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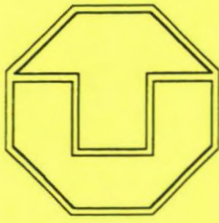
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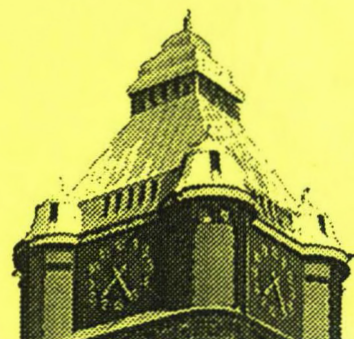
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**Valuation of Brands - A Critical
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Valuation of Brands – A Critical Comparison of Different Methods

Catharina Kriegbaum

In recent years intangible assets have become increasingly important for many companies. One significant category of intangible assets are brands. Because of their growing importance, researchers have begun to develop methods to better measure and account for brand names.

Traditional brand management performance measures usually are short-term oriented and give no incentives to invest in brands but rather lead to short-term activities which harm long-term brand value. This is alarming, especially for companies where brands are the main assets. Brand value, if correctly measured, could represent a useful goal for the management of brands. In mergers and acquisitions, brand value could help in determining a corporation's price and support the decision process. Another area where a valid brand valuation method would be helpful is the licensing of brands. Finally, brand valuation is needed for balance sheet purposes. So far, current accounting standards in Germany assign no balance-sheet value to brand names until another firm acquires them. But since brands are legal in balance sheets of companies in other European countries, German law might change in order to harmonize European law. Then, an accepted valuation method will be indispensable.

Depending on the purpose of brand valuation and on the method used, different brand values will result. But as long as valuation methods are not objective and comparable, companies will be reluctant to the valuation of brands. This paper evaluates the usefulness of methods in order to use brand value as a long-term performance measure in brand management and controlling.

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1 Introduction

In recent years intangible assets have become increasingly important for many companies. "It is a truth universally acknowledged that modern business success increasingly depends on intangible assets - and in particular, on brands".¹ Consequently, the importance of the management of intangibles has grown.² In order to manage and control the value of intangible assets it is of course necessary to be able to determine this value. Therefore, companies and researchers have been trying to find methods to measure and disclose the value of intangibles even when the value cannot be determined with 100% certainty. Intangible assets can be categorized in technological intangibles (e. g. unprotected innovations), intangibles referring to customers (e. g. great number of loyal customers), intangibles based on contracts (e. g. lucrative supplier contracts, licenses), intangibles referring to EDP (e. g. software copyright), intangibles based on human resources (e. g. knowledge of the workforce), intangibles based on marketing (e. g. powerful brand name), intangible assets based on the location of the corporation, and intangibles based on protection rights (e. g. patents, publishing rights).³ This paper deals with the intangible asset "brand". The importance of brands and their controlling is demonstrated. Then, brand valuation methods are presented and their usefulness in brand controlling is discussed.

2 The Importance of Brands and of Brand Controlling

Brands are often seen as the ultimate weapon in today's competition and as the decisive key for profit and Shareholder Value.⁴ After years of "look-alike advertising" products have become more and more similar. Therefore, the only way for consumers to choose between products and for producers to differentiate products is often via brands.⁵ Because brand names enhance the value of a product and are difficult for competitors to copy, brand names play a critical role in marketplace competition.⁶ Brands usually lead to additional cash flows because of **price premiums** and **lower advertising expenditures**. Besides, they provide the brand owner with more **independence of retailers** and facilitate negotiations with them.⁷ Retailers will benefit from powerful brands because their **better acceptance** reduces the risk of selling.⁸ Moreover, brands usually have **longer life**

¹ SIMMS, J. (1997), p. 99.

² BLACKETT, T. (1997), p. x.

³ GEORGE, H. (1982), pp. 17, REILLY, R. F. (1996), p. 3.

⁴ ANTRECHT, R. / FRIESE, U. (1996), p. 51, HAMMANN, P. (1992), p. 225, FRANZEN, O. (1996a), p. 1.

⁵ PARK, C. / SRINIVASAN, V. (1994), p. 271.

⁶ CRIMMINS, J. C. (1992), p. 11.

⁷ KAAS, K. P. (1990), p. 49, PARK, C. / SRINIVASAN, V. (1994), p. 271.

⁸ FARQUHAR, P. H. (1989), p. 26.

cycles than the underlying products and also can be **transferred** to other products and product categories. Then the positive image of the brand is transferred to them.⁹ The transfer of brands often makes more sense than the introduction of a new one since many introductions of new brands fail.¹⁰ Besides, the introduction of new products with transferred brands into the market is usually faster and less cost-intensive. Finally, **synergies** between products with the same brand can be realized, e. g. in advertising.¹¹ Hence, a powerful brand with a transfer potential is even more valuable to a firm. Furthermore, brands can serve as **securities for credits**. Firms with valuable brands will usually have less difficulties to find creditors even if they do not have many tangible assets.¹² Besides, powerful brands help to better **survive crises** (e. g. poison scandals that would destroy weak brands).

In summary, powerful brands are valuable and important intangible assets for a company. However, brands can lose their value if they are not managed and controlled correctly. In order to maintain or increase the value of brands enormous financial investments as well as human and time resources are needed.¹³ Therefore, useful **performance measures** and a controlling of brands are needed in order to manage and control the brand. Brand controlling is supposed to deliver relevant information on all areas that deal with the brand (marketing, product development, distribution, finance, and production) and to plan and control activities concerning the brand.¹⁴ Brand controllers should use performance measures that ensure optimal decisions for the brand. If the performance of brand managers is evaluated with measures such as the increase of sales, profit and market share of their products, they will have no **incentives** for actions that pay off in later periods. They are more likely to "milk" a brand at the cost of its long-term substance. Activities such as sales promotions, lower product quality to reduce cost, reduced R&D-budget and imitation of competing products rather than own innovations, reduction of the advertising budget, increase of discounts, focus on existing target groups rather than trying to open up new target groups, etc. increase the sales of one period but are likely to harm the brand in the long run.¹⁵

Since investments in intangible assets do not appear in the balance-sheet, they reduce the profit of a period. A growing corporation that invests heavily in brands will not have high profits and valuable

⁹ HÄTTY, H. (1989a), p. 128.

