those concerned with accounting, transfer pricing and licensing agreements, mergers and acquisitions and value-based management, brand valuation plays a key role in business today.

Unlike other assets such as stocks, bonds, commodities and real estate, there is no active market in brands that would provide comparable values. So to arrive at an authoritative and valid approach, a number of brand evaluation models have been developed. Most have fallen into two categories:

- research-based brand equity evaluations, and
- purely financially driven approaches

Research-based approaches

There are numerous brand equity models that use consumer research to assess the relative performance of brands. These do not put a financial value on brands; instead, they measure consumer behavior and attitudes that have an impact on the economic performance of brands. Although the sophistication and complexity of such models vary, they all try to explain, interpret and measure consumers' perceptions that influence purchase behavior. They include a wide range of perceptive measures such as different levels of awareness (unaided, aided, top of mind), knowledge, familiarity, relevance, specific image attributes, purchase consideration, preference, satisfaction and recommendation. Some models add behavioral measures such as market share and relative price.

Through different stages and depths of statistical modeling, these measures are arranged either in hierarchic order, to provide hurdles that lead from awareness to preference and purchase, or relative to their impact on overall consumer perception, to provide an overall brand equity score or measure. A change in one or a combination of indicators is expected to influence consumers' purchasing behavior, which in turn will affect the financial value of the brand in question. However, these approaches do not differentiate between the effects of other influential factors such as R&D and design and the brand. They therefore do not provide a clear link between the specific marketing indicators and the financial performance of the brand. A brand can perform strongly according to these indicators but still fail to create financial and shareholder value.

The understanding, interpretation and measurement of brand equity indicators are crucial for assessing the financial value of brands.

The understanding, interpretation and measurement of brand equity indicators are crucial for assessing the financial value of brands. After all, they are key measures of consumers' purchasing behavior upon which the success of the brand depends. However, unless they are integrated into an economic model, they are insufficient for assessing the economic value of brands.

Financially driven approaches

Cost-based approaches define the value of a brand as the aggregation of all historic costs incurred or replacement costs required in bringing the brand to its current state: that is, the sum of the development costs, marketing costs, advertising and other communication costs, and so on. These approaches fail because there is no direct correlation between the financial investment made and the value added by a brand. Financial investment is an important component in building brand value, provided it is effectively targeted. If it isn't, it may not make a bean of difference. The investment needs to go beyond the obvious advertising and promotion and include R & D, employee training, packaging and product design, retail design, and so on.

Comparables. Another approach is to arrive at a value for a brand on the basis of something comparable. But comparability is difficult in the case of brands as by definition they should be differentiated and thus not comparable. Furthermore, the value creation of brands in the same category can be very different, even if most other aspects of the underlying business such as target groups, advertising spend, price promotions and distribution channel are similar or identical. Comparables can provide an interesting cross-check, however, even though they should never be relied on solely for valuing brands.

Premium price. In the premium price method, the value is calculated as the net present value of future price premiums that a branded product would command over an unbranded or generic equivalent. However, the primary purpose of many brands is not necessarily to obtain a price premium but rather to secure the highest level of future demand. The value generation of these brands lies in securing future volumes rather than securing a premium price. This is true for many durable and non-durable consumer goods categories.

This method is flawed because there are rarely generic equivalents to which the premium price of a branded product can be compared. Today, almost everything is branded, and in some cases store brands can be as strong as producer brands charging the same or similar prices. The price difference between a brand and competing products can be an indicator of its strength, but it does not represent the only and most important value contribution a brand makes to the underlying business.

Economic use. Approaches that are driven exclusively by brand equity measures or financial measures lack either the financial or the marketing component to provide a complete and robust assessment of the economic value of brands. The economic use approach, which was developed in 1988, combines brand equity and financial measures, and has become the most widely recognized and accepted methodology for brand valuation. It has been used in more than 3,500 brand valuations worldwide. The economic use approach is based on fundamental marketing and financial principles:

- The marketing principle relates to the commercial function that brands perform within businesses. First, brands help to generate customer demand. Customers can be individual consumers as well as corporate consumers depending on the nature of the business and the purchase situation. Customer demand translates into revenues through purchase volume, price and frequency. Second, brands secure customer demand for the long term through repurchase and loyalty.

