A Taxonomy of Brand Valuation Methodologies: How different types of methodologies can help to answer different types of questions

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Abstract

Brands can be valued using a variety of techniques. Like any tool, each technique may be suitable for some purposes and not for others. This paper classifies the methodologies according to the approach and premises they adopt and suitability for different types of applications. We also indicate flaws in methodologies either in general or for particular purposes. Classification is complicated by specialist firms seeking to differentiate methodologies ("proprietary models") for their own marketing purposes. Much of this differentiation is little more than re-labeling. The 24 methods of brand valuation, and 52 specialist providers, garnered from the literature represent possibly hundreds of commercial and academic approaches by the multitude of providers around the world. After removing those that do not appear to be used in practice we were left with 18 practical methods which we analyze and classify. This taxonomy is intended as a guide to current and potential users of brand valuation through the jungle that the proliferation of proprietary brand valuation techniques has created.

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Since the 1980s, marketers have been under increasing pressure for "accountability" in two senses: being responsible for the results from marketing activity and reporting those results using the language of finance. As a consequence, practitioners and academics have been researching methods of financially valuing brand equity (Aaker 1991), or the marketing asset, created by marketing activity. Rupert Murdoch included the values of his newspaper brands ("mast heads") on the Australian News Group balance sheet in 1984 and Interbrand valued the UK's Rank Hovis McDougall brands as part of a bid defense in 1988 (Sampson 1997). Since then, methodologies have proliferated in response to the technical alternatives, academic papers, diversity in usage and the marketing needs of firms differentiating their valuation services.

This paper sets out to map this jungle to assist practitioners and academics in their choice of valuation technique. We first review the background, namely the factors contributing to the brand valuation trend and the development of this industry. We then identify, from the literature, 24 distinct methodologies and how they relate to each other. We then match these theoretical methodologies with what is provided in practice to provide a shorter list of 19 methodologies which appear to be in use. This does not yield a neat list of totally distinct methodologies but some separation can be achieved for practical purposes. The objective was to get past proprietary labeling, for distinctiveness in the market, to the underlying products, i.e., methods.

The next section briefly analyzes the methods according to five criteria, including the purposes for which these methods are used. After discussing limitations and future research, whether this analysis is robust, and how it can be developed, we draw conclusions.

Factors contributing to the brand valuation trend

At least four factors have contributed to the trend: measuring marketing performance, justifying share prices, trading brands and tax management. We take each in turn.

Increasing recognition of brands as assets has lead to realization that the return from marketing should be seen as the incremental net profit or loss together with the change in the value of the brand (Ambler 2003). This factor seeks to bridge the gap between marketing and finance by justifying marketing investment and resource allocation in financial terms and then using the same method for judging performance. Having all metrics in the same currency, as distinct from measures such as customer satisfaction, is clearly attractive to management. The problem, as we will see later, is finding a valid method of brand valuation for that purpose.

Quite separately, but over the same time period, analysts have been faced by an increasing discrepancy between share prices for companies and their tangible assets. These discrepancies have been attributed to intangible assets, including brand. Some (e.g. Hirose 2002) argued that including brands on balance sheets would help explain this discrepancy. Others (e.g. Barwise, Higson, Likierman, and Marsh 1989) objected strongly. The emerging compromise, in the UK and most other countries, was that the *cost* of acquired brands could be capitalized but not the *value* of either home grown or acquired brands except that the cost should be checked annually for "impairment". If the value had declined below cost, then the lower figure should be used (ASB 1998). There is nothing to stop companies reporting the values of their brands in the narrative sections of their annual reports and some now do so (for example, Telefónica S.A. in its 2002 annual report, p. 25). Whether brands should appear on balance sheets or be otherwise reported by companies is outside the scope of this paper which is only concerned with how brands are, and should be, valued.

A third interest in brand valuation arises when the brands, or the companies owning the brands, are bought and sold. The original Rank Hovis McDougall valuations and the near-contemporary Grand Metropolitan acquisition of Smirnoff vodka were examples of this. Huge sums of shareholder cash was at stake on both sides. More recently Unilever and Procter & Gamble have been selling their smaller brands in order to focus on the larger ones.

The fourth factor is technical and legal, e.g. tax management. If a multinational group can legitimately locate the global brand ownership in a lower tax country and maximize the share of profit attributable to the brand's owner in that country, then group after tax cash flow will be increased. Related to this factor is the valuation in brands in legal cases such as company break ups. Legal and tax conceptualization of brands and their values come together especially where tax disputes finish up in court.

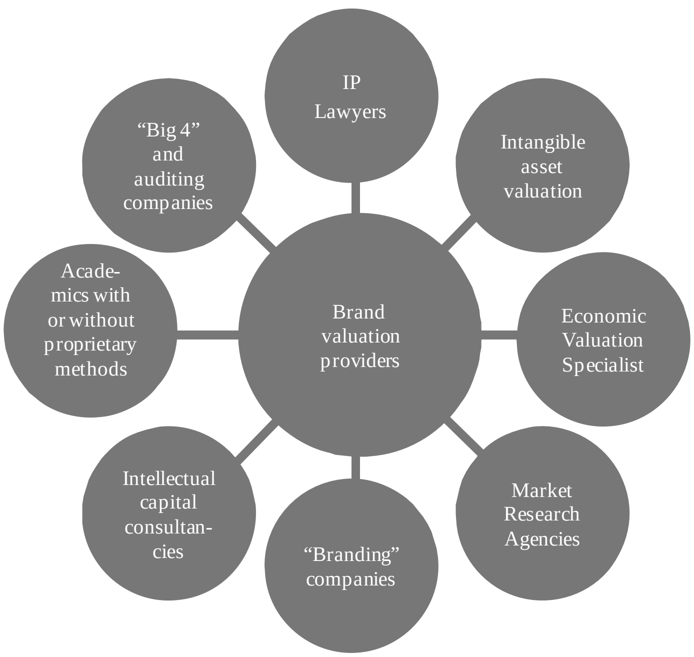
Development of the brand valuation industry

As noted above, Interbrand can claim to be the pioneer in the specialist brand valuation industry (Sampson 1997). They initially favored deriving a multiple and applying it to recent earnings (Haigh 1997). Since then methodologies and suppliers have proliferated. Our review of the literature revealed 52 suppliers as shown by the Appendix, and no doubt there are many more. We need to distinguish between proprietary model and provider since some suppliers, such as Houlihan Advisors and AUS Consultants, the intangible valuation firm based in New Jersey, seem to use general methodologies rather than proprietary methods. Other providers apply proprietary methodologies developed by third parties. For example, absoluteBRAND applies the proprietary methodology developed by Intangible Business and FutureBrand has a model which seems to be almost identical to the

“Brand Role Model" developed by Interbrand. 17 of these suppliers use methods that could not be determined from their literature.