¹⁰ BLACKETT, T. (1989), p. 10.

¹¹ HÄTTY, H. (1989a), p. 125, BLACKETT, T. (1989), p. 11.

¹² FRANZEN, O. / TROMMSDORFF, V. / RIEDEL, F. (1994), p. 1375, FRANZEN, O. (1996a), p. 3.

¹³ WARD, K. (1989), p. 77, HÄTTY, H. (1989), p. 139.

¹⁴ FRANZEN, O. (1996), p. 515, FRANZEN, O. (1995), p. 57.

¹⁵ RAITHEL, H. (1989), p. 304.

assets in the periods of investments. A competing company, however, that invests in tangible assets (e. g. increase of capacity) will look better in the balance sheet during those periods and the assets can be depreciated in the following years.¹⁶ Investments in brands, e. g. advertising campaigns, do not show a return right away though. Therefore, there are no short-term incentives for intangible investments. Nevertheless, brands have to be considered as items of capital expenditure that lead to future profits rather than considering brands as causes of expense. Thus, performance measures are needed that give incentives for **long-term actions** and show whether a brand has gained or lost value.¹⁷ As long as managers act in order to increase sales and profits of one period because their performance is judged according to these goals long-term decisions are not likely to be made.¹⁸

Besides, brand managers should not only be evaluated by **product profits**. A valuable brand does not necessarily deliver high profits since profits also depend on the cost situation of the firm and the cost of the underlying product whereas the value of a brand depends on other factors such as brand associations, knowledge, image, etc.¹⁹ Furthermore, brand profits depend on the underlying product of one period whereas brand value also includes the transfer potential for other products.

Because of the problems of traditional performance measures, **brand value** has been introduced. According to Interbrand, brand value has become "... an accepted measure of management performance".²⁰ Brand value can serve as a performance indicator that provides brand management with information on the development of the **profit potential of a brand**. If brand value is measured in monetary terms, the value of the asset can serve as information for investment decisions and the importance of the brand as intangible asset can impressively be demonstrated.²¹ Finally, brand valuation is supposed to connect the perspectives of brand management and financial management. Brand management is usually rather based on qualitative performance measures such as the knowledge of a brand whereas long-term quantitative measures are needed to be able to evaluate investments in a brand.²²

Surprisingly, there is no agreement in literature, however, about what exactly brand value is and how it should be measured. In order to serve as a performance measure, it is extremely necessary

¹⁶ WARD, K. (1989), p. 71.

¹⁷ AAKER, D. A. (1996), p. 103.

¹⁸ MOORHOUSE, M. (1989), p. 144.

¹⁹ For factors of brand power see pp. 5.

²⁰ BLACKETT, T. (1997), p. x.

²¹ FRANZEN, O. / TROMMSDORFF, V. / RIEDEL, F. (1994), p. 1399.

²² IRMSCHER, M. (1996), p. 60.

though to define what brand value is and discuss brand valuation methods that are most suitable for brand valuation in brand controlling.

3 Brand Power and Brand Value

Several definitions of brand value can be found in literature. On the one hand, the term "brand value" is used to describe the **attractiveness of a brand**. On the other hand, the term is used to describe a **monetary, quantitative measure** that expresses the financial potential of a brand. In this paper, "brand value" is conceived as the **future profit potential** of a brand whereas the non-monetary qualitative attractiveness is called brand power.

Brand power is also called "brand strength", "brand vitality" or "brand equity".²³ According to BRANDMEYER / SCHULZ, brand power includes all positive and negative associations a customer has of a brand and that influence his choice when buying a product.²⁴ Correspondingly, brand power is considered as the difference of good and bad associations. According to KELLER, "customer-based brand equity occurs when the consumer is familiar with the brand and holds some favorable, strong, and unique brand associations in memory."²⁵ Of course, the better the associations the higher will be the probability of buying the product with this brand. Therefore, brand power will result in a better position of the brand in the market.²⁶ Products carrying the brand, the name, the origin of the brand, good advertising²⁷, etc. are examples for factors that make a brand powerful.²⁸ High brand power results in brand loyalty, brand knowledge²⁹, etc. Furthermore, the number of competing brands, strength of competing brands, or geographic distribution influence brand power.³⁰ The importance of different determinants of brand power depends on the products carrying the brand. For some brands, product-oriented factors dominate, whereas for others social aspects (e. g. prestige) are more important.³¹

Brand value is the financial result of high brand power. „Brand value is the financial outcome of management's ability to leverage brand strength via tactical and strategic actions in providing superior current and future profits and lowered risks. As such, it depends on the „fit“ of the brand

²³ BEKMEIER, S. (1994), p. 384.

²⁴ BRANDMEYER, K. (1990), p. 116, SCHULZ, R. (1989), p. 79, AAKER, D. A. (1992), p. 31.

²⁵ KELLER, K. L. (1993), p. 2.

²⁶ SCHULZ, R. / BRANDMEYER, K. (1989), p. 365.

²⁷ DOMIZLAFF, G. C. (1996), p. 258.

²⁸ An overview of studies on brand power and its determinants can be found in SATTLER, H. (1994), pp. 12.

²⁹ KELLER, K. L. (1993), p. 3, ROEB, T. (1994), p. 147, SCHENK, H.-O. (1996), p. 58.

³⁰ MUSSLER, D. / MUSSLER, S. (1995), p. 185.

³¹ BEKMEIER, S. (1994), p. 386.

with the firm's objectives, resources (including synergy with other products) and competitive market conditions".³² For the brand owner, brand value is the profit earned by offering branded products instead of no-name products.³³ Therefore, brand value is the present value of future cash flows that a brand owner can earn only because of the brand.³⁴

For some researchers brand value is the whole profit earned by a branded product (**gross value** of a brand, e. g. including other intangible or tangible factors of the product such as quality, service, distribution, etc.). According to HAMMANN for example, brand value includes all tangible and intangible property rights related to a branded product, e. g. trademark, logo, packaging, design, production process, ingredients, etc.³⁵ This is reasonable if brand power mainly depends on the product characteristics and if the brand would be worthless without other attributes of the branded product or other intangibles of the owning company (e. g. patents, know-how, customers, etc.).³⁶ However, if the value of the brand depends only on the product the brand will be worthless without the product and is accordingly no intangible asset. This will especially be true for brands that lead to **product-oriented** associations. If the associations of a brand are rather **benefit-oriented** (e. g. customers usually associate "care" with the brand Nivea instead of cream or shampoo), the brand is independent of a certain product but has potential value for other care products as well.³⁷ For benefit-oriented brands it certainly makes sense to isolate the value of the brand from other product characteristics. Then the "**net value**" should be analyzed. Analyzing net brand value implies that the value of a product and the value of the brand enriching a product can be isolated from each other.³⁸ „A product is something that offers functional benefit (e. g. toothpaste, a life insurance policy, or a car). A brand name is a name, symbol, design, or mark that enhances the value of a product beyond its functional purpose."³⁹

³² SRIVASTAVA, R. K. / SHOCKER, A. D. (1991), p. 9.

