What value brands?

Dr. Angela Pirrie, charteredbrands, examines the practical marketing implications of brand valuation

HISTORICALLY, THERE HAS been an expectation of brand management to deliver immediate results despite the protracted nature of brand-building. Yet two recent developments in the world of brand valuation have once again recognised the importance and longevity of the brand asset. The importance of this asset in creating shareholder value is evident. On the basis of this, brand management can rightly take its place at the top table. It is only through measurement and evaluation that it can keep this place, however.

Introduction

If the past few months are anything to go by, it looks as if we are beginning to take the value of valuing brands more seriously. Two major developments in particular have taken place in the world of brand valuation.

First, the publication of the International Financial Reporting Standards (IFRS). The IFRS has issued what it hopes will be the definitive description of what constitutes an intangible asset (see Box i). This is primarily to settle the debate that has raged in the accounting profession since the late 19803 around the question of how to value the brand asset.

Second, Millward Brown Optimor, part of the WPP Group, launched its new system of brand valuation designed to rival market leader Interbrand's valuation model.

I would hazard a guess that the majority of those in the marketing profession will already have heard of the new Millward Brown model. It has been extensively covered in the marketing press. Whether they know anything of its methodology or its differences from Interbrand's system of valuation is another matter.

Worryingly, in a recent survey carried out by MORI on behalf of the Chartered Institute of Marketing, only a third of marketers in large organisations were aware of what the new IFRS might mean to their own function within the business.

Putting a specific value on the intangible brand asset is likely to benefit marketers and their businesses in two main ways:

1. It can have the direct effect of increasing the value of the company.
2. It will demonstrate the importance of the brand (provided it has been well managed) to the company's overall health.

These factors will in turn give some credibility and authority to the marketing function and consequently enhance its status in the boardroom. It should also allow brand management to be more objectively evaluated by other parts of the business.

Indeed the process of valuation itself will force the company (if it has not already) to face the market - through examining what is the relative position of the brand in the market, and what are the brand's strengths and weaknesses. Brand valuation can therefore act as a diagnostic tool for brand management.

BOX 1

IFRS intangible asset description

In essence an intangible asset is defined as a non-monetary asset without physical substance. It has three key attributes.

1. Identifiable: it must be separable – so capable of being separated and sold, licensed, rented. Or it must arise from contractual or legal rights.
2. Economic benefits: there must be an expectation that the asset will yield future economic benefits.
3. Controlled: it must be controlled by the organisation by purchase or self-creation. So the organisation must be in a position to obtain benefits from the asset.

Valuing the brand asset

There is growing recognition that brand assets are of huge importance to the financial health of the company. There is also considerable evidence to suggest that businesses with strong brands consistently outperform their markets, and vice versa.

By counting brands as assets, the value of a company's net assets, or capital base, increases. This can lead to higher borrowing power, and an increase in funds available to the business.

In a recent study of City opinion, the IPA notes that brands are 'playing an increasingly valuable role' in the fortunes of business (i). The marketing function is the guardian of this asset. It is not perhaps too surprising therefore that the majority of analysts interviewed for the IPA survey stated that marketing was important in achieving growth. By growth these analysts are talking about the grown-up concept of shareholder value growth.

This is distinct from growth in sales and profit performance. Relying purely on financial measures such as sales and profit as a measure of health of the brand asset can be misleading. In the worst-case scenario, focusing on purely financial measures of marketing performance may lead to the erosion of value of the brand asset. This is because a marketer tasked with sales objectives may cut prices or undertake any number of promotional techniques in order to achieve sales, but such methods will often serve only to erode brand value.

Measures of brand equity

It was in response to the narrowness and short-termism of financial-only measures of brand value that the concept of brand equity evolved. Measures of brand equity contain non-financial indicators such as:

> brand awareness
> brand associations
> perceived quality
> brand loyalty
> relative price
> customer satisfaction
> market share.

Perhaps it is reassuring to note that in the same IPA study of City opinion the majority of analysts considered non-financial indicators important in assessing brand value (all fmcg analysts held this view).

However, not all the non-financial factors that contribute to brand equity are of equal benefit to bottom-line brand value. There is a hierarchy of effect, with brand awareness contributing less than stronger, healthier measures such as

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perceived quality and brand loyalty. Awareness is really only the starting point. Yet without awareness the brand is unlikely to achieve strong consumer associations or loyal behaviour. On the other hand, it is of course possible for consumers to be aware of a brand but have no further involvement with it. Equity of this nature cannot be deemed to add significantly to brand value.