The development of this industry has involved suppliers with diverse qualifications for brand valuation. As Figure 1 shows, these include IP lawyers, Intellectual Capital Consultancies, “Strategic Branding” consultancies, and Economic Valuation specialists.

Figure 1. Types of brand valuation providers



Analysis

This section identifies three types of model which are then used as a framework for the methods we found in the literature. Most models are variations on these three general approaches to brand measurement (Cravens and Guilding 1999, Seetharaman et al. 2001, International Valuation Standards Committee 2003):

1. Cost: According to this approach, the brand is valued on the basis of the historical cost of creation or what might cost to recreate a similar brand.
2. Market: It is sometimes possible to estimate the brand value by reference to open market values where there is evidence of prices at which these assets have changed hands. As with the cost approach, this may be acceptable where the asset in question is not unique and there are sufficient comparable transactions in the market place.
3. Income: This approach values brands by reference to their economic contribution to the current user in existing use. It requires the identification of the future revenues, income or cash flows attributable to the brand and discount them to present value. In order to arrive at a capital value, the estimated future cash flows or earnings attributable to the brand are discounted back to a net present value ("Discounted Cash Flows" - "DCF" approach).

Tables 1, 2 and 3 list those three methods and their main variations, of which the last has far the greatest number. Table 4 lists the methods that did not seem to fit any of the three categories. Note that the sources are both academic and commercial.

Table 1: Cost based methods

#	Name	Description	Advantages	Disadvantages	Source[1]
1	Historical cost of creation	Uses historical cost of creating the brand to estimate brand value.	• According to Anson (2005), this approach "can often –but not always- provide a floor minimum value for the brand". • "It can be used for embryonic assets where no specific market application or benefit can be identified" (Anson, 2005).	• Does not consider the brand earning potential • Does not capture the value added, or lost, by management, i.e., the competitive position of the brand. • It can be difficult to recapture all the historic development costs	Anson ("005) Haigh (1997), Hirose (2002)

[1] Here, by source we do not necessarily mean the originator of the methodology, but a paper describing the method.

2	Cost to recreate (reproduction or replacement)	Uses current prices to estimate the cost of recreating the brand today.	• According to Anson (2005), this approach "can often –but not always- provide a floor minimum value for the brand". • "It can be used for embryonic assets where no specific market application or benefit can be identified" (Anson, 2005).	• Not a good future indicator.	Smith (1997), Haigh (2000), Boos (2003), Anson (2005),

Table 2: Market based methods

#	Name	Description	Advantages	Disadvantages	Source
3	Market comparison (multiples)	The brand is valued by comparing recent transactions involving similar brands in similar markets or by reference to comparable market multiples.	Useful where there is enough comparable data.	Data comparability.	Damodaran (1996), Smith (1997), Ambler and Barwise (1998) Haigh (2000), Fernández (2001), Anson (2005)

Table 3 requires we mention an anomaly concerning the word "brand" (Ambler and Barwise 1998). Most academics and discussion of brand valuation assume that the word "brand" *excludes* the underlying products (i.e. we are valuing the branding). In other words, the profits from Smirnoff vodka should be divided into those due to the vodka and those due to the added value of the Smirnoff branding. Other writers assume that the word "brand" *includes* the underlying products and some are inconsistent (e.g. Kotler 1994, and Aaker 1991 vs. 1996). This presents immense difficulties in practice because the underlying products are not commodities with separate market places and prices. The vodka in Smirnoff is unique to Smirnoff. As a result, brand valuers in practice, with few exceptions, use the inclusive form of "brand" whatever their literature may say.

Table 3: Income based methods

#	Name	Description	Advantages	Disadvantages	Source
4	Price Premium	The brand value is calculated multiplying the unit price differential of the brand in comparison with a generic product by the volume of sales. There are, at least, two options to calculate price	• Theoretically attractive since it is universally understood. • The statistical methods to calculate price differentials are perceived as methods that remove the	• Difficult to apply from the practical point of view and not all organizations will be able to conduct this type of analysis, especially if their products are distributed through independent channels that may not be	Ambler and Barwise (1998), Tollington (1999), Smith and Parr (2000), Zimmerman et al. (2001), Boos (2003)

		premium statistically: • Conjoint Analysis: It identifies the utility relative to independent product attributes • Hedonic Analysis: The hedonic approach considers the price as a function of different product traits, being the brand one of them	subjectivity inherent to the valuation process.	willing to participate in the experiment or if they sell bundled products or services that are difficult to compare with the competitor's offer. • It does not take into account the advantages of cost and volume. • The application of statistical methods to calculate price differentials does not remove, but "moves" the subjectivity inherent of any valuation process to another level: the selection of the variables or attributes of the product. It can only be supplementary of traditional methods.	
5	Demand Driver / Brand Strength Analysis	It considers the effects of brand strength on the demand and supply functions, in order to determine the influence of the	• From a marketing point of view, this method can add value helping to determine the key demand drivers that create value	• Many of the consultancies that apply this methodology tend to apply a "black box" approach, i.e., they do not reveal their	Brand Finance (2000), Zimmerman et al. (2001), BrandEconomics (2002), Sattler et al. (2002),

		brand in the decision making process. It is based on the analysis of demand drivers and/or brand strength attributes. This analysis could be statistical or judgmental.	for the firm. • It does not always depend on the data of comparable transactions or companies to estimate the proportion of the earnings attributable to the brand.	estimation algorithms or they apply it in different ways depending on the availability of information. Accordingly, results obtained under this approach may not be comparable. • The resulting index of the demand driver analysis can be applied on different bases (EVA®, Free Cash Flow, Sales, etc.).	Brandient (2004), Brand Metrics (2004), Interbrand Zintzmeyer and Lux (2004), Kumar and Hansted Blomqvistm (2004), Mussler et al. (2004), A.C. Nielsen (2006)
6	Gross margin compariso n ("Economy of Scale Technique")	The brand value is estimated as the product of the branded sales revenues by the difference of the gross margin of the brand owner vs. the average gross margin of a group of comparable competitors.	It allows the valuation of brands that do not have price advantage, since it also considers the cost advantage.	It does not take into account any variables that can influence the operating margin other than brand, and thus may under or over-value the brand. But proponents of the inclusive brand definition (see below) would regard that as an advantage.	Smith (1997)