³³ SANDER, M. (1994), p. 48.

³⁴ KAAS, K. P. (1990), p. 48.

³⁵ HAMMANN, P. (1992), pp. 225.

³⁶ KAPFERER, J.-N. (1992), p. 294, KELZ, A. (1989), p. 44.

³⁷ HÄTTY, H. (1989), p. 235.

³⁸ BERNDT, R. / SANDER, M. (1994), p. 1355.

³⁹ FARQUHAR, P. H. (1989), p. 24.

4 Valuation Methods for Brands

4.1 Requirements of Brand Valuation Methods

Depending on the used method, divergent brand values will result since every method includes different dimensions of the brand and is based on different assumptions.⁴⁰ In order to determine the most suitable methods for brand controlling, several requirements have to be met.

First of all, the result of brand valuation should be a **monetary value**, because this will lead to a higher motivation to increase this value. Besides, a monetary figure provides a basis for communication with shareholders and financial markets.⁴¹ Furthermore, a monetary brand value will demonstrate impressively that a brand is an investment that will create future cash flows.⁴² Only a monetary brand value makes it possible to compare investments in brands with other investments.⁴³ However, a monetary figure is not enough. The parameters that caused the increase or decrease of the figure are important as well since they show potential for improvements. Thus, the method should enable the analysis of different aspects of brands, **qualitative marketing aspects** (brand power) as well as **quantitative financial aspects** (brand value). This requires financial and marketing information.⁴⁴ Therefore, brand valuation methods should not only include a monetary valuation but also show the **influencing parameters** of brand power.⁴⁵

Before using a valuation method it should be clear if the net value or the gross value including the value of other characteristics of the branded product(s) such as design, packaging, etc. should be determined.⁴⁶ Since the value of the intangible asset is supposed to be controlled, net brand value seems to be more suitable as performance measure. However, most brands are powerful because they are associated with a good product. Then brand value is also based on product characteristics which should be considered in brand valuation as well because an improvement in product characteristics might improve brand power and brand value, too. Consequently, whether net or gross value makes more sense depends on the situation. If the brand depends on the underlying product characteristics, gross value will be relevant (e. g. if a certain product with a certain quality is associated with the brand). If the brand could be sold without the product, only net value will be

⁴⁰ SATTLER, H. (1994), p. 6.

⁴¹ SHOCKER, A. (1990), p. 41.

⁴² SATTLER, H. (1997), p. 3.

⁴³ SATTLER, H. (1997), p. 5.

⁴⁴ FRANZEN, O. (1996), p. 515, FRANZEN, O. (1995), p. 57, KAPFERER, J.-N. (1992a), p. 187.

⁴⁵ FRANZEN, O. / TROMMSDORFF, V. / RIEDEL, F. (1994), p. 1386, MUSSLER, D. / MUSSLER, S. (1995), p. 185.

⁴⁶ ROHNKE, C. (1992), p. 1943.

relevant (e. g. if exclusivity or other benefit-oriented characteristics are associated with the brand). In short, for the controlling of brands all indicators that directly or indirectly influence brand power and brand value have to be considered in the valuation. Still, the valuation method should make it possible to separate effects of the brand from the effects of other product characteristics.⁴⁷ When analyzing earnings, only earnings that were achieved with the brand should be considered. Earnings that could have been achieved with a no-name product as well are not relevant in brand valuation. Likewise, only costs that were caused by the brand are relevant.⁴⁸ Product cost should be left out because the cost situation of the firm does not influence brand value. However, if some types of cost (e. g. cost for quality improvements of the product) indirectly influence brand value they should be considered.

Furthermore, the method should be **valid** and really evaluate the brand.⁴⁹ Since this is difficult to prove it should be at least clear what concept stands behind the method and the method should be **transparent**. Therefore, the evaluation process should be **documented** in detail. Obtained results should be **reliable**.⁵⁰ However, this is also difficult to prove and no valuation method has been tested for reliability yet. Besides, the method should be **objective**. But according to BARWISE, "subjective judgement is required at every stage in the brand valuation process ... any process which claimed to be totally objective or mechanical would be incapable of generating credible values."⁵¹ The methods should also deliver fairly **exact** results. This requirement causes problems as well since the methods are future-oriented and based on predictions which already reduce the possible precision. The methods have to be **consistent**, i. e. lead to the same results no matter who evaluates, what brand is evaluated and when the evaluation is done.⁵² In addition, the method should **not be restricted** to certain industries but be applicable for all kinds of firms.⁵³ The process of brand valuation should be somewhat **easy to handle** and cause not too much effort.⁵⁴ Otherwise, firms will be reluctant to use the method. Firms rather want methods that **reduce complexity**.⁵⁵ The method should also be **future-oriented** and based on a **long-term** time period because brand strategies often last for a couple of years. It is very important for brand controlling that the valuation

⁴⁷ BERNDT, R. / SANDER, M. (1994), p. 1370.

⁴⁸ SATTLER, H. (1997), p. 4.

⁴⁹ BARWISE, P. et al. (1989), p. 66, HERREINER, T. (1992), p. 36, ROEB, T. (1994), p. 60.

⁵⁰ BARWISE, P. et al (1989), p. 66, BROCKINGTON, R. (1996), p. 177.

⁵¹ BARWISE, P. et al (1989), p. 70.

⁵² BARWISE, P. et al (1989), p. 72.

⁵³ BROCKINGTON, R. (1996), p. 177.

⁵⁴ ROEB, T. (1994), p. 68, BROCKINGTON, R. (1996), p. 177, SATTLER, H. (1995), pp. 669.