- The financial principle relates to the net present value of future expected earnings, a concept widely used in business. The brand's future earnings are identified and then discounted to a net present value using a discount rate that reflects the risk of those earnings being realized.

To capture the complex value creation of a brand, take the following five steps:

1. **Market segmentation.** Brands influence customer choice, but the influence varies depending on the market in which the brand operates. Split the brand's markets into non-overlapping and homogeneous groups of consumers according to applicable criteria such as product or service, distribution channels, consumption patterns, purchase sophistication, geography, existing and new customers, and so on. The brand is valued in each segment and the sum of the segment valuations constitutes the total value of the brand.

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2. **Financial analysis.** Identify and forecast revenues and earnings from intangibles generated by the brand for each of the distinct segments determined in Step 1. Intangible earnings are defined as brand revenue less operating costs, applicable taxes and a charge for the capital employed. The concept is similar to the notion of economic profit.

3. **Demand analysis.** Assess the role that the brand plays in driving demand for products and services in the markets in which it operates, and determine what proportion of intangible earnings is attributable to the brand measured by an indicator referred to as the "role of branding index." This is done by first identifying the various drivers of demand for the branded business, then determining the degree to which each driver is directly influenced by the brand. The role of branding index represents the percentage of intangible earnings that are generated by the brand. Brand earnings are calculated by multiplying the role of branding index by intangible earnings.

4. **Competitive benchmarking.** Determine the competitive strengths and weaknesses of the brand to derive the specific brand discount rate that reflects the risk profile of its expected future earnings (this is measured by an indicator referred to as the "brand strength score"). This comprises extensive competitive benchmarking and a structured evaluation of the brand's market, stability, leadership position, growth trend, support, geographic footprint and legal protectability.

5. **Brand value calculation.** Brand value is the net present value (NPV) of the forecast brand earnings, discounted by the brand discount rate. The NPV calculation comprises both the forecast period and the period beyond, reflecting the ability of brands to continue generating future earnings. An example of a hypothetical valuation of a brand in one market segment is shown in Table 2.2. This calculation is useful for brand value modeling in a wide range of situations, such as:
   - predicting the effect of marketing and investment strategies;
   - determining and assessing communication budgets;
   - calculating the return on brand investment;
   - assessing opportunities in new or underexploited markets; and
   - tracking brand value management.