7	Operating profit compariso n	The brand value is estimated as the product of the branded sales revenues by the difference of the EBIT of the brand owner vs. the average EBIT of a group of comparable competitors.	It takes into account more brand advantages than the "economy of scale" and "price premium" techniques (lower promotion costs, administration expenses, and other expenses not included in the cost of sales).	There may be other variables apart from brand that influence the operating earnings, and this is why this methodology may under or over-value the brand.	Smith (1997), Smith and Parr (2000)
8	Royalty Relief	Based on the licensing fee the company would have to pay if it did not own the brand. This methodology involves estimating likely future sales and then applying an appropriate royalty rate. The stream of notional brand royalty is discounted back to a net present value – the brand value. There are several ways of calculating the royalty rates applicable to the forecasted	• Valuation specific to the industry. • Based on traditional brand licensing (e.g. Smirnoff vodka) practices. • Theoretically attractive, since it eliminates the intrinsic difficulty of estimating the profitability and risk differentials attributable to the brand. • It has been accepted by numerous fiscal authorities as a reasonable model.	• Brands, by nature, are unique and not really comparable. • Sometimes, the royalty rate not only includes a charge for the use of the brand. The problem is to determine which part of the royalty rate has its origin in the brand and which part in the rest of obligations of the contract. This is why some authors believe that it cannot isolate perfectly the brand value as the royalty rates not only remunerate the brand exploitation, but the	Barwise et al. (1989), Aaker (1991), Smith (1997), Ambler and Barwise (1998), Fernández (2001), Intangible Business (2001), Whitwell (2003), Zimmerman et al. (2001), Boos (2003), BBDO (2004), Anson (2005)

		revenues including: • Brand strength vs. market comparables • Operating earnings excess		supply of raw materials, "know-how" and other services to allow the licensee to keep the required quality standard. • It may discount the value of 100% control over both the brand and its territorial marketing.	
9	Excess Cash flows	The Free Cash Flow attributable to the brand is estimated by deducting the return of other assets different from brand from the Free Cash Flow of the firm.	It eliminates the need to use comparative data from other transactions involving brands.	The Free Cash Flow attributable to the brand is similar to the EVA® concept, but replaces the flow attributable to the unbranded company by the assets used by the branded company times their required return.	Fernández (2001), Kam and Angberg (2003)
10	Residual Approach: Value of the firm less the value of the tangible assets	Brand Value is established as the differential between the fair value of the firm and the fair value of the tangible assets exploited by the business.	For some, it is a useful way to determine the maximum limit to the brand value.	It assumes that, beyond the brand, there are no other intangible assets (identified or not) exploited in the operation or that they have no value.	AASB (2001), Lonergan (1999), Anson (2005); Ambler and Barwise (1998)

11	Excess Margin	It calculates the portion of the excess margin that is attributable to the brand (excluding the margin of other intangible, tangible or financial assets), based on the valuation expert's experience.	Conceptually, it is consistent with the exclusive definition of a brand which excludes the underlying product.	• In the case of companies with strong brands and many obsolete tangible assets in books, the brand would be undervalued due to the high technical yield that would be allocated to the tangible and financial assets of the company. • Subjectivity in the determination of the required return of each intangible asset. • The allocation of the margin to each intangible asset is still subjective and arbitrary since the return on the tangible assets is considered fixed.	Smith (1997), Pratt (2002), Andriessen (2004)
12	Marginal Cash Flows (value of the company "with" and "without"	The value of the marginal cash flows that are generated by the exploitation of the brand are the base to value it.	Conceptually, it is consistent with the exclusive definition of a brand.	• Difficult to find a comparable company with the same mix of intangible, monetary and tangible assets and that sells unbranded products.	Boyden Lamb (2002), Smith (1997, p.150)

	the brand)			• If the company that sells unbranded products has a superior profitability that the branded company, would this mean that the brand under study is worth zero? The profits of the branded company could be lower because of reasons that do not have to do with the brand.	
13	Competitive Equilibria Analysis	The brand value is estimated discounting the "brand earnings". Brand earnings are calculated based on the differential market share due to the image of the company.	It is based on objective observable data.	Based on the proportion of market share not explained by "objective factors" (distribution, marketing investment, price).	Moreno (2005)
14	Core brand value plus the value of other related assets	The brand value is calculated as the sum of the core brand value and the value that it earns from its products and trademarks.	According to Anson (2005), this provides a more "realistic" view on the value of a corporate brand, recognizing its two main areas of value.	Very subjective.	Anson (2005)

15	Capitalization of decreasing royalties	It assumes that the royalties will decrease with time.	Simplicity.	There is no justification to assume decreasing royalties for all brands and all circumstances.	Zimmerman et al. (2001)
16	Valuation based on the concept of Customer Lifetime Value (CLV)	It calculates brand value by estimating the brand value at individual level and aggregating it for all customers. The brand value at individual level is calculated as the proportion of the CLV attributable to the brand. This proportion or Brand Equity Share (BES) is calculated through statistical analysis.	According to Fisher (2007), it is cost-effective	• Subject of measurement errors • Moves the subjectivity to a different level	Fisher (2007)

Table 4: Other methods

#	Name	Description	Advantages	Disadvantages	Source
17	Cost of creation and development plus a percentage of historical income[2]	It estimates brand value as the creation and development costs plus the 10% of the average annual revenues of the last 5 years.	No advantages.	Same disadvantages as cost approaches and arbitrary.	Zimmerman et al. (2001)
18	Formulae based on accounting data	Brand value is calculated as the "Brand earnings" discounted in perpetuity with no growth. Brand earnings are the product of the Prestige Driver (PD), Expansion Driver (ED) and Loyalty Driver (LD).	It only uses publicly available information.	• The methodology assumes that the brand is like a perpetual bond with interest that will no grow. This aspect of the model is very poor. • It discounts the "brand earnings" at the risk free rate, which is wrong.	Hirose (2002), Beccacece, Borgonovo and Reggiani (2006)
19	Valuation model based on CAPM	It calculates the variation in the required cost of capital and the resulting incremental firm value when the reputation index varies in one unit.	It includes the benefits of having a strong brand for a broader group of stakeholders than the product orientated brand valuation models.	It only produces a relative brand value.	Srivastava et al. (1997)

[2] In reality, this methodology could be classified as a "mixed methodology", involving elements of the cost and income approach. This methodology is known as "Enterprise Value" and the 10% average annual revenues as "factor Repenn".