⁵⁵ MUSSLER, D. / MUSSLER, S. (1995), p. 186.

method provides the **possibility for a cause- and effect-analysis**.⁵⁶ Otherwise, the effect of brand activities, e. g. brand investments, cannot be analyzed which is, however, necessary for brand controlling. Also, brand valuation methods should consider the **value of transfer potentials** of a brand. A powerful brand can be suitable for other products and markets as well and create additional value. The valuation of a transfer potential is difficult though. It is already hard enough to estimate brand value for the current product and market. To estimate additional value of all transfer potentials of the brand would require the knowledge of all possible transfer products and markets and the estimation of the profit potential achievable with the brand. Evidently, the valuation process would soon become very complex and the results would be rather unstable and hypothetical. Hence, trying to include all possible transfer potentials does not seem to make sense. Still, if a concrete transfer is taken into consideration as part of a brand strategy, the profit potential of this transfer should be estimated and be included in brand valuation. Then the monetary effect of the transfer can be analyzed and controlled.

4.2 Comparison of Brand Valuation Methods

Several methods are available for valuing brand power. A comprehensive overview is given by SATTLER.⁵⁷ Generally, well-known market research methods are used to measure the relevant factors influencing brand power (e. g. measurement of image, brand loyalty, etc.). To measure the monetary value of brands, several methods have been developed in the past.

4.2.1 Cost-based Method

One method to determine the value of brands is to sum up all costs that have been caused by the brand since its development, e. g. development, marketing, or advertising costs.⁵⁸ Although this method seems to be relatively easy at first sight, there are several problems involved with it. First of all, the time period has to be specified for which the costs have to be summed up. If a brand has existed for several decades, such as for example Coca-Cola, it is hardly possible to determine all costs attributable to the brand. Furthermore, the problem of cost allocation to certain products is difficult, allocation of costs that have only been caused by a brand and not by the whole product is even more difficult to solve.⁵⁹ One assumption that stands behind the cost-based method is that brands that caused high costs have a high brand value as well. However, this is not necessarily true. Using this method can therefore lead to underestimation of brands that caused relatively low costs

⁵⁶ SATTLER, H. (1995), pp. 669.

⁵⁷ SATTLER, H. (1997), pp. 50.

⁵⁸ ROEB, T. (1994), p. 81.

⁵⁹ KAPFERER, J.-N. (1992), p. 193 and p. 301.

even though they have a high brand power and good future prospects. Since this method is using data of the past, there is no evaluation of future prospects of the brand. It is obvious that there is no direct connection between accrued costs and future profits.⁶⁰ In summary, the cost-based method is useless in brand controlling. In fact, it could be rather harmful for the controlling of brands since it would become attractive for brand managers to spend huge sums in the brand since brand value increases when costs increase. However, the efficiency and effectiveness of brand measures will not be controlled.

Another cost-based method is to evaluate a brand according to its **re-creation value**, e. g. the cost for building up a comparable brand.⁶¹ But this method has similar problems as the method described before. Furthermore, the method is not applicable when it is not possible to recreate a brand (e. g. because the market has changed or because of the nature of brands to be special and not easy to copy).⁶² Even if it was possible to recreate a brand it is difficult to estimate the necessary expenditures for it. Besides, there is a high risk that a recreated brand is not as successful as the original brand.⁶³

In conclusion, cost-oriented methods focus on the input of brands, whereas the value of the brand lies in the output, the expected future returns. Hence, these methods are not applicable as performance measures in brand controlling.

4.2.2 Licensing Method

The trade with brand licenses demonstrates that brands are valuable assets since firms are willing to pay for their use. The licensing method determines brand value according to the licensing fee that can be achieved for a brand. Usually it is rather difficult though to determine licensing fees of comparable brands. On the one hand because it is difficult to find comparable brands and on the other hand because it is difficult to find comparable license agreements concerning usage rights, time period, region for usage, products for which the licensed brand can be used, etc.⁶⁴ Furthermore, licensing agreements often include contracts concerning quality, raw materials, design, packaging, marketing support, etc. Then the licensing fee is not appropriate for determining the net value but rather the gross value of a brand.⁶⁵

⁶⁰ BROCKINGTON, R. (1996), p. 171 and p. 177, KAPFERER, J.-N. (1992), p. 300, SANDER, M. (1994), p. 98.

⁶¹ STOBART, P. (1989), p. 25, AAKER, D. A. (1992), p. 40, SANDER, M. (1994), p. 98.

⁶² STOBART, P. (1989), p. 26.

⁶³ KAPFERER, J.-N. (1992), p. 302.

⁶⁴ SCHRÖDER, H. (1997), p. 183.

⁶⁵ BARWISE, P. et al (1989), p. 61.

If there was an adequate licensing fee that could be determined it would seem rather easy to use it for brand valuation. But this implies that the licensing fee reflects the value of the brand. However, „... too often in the past licensors have been content to accept a payment for use of a brand that seriously undervalues the brand because of a lack of appreciation of what the brand might be worth or the lack of any objective valuation to assist them at the negotiating table.“⁶⁶ Consequently, it is rather the other way round: if the brand value was known, it could help to determine licensing fees. But licensing fees are not the right way to determine brand value.

4.2.3 Price-Premium Method

A plausible way to determine brand value seems to be the comparison of prices of branded and non-branded products. The price premium of a branded product can either be determined by a customer survey (additional willingness to pay for branded goods⁶⁷) or by taking the average of demanded prices at the retailers. To determine brand value, brand sales are calculated by multiplying the price difference between a branded and a non-branded product with the number of products sold and subtracting brand-induced cost.⁶⁸ Brand value consequently is the profit that is earned only because of the brand. It is the additional profit of a corporation that sells branded products in comparison to the profit of a corporation that sells no-names.⁶⁹

Even though this method seems to be reasonable as well as fairly easy to use there are several problems involved with it. First of all, it is a static method. Only present additional profits are taken into account whereas the future profit potential is not considered at all.⁷⁰ Besides, brand value determined with this method is only valid for the present products that carry the brand. Possible brand extensions that would lead to an increased brand value are not taken into account. Furthermore, brands on products that do not have comparable no-names cannot be valued with this method. Often branded products have a higher quality than no-names⁷¹ or the higher price is based on higher acquisition or distribution costs.⁷² In addition to that, a price often has nothing to do with the brand since branded products can have low prices as well and are sometimes hardly more expensive than no-names.⁷³ Another problem is that some brands are undervalued when the branded products do not have higher prices than no-names but have higher sales. Even though branded

⁶⁶ PERRIER, R. (1989), p. 110.