Some suggest that in addition to awareness, quality and loyalty, brand equity should include a measure of consumers' attitude towards the brand and the perceived benefits derived from consumption. Additionally, other proprietary assets such as patents, trademarks and channel relationships that can contribute to equity should also be incorporated (see Figure i).

The specific metrics used will be determined by the nature of the business. So in fmcg marketing - awareness, penetration, weight of purchase and the impact of product innovations will generally be considered. Whereas in services marketing, marketing metrics are often more concerned with churn rates, footfall and new customer acquisition.

The impact of the valuation of intangibles will stretch the reach and penetration of the marketing function. More companies will recognise the value and benefits of valuing the brand asset'

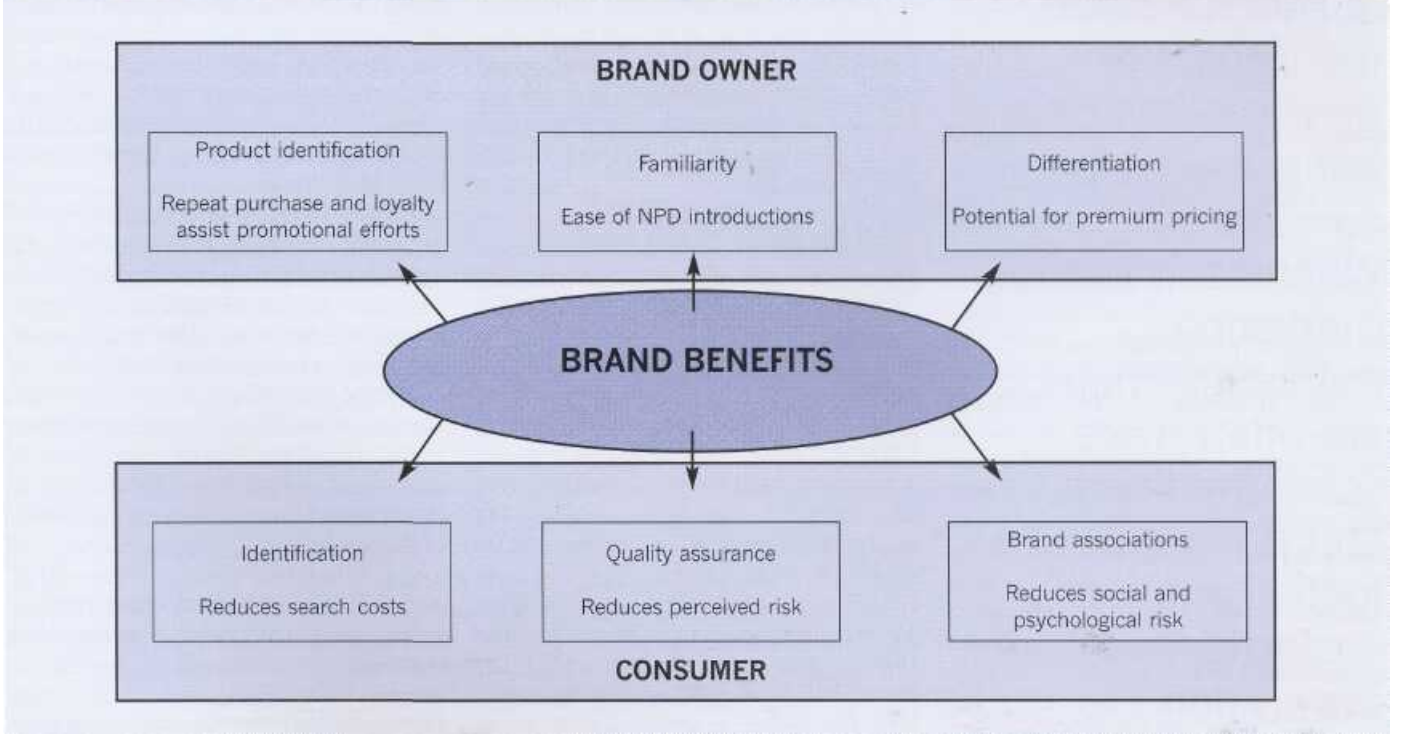
Whatever measures of brand equity are being considered, they should be grounded in the relationship that customers have with the brand. Unless the brand delivers value to these folks, it will definitely not deliver value to the company.

When one examines the benefits that accrue to consumers and brand owners, the relationship can appear a little imbalanced.

For consumers, the principal function is one of reduction - reduction in search costs and reduction in various types of risk. For the brand owners, the benefits are to do with enabling - enabling brand extension, enabling premium pricing, enabling loyalty. This may be one reason for the (infrequently acknowledged) distinction between customer-based and company-based measures of brand equity. Measures such as market share or market growth are merely proxy indicators of consumer response. In that sense customer measures suffer from the same weaknesses as relying on purely financial ones. >

FIGURE 1

Brand equity



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Any robust measure of brand equity should include consumer data. Consumers are becoming more self-assured, more brand discerning and more articulate about their reasons for brand selection. Perhaps this is where the new WPP methodology will outperform Omnicom's Interbrand Global Top 100 model.