20	Stock Price Movements	Based on an equation that links brand value to advertising expenses, penetration order, time in market and present and past ad share.	More appropriate to value single brand companies.	• Brand strength is based on four factors for all sectors. • It assumes a strong efficient market.	Simon and Sullivan (1993), Motameni and Shahrokhi (1998)
21	Percentage of market cap attributable to the brand	Based on surveys to corporate executives which estimate the "Brand Power™" (brand strength index) and on financial data, the "corporate" brand value is calculated through a statistical model.	It takes into account other audiences than customers.	It does not take into account other "corporate audiences" such as financial analysts, financial institutions, governments, etc.	Callaman (2002), Corebrand (2004)
22	Comparison with the theoretical earnings from the equivalent unbranded product	Under this approach, the earnings attributable to the brand are determined as the differential EBIT between the branded product and the equivalent unbranded one. To estimate the earnings of the unbranded product, a ROCE of 5% and an Employed Capital that is equal to the median of the sector are assumed. Then a	Conceptually, to compare the earnings of the branded vs. the unbranded company is consistent with the exclusive definition of a brand which excludes the underlying product. This is only a conceptual advantage, we are not referring to the way in which	• It is difficult to implement since it is not easy to obtain reliable data on the unbranded offer. • The quantification of the differential EBIT is very subjective. • It excludes behavioural measures of "brand equity" • Applying P/E ratios to value the brand, assumes that the brand can be valued	Birkin (1994), Haigh (1994), Meschi (1995), Walker (1995), Motameni and Shahrokhi (1998), Tollington (1999), Fernández (2001), Seetharaman et al. (2001)

		brand multiple is calculated based on the brand strength and a "S curve" based on P/E ratios. The brand value is estimated as the earnings attributable to the brand by the brand multiple.	the model is actually implemented.	as the business as a whole (but this is a problem with the multiples method in general).	
23	Multiples based on proprietary research data	Brand Value is calculated as the product between "intangible earnings" – calculated as EVA®-, "brand contribution" – which is calculated based on the strength of the relationship with the present base of clients- and "brand multiple" –which is calculated based on a short term growth index.	Based on researched marketing variables.	• Takes into account short term growth expectations and the strengths of the relationship with the present base of clients as the basis for valuation. • EVA® hard to pin down as income due to brand.	Millward Brown Optimor (2006)
24	Real Options	It values the brand as an option of geographic expansion, brand extension, etc.	It can provide tools to make brand management decisions and it has into account	The assumptions required make the application of this methodology very difficult.	Fernández (2001), Upton (2001), Ward and Ryals (2001), Boyden Lamb (2002)

			the value associated to the cash flows uncertainty, flexibility and future growth opportunities.		

We now test those tables against the market by eliminating the purely academic literature. It is possible that academics in their consultancy roles are using their own methods and the line between the two is debatable but it seemed from a study of the literature that, for example, the following could be excluded from the list presented in the Appendix on grounds of being purely academic: Fisher (2007), Hirose (2002), Simon and Sullivan (1993) and Srivastava et al. (1997). On the other hand, we concluded that Baruch Lev's work, as described by Hoffman (2005) and Damodaran´s model (Damodaran, 1996; Fernandez, 2001) were sufficiently mainstream to be counted as commercial.

Figure 2 provides a tree diagram that shows, for the most popular approach namely Income, the methodologies, what they are known as and their commercial providers in one snapshot. We found no current providers of the historical, reproduction or replacement cost methods which would seem to confirm that the Cost approach is not being used in practice to value brands. We found only one author whose model is based on the Market approach (Damodaran 1996). The numbers of the methodologies in Figures 2 and 3 refer to Table 4.

Figure 2. Tree diagram of approaches, methodologies and providers for the Income approach

Methodologies	Models	Providers / Authors
4. Price Premium	2. "Brand Rating"	Icon Brand Navigation
4. Price Premium	3. Price Premium / multiple based on P/E	Trout&Partners
4. Price Premium	4. Herp model based on Conjoint Analysis	Herp
4. Price Premium	5. Sander model based on Hedonic Analysis	Sander
4. Price Premium	*Unspecified*	AUS Consultants
5. Demand Drivers / Brand Strength Analysis	6. "Brand Balance Sheet"	AC Nielsen
5. Demand Drivers / Brand Strength Analysis	7. "Brand Performancer"	AC Nielsen
5. Demand Drivers / Brand Strength Analysis	8. Advanced Brand Valuation	GfK – PwC - Sattler
5. Demand Drivers / Brand Strength Analysis	9. BEES ®	BBDO
5. Demand Drivers / Brand Strength Analysis	10. BEE ®	BBDO
5. Demand Drivers / Brand Strength Analysis	11. BrandEconomics	BrandEconomics
5. Demand Drivers / Brand Strength Analysis	12. Brand Finance "Earnings Split"	Brand Finance
5. Demand Drivers / Brand Strength Analysis	13. Brandient "BrandStamina™" Model	Brandient
5. Demand Drivers / Brand Strength Analysis	14. BrandMetrics	BrandMetrics
5. Demand Drivers / Brand Strength Analysis	15. "Brand Role Model" Interbrand	Interbrand
5. Demand Drivers / Brand Strength Analysis	16. Prophet Influence Model	Prophet
5. Demand Drivers / Brand Strength Analysis	17. Semion	Semion Brand Broker GmbH
5. Demand Drivers / Brand Strength Analysis	*Unspecified*	Equilibrium Consulting, FutureBrand
6. Gross Margin Comparison	*Unspecified*	AUS Consultants
7. Operating Profit Comparison	*Unspecified*	AUS Consultants
8. Royalty Relief	18. Intangible Business Model	AbsoluteBRAND, Intangible Business
8. Royalty Relief	19. Brand Finance Model	Brand Finance
8. Royalty Relief	20. BEVA	BBDO / Ernst&Young
8. Royalty Relief	21. Valmatrix®	Consor
8. Royalty Relief	*Unspecified*	AUS Consultants
9. Excess Cash Flows	*Unspecified*	AUS Consultants, Houlihan Advisors
10. Residual Approach: Market Cap or Firm Value less the value of the tangible assets	*Unspecified*	Consor
11. Excess Margin	22. VALCALC®	Consor
11. Excess Margin	23. Intangible Scorecard	Baruch Lev
11. Excess Margin	*Unspecified*	AUS Consultants
12. Marginal cash flows	*Unspecified*	AUS Consultants
13. Competitive equilibria analysis	24. Competitive equilibria analysis	Villafañe&Associates
14. Core brand value plus the value of other brand related assets	25. BEV_Q ™ (Brand Value Equation Method)	Consor
15. Capitalization of decreasing royalties	26. "Kern X-times model"	Kern
16. Model based on Customer Lifetime Value	27. Fisher´s Model	Fisher