⁶⁷ AAKER, D. A. (1992), p. 39, CRIMMINS, J. C. (1992), p. 16.

⁶⁸ FRANZEN, O. (1996a), p. 6.

⁶⁹ ROHNKE, C. (1992), p. 1942.

⁷⁰ AAKER, D. A. (1992), p. 40.

⁷¹ ROHNKE, C. (1992), p. 1942.

⁷² STEIN, C. / ORTMANN, M. (1996), p. 789.

⁷³ STOBART, P. (1989), p. 29.

products have the same profit margin as no-names their productivity is higher because of higher sales (e. g. Kit-Kat, Mars).⁷⁴ Furthermore, prices can vary over time and across different size packs. Prices can also vary according to the customer because of rebates, discounts for volume, etc.⁷⁵ In conclusion, the price-premium-method does not seem to be adequate to determine brand value.

4.2.4 Market Value Method

According to the market value method, brand value is the price usually paid for a brand. If there was a market for brands, it would be possible to determine brand value according to the price of similar brand transactions in the market.⁷⁶ However, this method fails when there are no comparable transactions which certainly will be the case for most brands. Even if there were, the price of a similar brand would not consider the special situation of each brand transaction, e. g. because of synergies of the brand buyer.⁷⁷ In most cases, brands are not sold and bought separately but together with the whole firm.⁷⁸ Briefly, this method does not seem suitable for brand valuation as well.

4.2.5 Brand Valuation with Conjoint Measurement

As a bundle of different characteristics, a product provides the customer with a certain benefit that can be drawn back to its characteristics. Conjoint Measurement can be used to determine the influence and the importance of product characteristics on the whole customer value of a product via a customer survey. Some characteristics are more important for customers than others and therefore have a higher influence on the whole customer value of the product. The customers do not have to evaluate certain characteristics but whole products with different attributes. Assuming that the whole customer value of a product is the sum of the partial benefits of its attributes, the partial benefits can be calculated out of the judgements for the whole product. The partial benefits of characteristics are determined out of the evaluations for a bundle of characteristics.⁷⁹ With Conjoint Measurement, it is possible to break down the willingness to pay for the whole product to the willingness to pay for each product characteristic. The results will be more reliable than directly asking for the price the customers would pay for a certain characteristic, because direct questions usually lead to bias.⁸⁰

⁷⁴ BARWISE, P. et al (1989), p. 31, KAPFERER, J.-N. (1992), p. 306.

⁷⁵ GLOVER, C. (1997), p. 21.

⁷⁶ ROHNKE, C. (1992), p. 1941, ROEB, T. (1994), p. 91.

⁷⁷ BARWISE, P. et al (1989), p. 55, STOBART, P. (1989), p. 29, KAPFERER, J.-N. (1992), p. 303.

⁷⁸ BARWISE, P. et al (1989), p. 55, ROHNKE, C. (1992), p. 1941.

⁷⁹ BACKHAUS, K. et al (1994), p. 499, MENGEN, A. / SIMON, H. (1996), p. 229.

⁸⁰ MENGEN, A. / SIMON, H. (1996), p. 230.

Concerning brand valuation, Conjoint Measurement can be used to determine the partial benefit of a brand or the partial willingness to pay for the characteristic "brand". Several research studies have been done where the partial benefit of a brand was determined with this method.⁸¹ However, just like the price-premium method, brand valuation with Conjoint Measurement is a static method. Results only refer to the current customers' preferences. The transfer potential of the brand could be evaluated though by letting customers evaluate other products with the brand.

4.2.6 Brand Valuation with the Hedonic Price Function

Assuming a functional relationship between the market prices of products and their characteristics, the market value of each characteristic (hedonic price) can be determined with a regression analysis. The relationship between a product's price and its characteristics is called the hedonic price function. Similar to the method of Conjoint Measurement, the market value or price of the characteristic "brand" can be separated from the whole price of the product. However, brand value according to the hedonic price function is not directly based on customer evaluations. Instead, price variations of products with different characteristics in the market are analyzed in order to explain the price variations.⁸² The price of a product is broken down to the price of each product characteristic.⁸³ Brand valuation with the hedonic price function is similar to the Conjoint Measurement method and therefore incurs similar problems. Product characteristics have to be homogenous among the products⁸⁴, they have to be relevant for the customers, and they must be independent from each other.⁸⁵ Furthermore, all of the existing characteristics have to be perceived by the customers, there must not be any preferences among customers (this means that if products are objectively identical, customers will always choose the one with the lower price), the market must be absolutely transparent⁸⁶, there must only be one price for a product, and the market must be balanced (this means that all product variants are sold at the given price).⁸⁷ Obviously, these assumptions are rather hard to find in reality. But if the market was not transparent, a customer with bad information would pay more for the same product characteristic and there would not exist a hedonic price function where each characteristic has its definite price.

⁸¹ See for example the studies by MÜLLER, S. / KESSELMANN, P. (1995), BROCKHOFF, K. / SATTLER, H. (1996).

⁸² SATTLER, H. (1997), p. 57.

⁸³ SANDER, M. (1994), p. 152.

⁸⁴ BAUMGARTNER, B. (1997), p. 16.

⁸⁵ SANDER, M. (1994), p. 152.

⁸⁶ SATTLER, H. (1997), p. 57.

⁸⁷ SANDER, M. (1994), p. 106, BAUMGARTNER, B. (1997), p. 16, WEBER, M. (1986), p. 32.