Table 2.2 Sample brand value calculation

		Year 1	Year 2	Year 3	Year 4	Year 5
Market (Units)		250,000,000	258,750,000	267,806,250	277,179,469	286,880,750
Market growth rate			4%	4%	4%	4%
Market share (Volume)		15%	17%	19%	21%	20%
Volume		37,500,000	43,987,500	50,883,188	58,207,688	57,376,150
Price ($)		10	10	10	11	11
Price change			3%	2%	2%	2%
Branded Revenues		**375,000,000**	**450,871,875**	**531,983,725**	**621,341,172**	**625,326,631**
Cost of sales		150,000,000	180,348,750	212,793,490	248,536,469	250,130,653
Gross margin		225,000,000	270,523,125	319,190,235	372,804,703	375,195,979
Marketing costs		67,500,000	81,156,938	95,757,071	111,841,411	112,558,794
Depreciation		2,812,500	3,381,539	3,989,878	4,660,059	4,689,950
Other overheads		18,750,000	22,543,594	26,599,186	31,067,059	31,266,332
Central cost allocation		3,750,000	4,508,719	5,319,837	6,213,412	6,253,266
EBITA (Earnings Before Interest, Tax and Amortization)		**132,187,500**	**158,932,336**	**187,524,263**	**219,022,763**	**220,427,638**
Applicable taxes	35%	46,265,625	55,626,318	65,633,492	76,657,967	77,149,673
NOPAT (Net Operating Profit After Tax)		**85,921,875**	**103,306,018**	**121,890,771**	**142,364,796**	**143,277,964**
Capital Employed		**131,250,000**	**157,805,156**	**186,194,304**	**217,469,410**	**218,864,321**
Working capital		112,500,000	135,261,563	159,595,118	186,402,351	187,597,989
Net PPE		18,750,000	22,543,594	26,599,186	31,067,059	31,266,332
Capital Charge	**8%**	**10,500,000**	**12,624,413**	**14,895,544**	**17,397,553**	**17,509,146**
Intangible Earnings		**75,421,875**	**90,681,606**	**106,995,227**	**124,967,243**	**125,768,819**
Role of Branding Index	**79%**					
Brand Earnings		**59,583,281**	**71,638,469**	**84,526,229**	**98,724,122**	**99,357,367**
Brand Strength Score	**66**					
Brand Discount Rate	**7.4%**					
Discounted Brand Earnings		**55,477,916**	**62,106,597**	**68,230,515**	**74,200,384**	**69,531,031**
NPV (Net Present Value) of Discounted Brand Earnings (Years 1–5)		329,546,442				
Long-term growth rate	2.5%					
NPV of Terminal Brand Value (beyond Year 5)		1,454,475,639				
BRAND VALUE		**1,784,022,082**				

Applications

The range of applications for brand valuation has widened considerably since its creation in 1988, and it is now used in most strategic marketing and financial decisions. There are two main categories of applications:

- Strategic brand management, where brand valuation focuses mainly on internal audiences by providing tools and processes to manage and increase the economic value of brands.
- Financial transactions, where brand valuation helps in a variety of brand-related transactions with external parties.

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Strategic brand management

Recognition of the economic value of brands has increased the demand for effective management of the brand asset. In the pursuit of increasing shareholder value, companies are keen to establish procedures for the management of brands that are aligned with those for other business assets, as well as for the company as a whole. As traditional purely research-based measurements proved insufficient for understanding and managing the economic value of brands, companies have adopted brand valuation as a brand management tool. Brand valuation helps them establish value-based systems for brand management. Economic value creation becomes the focus of brand management and all brand-related investment decisions. Companies as diverse as American Express, IBM, Samsung Electronics, Accenture, United Way of America, BP, Fujitsu and Duke Energy have used brand valuation to help them refocus their businesses on their brands and to create an economic rationale for branding decisions and investments. Many companies have made brand value creation part of the remuneration criteria for senior marketing executives.

These companies find brand valuation helpful for the following:

- Making decisions on business investments. By making the brand asset comparable to other intangible and tangible company assets, resource allocation between the different asset types can follow the same economic criteria and rationale, for example, capital allocation and return requirements.
- Measuring the return on brand investments based on brand value to arrive at an ROI that can be directly compared with other investments. Brand management and marketing service providers can be measured against clearly identified performance targets related to the value of the brand asset.
- Making decisions on brand investments. By prioritizing them by brand, customer segment, geographic market, product or service, distribution channel, and so on, brand investments can be assessed for cost and impact and judged on which will produce the highest returns.
- Making decisions on licensing the brand to subsidiary companies. Under a license the subsidiaries will be accountable for the brand's management and use, and an asset that has to be paid for will be managed more rigorously than one that is free.
- Turning the marketing department from a cost center into a profit center by connecting brand investments and brand returns (royalties from the use of the brand by subsidiaries). The relationship between investments in and returns from the brand becomes transparent and manageable. Remuneration and career development of marketing staff can be linked to and measured by brand value development.

Brand valuation is a powerful process that captures the present and future value of a brand.

- Allocating marketing expenditures according to the benefit each business unit derives from the brand asset.