This leaves the final, Other, category shown in Figure 3:

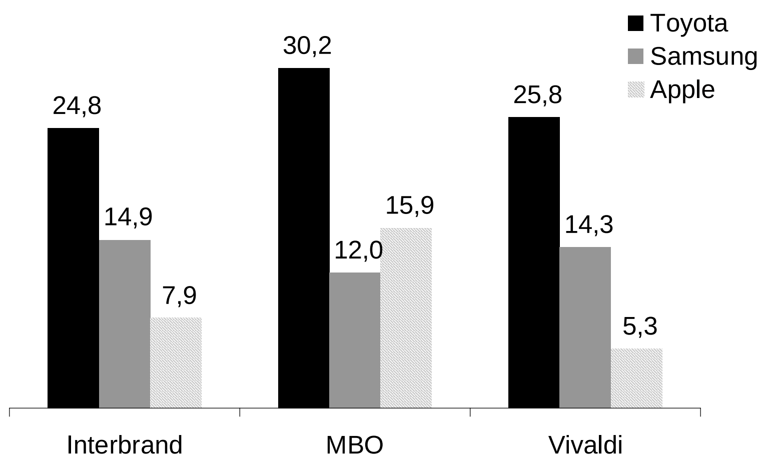
Figure 3. Tree diagram of approaches, methodologies and providers for other approaches

Methodologies	Known as	Providers / Authors
17.Cost of creation and development plus a percentage on the hist. income	28. “Enterprise Value”	Repenn
18. Formulae based on accounting data	29. Brand Valuation Model by Hirose Committee	Unknown
19. Valuation Model based on CAPM	30. Srivastava et. Al.	Unknown
20. Stock Price Movements	31. Simon & Sullivan	Unknown
21. Percentage of Market Cap attributable to the brand	32. Corebrand	Corebrand
22. Comparison w/ theoretical earnings of the equivalent unbranded product	33. “Global Brand Equity”	Motameni and Shahrokhi
	34. Interbrand Multiples based on P/E	Interbrand, Financial World
23. Multiples based on proprietary research data	35. BrandZ™	Millward Brown Optimor
24. Real Options	None	Unknown

This analysis of the theoretical methods indicates that we can eliminate both cost methods, and the aforementioned four purely academic methods, i.e. the 24 can be reduced to 18 available in practice.

These methodologies above tend to produce very different results. Figure 4 shows the divergent results from league tables published in 2005 by three consultancy firms.

Figure 4. Comparison of 2005 brand valuation estimates for Toyota, Samsung and Apple calculated by Interbrand, Millward Brown Optimor and Vivaldi Partners – in USD billion



Source: Interbrand (2005), Millward Brown Optimor (2006)[3], Badenhausen and Roney (2005)

This variation undermines credibility. Gunther and Kreigbaum-Kling (2001) surveyed 79 German companies and 40% of their respondents stated that the main reason for not valuing brands was the lack of an appropriate method.

Taxonomy of brand valuation models

In order to widen the understanding of these methods, we now review them according to five criteria:

[3] Note: The ranking of MBO published by Financial Times on 24th March 2006 used 2005 data .

1. *Treatment of risk*
2. *Determination of the income attributable to the brand*
3. *Audience that the model addresses (corporate brand vs. consumer brand)*
4. *Academic or commercial origin of the method*
5. *The purpose served*

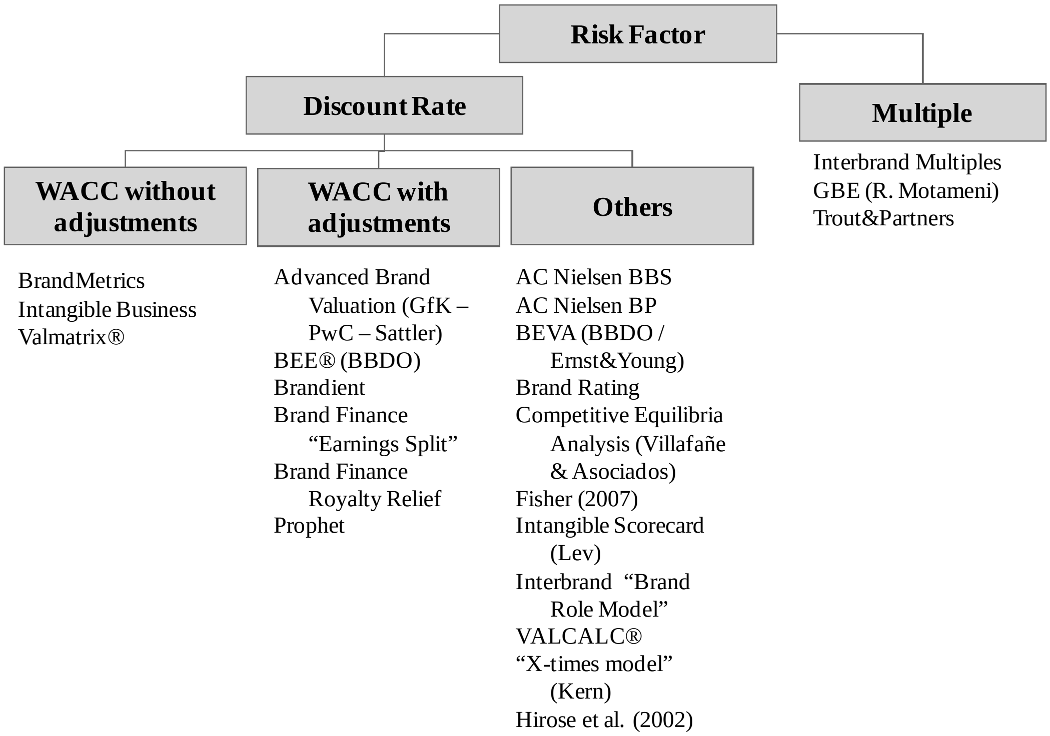
Treatment of risk

We analyzed the models according to their treatment of risk and found:

- 57% of the 35 proprietary models listed in Figures 2 and 3 reviewed use the discount rates to deal with risk.
- 55% of the models that use discount rates to deal with risk, adjust the discount rate according to the specific brand risk.
- 45% of the models which use discount rates, estimate them applying either Weighted Average Cost of Capital (WACC) or Capital Asset Pricing Model (CAPM).