4.2.7 Brand Valuation according to Interbrand

The valuation method of the consulting company Interbrand includes a financial analysis where business earnings are identified, a market analysis where the proportion of earnings attributable to the brand is determined, a brand analysis where brand power is analyzed, and a legal analysis.⁸⁸ Brand power is seen as the primary determinant of the risk profile of the brand. Low brand power will increase the risk that projected earnings will not be realized. Therefore, two brands can have different values even if they have identical earnings forecasts just because their brand power and consequently their risk profile is different. The risk profile concluded from brand power has an effect on the discount rate that is used to discount future earnings.⁸⁹ To determine brand power, seven criteria groups with 80 to 100 sub-criteria that influence brand power are evaluated. The seven criteria groups involve:

1. **Market:** Since brands in markets such as fast moving consumer goods are generally stronger than brands in markets that are more vulnerable to fashion changes, the dimension "market" has to be considered.
2. **Stability:** Long-established brands are considered to be more valuable than for example recently launched brands.
3. **Leadership:** Dominant brands that are able to influence the market are obviously more valuable than brands with an unimportant market-share.
4. **Trend:** Evaluation of the growth potential of the brand.
5. **Internationality:** Evaluation of the ability of the brand to be successful abroad.
6. **Marketing support:** Evaluation of marketing activities, e. g. amount spent in supporting the brand, quality and consistency of that support.
7. **Legal protection.**

Using a scoring model, the criteria are weighted according to their influence on brand power and then summed up to one score. Market leadership and internationality are regarded to have the greatest influence on brand power and therefore are each weighted with 25 points out of 100. Brand stability is weighted with 15 points whereas the market, trend of the brand, and marketing support are each weighted with 10 points. The least important according to Interbrand is the legal protection which only is weighted with 5 points.⁹⁰

⁸⁸ HAIGH, D. / PERRIER, R. (1997), p. 33.

⁸⁹ ANDREW, D. (1997), p. 55.

⁹⁰ ANDREW, D. (1997), pp. 56.

The method implies that it is possible to separate brand returns from product returns. It remains unclear though how brand returns are isolated.⁹¹ The method also implies that the seven criteria groups directly influence brand power. It is not obvious though where the criteria weights come from and how and by whom the brand power criteria are evaluated. Although Interbrand proudly claims that the seven dimensions used to determine brand power have not changed in nine years and after over 1.200 valuations⁹², a lot of subjectivity is involved in this method. Besides, the criteria groups and sub-criteria concern the cause of brand power (e. g. marketing support) as well as the effect (e. g. market leadership).⁹³ Moreover, the Interbrand-method does not consider the value of a potential for brand extensions.

Brand value with this method is not suitable as performance measure because it might give wrong incentives for brand managers, e. g. sub-criteria used such as market share, sales, etc. increase brand value in the Interbrand method. However, some activities, e. g. price reductions, can destroy the future potential of a brand even if they increase sales and market share in the short run. Brand value as performance measure then even works against long-term brand value.⁹⁴

4.2.8 Brand Balance Sheet and Nielsen Brand Performancer

Similar to the Interbrand method, Nielsen developed a brand valuation method, the Brand Balance Sheet, that evaluates brand power with a scoring model. Six criteria groups with nineteen sub-criteria groups are evaluated and weighted according to their importance for brand power.⁹⁵ The maximum score that could be achieved amounts to 500 points.⁹⁶ A brand with less than 200 points is considered a weak brand.⁹⁷ The criteria groups include the following:⁹⁸

1. **Market potential** (e. g. size of the market, development, value added of the market)
2. **Market share** of the brand (e. g. relative market share, profit market share)
3. **Brand evaluation of the retailers** (e. g. brand distribution)
4. **Effort of the firm** (e. g. product quality, prices of the brand, share of voice)
5. **Brand evaluation of the customers** (e. g. brand loyalty, confidence in the brand, share of mind)

⁹¹ KAPFERER, J.-N. (1992), p. 318.

⁹² ANDREW, D. (1997), p. 56.

⁹³ ROEB, T. (1994), p. 113.

⁹⁴ ROEB, T. (1994), p. 114.

⁹⁵ SCHULZ, R. (1989), p. 80.

⁹⁶ SANDER, M. (1994), p. 81.

⁹⁷ HAMMANN, P. (1992), p. 222.

⁹⁸ SCHULZ, R. / BRANDMEYER, K. (1989), pp. 366, SCHULZ, R. (1989), pp. 80, BRANDMEYER, K. (1990), pp. 119.

6. **Expansion of the brand** (e. g. international expansion of the brand, international legal protection)

In order to determine a monetary brand value, future profits are estimated for the expected brand life according to the evaluated brand power and then discounted to a present value.⁹⁹

One advantage of this method is the evaluation of positive and negative aspects of brands. The better the positive aspects are evaluated, the higher is brand power.¹⁰⁰ The effort of brand valuation with this method is fairly low since most data necessary for the evaluation is already available in most companies. However, there are several problems involved with this method. First of all, nothing is said about the choice of the discount rate. Since brand value can vary significantly with the discount rate, results are fairly easy to manipulate.¹⁰¹ Furthermore, estimation of future profits gives potential for manipulation as well. Just like in the Interbrand method, a solution of how brand profits can be isolated from product profits is not given. Besides, the brand has to be already established in the market. Otherwise some criteria cannot be evaluated. The method is therefore not suitable for new brands.¹⁰² As far as the criteria are concerned, the choice of the criteria and especially the used weights are not further explained. This makes the whole criteria catalog seem rather arbitrary. Especially the criterion "international expansion" can distort results because foreign markets are evaluated only with this single criterion whereas the home market is evaluated in much further detail with all the other criteria. Instead, the brand should be evaluated on each foreign market in order to evaluate the whole value of the brand.¹⁰³

Because of the problems described above Nielsen improved their valuation method and developed the so-called **Brand Performancer**. The Brand Performancer is not only a method to determine a monetary brand value, but a whole system for brand management and brand controlling. In the so-called **Brand Monitor System**, brand power is determined without criteria that describe the profit situation of a brand. The criteria relevant for brand power are determined with statistical validation methods (cause analysis).¹⁰⁴ Only criteria are evaluated that show great influence on brand power.¹⁰⁵ This reduces subjectivity and the potential for manipulation.

⁹⁹ FRANZEN, O. (1996a), p. 6, HAMMANN, P. (1992), p. 224.

¹⁰⁰ HAMMANN, P. (1992), p. 222.

¹⁰¹ FRANZEN, O. (1996a), p. 6.

¹⁰² SANDER, M. (1994), p. 87.

¹⁰³ ROEB, T. (1994), p. 125.

¹⁰⁴ FRANZEN, O. / TROMMSDORFF, V. / RIEDEL, F. (1994), p. 1392.