- Organizing and optimizing the use of different brands in the business (for example, corporate, product and subsidiary brands) according to their respective economic value contribution.

- Assessing co-branding initiatives according to their economic benefits and risks to the value of the company's brand.

- Deciding the appropriate branding after a merger according to a clear economic rationale.

- Managing brand migration more successfully as a result of a better understanding of the value of different brands, and therefore of what can be lost or gained if brand migration occurs.

- Establishing brand value scorecards based on the understanding of the drivers of brand value that provide focused and actionable measures for optimal brand performance.

- Managing a portfolio of brands across a variety of markets. Brand performance and brand investments can be assessed on an equally comparable basis to enhance the overall return from the brand portfolio.

- Communicating where appropriate the economic value creation of the brand to the capital markets in order to support share prices and obtain funding.

Financial transactions

The financial uses of brand valuation include the following:

- Assessing fair transfer prices for the use of brands in subsidiary companies. Brand royalties can be repatriated as income to corporate headquarters in a tax-effective way. Brands can be licensed to international subsidiaries and, in the United States, to subsidiaries in different states.

- Determining brand royalty rates for optimal exploitation of the brand asset through licensing the brand to third parties.

- Capitalizing brand assets on the balance sheet according to US GAAP, IAS and many country-specific accounting standards. Brand valuation is used for both the initial valuation and the periodical impairment tests for the derived values.

- Determining a price for brand assets in mergers and acquisitions as well as clearly identifying the value that brands add to a transaction.

- Determining the contribution of brands to joint ventures to establish profit sharing, investment requirements and shareholding in the venture.

- Using brands for securitization of debt facilities in which the rights for the economic exploitations of brands are used as collateral.

Conclusion

As global competition becomes tougher and many competitive advantages, such as technology, become more short-lived, the brand's contribution to shareholder value will increase. The brand is one of the few assets that can provide long-term competitive advantage.

Despite the commercial importance of brands, the management of them still lags behind that of their tangible counterparts. Even though measurement has become the mantra of modern management, it is astonishing how few agreed systems and processes exist to manage the brand asset. When it comes to managing and measuring factory output the choice of measures is staggering, as are the investments in sophisticated computer systems that measure and analyze every detail of the manufacturing process. The same is true for financial controlling. But, strangely, this cannot be said for the management of the brand asset. Although many brand measures are available, few can link the brand to long-term financial value creation. Nor has investment in brand management reached a level or sophistication comparable with other controlling measures. As the importance of intangibles to companies increases, managers will want to install more value-based brand management systems that can align the management of the brand asset with that of other corporate assets.

Investments in and returns from tangible assets are reported at sophisticated and detailed levels, but this is not true for intangible assets.

There is a similar lack of detail about the contribution of brands in the financial reporting of company results. Investments in and returns from tangible assets are reported at sophisticated and detailed levels, but this is not true for intangible assets. For example, Coca-Cola's balance sheet, income statement and cash flow calculation tell us about working capital, net fixed assets and financial investments, but little about the performance of the most important company asset, the Coca-Cola brand. The same is true for most other brand-owning companies. Current accounting regulations are deficient in their treatment of intangible assets. The increasing value placed on intangibles through mergers and acquisitions over the past two decades has forced accounting standards to acknowledge and deal with intangible assets on the balance sheet. However, the standards deal only with the bare minimum accounting for acquired intangibles, formerly known as goodwill. As a bizarre consequence, the value of acquired brands is included in companies' balance sheets but the value of internally generated brands remains unaccounted for.

Overall, there is an increasing need for brand valuation from both a management and transactional point of view. With the development of the economic use approach, there is at last a standard that can be used for brand valuation. This may well become the most important brand management tool in the future.

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The Economist book *Brands and Branding* was launched in February 2004. It is widely available at book-sellers in-store and on-line. Contents of *Brands and Branding:*

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Interbrand
130 Fifth Avenue
New York, NY
10011

Telephone: 212 798 7500
www.interbrand.com

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