Figure 5 provides a detailed classification of the models according to the way in which they consider brand risk.

Figure 5. Analysis of the methods according to their treatment of risk



Although adjusting discount rates has been criticized by academics (Barwise et al. 1989), it is widely practiced not only for brand and intangible assets valuation, but also for the valuation of other financial assets.

Determination of the income attributable to the brand

For most brand valuation models, this is the lynchpin of the valuation process. The literature shows at least 15 techniques for determining the brand contribution to revenues, income or cash flows, of which 14 are described in Tables 1-4 above:

Table 5: Methods for estimating brand contribution to profit

#	Name
3	Market comparison (multiples)
4	Price Premium
5	Demand Driver / Brand Strength Analysis
6	Gross margin comparison ("Economy of Scale Technique")
7	Operating profit comparison
8	Royalty Relief
9	Excess Cash flows
11	Excess Margin
12	Marginal Cash Flows (value of the company "with" and "without" the brand)
13	Competitive Equilibria Analysis
17	Arbitrary Constant Coefficients ("Factor Repenn")[4]
18	Formulae based on accounting data
22	Comparison with the theoretical earnings from the equivalent unbranded product
23	Proportion of loyal clients as % of total client base5

[4] This is part of the "Enterprise Value" methodology.
[5] The way in which "brand contribution" to earnings is determined by Millward Brown Optimor (Multiples based on proprietary research methodology).

The only other method we should consider is the Roos (2005) "Conjoint Value Hierarchy". This is not added to the 18 methodologies elicited earlier because this is just a separation method and not an integral valuation method.

Of the identified models that use the income approach, 34% use a brand strength analysis or demand drivers to determine the proportion of revenues or income attributable to the brand. 11% use the Royalty Relief methodology and an identical percentage use Price Premium, while only 6% apply the comparison with the theoretical earnings of the unbranded product and excess margin. Comparing methodologies, it appeared that the Royalty Relief method is used consistently whereas there is more variety in the application of the Brand Strength method.

Audience that the model addresses

Corporate brand valuation models, based sometimes on reputation rather than brand equity, address a shareholder, or perhaps stakeholder, audience (Corebrand 2004, Hirose 2002, Srivastava et al. 1997, Zimmerman et al. 2001, Anson 2005). As with all these valuations, validity depends on the purpose intended. Clearly, if brand valuation is being used to measure marketing performance, then what is in the heads of shareholders and stockmarket analysts is barely relevant. The end users and all parts of the distribution chain are the heads that matter for “product” brands, here meaning the equity associated with the branded goods and/or services in the commercial marketplace. If, however, the user is concerned with variations in share prices, the reputation with the financial community matters a great deal. Where brand valuation is being used as part of the calculation of the price for a single brand company acquisition, both audiences may be relevant.

Corporate brand valuation has been used where there was a need to assess the economic contribution of the corporate brand to the commercial brand or to share prices, e.g.:

- There is a need to assess the benefits or drawbacks of potential endorsement of the corporate brand,
- There is a need to assess the impact of a corporate re-branding, like in the case of Philips-Morris that changed its name to Altria,
- There is a need to prove the value added by investor relations practices.

Almost all the methods we have presented are applied to product brands and we found only three specialists for corporate brand valuation (see Table 6 which uses the numbering from Tables 1-4). The BEV_Q^{TM} model is an exception in that it is used to value both corporate and product brands. We foresee a growing development of this corporate brand valuation given the interest among academics and executives as a tool for managing investor relations.

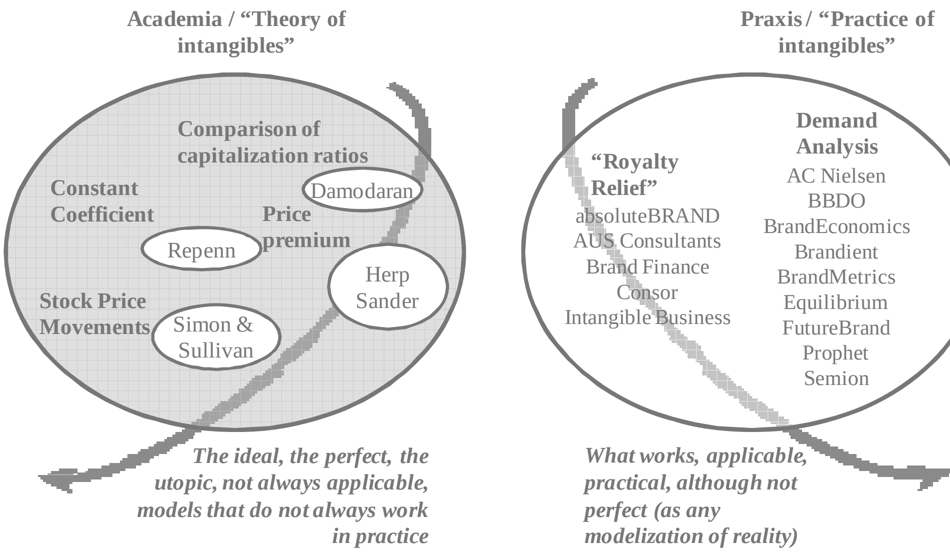
Table 6: Methods for corporate brands

14	BEV_Q^{TM} (Brand Equation Method)
19	Valuation of Corporate Reputation based on CAPM
21	Percent of market cap attributable to corporate brand

Academic or commercial origin of the method

To analyze convergence and divergence of the models developed by academics from those developed by commercial providers, we need three classifications: academic, commercial, and hybrid, i.e., those developed jointly by academics and commercial providers, together with a group which did not provide enough data for classification. We were surprised to find only one hybrid, namely ABV (GfK-PWC-Sattler). To underline that we found a clear divergence among the methodologies and models proposed or endorsed by academics and the ones applied by commercial providers (see Figure 6). The latter were primarily identified with Demand Analysis and Royalty Relief whereas the former group was concerned with theoretical aspects many of which do not seem to be widely applied.