¹⁰⁵ FRANZEN, O. (1994), p. 1628, FRANZEN, O. (1996a), pp. 8.

In the **Brand Value System**, the monetary brand value is determined. To transform brand power into brand value, the whole profit potential of the market and the brand power of other brands in the market are determined. The profit potential, measured by the estimated average sales return of the market, is then distributed to the brands according to their brand power.¹⁰⁶ However, the profit potential is only valid for the current year. In order to determine brand value, future profit potentials of the market have to be estimated for the life of the brand and discounted to a present value.¹⁰⁷ The method implies that products with powerful brands will gain a greater portion of the profit potential of the market than products with weaker brands. However, this is not always true since no-name products can have great shares of a market potential as well e. g. because they are less expensive. According to this method, they would have no brand power and therefore would not participate in the market's profit potential. Other problems of this method concern the disadvantages of discounting (discount rate, estimation of the brand's life time, etc.). Furthermore, brand costs are not considered. When brand value is to be used as brand performance measure, leaving out costs can give wrong impulses for brand controlling. If, for example, advertising expenditures increase, brand power should increase as well. However, since only the effect in brand power is measured, it remains unclear if the additional profits caused by the advertising are higher than the additional costs for advertising. Consequently, input and output have to be considered. In the so-called **Brand Control System** marketing investments and their effect are evaluated.¹⁰⁸ No information is given though on how this is done.

Another problem of the Brand Performancer seems to be the effort involved with it. In order to determine brand value, brand power of all existing brands in the market has to be evaluated. Furthermore, the transfer potential of brands is not considered in the method and the evaluation is coupled with the present underlying products and the markets where the products are sold. Consequently, brand value according to this method is not only the value for the intangible asset "brand". Brand value is rather defined as relative share of the future profit potential of certain products. However, instead of the product's profit potential the brand's profit potential should be relevant including the transfer potential for other products. The relationship between brand power and product profit potential can therefore only be a rough approximate of brand value.¹⁰⁹

¹⁰⁶ FRANZEN, O. (1994), p. 1628.

¹⁰⁷ FRANZEN, O. (1996a), p. 13.

¹⁰⁸ FRANZEN, O. / TROMMSDORFF, V. / RIEDEL, F. (1994), p. 1394.

¹⁰⁹ SATTLER, H. (1997), p. 116.

4.2.9 Brand Valuation with the Capital Market

SIMON / SULLIVAN tried to find an objective brand valuation method by using the capital market. The method assumes that the financial market value of a corporation includes the market value of tangible and intangible assets and that capital markets are efficient. Consequently, the effects of marketing measures should influence the stock price.¹¹⁰ Using **regression analysis**, the aim of the method is to split up the whole market value of the firm into its tangible and intangible value and then to break down the intangible value in its further components. The value of intangible components include the value of brands and the value of other factors such as **advantages in technologies** and **know-how** as well as industry-wide factors such as the **structure of the industry** and the **current legislation**.¹¹¹

According to the method, the value of a brand is based on **additional sales and price premiums** because customers know a brand, find it attractive, and are loyal to it ("demand-enhancing component" which is measured by the advertising expenditures and the age of the brand). On the other hand, brand value is based on **cost savings** that result from established brands because they have a high market share and a good position in the market compared to their competitors (cost advantage in product introductions, marketing cost savings when promoting established brands, etc.). The value of communication expenditures and positioning advantages that lead to cost savings are measured by the advertising expenditures relative to those of the firm's competitors and the order of market entry. The underlying relationships are based on empirical studies. Advantages in technologies and know-how are measured by the number of patents and the research and development expenditures both relative to those of the competitors.¹¹² In order to determine the market share that is attributable to the brand, a regression analysis is done where the influence of the order of market entry of the brand, the relative advertising expenditures for the brand, the relative number of patents, and the relative research and development expenditures on the whole market share of the brand is determined.¹¹³ A further regression analysis then is used to determine the impact of all the factors influencing the value of intangibles, i. e. market concentration rate of the industry, legislation, advertising, age of the brand, brand-based market share and not-brand-based market share. With the estimated regression coefficients, the **brand value** can be calculated out of **advertising expenditures, age of the brand and brand-oriented market-share**. However, other important marketing-mix variables are left out in this method. According to SIMON /

¹¹⁰ SIMON, C. / SULLIVAN, M. (1992), p. 7.

¹¹¹ SIMON, C. / SULLIVAN, M. (1992), p. 12.

¹¹² SIMON, C. / SULLIVAN, M. (1992), pp. 13.

¹¹³ SIMON, C. / SULLIVAN, M. (1992), p. 15.

SULLIVAN, the method still is a good approximate because the left-out variables are correlated with the advertising expenditures.¹¹⁴ The effect of brand activities on brand value can be determined with this method and the method delivers a brand value that is separated from other intangibles as well as from the underlying products and markets.

Unfortunately, there are several problems involved with this method which make it unsuitable as performance measure in brand controlling. First of all, the method determines the **value of all brands** a company has. It is hardly possible to determine the value of separate brands since their influence on the stock price is difficult to isolate. Moreover, only great events will have a measurable influence on the stock price. The effect of small events usually cannot be distinguished from accidental changes.¹¹⁵ Finally, the method is not applicable for firms that are not listed.

5 Conclusion

As it was shown in the previous chapters, many methods have been developed to determine brand value. The methods presented are not complete but a choice was made according to a supposed suitability for brand controlling. It is obvious that **cost-based methods** are not adequate for brand controlling since they are based on the past and do not give any idea about the future profit potential of brands. As was mentioned before, the **licensing method** is not suitable as performance measure as well since the licensing fee does not necessarily reflect the true value of the brand and because the licensing fee first would have to be known. Besides, changes in the licensing fee cannot be directly put back to certain brand actions and therefore give no basis for controlling. The **price-premium method** is not appropriate to determine brand value either. Beside the problems mentioned in the chapter it is also not possible to analyze the reasons for changes in price-premiums with the method. The market value method does not work because there usually is not market for brands.

Brand valuation with **Conjoint Measurement** makes it possible to isolate the value of the characteristic "brand" from other characteristics of the product. Therefore, a net value can be determined. The method is fairly objective since results are based on a customer survey. Also, the method is not restricted to certain industries. However, the customer surveys need a lot of effort and cost. Results are static and the method does not provide the possibility for a cause- and effect-analysis. Therefore, brand valuation with Conjoint Measurement alone does not provide any

¹¹⁴ SIMON, C. / SULLIVAN, M. (1992), p. 16.