Brand valuation: Omnicom vs WPP

Interbrand's popular valuation method takes no direct account of consumer data, but instead relies on various proxies - like market share. For its Global Top 100 Brands it takes publicly available financial information and, drawing on financial analysts' reports, predicts the future earnings stream for the next five years. It then applies various discount and weighting factors to reflect the risk profile of the projected earnings. The factors are based on 'expert opinion'. In no case is the consumer view of the brand considered.

The cornerstone for the WPP tool is the annual Millward Brown Optimor BRANDZ™ study. In excess of 21,000 brands are discussed by more than 650,000 consumers and professionals in 31 countries. It has been collecting these data since 1998 and therefore trend data are available. Each respondent is asked to evaluate brands in a competitive context from a category in which they shop. Their responses generate scores for levels of brand bonding. Then consumer loyalty and claimed purchasing data are used to generate a 'brand voltage' score. This is designed to indicate the brand's potential. So the technique is intended to evaluate a brand's strength and growth prospects. It is intended to be used as both a diagnostic and predictive tool.

To arrive at the BRANDZ™ Top 100 Most Powerful Brands, the consumer data are combined with similar publicly-available financial information to that used by Interbrand.

A comparison of the two Top 100 tables throws up some interesting differences, not all of which can be attributed to- the differences in timing of the two studies. While many of the same brands do appear, some do not. So Tiffany and Hertz do not make the BRANDZ™ Top 100 but they do appear on the Interbrand table. Tesco appears in 30th Place in BRANDZ™ but is not in the Interbrand Top 100.

One of the reasons for this could be the fact that the Interbrand methodology excludes brands that do not derive a significant share of their earnings outside the home country. So they score low on internationality. No such exclusion is made by BRANDZ™, which probably accounts for its fourth placing of China Mobile, and Japan's NTT DoCoMo in 23rd place. Neither of these appear in the Interbrand 100.

While making individual brand ranking comparisons is of little value, a comparison of the validity of the methodologies is not. One presumes that a system of metrics that incorporates consumer data will have a greater degree of validity and robustness.

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Why measure brand equity?

One might ask why bother measuring brand equity. It all sounds quite ponderous, complicated and expensive.

For one thing - it is back to the old adage - what gets measured gets done. Marketing departments should want to know what impact their activities are having on brand equity. Furthermore, the benefits normally accruing to companies with good brand equity scores can be significant. They can command price premiums, usually have above-industry-average margins and profits, can successfully extend the brand and have good leveraging power with the trade.

Implications for brand management

Measuring brand equity will also help improve the understanding between marketing effects and outcomes. This is certainly overdue. Marketing has to begin to wise up to this and become more accountable. The same IPA City opinion study already cited found that there remained a generally held perception that expenditure on marketing represented something of a 'big, black, hole'.

Marketing departments should be given focused goals for growing not just their brand, but growing their brand equity. In this way, their efforts will be more closely aligned with the goal of contribution to shareholder value.

Tasking brand management with growing brand equity should delight the marketing profession. For how long have we moaned about being asked to justify the impact of marketing expenditures on the bottom line? Or to demonstrate the impact of every penny of the marketing budget spent within the same financial year? We have begrudged this short-term approach.

Now we are being given the chance to demonstrate the worth of our activities. We will find companies ready to take the long view. But we need to rise to the challenge. Every other functional area of a business- is assessed on performance against economic criteria, and if marketing wants its seat at the top table it needs to be prepared to embrace the objective measurement of its performance.

The impact of the valuation of intangibles will stretch the reach and penetration of the marketing function. Through time, more companies will recognise the value and benefits of valuing the brand asset. Brands will no longer be confined to cars and confectionery markets, but will extend to the industrial sector. And so the market for marketing and brand management should grow.

The shareholder-value philosophy will continue to gain traction and will penetrate further inside organisations. In the arena of brand management more brands will be reviewed for their economic rather than accounting profit.

Indeed if the prognosis of one scholar is correct, future brand managers will need the skills of an analyst, the financial aptitude of an investment banker and the interpersonal sensitivity of a skilled diplomat. •

i. How Analysts View Marketing: An IPA Study of City Opinion, July 2005 © *Institute of Practitioners in Advertising.*

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Fonte: Admap, v.41, n.9, p.40-42, Oct. 2006.