Figure 6. Commercial vs. Academic Origins



Another point of divergence among commercial providers and academics is given by the treatment of the discount rate applicable to the brand valuations. While some academics criticize the adjustments made to the discount rate applicable to the earnings attributable to the brand or the scoring techniques on which some of these adjustments are based (Smith and Parr 2000), most commercial providers adjust the WACC to reflect the specific brand risk (Haigh 2001, Zimmerman et al. 2002, Intangible Business 2004).

Figure 6 does not portray the extent of the overlap between academic and practical applications in one important area, namely Demand Driver methods.

The purpose served

So far, this review has not considered the usefulness of these methods and their validity in practice. There are two general categories of applications, or purposes, for brand valuation: technical (accounting, transactional and litigation), and other brand management purposes.

Valuations with *technical purposes* are therefore undertaken for annual reports, testing impairment, tax planning, securitization, licensing and mergers, litigation and acquisitions. The objective here is to establish the financial market value of the brand as between an arm's length seller and buyer. For example, where a company owning brands is acquired, and the brand(s) will appear on the acquirer's balance sheet, brand valuation is required to distinguish the cost of the brand(s) from the rest of the acquisition cost. Financial standards require that acquired brands are included in the balance sheet at acquisition cost. Thereafter, brand valuations are required annually, the "impairment" test, to ensure that the market value of the brand is not lower than the cost shown on the balance sheet.

Brand valuation for *management purposes* are used for restructuring portfolio management, budget allocation and performance assessment. Such valuations can form part of dynamic business models both as an output from one cycle of marketing and input to the next where brand equity is first influenced by, and then influences, marketer actions and key variables in the market. Marketing performance can be evaluated as short-term incremental cash flow plus any increase in brand equity, perhaps quantified as the brand's valuation (Ambler 2003).

Prospectively, brand valuation can be used to compare the outcomes of different brand strategies and the relative performance of different marketing teams. The purpose is to improve marketing effectiveness. In practice, brand valuation has been used to defend marketing budgets, to make decisions about brand extension and brand architecture, and to measure marketing productivity, although this usage has been challenged (Ambler and Roberts 2006) partly because some companies have used, but then abandoned, brand valuation for this purpose. It is arguable that brand valuation should be used as a reality check on other methods but not relied upon.

Management uses tend to consider the brand value for different client segments, product or lines, and the potential use of the brand in different categories. In order to do that, they include a sensitivity analysis module for different scenarios and strategic options that the client wishes to consider.

To analyze the suitability of the method for the purpose intended, we have considered the following criteria:

- The way in which the provider is positioned in the market, what and how he communicates about his valuation practice,

- The type of projects in which the provider has been involved historically. To get information on this aspect, we have researched web pages and commercial brochures of each relevant provider, and press clippings worldwide,

- The business model of the provider (if he is exclusively focused on economic valuation or his business model includes general advice on branding or marketing), and

- If the provider has specific departments or divisions dedicated to transactional, accounting, legal or management of brands or intangibles.

In this way, most "branding" agencies (i.e., generalistic branding consultancy firms that provide with the whole range of branding services from positioning, architecture, naming and valuation) have been classified as "management orientated providers". Companies that specialize in asset economic valuation and the "Big 4" have been classified as "technical providers". Figure 7 shows a classification of providers where there methodologies were revealed.

Figure 7. Classification of providers according to their technical or management orientation

Providers positioned in “technical” practices

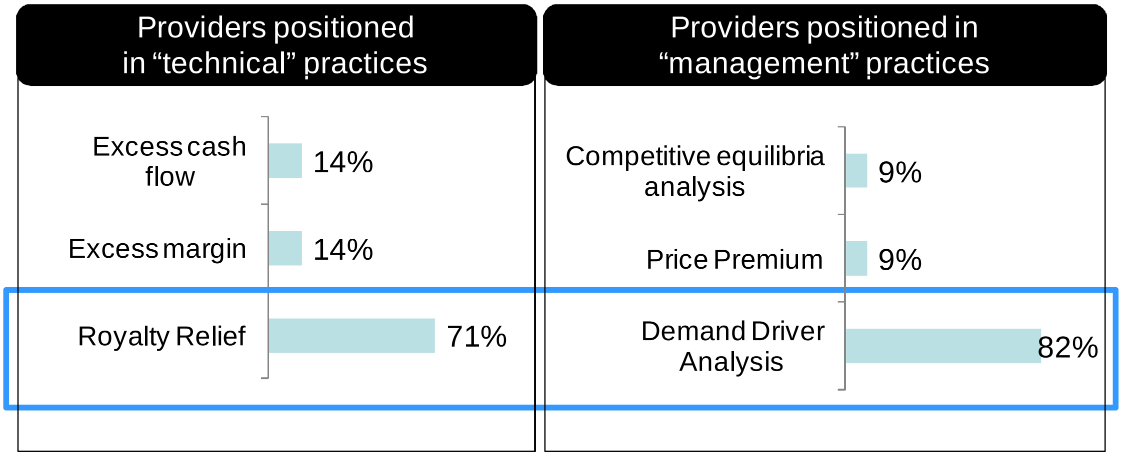
- Absolute Brand
- AUS Consultants
- Brand Finance
- Consor
- BBDO / Ernst&Young
- Intangible Business
- Houlihan Advisors

Providers positioned in “management” practices

- AC Nielsen
- BBDO
- Brandient
- Equilibrium Consulting
- FutureBrand
- GfK
- Icon Brand Navigation
- Interbrand
- Millward Brown Optimor
- Prophet
- Villafañe & Asoc.

The relationship between the type of provider and the method used is consistent with that reported above (see Figure 8).

Figure 8. Methods most frequently used for "technical" and "management" providers



A number of academic authors agree that the royalty relief methodology should be the methodology of choice for valuations with *accounting and reporting purposes* (La Villeguérine 1997, cited in Stolowy and Haller 2000, Mard, Hitchner, Hyden, and Zyla 2002, Woodward 2003, Anson 2005). The "Big 4" accountancy firms tend to signal Royalty Relief as the most reliable from the technical point of view[6].