¹¹⁵ SIMON, C. / SULLIVAN, M. (1992), p. 37.

information for improvements in brand strategy. Valuation with the **hedonic price function** does not seem suitable for brand valuation since several assumptions lie behind the method. The method is only suitable for industries and markets where the assumptions are correct.

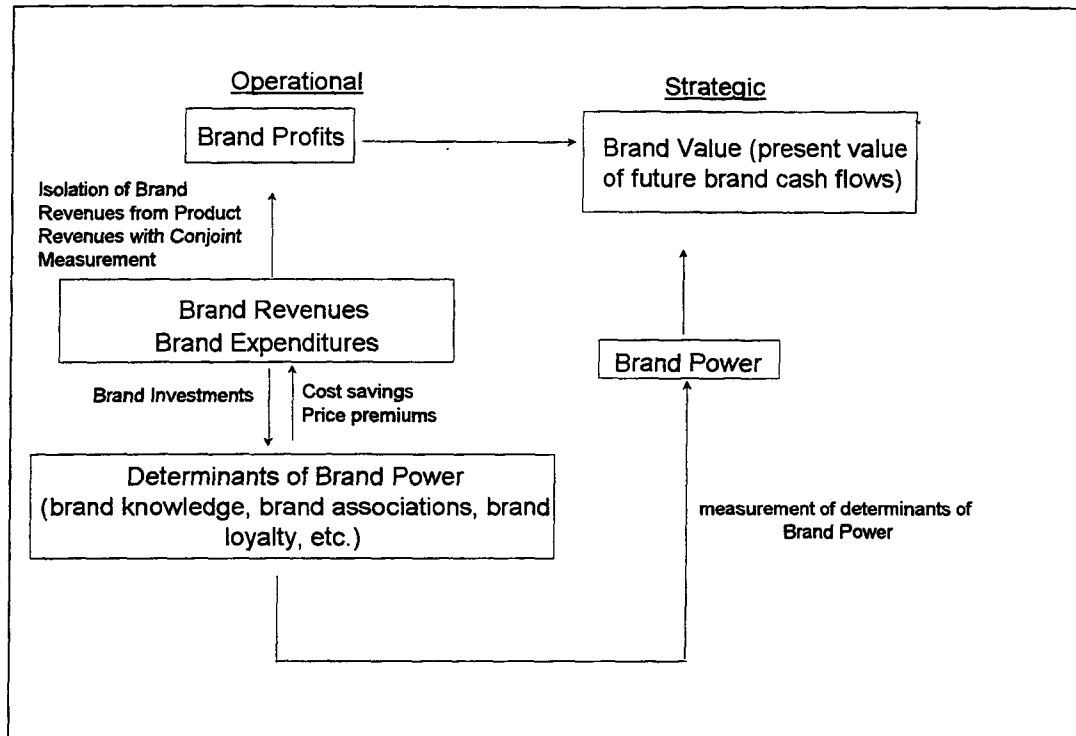
Brand valuation with the **Interbrand method** as well as with the **Nielsen method** seems appropriate for brand controlling because several factors that influence brand power are evaluated. A decrease or increase of brand value therefore can be put back to the factors if a cause- and effect-relationship can be assumed.¹¹⁶ Aggregation of several factors to brand power and brand value reduces complexity and makes comparisons between several brands possible. However, Interbrand does not prove that the indicators for brand power are valid and that they allow estimations of future developments of the brand. This is also true for the Brand Balance Sheet. But using statistical validation methods in the **Nielsen Brand Performancer** improved the method significantly.¹¹⁷ No transfer potential is evaluated though. Also, the transformation from brand power to brand value seems to be rather arbitrary.

Brand valuation with the **capital market** seems to be an objective method that determines the net value of brands. However, the factors considered that influence brand power are rather limited. Besides, a clear relationship between brand actions and the effect on brand value can only be seen if the action is significant and has a clear influence on the stock price. Even then, changes in stock price could be caused by other events.

In summary, every method presented in this paper involves several problems. No one seems to produce an adequate measure that meets all requirements for use in brand controlling. However, a **combination of some methods** might deliver an adequate way to determine brand power and brand value which is also suitable for the controlling of brands. A combined model for a system of brand controlling performance measures could, for example, look like the following:

¹¹⁶ RIEDEL, F. (1996), p. 47.

¹¹⁷ SATTLER, H. (1997), p. 107.



Brand Controlling performance measures

Brand profits are determined by brand revenues and brand expenditures. In order to isolate brand revenues from product revenues Conjoint Measurement could be applied. Since results obtained with Conjoint Measurement are static, customer surveys have to be repeated in adequate time periods. Brand value is determined by discounting estimated future brand cash flows over the life cycle of the brand. This involves a high degree of uncertainty. To estimate the effects of brand investments, test markets can be used and changes in brand profits can be determined with Conjoint Measurement. If a brand transfer is planned, its effect on brand value could again be analyzed with the same method.

As far as **brand expenditures** are concerned, it is difficult to clearly separate them from expenditures for the product. Some cost categories have an indirect influence on brand value whereas others, e. g. advertising cost, have a direct one. In order to control brand expenditures, they have to be separated and attributed to the brand. Direct and indirect expenditures for the brand should be distinguished.

Brand power can be determined with existing methods. Effects of brand investments on brand revenues and brand expenditures as well as on determinants of brand power should be analyzed. This way, a monetary value and the qualitative influence on brand power is determined. Improved

determinants of brand power should lead to cost savings and price premiums which again will influence brand revenues and expenditures and therefore brand profits.

In summary, to control the valuable intangible asset "brand", a controlling system has to be developed that makes it possible to control brand revenues and brand expenditures as monetary indicators and determinants of brand power as non-monetary indicators for operational controlling. The profit potential of a brand, represented by brand value, is broken down to its influencing indicators such as brand revenues and expenditures. Brand power, which is influenced by brand expenditures, has an impact on brand value and, as a result, should also be controlled. Brand value then can serve as a strategic performance measure that is broken down to the operational level. To control the operational performance measure "brand profit", traditional controlling instruments adapted to brand controlling could be applied.

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