Regarding the academic authors who address the issue of brand valuation for *management purposes*, its articles tend to focus on the methodologies proposed by the authors, and not to challenge or defend other methodologies (cf. Motameni and Shahrokhi 1998, Fisher 2007). One exception to that is Ambler and Roberts (2006)

[6] Cf. http://www.ey.com/global/content.nsf/WebPrint/8b8e23cdd699f2b680256cc5004dafbb?OpenDocument&Click=

who argued that brand valuation, or at least the cash flow forecasting involved, is valuable for planning but not for performance evaluation.

Clearly no single methodology is suitable for all purposes. We have seen that valuations in practice fall mostly into two camps:

- **Technical purposes:** Royalty Relief tends to be the choice methodology in practice and in the specialist literature.
- **Management purposes:** The Demand Driver analysis methodology tends to be the choice methodology in practice for management purposes.

Brand valuation users (CEOs, CFOs and CMOs or legal departments within a firm) should be very careful when choosing a brand valuation method, since these processes tend to be costly from the point of view of time and resource allocation. It is fundamental, before choosing any model or choosing any provider to understand the nature of the pursued objectives, and the technical requirements for those objectives. If the valuation is not technical, the user will have more degrees of freedom to choose his provider. But he should be very cautious when choosing models and providers for technical applications, because not all the existent offer is appropriate to satisfy these objectives.

Limitations and further research

The research presented in this paper is based on literature available and the empirical observation of the practices that different brand valuation providers promote in the industry. In order to refine the findings, a formal survey of practitioners and user practices and experiences would be valuable.

The paper reached the easy conclusion that no one method was suitable for all purposes but we cannot be sure that each of these methods is suitable for some purpose or whether just one method would suffice for any purpose. We found that the cost methods outlined in the literature do not appear to be used in practice and we therefore conclude that they are unsuitable for any purpose but that might apply to others too.

The converse needs to be explored, namely those that work in practice but do not seem to work in theory or where the theoretical versions of the method do not match practice.

Conclusion

The paper suggests which methods seem broadly relevant for which applications and highlights a gap between the academic approaches and the practical. The proliferation of suppliers and their apparent methodologies makes the choice difficult for clients. Although two broad groups, Royalty Relief and Demand Driver analysis, relate to technical and managerial uses respectively, there a many variants within those categories: we identified 24 of which six were academic methodologies that do not seem to be used in practice, or at least not widely.

Royalty Relief emerges as generally accepted in technical areas such as tax and legal situations and Demand Driver methodologies for managerial purposes. The concept of applying a multiple to current earnings was originally favored by practitioners but has since dropped away. Brand valuation has been challenged as a strategic marketing metric for performance evaluation and should be used within a wider dynamic model or package of metrics.

Potential users should be aware that their brand valuation methodologies may be good enough for their technical and managerial purposes but are nonetheless open to theoretical challenge. For example, some discount rate adjustments are accepted in practice but may not be academically robust.

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Appendix: Brand Valuation Providers[7]

Name of commercial provider	Source
AbsoluteBRAND	www.absolutebrand.com
AC Nielsen	Zimmermann et al. (2001)
American Appraisal	www.american-appraisal.com
Appraisal Economics	http://appraisaleconomics.com/
AUS Consultants	www.ausinc.com
Baruch Lev	Hoffmann (2005)
BBDO Consulting	Zimmermann et al. (2001)
Beacon Valuation Group	http://www.beaconval.com/
Bradley Elms Consultants	www.bradleygroup.com.au
Brand Finance	www.brandfinance.com
Brand Metrics	www.brandmetrics.com
BrandEconomics	www.brandecon.com
Brandient	www.brandient.com
BrandSync	http://www.brandsync.com/

[7] The authors have included in the previous list some authors which having promoted certain methodologies, it is not known if they belong or not to any firm or agency, namely: Herp, Kern, Sander and Repenn.

Chicago Partners	www.chipar.com
Consor	Zimmermann et al. (2001)
Corebrand	Callaman (2002); Corebrand (2004); www.corebrand.com
Damodaran	Fernández (2001)
Deloitte	Carson (2005)
Equilibrium Consulting	www.equilibriumconsulting.com
Ernst & Young	http://www.ey.com/global/content.nsf/India/Val_-_Brand_Valuation_Techniques; http://www.hinduonnet.com/thehindu/holnus/006200711282132.htm
FutureBrand	Fernández (2001); www.futurebrand.com
GfK	Sattler et al. (2002); Mussler et al. (2004)
Gravitas Partners	www.gravitas-partners.com
Herp	Zimmermann et al. (2001)
Houlihan Advisors	Fernandez (2001)
Icon Brand Navigation	Zimmermann et al. (2001)
Inflexion Point	http://www.ip-strategy.com/[8]
Intangible Business	www.intangiblebusiness.com
InteCap, Inc.[9]	www.intecap.com
Interbrand	Haigh (1994)
IPMetrics	www.ipmetrics.cc

[8] This company is more focused on valuation of patents, but they state that they value intellectual property assets, which include also brands.
[9] Now part of CRA International

Kern x-times model	Zimmermann et al. (2001)
KLM, Inc.	http://www.klminc.com/brand_valuation/bvservices.html
KPMG	Piper and Stevenson (2007)
Mentor Group	www.mentorgroupinc.com
Millward Brown Optimor	Financial Times (2006)
Mintz & Partners	www.mintzca.com[10]
Morar Consulting	http://www.morarconsulting.com/BrandValuationFramework.php
MR Valuation Consulting	www.mrvaluation.com
Predictiv	www.predictiv.net
Prophet	Kumar and Hansted Vlomqvist (2004); www.prophet.com
PwC	Sattler et al. (2002)
Repenn	Zimmermann et al. (2001)
Sander	Zimmermann et al. (2001)
Semion	Zimmermann et al. (2001)
TATA Economic Consultancy Services	http://www.tecsglobal.com/sitehtm/product.htm
Trout & Partners	AASB (2001)
Valuation Consulting	www.valuation-consulting.co.uk
Villafañe &	Rivilla (2005)

[10] According to the web page of Mintz & Partners, on January 28, 2008, Mintz & Partners merged with Deloitte & Touche's mid-market group, Private Company Services.

Asociados	
Vivaldi Partners	Forbes (2004); www.vivaldipartners.com
Willamette Management Associates	Reilly and Schweihs (1999); http://www.willamette.com/